UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS - STUDENT OPINIONS

MAY 31ST 2021 ISSUE NO.22

Karioitahi Beach

The University of Auckland Investment Club
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Prices as at Friday 28th May 2021
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Contents

An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES WRITTEN BY OUR INVESTMENT COMMITTEE ANALYSTS

Quickstep

Pitched by Gabrielle Mackisack & Flynn Davies

Quickstep (QHL) is a small-cap Australian aerospace composites company that uses patented technology (Qure) to manufacture various fuselage composites for next-generation defence aircraft. QHL has several upcoming contracts with significant defence contractors, which should see them grow their revenue base into the future. QHL's core competency is rooted in defence aerospace composites; however, they also derive around a quarter of their revenue from commercial aerospace, aftermarket services, and other advanced sectors. QHL's competitive advantage is found in their patented technology, "Qure", which can produce carbon fibre composites more efficiently with significantly less energy consumption than traditional production techniques. QHL has been trending downwards for a decade and is trading at all-time lows despite a growing earnings base and positive market outlook. Future growth lies in QHL's ability to secure new defence contracts on aircraft such as Northrop Grumman's MQ-4C and Lockheed martins F-35. The investment committee voted to pass, with the final vote 9/14.

BetaShares Australian Financials Sector ETF

Pitched by Daniel Vaz

The BetaShares Australian Financials Sector ETF (ASX: QFN) provides diversified exposure to a selection of financial institutions listed on the ASX. The “Big 4” banks (CBA, Westpac, ANZ, NAB) hold the majority of the portfolio, with Macquarie Group, insurance companies and smaller regional banks making up the rest of the holdings. Australia’s financial institutions and the broader economy proved resilient during COVID-19, with the big 4 banks boasting strong balance sheets and healthy capital and liquidity positions. The investment thesis for the ETF focused on the rebound of the financial institutions, backed by sound financials and an improved reputation - an excellent foundation to thrive in a spend-ready economy. Uncertainty and a squeeze in the net interest margin are identified as the key risks; however, surging lending volumes will help alleviate the impact of some of these risks. It is deemed that an ETF is the safest way to attain exposure into the financial services sector due to the complexity of modelling a single institution. The final vote was 13/3, representing the first time a non-equity instrument has been pitched and approved by the Investment Committee.

"The old you would have" - Flynn Davies, Junior Analyst

"[E]xposure [T]o [F]inancial (services)" - Daniel Vaz, Senior Analyst

The crypto environment: reality of regulation

WRITTEN BY LUKA BORICH

IN APRIL, I WROTE ABOUT BITCOIN AS AN INVESTMENT. I SAID THEN THAT INVESTORS SHOULD EXPECT PRICES TO HALVE AND DOUBLE WITHIN DAYS. ON CUE, THE MONTH OF MAY HAS SEEN BITCOIN RISE AND FALL DOUBLE-DIGIT PERCENTAGE POINTS DAILY. SOME HAVE MADE MONEY, BUT MORE HAVE LOST IT AND MAY STAND TO LOSE A LOT MORE IN THE SHORT RUN. THE REGULATORY WOLFPACK MASQUERADING AS THE WORLD'S LEADING GOVERNMENTS HAVE CAUGHT THE SCENT OF TAXABLE TRANSACTIONS. NOTHING LESS THAN REGULATORY DOMINANCE WILL SATISFY THEIR CRAVING; INVESTORS BE DAMNED.

May 13th. Elon tweets out that Tesla is suspending vehicle purchases using Bitcoin. Within five minutes, Bitcoin loses roughly 5% in value. In the span of eight days, one BTC drops from USD 56,755.90 to $36,941. Over 30% evaporated in barely a week. He cites environmental concerns, specifically, the energy consumption used to mine – and therefore maintain – Bitcoin as his reasons for doing so. In doing so, he exposed the worst kept but most ignored secret about Bitcoin. It is well-documented that mining bitcoin, the process by which transactions are authenticated and new bitcoins are generated, is heavily resource intensive. Some models estimate usage akin to powering the country of Ireland. The electricity required to power the computations is, to put it lightly, ridiculous.

This is not to say that high energy usage makes crypto unsustainable. This brings us to another May moment, May 25th. Musk tweets that he has spoken to North American Bitcoin miners and are "committed to publishing current and planned renewable usage". Like clockwork, Bitcoin rose about 4% in direct response and 17% in 24 hours.

