UNIVERSITY OF AUCKLAND INVESTMENT CLUB

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STUDENT WRITERS - STUDENT OPINIONS

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The University of Auckland Investment Club
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An update from the club

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

CSL Limited

CSL Limited (ASX: CSL) is one of the largest listed stocks on the ASX. As a biotech company, CSL serves unmet patient needs through developing, manufacturing and distributing antivenoms, vaccines and other therapeutic products. CSL have global operations and are a key player in the international market when it comes to medicine. In order to deliver value to patients, CSL needs a strong R&D pipeline to ensure that they can continuously develop new products and make advancements in the medical field to serve patients. Driving the R&D pipeline of CSL is plasma, which CSL use to both research new products and to manufacture them. A key advantage CSL have over their competitors is that they own all of their plasma collection centres rather than going through third parties, ensuring CSL have full control over their plasma collection. In the short to medium term, CSL has a number of exciting new products on the way, including CSL 112, which, if successful, is set to be a breakthrough in treating heart attack patients and is expected to increase annual revenue by around 50%. The Investment Committee passed CSL to the valuation stage with a vote of 13/14. The valuation team will consist of Hamish Marsden, Kevin Li, Daniel Mar and Athena Churchill.

"CSL is set to shake up the medical field" - Kevin Li, Junior Equity Analyst

Rise of the retail investor

WRITTEN BY ANISTON INGER-HOLLAND

WHAT'S THE HOTTEST THING ON THE BLOCK RIGHT NOW? RETAIL INVESTORS. SINCE THE MARKET CRASH OF MARCH 2020, RETAIL INVESTORS HAVE BEEN TIPPING THE SCALES OF POWER IN THE STOCK MARKET. LARGELY, THIS HAS BEEN SEEN OVERSEAS IN THE UNITED STATES WITH THE RISE OF "MEME" STOCKS, BUT NEW ZEALANDERS HAVE BEEN VERY ACTIVE AS RETAIL INVESTORS GAIN INFLUENCE.

Retail investors are largely defined as non-professional market participants. They use platforms such as online brokerages, most notably Fidelity, Webull, Robinhood and - on New Zealand shores - Sharesies, Hatch and Stake. They rose from the ashes of a predominantly institutionally-run market and have been making waves since. After all, the world watched and reflected on the 2008 Global Financial Crisis as iconic indexes such as the Dow Jones Industrial Average, Standard & Poor 500, and the Nasdaq Composite recorded historical declines. This became a turning point for many retail investors to jump on board as they learnt about the market. However, critics argue they are ill-informed and reckless, whilst others believe that retail investors are reclaiming an industry that for too long hasn't favoured the 'little guy'.

Retail investors solidified their place on the market in January, after the Gamestop saga. Millions banded together on the public forum of Reddit, resulting in hundred per cent gains for a business that was falling at the hands of Covid and the death of Brick-and-Mortar retail. Share prices rose from $20 and saw highs of over $400 in the space of a month, now sitting at nearly $180 per share three months later. This was all due to retail investors flexing their powers over institutional players and big investment firms. Gamestop was also not the only stock affected by this particular stint. Stocks like Blackberry, AMC Theatres, Nokia and many other "meme" stocks also saw significant volatility.

Despite institutional investors calling foul, as many who had shorted stocks lost millions of dollars, this event had a positive impact on the businesses involved, particularly Gamestop. This allowed them to raise capital by selling more shares which helped them become debt-free and have sufficient funding to lead their transformation. The spotlight and media coverage prompted high-profile executives such as Ryan Cohen, founder of e-commerce site Chewy, and former Amazon executives Elliot Wilke, Jenna Owens and Josh Krueger, among others, to lead their growth. Thus, a company that was once shorted to the hilt may now be on the path to a life-saving transformation.

This saga is an example of the divide between retail and institutional investors and the resulting outrage. Despite communication on a public forum, retail investors were accused of everything from market manipulation to insider trading, even though many institutional investors had been getting away with all sorts of dirty tactics for years. The saga also raised issues of the capacity of clearinghouses and liquidity, which in March triggered the United States Securities and Exchange Commission to introduce rules in an attempt to prevent any future problems.

