10

A PORTRAIT OF 21ST CENTURY FINANCE

celebrating 10 years of UAIC

YEARS

SPECIAL THANKS

The University of Auckland Investment Club extends its gratitude towards Raymond Webb, the current and past members of the executive team, and The University of Auckland.

Without the support and contributions of these people, UAIC would not be able to create the impact it does on campus.

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EDITOR'S NOTE

UAIC was founded in 2009 with the mission of educating University of Auckland students on investing, the financial markets, and the opportunities available for students interested in these areas. The club finished its first year with 96 student members, and has since grown to become the largest student-run investment club in New Zealand!

This bulletin is a toast to the club, both by celebrating its history and all the contributions of members over the years, and by further displaying its development and education through the insightful pieces of this years bulletin writers.

Whilst we celebrate 10 years of contributions from past and present members, we are also excited to welcome a new dynamic partnership of Co-Presidents, Eric Li and Sandy Guo. We'd like to thank Georgina and Ella for all their time and effort in developing the club over the last year, there's been some exciting initiatives created and you have handed over the reigns with an outstanding system for the current team to thrive in.

And while we take a break from nostalgia and focus on the present, we welcome all our new members to the Investment Club. You've taken the first step to becoming better informed and knowledgeable about the world of finance and investing, I hope to see you all participate in the multitude of events run by the UAIC in 2019/20.

I hope whether you are an alumni, established or new member, that you get value out of this bulletin and enjoy the insights of our passionate writers. In this issue we take you back to the origins of the club, how the world has changed in our 10 years of operation, and also look to the future with an analysis of emerging industries - such as marijuana - and cast our predictions as Brexit looms ever closer.

- Daniel Blair

2009-2019: WHAT'S CHANGED?

BY VANSHIKA PATEL

2009: Global Financial Crisis
The 2008-2009 financial crisis, also known as the global financial crisis is considered by many economists to be one of the largest financial downturns in history. The contagion, which initially began in 2007 when sky-high home prices in the United States finally turned decisively downward, spread quickly, first to the entire U.S. financial sector and then to financial markets overseas.

This, in turn, resulted in the US Federal Reserve injecting a large amount of capital into financial markets. By September 2008, the crisis had worsened as stock markets around the globe crashed and became highly volatile. Consumer confidence hit rock bottom as many investors tightened their belts in fear of what could lie ahead.

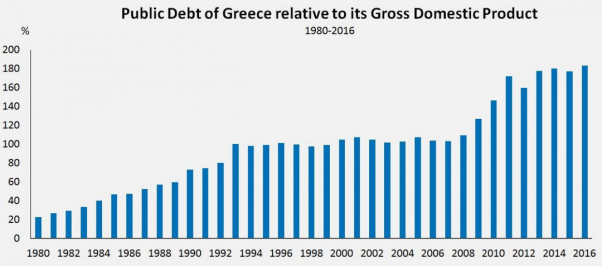
2010-2011: Canterbury Earthquakes
The Canterbury earthquakes of 2010 and 2011 have had a major economic and fiscal impact on the region itself and on New Zealand as a whole. The Christchurch earthquakes rank as one of the most costly natural disasters for insurers worldwide. Overall, the Canterbury economy was quite resilient toward the economic impact of the earthquakes. Although, International visitor numbers decreased, and there appeared to have been some population loss from Christchurch as a result of the earthquake.

2013: J.P. Morgan Chase Record Settlement
In November 2013, JPMorgan Chase, agreed to pay a $13 billion fine to federal and state authorities in order to settle claims that it had misled investors in the years leading up to the financial crisis. JP Morgan chase had knowingly sold faulty mortgage securities that contributed to the financial crisis. This deal is one of the largest in history to have struck between authorities in the United States and a single company.

2014: Obamacare Adds Coverage for 20 Million
Obamacare stands nickname for the Affordable Care Act. Signed into law by then-president Barack Obama in 2010. The The main goal was to get coverage for the millions of Americans who had no health insurance at the time. “The number of Americans without health insurance has fallen from 48 million in 2010 to 28.6 million in 2016” according to new data from the National Centre for Health Statistics.

2014: Alibaba IPO
In 2014, Alibaba, the Chinese e-commerce giant, made its market debut with one of the largest IPO’S. The initial offering price valued the company at $168 billion, making it bigger than its closest American analogue, Amazon, and one of the biggest IPOs in history. Alibaba stock began trading at $92.70 a share, well above its IPO price of $68 a share, giving the company a market cap of nearly $230 billion.

2015: Greek Debt Crisis
The Greek debt crisis continues to occupy headlines in global financial news almost a decade after recognition. This crisis was the dangerous amount of sovereign debt Greece owed the European Union. Greece experienced an economic collapse that lasted longer than the Great Depression in America. It was the biggest financial rescue of a bankrupt country in history. As of January 2019, Greece has only repaid 41.6 billion euros. The country's total debt amounted to around 323 billion, which they owe to various countries and banks within Europe. Due to overspending the country's difference between income and spending spiralled out of control and lead to a budget deficit. As a result, Greece asked for a financial rescue by the European Union and International Monetary Fund. In total, it has had three bail-out programs, borrowing billions. These loans have had conditions attached: that Greece slash its public spending, and reform its corrupt, inefficient government bureaucracy.



2016: Brexit Decision – UK/ EU
Brexit is an abbreviation for "British exit," referring to the U.K.'s decision in a June 23, 2016 referendum to leave the European Union (EU). The vote's result defied expectations and roiled global markets, causing the British pound to fall to its lowest level against the dollar in 30 years. Just under half of the UK's exports go to the EU and just over half of its imports come from the other 27 nations in the bloc. The EU is a single market where goods, services, capital and people can freely move.

One of the main short-term consequences is the uncertainty surrounding the outcome which could deter investment and that there would be transitional costs of shifting to a new regime for trade and investment. This could derive from currency volatility and financial market reactions and Brexit could result in financial instability that could have damaging macroeconomic effects because of the financial openness of the United Kingdom.

2017: Hurricane Harvey
Hurricane Harvey, which came ashore on August 25 as the most powerful hurricane to hit Texas in more than 50 years, has killed an estimated 50 people, displaced more than 1 million and damaged some 200,000 homes in a path of destruction stretching for more than 300 miles . The costs for hurricane Harvey was estimated to be around 120 billion to around 180 billion, this one of the costliest hurricanes to have ever occurred. Damage from this storm posed a huge economic and humanitarian challenge.

2018: Cost of War on Terror Escalating U.S. Debt
The War on Terror is a military campaign launched by the President George W Bush in response to the al-Qaida 9/11 terrorist attacks. The War on Terror includes the Afghanistan war and the War in Iraq. It added $2.4 trillion to the debt as of the FY 2020 budget. The war's $1.07 trillion cost has three main components. First is the $773 billion in Overseas Contingency Operations funds specifically dedicated to the Afghanistan War. If the US continues on its current path, war spending will continue to grow as the "Pentagon currently projects $80 billion in Overseas Contingency Operations (OCO) spending through FY2023"

REFLECTING ON THE BIRTH OF UAIC

BY DANIEL BLAIR AND LIM YANG

In 2009, Marco Wong and James Foster-Brown - commerce students with a shared passion for investing - founded what was originally known as the Auckland University Investment Club (AUIC). The two men were spurred on by the lack of finance clubs at the University, and were convinced there was a demand for investing education and application amongst students. The vision was to create a club where members could learn about the share market, gain real investment research, gain fund investing experience and network with other finance students and people working in the finance industry.

