INVESTMENT BULLETIN

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K-CONTENT: NETFLIX'S KEY TO SUCCESS

BY HANNAH JONES

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ESG METRICS & BUSINESS SUSTAINABILITY
RUAPEHU'S FUTURE
THE CASE AGAINST BAILOUTS

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1 MAY 2023 | ISSUE NO.46

The University of Auckland Investment Club
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FINANCE

K-Content: Netflix's Key to Success

BY HANNAH JONES

When Netflix first started in 1997, they were a small company wanting to apply Amazon's model with books to DVDs (a new technology at the time). They snuck into a $16 billion industry with 30 employees and 925 DVD titles. In 2023, Netflix is estimated to be worth $140 billion (over 8x the amount of the industry they originally entered) and is one of the most recognisable brands in the world. Following breakneck growth over the pandemic years, Netflix is now a home staple in over 190 countries, and they have just reached over $230 million paid subscribers.

Netflix's growth strategy includes expanding its international footprint, investing in original content, and exploring new ways to engage with users. Adhering to this strategy, last week, Netflix revealed its bold plan to invest a whopping $2.5 billion (NZ$4 billion) into South Korean K-dramas, movies, and reality shows. The streaming giant is banking on this hefty investment to keep churning out gripping series like Squid Game, Crash Landing on You, and Physical: 100, which have captured viewers' attention worldwide. The investment will be used simultaneously to create new content, as well as purchase rights to content that has already been made.

One Netflix original, The Glory, has proven to be a hit among audiences worldwide, ranking as one of the top 10 most-watched series in over 90 countries, including France, India, Argentina, and South Africa. This highlights the immense potential of investing in South Korean content to attract and retain viewers internationally. As such, the collaboration between Netflix and South Korea's thriving entertainment industry presents a promising future for both parties. Investing in Asia's fourth-largest economy presents a significant opportunity for Netflix to expand its audience, particularly since its growth in the European and American markets has slowed. Although last quarter's subscriber growth of 1.75 million included a substantial 1.46 million from Asia, the total figure fell short of the predicted 2.41 million.

This investment presents an incredible opportunity for South Korean multimedia companies to attract Netflix's big money and stream shows internationally that were successful domestically. One of South Korea's biggest film production and distribution companies, SHOWBOX Corp, has seen its stock prices surge by up to 26%. SHOWBOX has invested in Siren Pictures, the producer of the hit show Squid Game, and is expected to bring more global sensations like it. Additionally, Studio Santa Claus Entertainment, which collaborated with Netflix on the 2021 series My Name, saw a 23% increase in its stock price right after the news was announced.

In my opinion, Netflix's latest investment in South Korean content is a brilliant move that highlights their dedication to staying ahead of the competition. It's clear that South Korean media has the potential to captivate audiences worldwide, and I think it is a smart move on Netflix's part to recognise that potential.

However, investing such a large sum of money comes with risks, and I'm curious to see how this investment will play out in the long run. While Netflix's recent investment in South Korean content may seem like a smart move, there is a risk that the current global enthusiasm for South Korean TV/film is just a trend, and that interest could wane significantly. While there's no denying the potential of South Korean media to attract and retain viewers on a global scale right now, it's important to acknowledge the uncertainty involved in making such a large investment over 5 years in a changeable market. Netflix must remain vigilant to changes in viewership trends and act accordingly.

FINANCE

The issue of ESG metrics and truthful business sustainability

BY FRANCESCA MASFEN

Sustainable investing has dramatically increased in popularity within the contemporary social environment. More than ever, consumers are aware of how business practices affect the environment and society, motivating investors to align their investment values with these principles. The trending metric to determine business practice sustainability is ESG metrics.

These non-financial performance indicators measure a company's impact on the environment, society, and governance. Investors can compare a company's performance to that of industry peers and companies from other sectors by assigning an ESG score ranging from 0-100. A score of less than 50 is regarded as poor, while a score of more than 70 is considered excellent.

According to MSCI, companies prioritizing ESG factors are better equipped to manage risks relating to climate change, in addition to natural resource depletion, social unrest and governance issues such as corruption and unethical behaviour. By integrating ESG factors into their risk management processes, companies can identify and mitigate potential risks before they become significant issues.

Companies more aware of ESG risks may be better positioned to take advantage of opportunities in the market. For example, companies can identify the causes and consequences of their carbon footprint and work to reduce it. Similarly, companies that promote diversity and inclusion can tap into new talent pools and better understand the needs of diverse customer segments. Harvard Business Review has found that companies can improve their financial performance and strengthen long-term competitiveness by managing ESG risks and leveraging new opportunities.

Nevertheless, are ESG Metrics doing more harm than good?

The ESG framework has transformed into a veneer for corporate marketing, allowing companies to report self-selected data to enhance their ESG score. Take the Volkswagen scandal of 2015, where the company was found to be manipulating emissions test results for its diesel engines to appear more environmentally friendly, increasing its ESG score. This resulted in the recall of millions of vehicles and significant losses to investor capital. This controversy is known as "greenwashing." Concerningly, greenwashing undermines the credibility of the ESG framework by allowing companies to report self-selected data and make false or misleading claims about their sustainability performance.

Moreover, the need for uniformity and lucidity in ESG metrics poses a significant challenge to investors as they endeavour to compare companies for sustainable investment purposes. Energy Finance found that ESG rating agencies prioritize different criteria and weighting systems to evaluate a company's performance. Consequently, a recent Energy Monitor analysis of over 300 US equity mutual funds and exchange-traded funds (ETFs) classified as having a "sustainable mandate" showed that 82.8% of sustainable funds contained exposure to companies producing fossil fuels. This underscores the lack of consistency in ESG metrics and the need for standardization in evaluating companies' sustainability performance.