On the rise of retail investors as a whole, it is great to see "everyday" people take advantage of the benefits of the stock market. With that comes learning about the disadvantages and risk. In saying that, retail investors need more credit for taking responsibility and growing their wealth. For many retail investors, Gamestop wasn't for them. Instead, it was learning and investing in safer funds such as ETFs, blue-chip stocks and companies they believed in and consumed. Like all stock market participants, the future is uncertain for retail investors. But one thing is for sure - they're not going away anytime soon.

The anomaly of Facebook

WRITTEN BY NEHA KUMAR

FACEBOOK HAS HAD ITS FAIR SHARE OF CONTROVERSIES OVER THE YEARS, THE BIGGEST BEING IN 2018 WHEN THE CAMBRIDGE ANALYTICA SCANDAL SAW FACEBOOK RIDICULED FOR ITS DATA COLLECTION METHODS. STILL, FACEBOOK IS CONSIDERED A SOLID STOCK TO HAVE IN ANYONE'S INVESTMENT PORTFOLIO, AND WITH A VALUE INVESTMENT OF OVER $USD 862 BILLION, IT'S NOT HARD TO IMAGINE WHY. DESPITE THE CONSTANT SCRUTINY FROM CONSUMERS AND THE GOVERNMENT, FACEBOOK STANDS FIRM, SO LET'S DISSECT FACEBOOK AS A COMPANY TO UNDERSTAND WHY.

Trading at over $USD 300 currently, Facebook has many companies and subsidiaries acquired over the years that have raised its valuation and solidified it as a long-term holding stock. In 2012 Facebook acquired Instagram, which currently has 1.1 billion active accounts making it one of the most used social media platforms. In 2014, Facebook acquired Whatsapp and Oculus. Whatsapp has around 2 billion users, and Oculus, a gaming and virtual reality company currently valued at $USD69 million. The effects of this were seen immediately. The share price for Facebook spiked for the first time in 2014 and has been rising since.

Along with Facebook, the social media platform, and Messenger, these three companies make the bulk of their revenue. However, Facebook has 84 other subsidiaries operating under them and continuing to make each other more profitable.

As we know by now, Facebook creates revenue through a data for value optimisation strategy. Essentially, information is collected from users and redirected to sell them products. It doesn't sell data but uses data to sell to you. The third-party trying to advertise their products does not obtain any of the information that Facebook has. They must tell Facebook their preferences and sell through them. Here, Facebook is an information centre between the sellers and potential customers, and this position is invaluable. So if company's want to target their audience better, they must use Facebook. With 89 subsidiaries under their belt, Facebook's revenue plan is mostly 'in-house' and done through other companies that Facebook has acquired: Onavo is used for web analytics, PrivateCore secures server data through memory encryption, and monetisation for video creators is done through LiveRail, to name a few. Through this model, Facebook earns around $USD 60 billion annually.

The first time ethical concerns were raised about this model was in 2016-2018, when the Cambridge Analytica scandal was at the forefront of the news. Consumers and government bodies were not pleased with the idea of data mining and the trade of personal information for profit. With a certain hit to their reputability and that of Mark Zuckerberg, Facebooks' share price took a hit; for the first time, Facebook's stock fell from $USD203, stopping at $USD124. The fall didn't last long though, within a month, the stock was rising again, and while the scrutiny of the scandal still plagues them, it has not affected their growth yet.

Other companies listening to consumer concerns may cause them problems, however; Apple's new ios 14.5 updates will ensure data privacy and stop Apple users' data from being mined against their will or using any app. This, of course, causes concern for Facebook since their entire revenue model is based on data mining. Facebook has come out against the new update feature, saying it will be harmful to small businesses that use their platforms for sale. Apple is still going ahead with the feature, and Facebook has not done anything other than encouraging its users to continue to allow for data acquiring.

So far, we've seen how Facebook makes money using data, the public's dislike of data mining, and many subsidiaries under Facebook. All of this shows a few things:

1. Facebook has monopolised the majority of the social media market
2. The data for value strategy is incredibly profitable and allows for users to not have to pay for services, which is preferred for most users
3. It is difficult to find a social media site that isn't linked to Facebook or doesn't follow the same revenue strategy

Because Facebook has a presence online in many ways and has created relevance for many people, consumers and businesses alike, using Facebook has become convenient, and people are willing to put aside their dislike of data mining for this ability to connect.