The primary medium for which to achieve this vision was to set up a club investment fund, where members could be involved in investment decision making through submitting research, participating in stock picking competitions and being part of the investment committee.

The new club on campus immediately took off, and by the end of the first year AUIC had 96 paying members. While this membership is small compared to the 278 students affiliated with the club now, at the time it was significant due to the lack of reputation established and the expensive club membership at $55 per person.

AUIC
AUCKLAND UNIVERSITY INVESTMENT CLUB

After reviewing the success of the first year, the executive team sought out to increase awareness through a variety of channels - posters on notice boards, facebook promotion, talks at university events, and even "guerilla marketing" through infamous lecture bashes. However most notable was the when members of the club performed a trading floor “flash mob” in the middle of OGGB (pictured below).

As a result of these efforts, by the end of the second year club membership had increased to 234 students. Further, the investment fund had grown to more than $10,000 as a result of the increased membership and uniquely high membership fee.

After raising this amount of money, the investment committee (‘the IC’) was officially established. The IC would pitch stocks and vote as a group whether or not to invest in the stock, using fundamental analysis as the approach of choice.

The club also initially established a relationship with Forsyth Barr, whereby they had a trading account where the brokerage fee was waived and would have access to one of their investment advisors who would attend the investment committee meetings.

After realising that the educational and experiential benefits of the club were only being spread to the-

Continued on next page.

minority in the IC, Marco and James decided to attempt to host events with reputable guest speakers, in the hope that they could impart their knowledge and experiences on the members of the club. This initiative was very successful, and proved to be a big drawcard for prospective members in the development cycle of the club. AUIC was fortunate enough to have many high-calibre speakers from the finance industry. These speakers included Jeremy Simpson, Equity Research Director at Forsyth Barr; David Copley, Head of Securities at First NZ Capital; and Don Brash, former Governor of the RBNZ and former Prime Minister of New Zealand.

Lastly, in fully realising their founding mission, Marco and James enlisted Kenneth Goodall to set up 'the Bulletin', which was initially a weekly publication covering global market developments and local finance news. The name 'The Bulletin' was actually used as a play on words, due to the logo of the club being the Wall Street bull at the time.

It's also interesting to note the stark comparison in the macroeconomic environment between then and now, with this bulletin issue noting record-low real estate sales in January off the back of the global financial crisis. Contrasting this to the housing market today, and you can fully appreciate the longevity of UAIC's success as a club.

Speaking to Marco about the origins of the club, I gained a real appreciation for the work put in by the founding executive team, establishing a great foundation for the succeeding students to lean on when adding even more value to membership. It has been fascinating to see that whilst the club has expanded and improved over time, the core vision set by Marco and James is still at the forefront of the club, and the resources set up by this team (IC, Bulletin, Guest Speakers) are still a major aspect of UAIC's offering to students today.

Therefore this article is a tribute to the effort and perseverance shown by the founding members, and to celebrate the underlying passion which drove their commitment to establishing and growing the club.

the Bulletin Issue 10 | 8/Mar – 13/Mar/10 AUIC AUCKLAND UNIVERSITY INVESTMENT CLUB

Financial Headlines

- NZD rose strongly after US investors invested in NZ and Australian dollars, as a result of a confidence boost from positive employment data
- Reserve Bank Governor Alan Bollard left the OCR uncahnged at 2.5%, Bollard still expects to starts lifting the OCR around half way through this year
- All major sharemarkets were up again this week, with the New Zealand sharemarket remaining hesitant in its recovery as the week ended in light trading volume
- After New Zealand residential property reached its lowest January sales in almost 20 years, they almost reached the Febrauary 2009 level

Financial Markets

Stock Market

Indice	Closing Value	Weekly Change
NZ50	3225.136	▲ 0.33%
AORD	4831.50	▲ 1.22%
DJI	10624.69	▲ 0.55%
S&P 500	1149.99	▲ 0.99%
FTSE 100	5625.65	▲ 0.46%
DAX	5945.11	▲ 1.15%
CAC 40	3927.40	▲ 0.43%

Foreign Exchange Market

Currency	Closing Rate 1 NZ $ =	Weekly Change
USD	0.7021	▲ 0.73%
AUD	0.7670	▼ 0.14%
EUR	0.5099	▼ 0.35%
JPY	63.6067	▲ 1.14%
GBP	0.4617	▲ 0.24%
CNY	4.7953	▲ 0.78%

NZ Stock Summary

Top 10 Price Rises (Friday)		Top 10 Price Falls (Friday)	
Stock	▲ Rise (%)	Stock	▼ Fall (%)
CVT	5.3%	PEB	13.0%
MCK	4.4%	RBC	5.3%
WFD	3.4%	CDI	3.7%
SAM	2.9%	RAK	2.9%
AFF	2.6%	NWF	2.4%
HFL	2.6%	CMO	2.3%
JMO	2.2%	CBS	1.7%
PGC	2.1%	WHS	1.5%
THL	2.1%	GLL	1.5%
GFF	2.1%	BGR	1.5%

Commodity Market

Commodity	Last Trade (USD)	Weekly Change
GOLD	1101.50	▼ 2.93%
OIL	81.080002	▼ 0.52%

Mortgage Rates (OCR = 2.50%)

Bank	Variable	6 Months
ANZ	5.69%	5.99%
ASB	5.75%	6.00%
Bank Direct	5.75%	6.00%
BNZ	5.99%	5.75%
Kiwibank	5.65%	5.75%
National	5.75%	5.70%
TSB	5.99%	5.75%
Westpac	6.29%	5.69%

REMEMBERING PAST EDITIONS

BY NIKHIL LUTHRA

The 2014 Graham & Dodd Breakfast - Foss Shanahan, March 2015

On the 24th of October 2014 I attended the 24th Graham & Dodd Breakfast at the Pierre Hotel in NYC. The event was run by The Heilbrunn Center for Graham & Dodd Investing at Columbia Business School.

The panel included Bruce Berkowitz, who founded Fairholme Capital Management in 1997. Mario Gabelli, founder of Gabelli Asset Management Company Investors (GAMCO), and Jon Salinas, an 'up and comer' in the investment world. He is a managing partner at Plymouth Lane Capital Management and specialises in catalyst initiated shortselling.

The first key point was to disregard macro-economics. The next point I picked up was to ignore the crowd and focus on the fundamentals of the business being evaluated. As long as you remain grounded and objectively evaluate businesses while refraining from being caught up in what is popular, you will produce good investment returns.

Another point on which all three panellists concurred was on sticking to what you know. Gabelli preferred to dominate in understanding and knowledge of the industries he invested in. Berkowitz added that he wanted to be able to independently create an informed opinion on a business. This skill is an obvious requirement of an investor if they are to avoid following the crowd.

Finally all three panellists also looked for businesses with moats. A moat is a protective barrier against a business's ability to earn above average profits.