What are we to make of Musk's backtracking and subsequent 'retracking' on Bitcoin? The naïve may think that Musk was not aware of the carbon footprint of Bitcoin mining when he started accepting it in February. That is, at best, a hilarious oversight from the world's pre-eminent crypto cheerleader. But more importantly, he may have exposed the precarious house of cards on which investors – big and small – are perched.

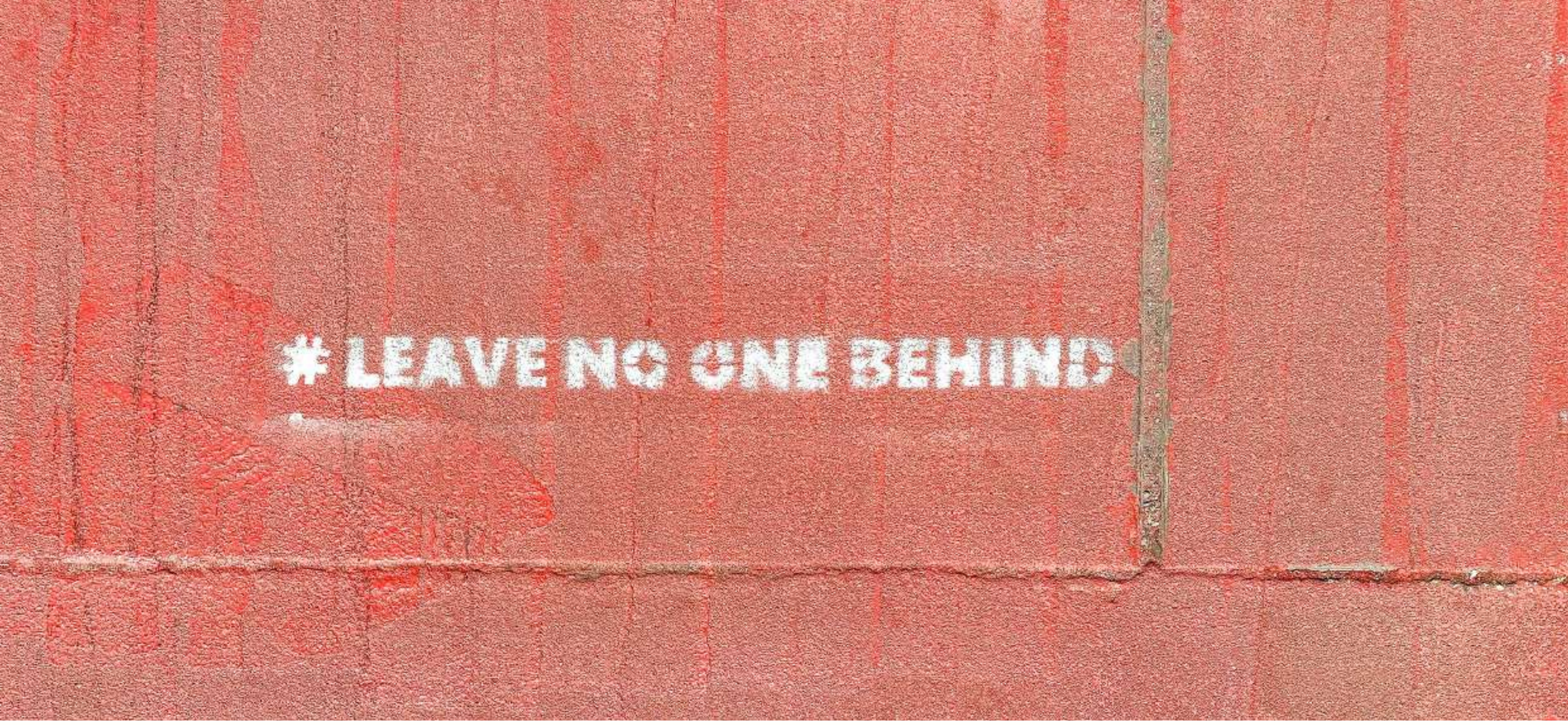
And we haven't even got to the wolfpack. In the last two weeks, China announced a crackdown on crypto mining and trading. China, particularly the southwest region, is a hub of mining activity, in large part due to access to cheap coal-powered Bitcoin mining farms. It is hard to imagine that the emissions output is of great concern to the CCP given their track record on

sustainability. Yet, this is the rare instance of a governments' thirst for taxable income coinciding with sustainable externalities. Shutting down miners in China will invariably reduce the environmental impact of Bitcoin in the short run.