Facebooks' ability to leverage its acquisitions and influence as a social media monopoly has led to them becoming an information powerhouse that helps the company stay relevant. Despite the social irresponsibility of data mining and the scrutiny Facebook faces, they continue to remain relevant.

Like many of us, Facebooks' data mining makes me anxious. The idea that a database somewhere has all my personal information and keeps close tabs on me sounds, well, a little bit like it's out of a psychological thriller movie. But the truth is that I, like most of us, seem to be okay with looking past it since that is also what makes the platforms more convenient to use. It's a difficult thing to balance; I didn't think I have ever had to choose between convenience and privacy- but I wrote this article on Google Docs, and every time I took a break, I went on Instagram. As much as I hate to say it, the model works, and we keep coming back.

The state of American banking: profits, power & politics

WRITTEN BY MATT ATTWOOD

THE UNITED STATES IS RENOWNED FOR ITS POWERFUL FINANCIAL INSTITUTIONS AND BIG BANKS. THROUGHOUT 2020 WE SAW THE COVID-19 PANDEMIC CREATE ECONOMIC HARDSHIP AND DIMINISHED CONFIDENCE IN THE FINANCIAL SERVICES AND BANKING INDUSTRY. HOWEVER, THE FIRST QUARTER OF 2021 HAS REVEALED A STARK RECOVERY PROCLAIMING INCREASED PROFITS, A CHANGE IN ECONOMIC FORECASTS, AND RECLAIMED BANKING POWER.

The first-quarter earnings of the US banking sector have revealed a marked increase in revenue, returns on equity, and share price:

Goldman Sachs reported net revenue of $17.7b, which has increased from $11.7b in 4Q20. JPMorgan announced a rise in revenue from $29b to $33.1b. This is reflective of higher net revenues in all segments of investment banking, global markets, asset management and consumer & wealth management.

JPMorgan released an increase in return on equity (ROE) from 19% in 4Q20 to 23% in 1Q21. Similarly, Goldman Sachs ROE increased to 31%. The ROE is a ratio of profit after tax to equity. It is a commonindicator of how efficiently the banks are utilizing shareholders equity to make profits.

Bank stocks, on average, have risen by 26% since April 2020. This exceeds the growth of the S&P 500 by 15%.

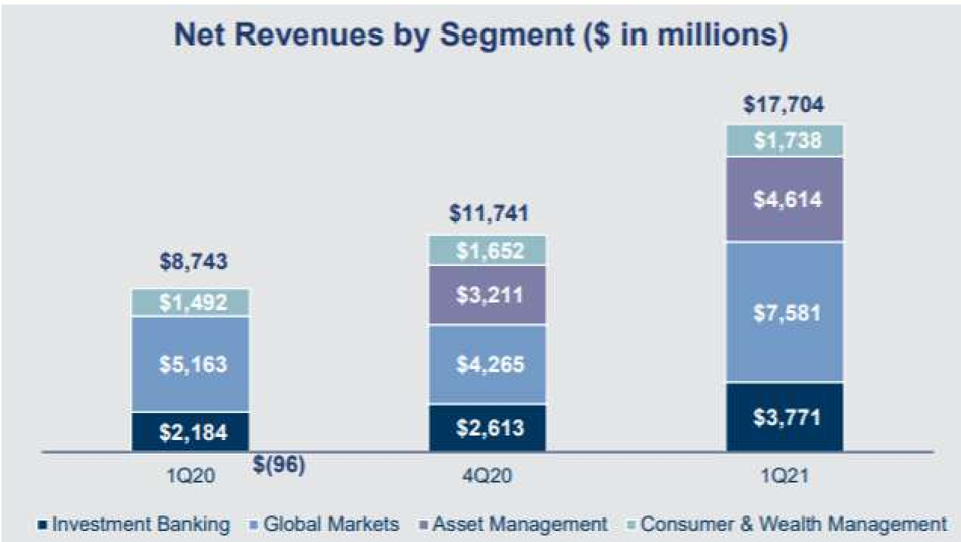
Three macroeconomics factors contributing to the boom are continued the monetary and fiscal policy, the rollout of the COVID-19 vaccine, and increasing confidence in economic recovery.