Comments: my favourite piece from the March 2015 edition of the Bulletin was- this reflective piece on the Graham & Dodd Breakfast. Foss provided readers with a unique insight into one of the investing world's more exclusive events. Presenting three main takeaways that will hold any investor, regardless of experience, in good stead. The beauty of this article is that there is no follow up needed, these points still hold up in 2019 as much as they did in 2014.

Tech-Ulation - Angus Pryde, August 2015

A skeptical examination of the current popularity of the technology industry as an area of investment, drawing comparisons to the fabled dotcom bubble of 15 years ago.

On March 10th 2000, the NASDAQ hits an all-time high of 5,132.52. Pop - a year later it trades at 1,923.38.

Fast forward 15 years, and the situation is in some respects reminiscent. Technology companies are trading at hard to justify valuations, with investors banking big time on future growth and the potential for earnings. Speculation, or rather tech-ulation, is prevalent yet again.

Despite the parallels to the dotcom boom, the distinct difference in today's situation is that the crazy valuations are of private companies rather than public stocks. It has given rise to the birth of the "unicorn" – a label given to a tech business that has risen to a $US1 billion valuation or higher through private funding.

If there is a failure of these tech companies to become profitable and build attractive margins, eventually the capital will dry up and the

businesses will be forced to shut their doors. Given constantly evolving nature of the tech industry these competitive advantages are few and far between, but that doesn't mean they don't exist. Just ask Google.

Comments: Since the date of publishing, the NASDAQ has risen from 5,000 to roughly 7,600 at present day.

Even the most casual of investors will be able to draw parallels to the aforementioned dotcom bubble. As Angus mentioned, the rise of "unicorns" serves as a key distinguisher between the past and present. In 2015 there were about 200 of these billion dollar babies, which have now increased to 356 companies with an estimated $1,114 billion dollar arsenal.

I find myself echoing a similar sentiment to Angus. As the shockingly high numbers of unicorns continues rise, the threat of failure only remains more and more imminent.

Smiths City - Logan Inwood, September 2015

Smiths City; a company with a P/E ratio of 3.56, a consistent dividend of around 6-7% and is currently trading at a net asset discount of 42.6%, and yet I still wouldn't buy it.

Established 97 years ago in Christchurch, the group is predominantly comprised of 27 Smiths City retails stores, offering a range of electronics, furniture, outdoor equipment and sporting goods. SCY is also present in the consumer finance and property industries though its subsidiaries. While this sounds positive for the SCY, an insightful assessment shows they can be considered old and outdated. Over the last two years, I've entered a Smiths City store once and subsequently left empty handed. This had me wondering who in their right mind would shop at Smith City?

The Liverpool FC of NZ Businesses
Liverpool is a club built on a successful past, but isn't doing amazing things these days. Smiths City is the equivalent in the form of a New Zealand company. Putting my opinions aside, other investors do consider Smith City to be an undervalued stock, clearly shown by Utilico, a British value investing company increasing its stake in SCY to 13.6% in July this year

I personally wouldn't be looking at buying into a company with an outdated business model that has struggled to earn a reasonable profit. Like Liverpool, SCY seems to be ticking along at the moment, held together by its strong history, yet is setting no records today

Comments: as a fervent Manchester United fan I can not tell you how much I wish this analogy held up. However, since the date of publishing Liverpool has transformed their organisation, going from strength to strength and have just won the UEFA Champions League at the time of writing. For all the non-football fans out there, Liverpool is good.

Smith City on the other hand, has shown no such sign of brilliance. Currently trading at $0.290 with a negative EPS of -$0.129 and a dismal P/E ratio of -2.248, I dare say that they have been relegated from the premier league. For the non-football fans, Smith City is bad. Logan's prediction that in 2015 Smith City was outdated, only seems to have been galvanized in 2019. I personally struggle to see any positive future outlook for the company given their recent decline in performance and the increased competition in their industry. For all we know, the imminent arrival of Amazon in NZ may spell the end of Smith City.

INVESTING LIKE THE GREATS

BY DAVID SAUL

So often we hear about Warren Buffett's great value investments or the aggressive style of Carl Icahn, but it can be hard to take a step back and think "How can I apply this strategy to my own investments?" While some investing styles require a large amount of starting capital to be successful, others are principal based and can be implemented into your own portfolio.

Value Investing

A good place to start is with **John Templeton.** John personified the expression "buy low, sell high" and took pride in investing in times of "maximum pessimism", being times when investors had an unfavourable view of the economy, the company or both. In fact, his first major investment was in 1939, during World War II. There was a negative outlook on the economy as a whole, but John still saw value in many stocks due to his prediction of higher incoming taxes on profitable companies. He borrowed money and invested in 100 US companies trading under $1 and quadrupled his investment over the following years. To summarise John's strategy, he thought critically about the market and diversified his higherthan-average risk, both of which are strategies one can implement in their own investing. Markets tend to overreact to bad news and it can easily be taken advantage of.

In a similar time-frame to John Templeton, **Benjamin Graham** was developing his own investment philosophy. He was a key driver of the distinction made between investing and speculating and thus became known as the 'father of value investing'. Key concepts of Graham included investing with the purpose of owning part of the business and investing with a margin of safety, being a discount to fair value.

Graham always looks for businesses with relatively high dividend yields (compared to the risk-free rate), relatively low price-toearnings (P/E) ratios and relatively low price-to-book (P/B) ratios. This is because they are signals that a company is healthy and not priced over its intrinsic value.

Graham's book, 'The Intelligent Investor' is commonly referenced by **Warren Buffett** as his personal favourite. Warren is a strong advocate of Graham's idea of investments being ownership stakes in businesses and set out his investment philosophy in his 1976 letter to shareholders of Berkshire Hathaway. Buffett treats his ownership stakes the same way he would treat a deal to buy a complete business – he looks for a healthy financial position, good management, a fair price and a business he understands. The last point is often overlooked when investing, but it can be crucial to make wise investments. Understanding a business means one understands the industry it operates in and the product it is selling. Without this fundamental understanding, a fair value of the business is hard to calculate and thus it is hard to derive value.

Dividend Investing

Geraldine Weiss is the queen of dividend investing, a spin-off of value investing, and the first women to truly make an impact on Wall Street. In fact, she initially signed her name as G Weiss to avoid letting the readers of her newsletter know her gender. Her investment philosophy centred around dividends. She drew a link between value and dividends by looking at companies' historical dividend highs and lows and showing a relatively high dividend yield represented a buying opportunity.

Her strategy is easy for everyday investors to replicate due to its clear layout:

- Dividend yield should be historically high (value)
- Dividends must have been raised by 10% per annum for the past 12 years (growth)
- Price must be at most twice book value (value)
- P/E ratio must be at most 20 (value)
- Dividend payout ratio should be close to 50% or less (growth)
- Debt should not account for over 50% of the capital structure (security)
- Company should be classes as 'blue-chip' (security)

The above screeners work together to find undervalued companies with quality dividends. Upon analysis, there appears to be three themes for the screeners; value, growth and security. Geraldine therefore sees value in stocks that are under-priced and have surety of growing dividends.