Bitcoin suffered from this announcement, losing over 10% in value. As if to compile the misery further, the US Treasury announced that crypto transactions of over USD 10,000 were to be reported to the IRS. You can probably guess the net effect on the price of Bitcoin. Optimists argue that regulation will give financial institutions confidence and legitimise the asset class in the long run. Pessimists say that the market may never bottom out but continue to fall into the abyss.

We can only be certain of two things. The first is that the energy required to mine Bitcoin – sustainable or not – will only increase. The very nature of Bitcoin is to increase the difficulty of mining coins over time. This requires more computer power, and the growth in difficulty is outpacing the efficiency of our machines. Secondly, regulation is going to become more stringent. Countries are now awake to the reality of crypto. Reporting and taxation and laws are coming. Our public servants are not as malicious as the media tend to portray, but they are nothing if not predatory. Since its inception, Bitcoin and its brethren have gone under the radar, but not for much longer. Billions in transactions are going to be taxed and reported, assuming crypto survives that long.

That is probably a safe assumption. It is reasonable to believe that Bitcoin will bottom out. Regulation will set in, and a fair value for crypto will be found. Institutional investors who jumped ship over the last month will return, even if with a healthy dose of caution. At the very least, that is more believable than Musk not being aware of the enviro-cost of Bitcoin until now. The question investors must ask themselves is when the bottom will be found. In other words, what will Elon tweet next?



Exploiters get richer while we all get poorer

WRITTEN BY TULSI KHANNA

NEW ZEALAND PORTRAYS A FRUITFUL IMAGE OF WHAT IMMIGRATION AND STARTING A NEW LIFE HERE MAY MEAN; YOU CAN LIVE IN A BEAUTIFUL COUNTRY WITH MORE OPPORTUNITIES THAN YOU COULD EVER IMAGINE. BUT WHAT GOES ON UNDER THE TABLE IS A WHOLE DIFFERENT STORY. IT'S A STORY OF SURVIVAL, BETRAYAL AND MOST IMPORTANTLY, EXPLOITATION.