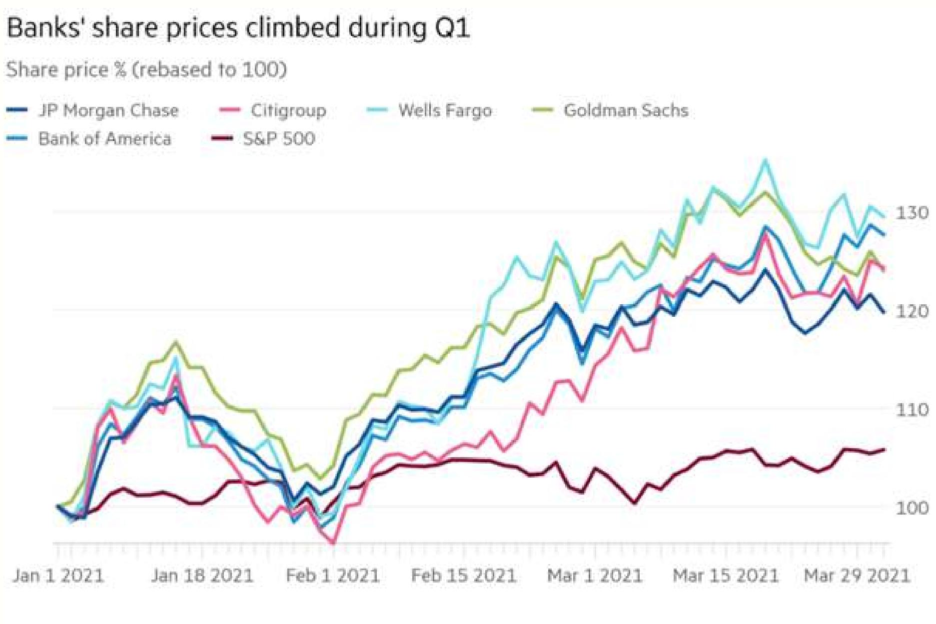
Government stimulus has allowed banks to revise their lending strategies. Banks planned for the worst last year and added billions of dollars to their 'loan loss provisions.' However, a lot of the lost loans were never materialized. The lower-than-expected lending losses within the banking sector has heavily increased income as banks can now release portions of their provisions which turn into profits. For example, JPMorgan released $5.2b in lost loan provisions into profit.

Additionally, an increase in deposits made has subsequently resulted in higher operating expenses for banks. Paired with low demand for loans, banks have new found profitability through capital markets and investment banking services rather than lending. Record capital market revenues are the result of equity trading and investment banking fees, and advisory services.

The volatile market has supported capital market revenue, but as the economy stabilises, this is expected to decrease as banks gear back towards lending and reduced operating expenses.

As the economic forecast changes back towards the norm, we can





once again see how the power of American banking is being exerted internationally. Joe Biden has implemented a ban on US financial institutions from buying Russian government debt in primary markets. The rationale behind the prohibition is as punishment for recent cyber hacking allegations.

In particular, the restriction of buying Russian sovereign bonds is part of a plan of sanctions implemented to punish the Russian election interference, cyber-hacking, and reports of Taliban conspiracy and chemical weapon usage.

The effect of the ban is expected to raise the Russian interest rates, cost of borrowing, and well as depreciating the ruble. All of which will lead to Russia's higher inflation and slowed economic growth.

The state of American banks is returning to their former glory. The economy is forming a V-shape recovery and bringing changes to how banks will operate for the rest of the year. Biden's restrictions are a sign of the US wielding its financial authority over its foes. After a year of strife, it's safe to say the financial services industry has rebounded faster than many of us had expected.

However, whilst the effects of COVID-19 are still hard felt globally, there is an ethical dilemma behind the bank's newfound profitability. As stimulus cheques are being deposited and consumers are rebuilding into a post-COVID era, the question should be asked why Wall Street and foreign policy are continued to be put first?

Compromise on principle or compromise on profits?