Passive Investing

If Benjamin Graham is credited as being the 'father of value investing', then it is only fair to call **Jack Bogle** the 'father of index investing'. Jack was the founder of the world's first index fund, appropriately named 'First Index Investment Trust'. Index funds have grown significantly in popularity since first introduced by Bogle and are the go-to investment for many who value low volatility and investment security. Jack only had eyes for the long-run when investing, advocating against trying to time the market or pick winners. He acknowledged the strong correlation between the stock market and the economy and preferred to take his emotions out of the equation when picking investments, hence the name 'passive investing'. Thus, Jack created the first index fund to expose investors to a heavily diversified stock portfolio that reflects the overall economy, writing that it is "the only investment that guarantees you your fair share of stock market returns". Investing like Jack Bogle has been made all too simple in the modern age, as investors can buy a range of index funds as ETFs (exchange traded funds) on the stock market. Investing like Bogle means being as diverse as possible and not trying to time the market or pick winners. Warren Buffet gave his personal tick to this method due to the wealth it has created for millions of investors worldwide.

Growth Investing

To complete the trinity, **Philip Fisher** is often called the 'father of growth investing'. Philip wanted high returns and a small number of holdings, preferring to only hold stocks that truly meet his criteria. His criteria on the surface were simple – he wanted to own stocks of young companies with large growth prospects. To relate his philosophy back to intrinsic value, he wanted the intrinsic value of his stocks to rise…quickly. However, in a world where information is only becoming easier to access, it is hard to find investments where growth is not already 'priced in', that is, other investors have accounted for the future growth in their intrinsic value calculations. Successful growth investors will be able to identify opportunities that other investors miss and be comfortable with a higher risk portfolio.

Peter Lynch, on the other hand, prefers to invest in companies with under-priced growth. His investment style is commonly seen as an intersection between value and growth investing and is known as GARP (Growth At A Reasonable Price). Peter developed the price-to-earnings-to-growth (PEG) metric. Essentially, he theorised that a company's P/E ratio should roughly equal its expected growth rate. Therefore, he sought out companies-

Continued on next page.

which had a PEG ratio less than one as it signifies they are undervalued. On top of this, Peter was a firm believer in investing in products he knows and understands. When applying this concept to the everyday investor, it means looking for good companies to invest in that they deal with on a weekly basis, because they have a better knowledge of the products than many institutional investors.

Activist Investing

Carl Icahn is one of the most well-known activist investors. He buys controlling or pressuring stakes in companies that are performing poorly – often with low P/E ratios or a market capitalisation below book value. By controlling who runs the company, Carl can directly affect operations and thus improve its intrinsic value. This activist approach is hard to replicate for the everyday investor but can be easy to replicate if one believes in the abilities of specific activists. The Icahn Lift is the rise in the stock price of any company that Carl Icahn buys stock in. This rise occurs due to the common knowledge that Carl Icahn can create value in the companies he buys into.

Two other prominent activist investors are **Bill Ackman** and **Daniel Loeb** who both have their own respective 'lift' effects. By tracking the activities of successful activist investors, everyday investors can benefit from the change they bring to companies.

Speculative Investing

George Soros is arguably the most successful speculative investor. His investment philosophy is that he can accurately make short-term predictions about the market, including stocks, bonds, currencies and commodities, and therefore should take leveraged positions based on his predictions. He famously short sold the British pound in 1992 and reaped significant returns when the pound was withdrawn from the European Exchange Rate Mechanism – earning him the title of "the man who broke the Bank of England." What makes George Soros so successful is his ability to recognise and correct his mistakes. He makes investments with exit strategies in place and when he realises he is wrong, he executes them.

Hedged Investing

Ray Dalio is the founder of the largest hedge fund in the world. He is famous for his 'risk parity' philosophy, which aims to eliminate risk in ways that a typical diversified portfolio cannot. He understands that different classes of assets perform well in different environments and therefore aims to neutralise the effects of those different environments. For the everyday investor, Ray designed an 'all weather' portfolio mix, consisting of five assets: 1. 40% long-term US bonds 2. 15% mid-term US bonds 3. 30% stocks 4. 7.5% gold 5. 7.5% other commodities The reason for the heavy weighting on bonds is due to their historically lower volatility, which is an element of the risk parity philosophy. This portfolio allocation is designed to provide fair returns in the long-run, however performance has been unsatisfactory lately, potentially due to the large exposure to bonds.

Summary

The point of this article is not to critique or detail the history of these investment philosophies, but rather to expose you, the reader, to the wide variety of successful investing strategies that exist. While many of them fall into a similar category (e.g. value investing), they all have small differing tendencies which make their strategies truly unique. Every person naturally aligns with an investment philosophy, be it their own or that of an investor they idolise, and it takes practise to find the philosophy that fits your own personality and risk tendencies.

A glimpse into the future of finance

THE CANNABIS MOVEMENT

BY SUVARN NAIDOO

Worldwide, we have seen the Cannabis industry massively expand as more countries legalize Marijuana for medical, recreational and industrial use. Momentum from several major developments in 2018, including the inclusion of industrial hemp in the new farm bill and Canada's nationwide legalization will continue to fuel innovation, policy and entrepreneurship globally into the near future. As the use of the plant and its derivatives are increasing with rise in number of consumers, this has seen a variety of future growth estimates such as a recent Barclays report estimating the industry to have a value of USD$272 billion by 2028.

Will Cannabis be a substitute for alcohol and cigarettes?

Producers in Canada and several U.S. states with legalized recreational use are focusing their marketing strategies on targeting beer and cigarette consumers. A recent survey by Deloitte, "suggests that cannabis may serve a larger role as a substitute for beer, spirits, and wine" especially in Canada where alcohol stores will soon be one of the more prominent retailers of cannabis products. The shift in consumer trends has already been recognised by some key players in both the alcohol and cigarette industry showing interest in the psychoactive properties of the plant with players like Heineken releasing a sparkling cannabis drink called Lagunitas Hi-Fi Hops which is "IPA-inspired." It's loaded with hops and THC, with zero alcohol, calories or carbs and Corona owner Constellation Brands investing $4 billion in a Canadian cannabis company. This increased interest of drinks containing THC (the psychoactive molecule) has Zenith Global estimating the cannabis drinks industry to be valued 1.4 Billion by 2023.

Is Hemp a sustainable substitute for materials like plastic?

Bioplastics are plastics derived from renewable sources. Depending on the manufacturing process they can be biodegradable, 100% toxic free, and sustainably produced. Bioplastics are nothing new, but have been largely ignored for its cheaper, petroleum-based alternatives.

However, with the increased interest in the uses of cannabis; hemp bioplastic has proven to be an affordable, natural fibre composite that can be used to replace oil-based materials. Biodegradable, recyclable and toxin-free – hemp bioplastic can help address many pressing environmental issues. It is a rapidly growing industry with hemp bioplastics estimated to generate US$28M in sales by 2022.

CBD use setting up stable platform for industry growth.

Manufacturers have started promoting derivatives such as tinctures, oils, and resins, along with products like vaporizers. They are targeting millennials who are seen to be the main consumer of cannabis products for both recreational use and as well as for the health benefits of CBD.