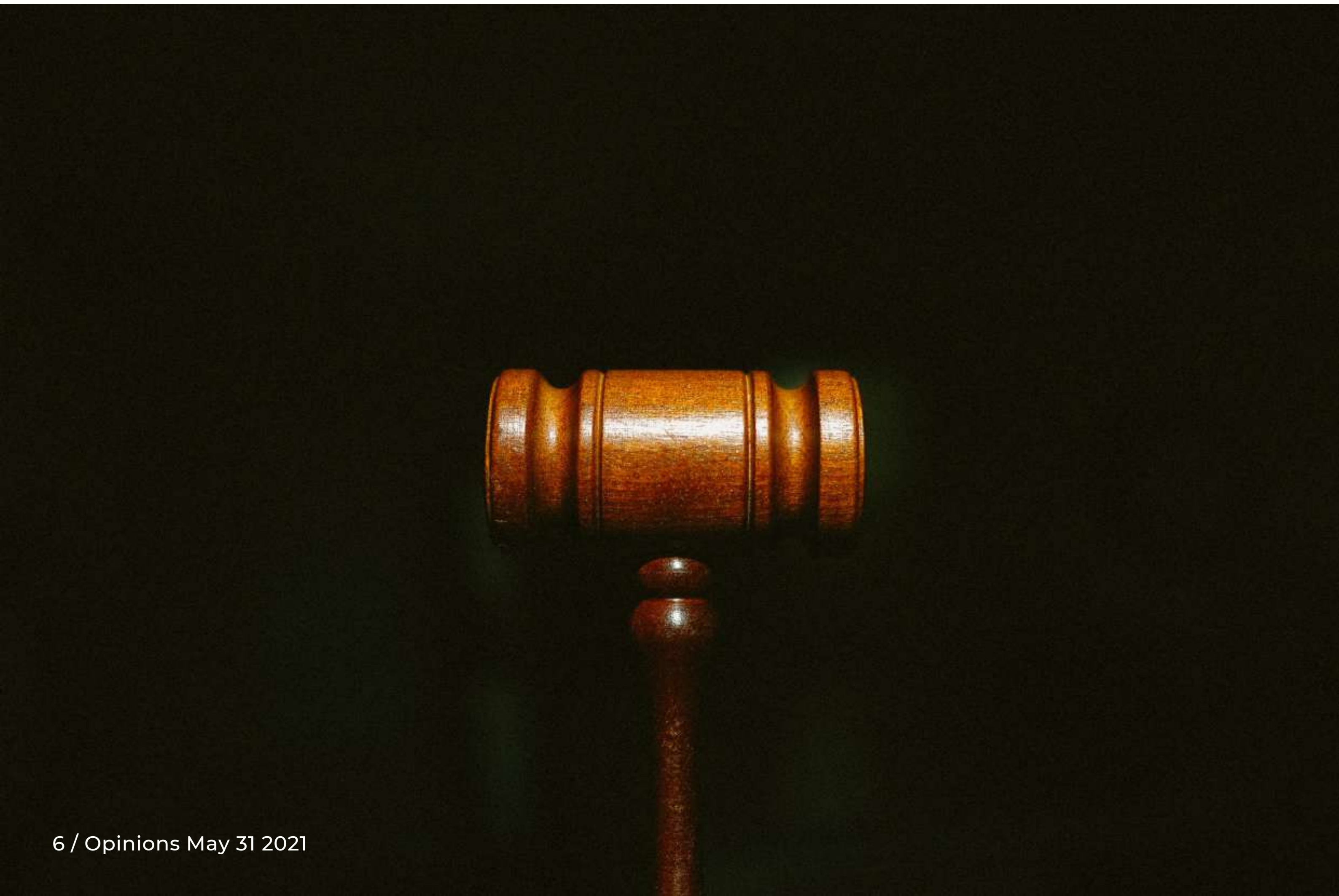
Exploitation is the act of treating someone unfairly to benefit from their work. For many exploiters in New Zealand, this seems like they are doing the exploited a favour; bringing them to a new country, giving them a job, stripping them of basic human rights; it's the whole shabang. This works essentially when an immigrant needs work to stay within the statutory bounds of their permit. As a result, some employers end up exploiting their workers by underpaying them, not paying them at all or, in some instances, even taking money back from their employees to cover up any suspicious financial data. If there is no trace of this and no suspicion on the side of the exploiter, this criminal activity keeps happening under the radar.

This is of economic interest to each and every one of us because it impacts everyone who is working to circulate the economy, which includes all of us. To personify the actual impacts of this, it is essential to look at the work that UTU for Workers Union has done to bring this issue into the limelight and bring it the justice it deserves. For instance, the case of Jaya Bharath Reddy Gopu and Divya Bereddy, an up and coming power couple in Christchurch. This case involved the couple not paying their employee adequate annual leave payments, spanning over four years. They only ever paid him for four weeks of annual leave. That is how much he was owed per year. On top of this, the worker stated he was working 55-60 hour weeks but only getting paid for thirty hours. This meant he was working twenty-five hours for free per week for his employer. Calculating his missed payments by twenty-five hours per week as well as his missed annual leave payments, this individual alone was owed $120,000.

Another case involved the Tulsi franchise of restaurants and cafes in Wellington (they brought shame to my name), where they only paid one of their chef's $4.28 an hour for seventy hours of work per week, spanning over five years. This employee was sponsored by Monty Patel, the owner of this business, to come to New Zealand as one of his employees in May 2016. This chef even worked for free for the first three months of his life in New Zealand as an act of reciprocity. After years of frustration and explicit exploitation, this worker was owed $128,000 by his employee. He was offered $42,000 as a final and confidential settlement. So we see, moving to New Zealand is seemingly not the picture-perfect life many immigrants had wished for themselves. UTU works to represent these workers and publicly campaign against these crimes.