WRITTEN BY TULSI KHANNA

THE STRUGGLE OF WESTERN BRANDS TRYING TO SURVIVE IN THE CHINESE MARKET. CHINA'S EXPEDIENT ECONOMIC GROWTH IS SURE TO BE TAKING OVER THE WORLD, WITH MORE AND MORE COUNTRIES BECOMING RELIANT ON THEIR FOREIGN TRADE AND MANY BRANDS RELIANT ON THEIR CONSUMER MARKETS AND MEANS OF PRODUCTION. HOWEVER, FOR MANY YEARS WESTERN BRANDS HAVE FOUND THEMSELVES FACING MEDIA-FUELLED CONSUMER BACKLASHES OVER CULTURAL INSENSITIVITIES OR POLITICAL CONTROVERSIES.

Although H&M was one of the main foreign brands involved in conflict with China's consumer market, iconic brands such as Nike, Adidas and Puma also faced backlash. The only commonality is that they are all members of the Better Cotton Initiative (BCI), a non-profit organisation promoting sustainable cotton production. China in the realm of politics has been known to be dominating and strong, with little to no fear about cutting ties with those who challenge their views. "Anyone who offends the Chinese people should be prepared to pay the price", stated by China's Foreign Ministry Spokeswoman Hua Chunying when asked about the number of Western companies facing boycotts in China after they had expressed their concern about alleged human rights abuses in Xinjiang, Tim McDonald from BBC News reports.

From a retailer standpoint, it is important when big brands like Nike, Adidas, and Puma are involved in political backlash when centred around human rights injustices. Xinjiang is currently responsible for 84% of the cotton made in China, as pointed out by the CSIS study. These brands are seen as lifestyle must-haves for many individuals all around the world, being a part of their wardrobe from infancy to adulthood, and most importantly, making most of their clothing from cotton. Therefore, when caught in a controversy in 2020 where US Senator Josh Hawley publicly confronted these brands for being tied to slave labour in China, these brands would prefer to break away from this stigma as quickly and efficiently as possible. Around the time of Senator Josh Rawley issuing this public statement, sales for Nike in Greater China dropped significantly and stayed low for the following months.

This shows the harsh political landscape of China and the impact it then has on businesses and foreign companies trying to

operate in China's economy. This backlash has gone as far as H&M, a multinational clothing retail company, being blocked on China's major e-commerce platforms and even removing their locations on digital maps and some stores being shut down. China is a highly profitable economic landscape if it allows one to flourish in it. However, it seemingly comes at the expense of holding your tongue on political and humanitarian matters. In response to this controversy, H&M issued a public response in March 2021, stating, "We are dedicated to regaining the trust and confidence of our customers, colleagues, and business partners in China." At present, H&M sells 94.8% of its clothing elsewhere, but with China's growing wealth, this figure is likely to increase to a large portion of the company's growth. Therefore, the question arises over whether to embrace cotton from the Xinjiang region or risk being boycotted in the world's second-biggest economy. Xu Guixiang, a publicity official in the Xinjiang region's government, is of the view that foreign companies should avoid getting involved with politics, "What's the result? Can you hold up in the Chinese market? Can you still make money from the Chinese people? Not a single penny."

Economies and politics tend to work in unison, and so we see that China not only puts up a fierce competition to western brands but to any threatening force. As described by the President of the EU Chamber of Commerce in China, Jeorg Wuttke said, "China wants the world to know about its anger. They do so. It's very painful to companies, but it blows over." It will be interesting, in the future, to unpack how businesses and other states steer themselves in these political realms. With the increase in social media in individuals' lives, we are more exposed to foreign affairs and worldwide issues than ever before. This comes with many more people worldwide being involved, making themselves heard and changing their values. Thus, we see companies like H&M facing a dilemma regarding their compromises on principles or their profits.

GDP paradigm shift

WRITTEN BY SUVARN NAIDOO

OVER THE PAST FEW YEARS, QUESTIONS HAVE ARISEN REGARDING THE USE OF THE TRADITIONAL GDP METRIC TO BEST CAPTURE THE ACTUAL PERFORMANCE OF AN ECONOMY. THIS IS BECAUSE COMMUNITIES WORLDWIDE HAVE BECOME MORE CONSCIOUS OF THE HUMAN AND ENVIRONMENTAL SACRIFICE INVOLVED IN ACHIEVING CONTINUAL GDP GROWTH. AMONG THOSE POSING QUESTIONS IS THE INVENTOR OF THE GDP METRIC, SIMON KUZNETS, WHO STATED THAT "THE WELFARE OF A NATION CAN SCARCELY BE INFERRED FROM A MEASUREMENT OF NATIONAL INCOME.". HOWEVER, POLICYMAKERS WORLDWIDE CONTINUE TO TREAT GDP OR GDP PER CAPITA AS A COMPREHENSIVE MEASURE OF A STATE'S DEVELOPMENT, BLURRING THE LINE BETWEEN ECONOMIC WELFARE AND SOCIETAL WELFARE.