2018 was without a doubt the year of CBD the non-psychoactive compound becoming extremely prevalent; promising everything from pain relief to anxiety reduction, from LaCroix-esque sparkling water and high-end gumdrops to body lotion and bath salts. The non-psychoactive aspect of the plant will likely to play a massive role in the growth of the industry as CBD will continue to become popular for its medicinal uses.

The industry is still in a grey area

Although the industry is booming, one of the largest challenges facing the industry is the uncertainty surrounding cannabis legalisation in countries that are still to legalise or decriminalise the use of the plant.

In most cases its fear mongering and rightly so with people asking questions about issues that come with many consuming the plant openly for recreational use. Questions such as; what will the driving laws be? Where can the plant be smoked? There is also fear of what legalisation do to the overall public.

Furthermore, cannabis businesses in the United States don't get many of the same business deductions as other business traditionally would. Specifically, 26 U.S. Code Section 280E is the federal statute that states that a business engaging in the trafficking of a Schedule I or II controlled substance (cannabis) is barred from taking tax deductions or credits.

This means that cannabis entrepreneurs must pay taxes on all of their revenue without the benefit of being able to use business expenses to reduce their taxable income, however, there is an exclusion that allows a deduction for the cost of goods sold even where the goods are illegal under federal law.

Nonetheless, the IRS administers its definition with a tighter scope to cannabis companies. For example, it does not allow the use of tax changes that allow more indirect costs to be included in costs of goods sold. This means that cannabis companies may not be able to use the same accounting methods as other businesses, which could result in less favourable treatment by the IRS.

Two words that are often misused and confused are **legalisation and decriminalisation**. Decriminalisation results in the loosening of criminal penalties imposed for personal marijuana use even though the manufacturing and sale of the substance remain illegal. Under decriminalization, law enforcement is often instructed to look the other way when it comes to the possession of small amounts of marijuana meant for personal use and both the production and sale of marijuana remain unregulated by the state. Those caught using the substance face civil fines instead of criminal charges. In contrast legalisation is the lifting or abolishment of laws banning the possession and personal use of marijuana.

Furthermore, legalisation enables governments to regulate and tax marijuana use and sales. There is also the case that taxpayers can save millions of dollars by removing from the judicial system the hundreds of thousands of offenders caught with small amounts of marijuana. In short this means that the number of countries that legalise the use of cannabis is key to the industry growth and not the decriminalisation of the plant.

Overall, the cannabis industry is still in its infancy and shows potential for rapid growth in the foreseeable future. However, the extent of this growth remains uncertain and is dependent on shifting society's views on the plant and changing the laws in regards to the legislation and legalise the use of cannabis. There is still a way to go in the education of the greater population regarding the stigma associated with cannabis and cannabis by-products. However, it was not that long ago that alcohol too was an illegal substance.

NZX: WHAT TO WATCH FOR

BY SAM JAIN

The New Zealand Stock Market is up for some volatile times in the next 52 weeks. Global events such as Brexit and the US-China trade war could have significant impacts on the NZX. Furthermore earlier this May the Reserve Bank cut the OCR to a historic all time low at 1.5% highlighting the tepid inflation rates and the weakening job market. A lower OCR could potentially help boost the market however that could be offset by a slowing economy. This article will examine the impact of global events on the NZ stock market, and also suggest some industries that could have significant growth.

New Zealand and its markets are in a strong position to benefit from a hard Brexit. With the recent resignation of Theresa May as British Prime Minister, the UK's Brexit Process seems to be in jeopardy. May became PM after the resignation of then PM David Cameron in 2016 following the results of the Brexit Referendum. For the last years she has the lead the Brexit negotiations and attempted to broker a deal with the European Union. Now with her resignation the status of Brexit is unclear. UK political pundits and bookmakers are placing their odds on Boris Johnson being the next PM. Johnson has been a strong advocate of a Hard-Brexit and has stated the UK will leave the EU later this year with or without a deal.

These developments could present a great opportunity for New Zealand. In the event of a no-deal Brexit New Zealand's primary industries could stand to significantly increase their exports to the UK as the UK will no longer benefit from the EU single market and hence be incentivised to source their products elsewhere. Given NZ's historical relationship with the UK this should be an obvious partnership. Also it could be inferred that other sectors such as IT would benefit as the UK would have to seek trading relationships with other countries in the economic fallout with the EU. Hard Brexiteers have advocated for stronger British Ties with the commonwealth and this could present a great opportunity for New Zealand trade. NZ markets could rise in the face of stronger trading ties with the UK. A soft Brexit would have minimal impact on New Zealand markets in the next year as the UK wont have an expanding trade relationship with NZ.

The developments in the US-China trade war could present great opportunities for NZ or risks for the New Zealand economy and hence the New Zealand markets. Recent developments have been focused on tech-related industries with the US accusing China of Intellectual Property (IP) exploitation. If there is a decline in US-China trade in the tech sector, New Zealand tech companies could stand to benefit from this and fill the demand left by American companies. Furthermore Donald Trump has also recently threatened to impose duties on $300B of imports from China, this would inevitably result in retaliatory tariffs from China. New Zealand trade could rise with China as a result of this as exports such as meat and dairy would be sourced increasingly from NZ as the trading relationship between the US and China declines. This would provide great benefits to New Zealand's markets as our economy will expand. However in the case that a deal is brokered between the US and China then NZ will suffer.

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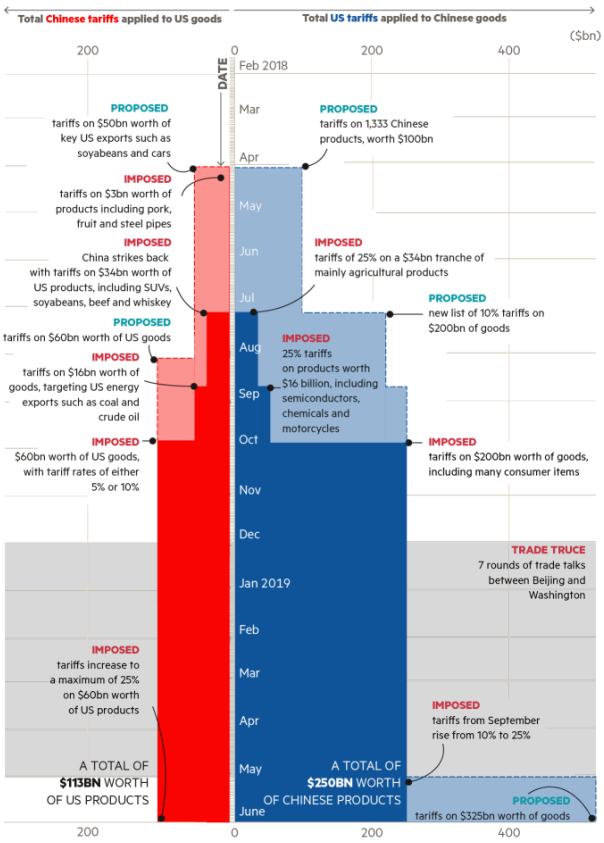
The US is the worlds biggest producer of primary agricultural goods and if Donald Trump manages to negotiate a deal with China that could see an increase in US exports of dairy and meat. This would present threats to NZ as these appear to be our primary exports to China and our markets could decline because of this.