However, exploitation has massive impacts on our economy too. Particularly since the pandemic, many exploited workers have found themselves stuck between a rock and a hard place. Minister for social development Carmel Sepuloni states that if workers run out of money, they have little choice but to turn to the unlawful job market. "If they do that, not only do they expose themselves to slave-like work conditions, but they drive down wages for New Zealand workers.". Furthermore, he added a point that reinforces, "New Zealand businesses can expect to be undercut by competitors who use cheap or free migrant labour, so it has very negative consequences for the entire New Zealand economy.". Many immigrants also had no choice left, as going home was not an option with closed borders.

This vicious cycle worsens individuals' working conditions and their rights being infringed while legitimate New Zealand businesses are being outcompeted. This is a huge problem in New Zealand, where the exploiters are reaping the fruits of migrant labour. We are watching large sums of money go unaccounted for while continuing to put our money into these businesses blindly. Exploiters get richer, and we all get poorer.



Build to rent: ready for take-off?

WRITTEN BY LOGAN RAINEY

THE RENTAL MARKET IN NEW ZEALAND AS IT STANDS IS DOMINATED BY SMALL SCALE 'MUM AND DAD' INVESTORS RENTING OUT INDIVIDUAL SUBURBAN DWELLINGS. PRICES ARE GOING UP AND UP, AND RENTAL TENURE IS FRAGILE AND INSECURE. WE DON'T FUNDAMENTALLY HAVE ENOUGH RENTAL PROPERTIES, AS GOVERNMENT POLICY PRIORITISES FIRST-TIME HOMEBUYERS OVER RENTERS, WITH THE SHORTAGE WORSENING. AS A COUNTRY, WE'VE RUN OUR HANDS IN THE FACE OF THIS ISSUE, DEBATING REFORMS TO TENANCY LAW AND THE PROVISION OF STATE HOUSING, ALL WHILE OUR RENTAL MARKET BUCKLES UNDER THE PRESSURE OF SUPPLY PRESSURE.

Stepping into this climate, Kiwi Property, an NZX listed staple of the New Zealand commercial property sector, recently announced that they intend to commence 'Build to Rent' projects at Sylvia Park and Lynmall. Kiwi Property isn't the only 'Build to Rent' scheme in the works. The nascent sector is now starting to experience growth, with numerous other smaller developments underway.

The term 'Build to Rent' refers to large scale and often high-density property developments undertaken by institutional investors, which create developments designed to be owned and managed by the investors and rented out to household tenants; with long term tenure that provides greater degrees of stability to renters. 'Build to Rent' developments aim to generate financial returns through the generation of long term rental income alongside capital growth instead of selling the newly built property on the open market as in the typical model of developers. Ask the average person on the street about 'Build to Rent' property developments, and I would imagine you would get a slightly blank stare in return. And I wouldn't blame them either. It is not in our property DNA, not yet at least.

However, institutional scale 'Build to Rent' schemes are already big business overseas, with one in five new builds in the UK being 'Build to Rent' developments. The business model has spread down under in recent years, with the development pipeline of 'Build to Rent' schemes growing 68% in Australia in the last year, with the total number of 'Build to Rent' units getting close to 15,000.

It looks plausible that New Zealand might be next to experience growth in the 'Build to Rent' sector. Done right, 'Build to Rent' developments could be a partial answer to the crisis in our rental market. 'Build to Rent' schemes could provide a welcome boost to the supply of high-quality rental properties, especially in our major cities.

In the current financial climate, there are vast pools of international funds looking for

large and stable, long term cash-flow positive investment opportunities. Think private equity, think superannuation funds or sovereign wealth funds.

If we get the policy and regulatory environment right, we could offer widespread 'Build to Rent' schemes as a viable investment internationally, attracting international investment into expanding our rental stock. This would arguably help stabilise our long-suffering rental market and contribute to reduced upward pressure on rents, and provide greater stability to tenants, as the 'Build to Rent' model encourages long term tenancy.

Industry advocates also argue that the professionalisation of rental property, as encompassed in the 'Build to Rent' model, offers unique benefits to tenants. Property developer Kent Gardner told RNZ that 'Build to Rent' schemes encourage cultivating good relationships between tenants and investors, where "tenants are treated as valued long term customers". One of the most significant positive changes is the incentive for 'Build to Rent' providers to ensure a satisfactory customer experience to prospective customers, to attract long term residents and the revenue stream that entails. It's a fundamentally different business model to some of the less savoury current operators in the rental market.