The misuse of GDP

Traditionally the performance of a country's economy is measured by the GDP described as "the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period" and aims to be a broad measure of overall domestic production. GDP is measured explicitly by the amount of domestic consumption, investment, government spending and exports net of a country's imports. In an analysis of the American economy between 1980 and 2014 by Thomas Piketty, Emmanuel Saez, and Gabriel Duncan found that "from 1980 to 2014, average national income per adult grew by 61% in the US, yet the average pre-tax income of the bottom 50% of individual income earners stagnated at about $16,000 per adult after adjusting for inflation. In contrast, income skyrocketed at the top of the income distribution, rising 121% for the top 10%, 205% for the top 1%, and 636% for the top 0.001%". Their findings - which can be extrapolated to most western countries-indicate that most of the benefits that accompany consistent GDP growth serve the upper echelons of society.

So what are the alternatives to measuring overall society prosperity?

Gross National Happiness (GNH) - In 2019 the New Zealand Prime Minister Jacinda Adern adopted the Happiness index (GNH) and announced a budget that focused on improving the prosperity of local communities, hoping that it would change the foundation that government decisions are made upon. The GNH was first adopted by the kingdom of Bhutan and is guided by Buddhism mindfulness principles. GNH is measured through surveys based on nine quality of life factors, health, education, use of time, psychological welfare, good governance, cultural diversity and resilience, ecological diversity and resilience, community vitality and living standards. GNH still faces a fair amount of criticism. One of which is that it is too focused on spirituality. Another is that due to the subjective nature of survey questions and cultural variability, you can't just plug in data points to an equation and get the GNH results making it difficult to compare across countries. The most significant drawback of GNH is that on its own does not provide an accurate representation of the factors measured by the GDP metric.

Genuine Progress Indicator (GPI) - As mentioned previously, one criticism of GDP is that it does not account for negative externalities of growth. Higher GDP may lead to the deterioration of social well being and environmental conditions. GPI aims to fill in the gaps of the crude GDP metric by focusing on a broader range of economic indicators. The GPI was developed by Clifford Cobb as an alternative to GDP to measure society's growth and expands on the GDP definition and consists of 26 indicators that cover three broad categories; Social, Environment and Economic. GPI provides policymakers with an effective tool to analyse decisions with a broader scope than national income alone. However, the biggest pitfall of GPI is the general definition that leaves the measurement of many of the indicators up for interpretation which makes it difficult for comparison across regions.

Since the validity of GDP has come into question, we have seen the creation of several alternative metrics that aim to measure a country's welfare. However, the most significant factor preventing the adoption of these alternatives is that they have been difficult to standardise across nations. Nonetheless, with the recent exponential growth in technology, the tools are now there to more accurately quantify the more subjective factors involved in measuring social welfare and environmental conditions. For example, we now know and can accurately measure the chemical compounds that are detrimental to the environment. Furthermore, we have the knowledge and ability to assess people's wellbeing through online surveys and use more accurate data on inequality to quantify the social impact of GDP growth.

Governments should shift or expand the foundation that policy decisions are based on, beyond the incorrect use of the traditional GDP metric as the sole measure of a nation's overall success, to instead complement GDP with GPI or GNH. Although adopting these alternate metrics won't occur overnight, as more countries incorporate them in their policy decision process, it will hopefully create a new gold standard. That will encourage a more equitable and equal society where the measurement methodology for the success of a nation will be a more sustainable one.

MYOB column

How professional services firms can attract and retain top talent

Finding the right talent for a business is always tough, and that's before you factor in the wealth of education experience that workers such as lawyers and accountants are expected to possess.

Hiring new talent is a big commitment for professional services firms. And more importantly, they also need to have strategies in place to keep them.

Read more about having a strong employee value proposition, and what's important to recruits at the MYOB Blog here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