The Reserve Bank has lowered the OCR to a historic low of 1.5%. They justified this by citing the weakening job market and the low inflation rates that didn't meet their targets. The implications of such a policy would strongly benefit the property market as mortgage rates will be cut. This should cause a relief for property developers as demand for property will assumedly increase. Furthermore the lower OCR will encourage businesses to take loans as the cost of debt has decreased due to interest rates being lower. We could potentially see a rally in the markets because of this.

The Reserve bank has also implied it could further cut rates in the future if the situation doesn't change. However it must be noted that these gains could be counteracted by a weakening economy. Low inflationary pressures and a slowing job market could be signs of a greater economic slowdown in New Zealand. Hence the market rally may be temporary and might not hold in the long run.

Key Market Development:
New Zealand is set to have a referendum on recreational cannabis at the next general election in late 2020. This will have an enormous impact on New Zealand's prospering Cannabis industry and permanently change New Zealand consumer preferences. With the various opinion polls showing a vast majority of New Zealanders favour legalisation, the referendum is set to pass with a large majority.

The current key players in the New Zealand Cannabis Industry are Helius Therapeutics, Zeacann, Cannasouth and Hikurangi. Currently these companies are all privately owned as their industry is very small and niche. However with the event of legalisation that will most definitely change.

New Zealand has one of the best climates in the world for cultivating cannabis and our strong agricultural background will further foster innovation in this sector. When cannabis was legalised for recreational use in the US and Canada their respective stock markets saw a massive surge in cannabis related IPOs. We can expect a similar phenomenon in New Zealand. Helius Therapeutics is the largest contender among these companies. A keen eye for cannabis IPOs could prove very profitable as New Zealand's markets are reshaped.

EUROPE'S POPULIST NIGHTMARE

BY KALLEN CHAN

It's been two months since the United Kingdom had been set to leave the European Union in late March this year. With the resignation of UK Prime Minister Theresa May and her failure to pass any Brexit deal through the house of commons, the train for the UK to leave Europe, remains stranded at the platform where it began. Speculation still remains as to who will the UK after Theresa May stepped down late last week. However, the stars are aligning for hardline Brexiter and former Foreign Secretary Boris Johnson.

While Theresa May was formidable and pragmatic, she lacked the charisma and relatability for the British public to resonate with. Boris Johnson, on the other hand, with his great wit and flare in public, seems to offer a solution to the increasing dividedness among the UK.

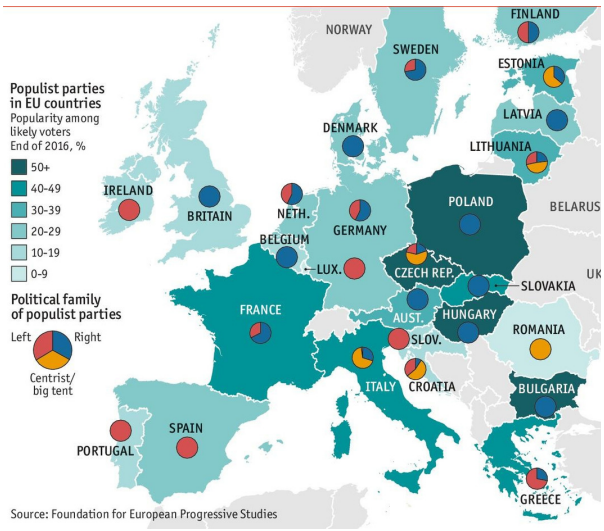
Theresa May failed to get the public and more importantly, her fellow MPs and Ministers to be inspired by her plan and to sell the belief that in the future of the Union would be truly better under her deal. On the contrary, Boris Johnson is determined start afresh and to establish new and independent trade links for the country.

The EU's patience with the UK is now at breaking point. The EU leaders now insist that the UK are to depart by October 31st. The Brits too are running out of patience, and led by Nigel Farage and the Brexit Party, there is a growing call to get UK out of the EU, even if it means a hard Brexit, a Brexit without a deal.

Whatever the outcome in October, a Brexit with a deal, hard Brexit or no Brexit at all, it is clear that the future of the EU has been called into question. Even without Brexit, the European Union is facing unprecedented threats to its survival. The rise of populism across EU has raised the threat of Eurosceptic parties on course to dominating the European Parliament.

Over the weekend, elections to the European Parliament saw populist parties win over one third of the seats in Brussels, crossing a critical threshold which could have a drastic impact on future EU protocol.

Although anti-populists remain the majority, the election result has been a major victory for many populist parties, above all Nigel Farage and the Brexit party. Although not yet a flood, the tide of populism is clearly on the rise, and most critically, the EU is on course to lose one of its last anti-populist voices. German Chancellor Angela Merkel has announced that she will step down as Chancellor in 2021, following the election setbacks of the Christian Democratic Union (CDU).



Apart from the UK, there are multiple other countries with good reason to get out of the EU. At the top of this list is perhaps Greece. Debt-ridden, the Greek government still fails to cover its deficits as the Greek economy struggles to grow. Greek policymakers, attempting to stimulate the economy by encouraging exports, are thwarted by the expensiveness of the Euro. By leaving the Eurozone and the European Union, Greece could return to its own currency, providing them the ability to devalue their currency to stimulate exports.

A potential Swedish exit, too, has long been in the making. Following decades of liberal immigration policies implemented by successive governments in the late twentieth century, the Migrant Crisis has increased anti-immigrant sentiment. Right-wing and populist movements are increasingly resonating among Swedes, with the European Union and Angela Merkel's migration policy becoming the centre of scrutiny. Similar anti-immigrant sentiment has also been the source of Euroscepticism across most of Europe, especially Italy and Hungary.

Right-wing and populist movements are increasingly resonating among Swedes, with the European Union and Angela Merkel's migration policy becoming the centre of scrutiny. Similar anti-immigrant sentiment has also been the source of Euroscepticism across most of Europe, especially Italy and Hungary.

For now, however, the chaos of Brexit seems to have temporarily succeeded in uniting the rest of the EU. Despite their discontent in the EU, Eurosceptics themselves are waiting anxiously for the outcome of Brexit before making any step to exit the bloc. The existence of the European Union now hangs in the balance. Much will depend on whether Brexit becomes a success or a failure.

FM LAW: A TALE OF INSIDER TRADING

BY SAM SIMPSON

Since the inception of the Investment Club in 2010, there have been a number of notable developments in Financial Markets Law. These can be summarised in three categories:

1. The introduction of the Financial Markets Conduct Act 2013;
2. The first insider trading trial ever in New Zealand; and
3. The introduction of new NZX listing rules in 2019.

The implications of these changes are far reaching and impact on every participant in Financial Markets. A capital gains tax, which would have included financial products including shares was also on the cards this year, however that has been shut down by the current government.

Financial Markets Conduct Act 2013
The Financial Markets Conduct Act 2013 (FMCA) is the largest statutory change in our financial markets in at least 30 years, since the introduction of the Securities Act 1978. The change was spurred by the Global Financial Crisis, the subsequent round of finance company collapses and the Blue Chip saga.

The FMCA governs how financial products are created, promoted and sold, and the ongoing responsibilities of those who offer, deal and trade them. It also regulates the provision of some financial services. The purpose of the FMC Act is to promote and facilitate the development of fair, efficient and transparent financial markets, and to promote the confident and informed participation of businesses, investors and consumers.