'Build to Rent' rent schemes also tend to offer, based on overseas experience, tenant access to a wide range of amenities ranging from recreational facilities to on-site retail and hospitality. The scheme proposed by Kiwi Property aims to piggyback on their existing commercial precincts to offer a similar experience.

Some might argue against the 'Build to Rent' model citing concerns over the corporatisation of rental markets. That's not entirely unfair, and the model might not be for everyone. But I think the benefits of a consistent and professional standard of care will have a lot of appeal to many long term renters and young people. And let's be honest, offering the option in a market with no flexibility and intense supply pressures is undoubtedly a net good.

There is also a concern that widespread adoption of 'Build to Rent' schemes might signal that the Kiwi Dream of widespread homeownership is becoming out of reach, with a generation forced into lifelong renting arrangements. Buying a home is becoming increasingly out of reach for many New Zealanders. Surely ensuring a better standard of care is a good thing? And the increase in housing supply from 'Build to Rent' could arguably help put homeownership in reach by contributing to some degree of price stabilisation in the housing market.

'Build to Rent' style living isn't going to be for everyone, and that's okay. We still need to drive up our homeownership rates and provide greater social and community housing access. But large scale financial actors putting funds into the provision of warm and plentiful new rentals? That's a win in my book. The 'Build to Rent' is surely ready for take-off in New Zealand!

Finding footing in the food industry

WRITTEN BY SARAH JEONG

ANY RESULT FROM SEARCHING "FOOD" AND "FUTURE" TOGETHER CAN BE SUMMARISED INTO THE IDEA THAT THE FOOD INDUSTRY IS AN AREA WHERE WE CAN EXPECT DRASTIC CHANGE WITHIN THE NEXT FEW YEARS. ON A CULTURAL LEVEL, ADVERSITY TO MEAT ALTERNATIVES HAS STEADILY BEEN CHIPPED AWAY. VEGETARIAN, VEGAN OR RED-MEAT EXCLUSIVE DIETS HAVE BECOME POPULARISED ENOUGH TO HAVE BEEN AWARDED GROCERY STORES AISLES AND SOCIAL MEDIA FOLLOWINGS.

On a technological level, strained natural resources are effectively being replicated, with expectations of such technology to enter the goods market within the next few years. As a matter of necessity, we need to produce 56% more food (based on 2010 production) to keep up with expected population growth in 2050.

These megatrends and global threats encourage supply and demand market forces to work in tandem. Tech development supports radical change in the food industry's business model. Choice-conscious consumerism trends and the general necessity of enhanced food production increases the viability of these food alternatives. According to experts, the long-term reality is that the global food economy in its current trajectory is unstable: food wastage, environmental strain, malnourishment, and obesity are significant problems requiring address. Industry analysis shows a paradoxical pressure on agriculture. Farmland is becoming increasingly degraded; water resources are strained as both land and water reveal their properties as finite resources. Unfortunately, the production and yield of these resources are required to increase to meet expected demand.

Though technological development has created several viable options (biofortification, plant-based proteins), it isn't likely that the commercialisation of alternative food sources will immediately act as a perfect substitute for conventional food sources. The Meat Industry Association reported that New Zealand red meat and co-product exports were valued at $783.3 million in January 2021. Global average meat consumption per capita rose approximately 20 kgs since 1961. Meats and co-products are still hugely popular. The incentive to seek out meat alternatives varies between country and demographic, and it could take many years before these alternative foods settle in as staple goods in everyday households.

As such, the traditional meat industry and the conventional perspective towards food pose the biggest challenge to alternative meat and food products finding footing in the market. Air New Zealand (AIR.NZ) came under fire for collaborating with Silicon Valley startup Impossible Foods in 2018 to bring a plant-based "Impossible burger" to Business Premier flights. Primary criticism argued that the nation's airline should be promoting the domestic meat industry. According to the 2020 NZ Agritech industry report by MBIE, the shortage of growth capital in the technology sector and slow rates of assimilating new technologies into agricultural practice hinder the realisation of more of these products reaching consumer markets. However, it is a path that seems inevitable, and the global industry has realised it too.