The FMCA completely overhauls how primary offers of financial products are regulated. It introduces a new regime incorporating major changes to almost every aspect of how offers of securities (referred to as "financial products" in the Act) are regulated.

One of the key changes is with regard to disclosure requirements. The investment statement and prospectus that were used before the FMCA was introduced were replaced with a product disclosure statement (PDS).

The PDS is intended to contain only information considered essential to an investor's decision to invest. All the other required information that does not fit into the product disclosure statement will go on a public register.

A more conclusive summary of the FMCA changes can be found at the following link:
http://www.fma.govt.nz/assets/Guidance/_versions/5244/131101-a-guide-to-the-financial-markets-conduct-act-reforms.1.pdf

Insider Trading – R v Samson [2018] NZHC 542

In March of 2018, New Zealand had its first insider trading trial, signifying an important step in the Financial Markets Authority (FMA) regulating financial markets effectively. The outcome provides a clear message from the FMA that insider trading is a serious offence and one that they will prosecute rigorously.

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Fact summary:

Mr Honey was employed at EROAD. He created a dashboard entitled "US sales executive summary." The information included EROAD's performance in the US market. The dashboard was confidential and was not generally available to the market. On 14 September 2015 the CEO sent an email to all staff outlining that there would be a blackout period for trading EROAD shares.

At 9.57 am one day during the blackout period, Mr Honey sent Mr Samson, by text message, a photograph of the internal and confident EROAD dashboard showing the financial performance in the US market, accompanied by a text message which read, "US sales not doing too well, (sic) time to sell up? Confidential obviously". Mr Samson replied at 9.59 am, "You're a bad boy but thanks." A minute later Mr Samson texted Mr Honey and stated, "Was going to sell down significantly anyway". Mr Samson then sold 15,000 Eroad shares at $3.41.

After the announcement was disclosed to the market, the EROAD share price fell substantially. Mr Honey pleaded guilty, and was sentenced. Mr Samson denied the allegation, claiming that he had a defence because he was going to sell the shares anyway, and also argued that he didn't know what he was looking at it when Mr Honey sent him the photograph.

Judgment:

The Court said that under s 241(1), the insider trading prohibition, once a person is an information insider, as defined in s 234 (i.e. someone who has material information relating to the listed issuer that is not generally available to the market and the person knows or ought reasonably to know so) they are prohibited from trading.

There is nothing in s 241(1) and the accompanying provisions to indicate that the person's intentions (including their intention to trade or not before they became an information insider) are relevant, or that there has to be any causal connection between the information and the trade.

Section 244 of the Act makes insider trading under s 241 a criminal offence if the person knows (as opposed to knows or ought reasonably to know) that the information is material information and that the information is not generally available to the market. Knowledge is the only difference between civil and criminal liability for breach of s 241.

If a person possesses information, that he knows is not generally available and is price sensitive, the prohibition on trading will apply whether or not he conscientiously brings to mind that information and its nature at the time he makes a decision to trade in shares. This would lead to too easy of a defence.

On the facts of this case therefore, it was not a defence for Mr Samson to say that he was already intending to sell his EROAD shares, or that his decision to sell was uninfluenced by the information received.

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New NZX Listing Rules

The revised NZX Listing Rules took effect from 1 January 2019, marking a significant change in the legal framework of Financial Markets. Intended to simplify and modernise both the structure of the market and the rules, current and prospective issuers need to understand the advantages these new rules offer, as well as the behavioural changes they require.

Key changes include:

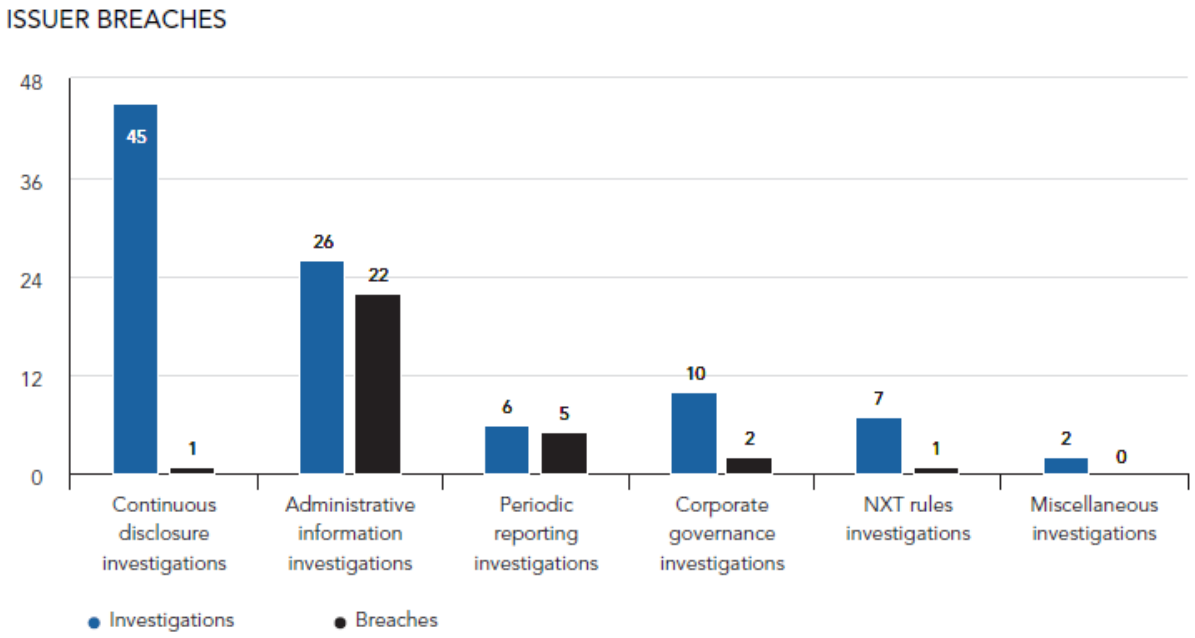
A shift to a single equity market, consolidating the current three boards (NZX Main Board, NXT Market and NZAX). NZX has indicated the NXT Market will likely close to new listings in Q3 2018.

Extending continuous disclosure obligations to include material information a reasonable director or senior manager ought to know (the current rules only require disclosure of material information that is actually known)

Leaving the major transaction threshold at 50% of average market capitalisation but introducing a requirement for shareholder approval for transactions that would significantly change the scale of an issuer's business

Removing the requirement for issuers to publish a half year report, although the half year preliminary announcement will still be required

Retaining the requirement for a minimum of two independent directors, but introducing a recommendation that issuers should have a majority of independent directors



DEVELOPMENTS IN HEALTHCARE

BY THOMAS ZHAO

For thousands of years, humans have sought for new treatment and prevention methods in order to improve life quality and extend life expectancy. Today, healthcare industry is one of the world's largest and fastest growing industries which represents about 10% of GDP of most developed countries. The industry consists of hospital, medical and dental practice, and other human health activities.