Among other prominent investors, Bill Gates and Richard Branson backed Upside Foods, a company pioneering cultured meats, with its first "chicken" consumer product awaiting regulatory review. Softbank Vision Fund (SFTBY) recently reported record-breaking profits for a Japanese company that invested USD 200 million into Plenty: a startup developing vertical farming and Finnish startup Solar Foods accelerating production of their protein "Solein" after receiving USD 11.9 million from the Finnish Climate Fund. All in all, an intense level of capital investment is being poured into Agritech and food R&D, a trend in corporate and public investment that doesn't seem to be letting up in 2021.

Looking into the alternative food industry and Agritech poses an opportunity to get insight into the future's highest performing companies. Facing the challenge of adequately feeding the human population within the next century and responding to changing consumer preferences in key market demographics has been met with a massive response of innovation and investment. Vertical farming, AI technology application, genetic modification and 3D printing are a few areas of development that have been brought to attention, revealing technology and new market models with the ability to redefine the food industry for good.

Upgrading your intrinsic value

WRITTEN BY ROHAN BHATT

JUST AS IN LIFE, WINNING THE EXTERNAL WAR OF STOCK INVESTING IS LARGELY DICTATED BY ONE'S INTERNAL BATTLES. CLARITY IS SCARCE AND ULTIMATELY, WHAT SEPARATES A SUCCESSFUL INVESTOR FROM THE REST ARE THE PRINCIPLES WHICH UNDERPIN THEIR INVESTMENT PHILOSOPHY AND THEIR MENTAL FORTITUDE TO STAY TRUE TO THESE IN THE MIDST OF ADVERSITY. IN OTHER WORDS – MINDSET AND RESOLVE.

As it turns out, investing is much more than the flow of financial capital. Quietly hidden in its archives is an abundance of intellectual capital, waiting to be tapped into. The latter will not grow portfolio returns. Instead, it will grow something much more powerful – knowledge. Metaphors for life are seldom found, but investing is an anomaly.

Parallels between life and stock investing are plenty. The future of both is known to none, a future in which nothing is guaranteed, and unpredictability is the name of the game. Timing often trumps discipline, and risk is ubiquitous. At every stage, we are tested, from which we carry a new set of knowledge and expertise to the next challenge. It came to me as no surprise that those principles that drive investing success can do the same in our lives. Thus, in this article, I have compiled a few lessons in investing, which I have also come to appreciate the value of as approaches towards life as a whole.

Don't follow the crowd

"Be fearful when others are greedy and be greedy when others are fearful" – Warren Buffett

In general, markets climb to highs and fall to lows due to overarching investor optimism or pessimism, prompting either a buying or selling flurry, respectively. Both states, however, provide viable opportunities for investors to enter or exit the market. Subsequently, Buffett's famous words are a prompt towards the need for an independent investment strategy, one which is not afraid to be dichotomised from general investor sentiment, allowing investors to take advantage of uneven circumstances. Tying a similar approach to life, making decisions contrary to the norm and having the courage to tread the path less travelled may be a challenge in the short-term but is invaluable over time. More often than not, the fear of standing out suppresses one's potential and leaves behind nothing but missed opportunities. Alleviating oneself from this fear is what helps to make the right decisions at the right time. Remember, you have to be odd to be number one. Back yourself and your strengths.