In recent decades, the healthcare industry is expanding very quickly because of the rapid growth of ageing population, greater prevalence of chronic diseases, increase in people's income in developing countries, and rapid development in technology. These factors have led to a higher demand and expenditure on medical and healthcare goods and services. By 2021, the global healthcare market is expected to grow to $11801 billion at an attractive compound annual growth rate (CAGR).

In this report, I will discuss the reasons and facts about medical and healthcare industry's success, include the effects of rising ageing population, prevalence of chronic diseases and rapid economic development of developing countries on healthcare industry's growth. The report also includes the comparison of medical and healthcare industry performance by different regions, and lastly, I will discuss the future growth potential of healthcare industry.

Medical and healthcare sector analysis

Medical and healthcare industry tends to perform well during both economic booming and recession periods. In recent years, the rapid expansion of medical and healthcare industry has stimulated investors' strong interest in this industryThere are three key reasons of the strong growth potential for medical and healthcare industry: increase in ageing population, greater prevalence of chronic diseases and rapid economic development of emerging market.

Ageing population:

The global ageing population is increasing very quickly in recent decades because of increase in life expectancy. By 2022, global life expectancy will increase to 74.4 years from 73.5 years in 2018, which will increase the population aged 65 and above to 668 million. This growth trend will accelerate because more baby boomer population will reach to or above 65 in the next 10 years. In New Zealand, the population aged 65 and over will be doubled by 2050. Therefore, the expenditures on medical and healthcare goods and services will keep increasing, which brings great opportunities for healthcare companies to grow and success.

For example, Ryman Healthcare had fewer than 1000 units and beds when the company just listed in 1999, and today, this number has increased to 9000 and the company is also planned to build more retirement villages to meet the increasing demand. Summerset Group also achieved growth in its total number of retirement units by 93% since 2012, and the total number of care beds increased by 129%. It is expected that the spending power of consumer aged above 65 will reach to $15 trillion in 2020, up from $8 trillion in 2010. This is one of the key reasons that allows the industry to maintain its growth in the future.

Prevalence of chronic diseases:

The prevalence of chronic diseases leads to a higher awareness of health issues and thus increases the demand for high-quality drugs and healthcare services. In 2016, 71% of the 56.9 million death reported worldwide was caused by non-communicable diseases. According to World Health Organisation, chronic diseases are expected to increase to 57% by 2020, with over 60% of them will be in emerging markets.

The rapid rising in chronic diseases is due to various reasons including obesity, changing diet and sedentary lifestyle. Therefore, the healthcare sector is placing greater emphasis on preventive health solutions and patient centric care in order to prevent people from getting these diseases and provide effective treatments to patients. By 2023, the global chronic diseases management market size is expected to grow at a CAGR of 17.5%.

The rapid increase in demand for quality medical goods and services that target at chronic diseases give market players the opportunity to fill the gap between demand and supply to maximise profits; key players in chronic diseases management market including TriZetto Corporation, Infosys Limited, i2i Systems, EXL Healthcare and Wellcentive Inc. By 2024, global chronic disease management market is expected to generate around $10.3 billion.

Rapid economic development of developing countries:

Emerging market possesses the fastest growing healthcare market because of the rapid increase in ageing population, rising income level, rapid expansion of middle class. These factors stimulated the demand for greater quantity and higher quality of drugs and healthcare services.

Emerging market has half of the global population, but the combined value of emerging market healthcare sector is just $1.3 trillion, which is less than half of the US.

However, expenditures on medical and healthcare goods and services are increasing very quickly in recent years. The public healthcare spending as a share of total healthcare spending increased from 45% in 2005 to 54% in 2013, and the growth rate has outpaced the growth rate of emerging market's GDP per capita.

The rising income level increases people's living standard and make people become more aware of their health, and therefore more willing to increase their spending on healthcare goods and services. This is a key reason of why emerging market's healthcare sector has a huge growth potential.

The medical and healthcare firms in emerging market are also actively seeking for opportunities to expand their business sizes and improve the qualities of their drugs and healthcare services. In 2017, the active expansion of medical firms through M&A in Asia-Pacific surged to $7.2 billion.

In China, the government created several new policies that focus on improvement of medical insurance coverage, raising medical subsidies and deregulation of drug prices. This gives investors in China, particularly the private equity investors, to have the opportunity to take the advantage of new regulations and invest in these medical firms with high growth potential.

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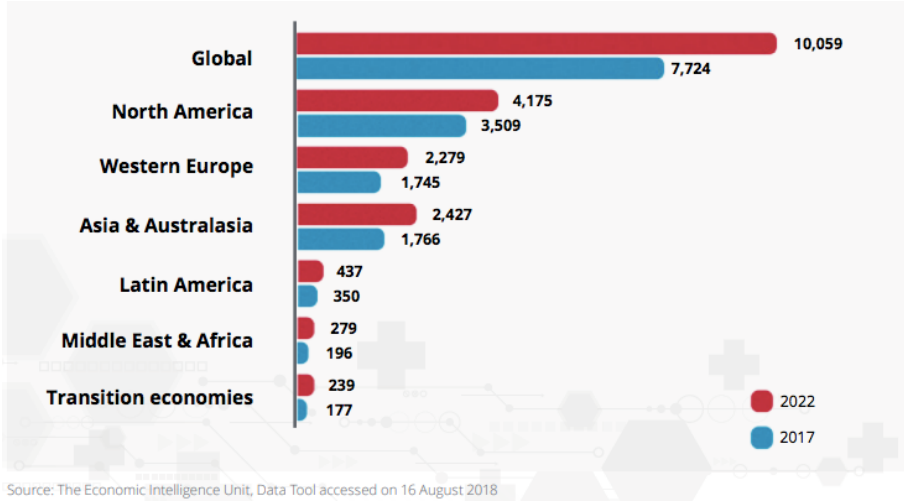

Regional Comparison

In 2017, North America was the largest market for healthcare, followed by Asia-Pacific. The total expenditure on healthcare in North America was $3509 billion, the high demand for healthcare products and services in this region is because of high income level, chronic diseases problems and sedentary lifestyle. Asia-Pacific has the highest growth rate for healthcare expenditure because of rapid increase in people's income, improved living standard, development of healthcare technology and high demand for effective prevention and treatment methods for rising chronic diseases.

Future outlook for medical and healthcare industry

Whether it is during economic booming or economic recession period, humans need medicine and healthcare services for diseases' treatments, prevention and maintenance of life quality. Therefore, healthcare sector tends to have a relatively stable performance compared to other industries

The medical and healthcare industry will expand rapidly in the next few decades because of the rapid rising ageing population, economic and social developments of emerging markets and increasing demands for effective prevention and treatment of chronic diseases. These factors will bring a lot of growth opportunities to businesses in the industry.

In order to maintain its success and further capturing the market share, a lot of medical and healthcare businesses consistently seeking for improvement in qualities of drugs and healthcare technology. Healthcare companies also actively partnered with technological firms to develop their own E-Health platform. For example, Ping An Good Doctor, a Chinese healthcare app that provides transformative online healthcare services and integrated medical services such as AI-assisted online medical consultations, medicine delivery and online appointment booking.

These services allow people to access to medical services much easier, and can also help medical and healthcare businesses capture greater market share. Therefore, in the future, it is very likely for medical and healthcare sector to keep achieving successes, and thus make humans' lives become even better.

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