Think long-term

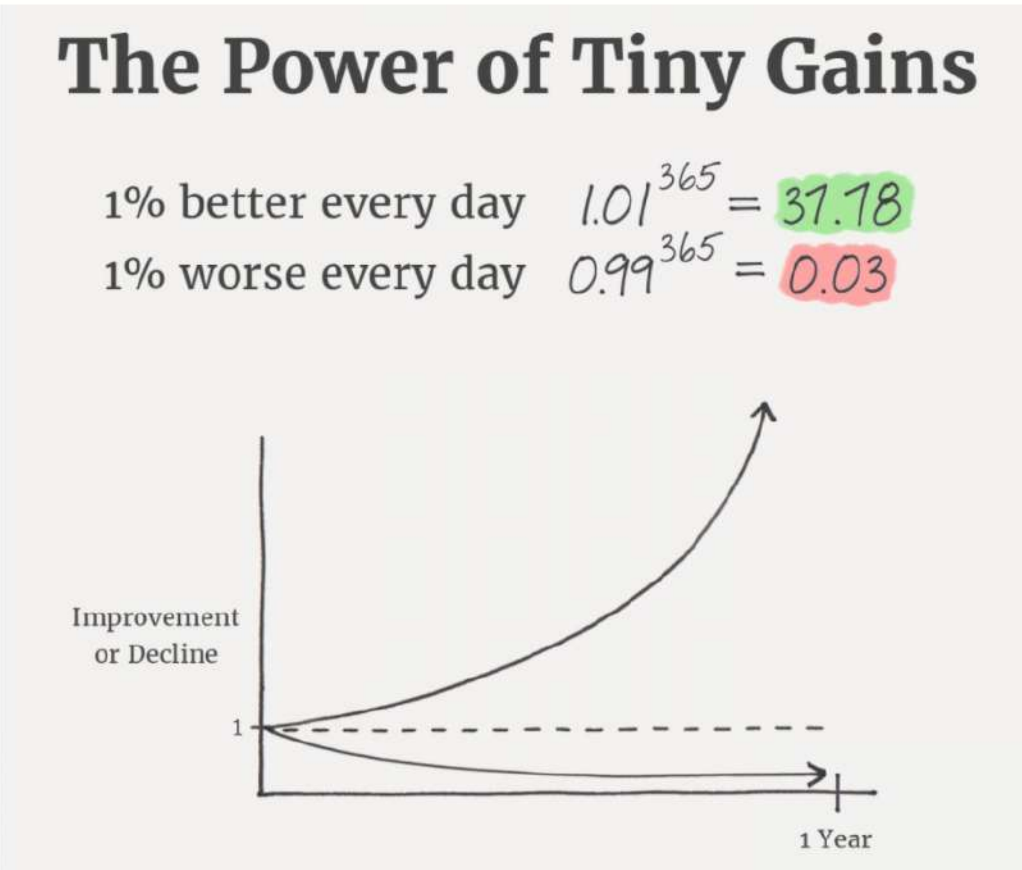
"Do not judge each day by the harvest you reap, but by the seeds you plant" – Robert Louis Stevenson

Stevenson's words emphasise both a detachment from outcome alongside the power of minimal action with maximum potential. Investing with a long-term outlook is much the same – planting seeds that will grow exponentially with time. In the midst of market volatility, it becomes that much more important to be able to pick and hold strong stocks for the future. In doing so, an investor must have a futuristic outlook, with a willingness to sacrifice returns in the interim for future reward. Time in the market beats timing the market. But, to do the former, investors must be mentally disciplined. Rome wasn't built in a day, and strong investors understand this. Just as in investing, life will have numerous fluctuations which threaten short-term derailment. In the end, however, those driven by strong fundamentals will stand the test of time. Investing in habits that will garner one's knowledge and build character are irreplicable; they are an integral part of the infinite game of life. Perhaps it pays to think of one's mind as a personal balance sheet, within which knowledge and strength of mind are key assets. These provide a long-term foundation for one's life, the long-term return on which is priceless.

The power of compounding

"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it" – Albert Einstein

Any traditional investment philosophy would be incomplete without a mention of compounding interest and returns. To those unfamiliar, compounding defines the notion that over time, if returns on investment are reinvested, further returns are earned on the initial returns themselves, as well as the originally invested amount. What does this do? Not only does compounding exponentialise earnings potential in the long-term, it also creates a snowball effect, allowing an initial investment to multiply itself through incremental returns. Similarly, in life, regardless of where one may start, growth is never discrete. It builds on itself, and with momentum, success becomes only a matter of time. Furthermore, the earlier you start, the bigger the impact. To any long-term vision, compounding is its best friend. Each day, if you are 1% better than you were yesterday, in a year's time, you will have grown by 3800%. Trust the process.



The list could go on, but essentially, the material components of financial returns are irrefutable, yet they remain external, at risk of being taken away at any time. The assimilation of intellectual capital, however, becomes ingrained into the core of one's personality – it is timeless. Thus, by treating investing as a means through which to seek knowledge, depth of mindset is prioritised over money. Without the former, the latter is redundant. I leave you with the words of Benjamin Franklin himself – "An investment in knowledge always pays the best interest".

MYOB column

Budget 2021 - SME summary

The Government's Budget 2021 saw sweeping social investment targeting benefits, education, and health as part of a broad focus on New Zealanders' wellbeing.

But what did it deliver for small business?

Read our full report on Budget 2021 here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