It has been argued that integrated reporting has stepped in to monitor this issue, providing a model for companies to disclose financial and non-financial information more comprehensively and comparably. However, its efficacy is questionable as there are no legal requirements for when and how these reports must be published and due to the diversity of reporting practices across countries. Whilst it may be a step forward in addressing the need for uniformity and transparency in ESG metrics, it is not a silver bullet.

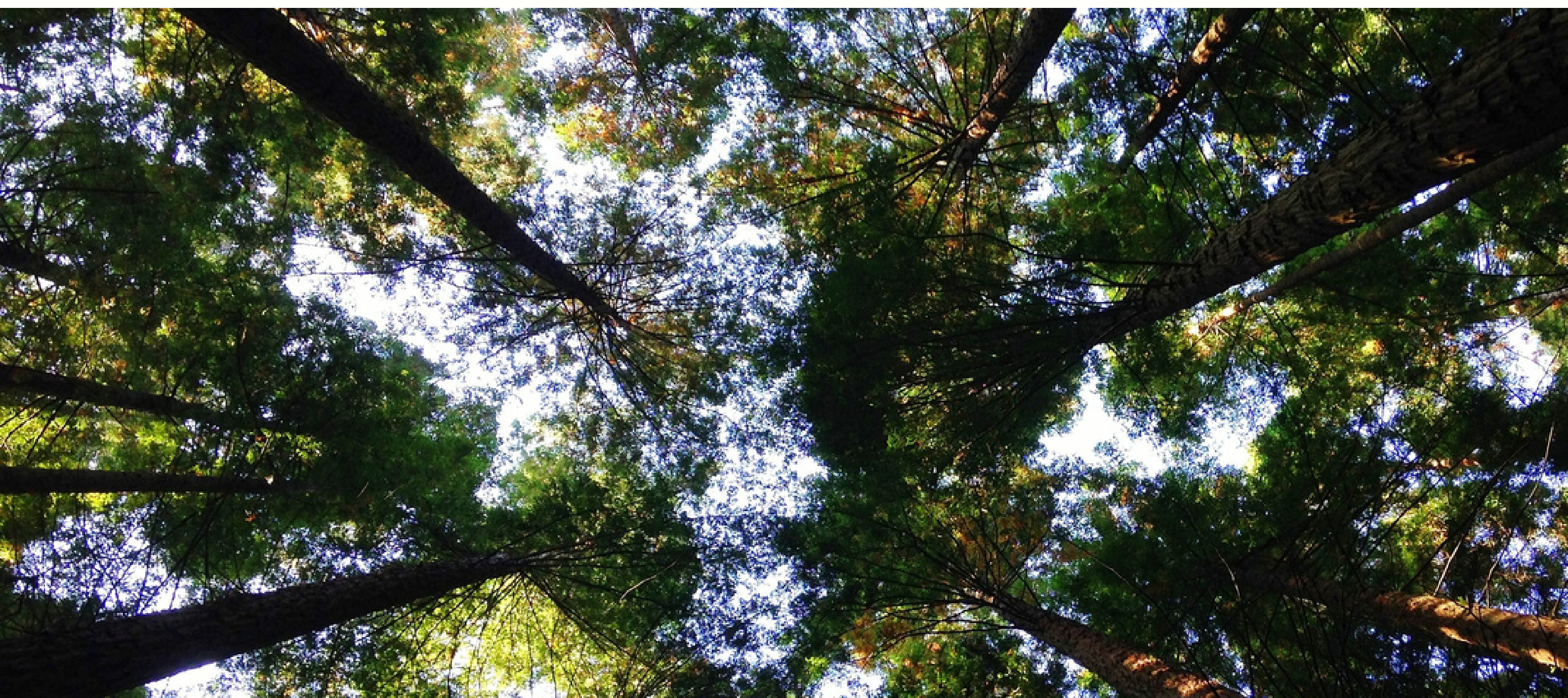
he most concerning finding was published by the New York Times, where it was found that ESG rating agencies, such as Sustainalytics, S&P, and MSCI, may face conflicts of interest when constructing ESG funds and analyzing the potential impact of ESG factors on the T financial performance of companies. Subjectively speaking, these agencies may have a financial incentive to include certain companies in ESG funds or to offer favourable ratings to companies willing to pay for their services. In that case, investors may be misled into thinking that the fund is more sustainable than it actually is.

So, do we just 'throw away' ESG metrics?

While it is true that the current state of ESG investing is in dire need of regulation and standardization to ensure its accuracy, it would be unwise to disregard the use of ESG metrics in sustainable investment entirely. Instead, a more strategic approach may be to utilize these metrics as a starting point for research.

For instance, in the property market context, investors can evaluate the ESG performance of a property by examining its energy-efficient features, environmental impact, and social and governance aspects. Energy-efficient features such as solar panels, energy-efficient appliances, and high-quality insulation can help reduce energy costs and improve sustainability. Additionally, the use of sustainable materials in construction, accessibility to public transportation and green spaces, and the quality of property management can impact a property's environmental and social impact. By incorporating ESG metrics into investment decisions, investors can make informed choices and promote positive change in the ESG space.

In conclusion, while the potential drawbacks and limitations of ESG metrics must be acknowledged, they can still serve as a valuable tool for sustainable investing. By utilising ESG considerations as a starting point for investment decisions, investors can promote positive change in various sectors, including the property market. Sustainable investing is not merely a "feel-good" exercise but a crucial step towards building a better world for ourselves and future generations.



INVESTING

Ruapehu's Future

BY ISSIE DEKKER

Taihape can boot its gumboot, Turangi's trout can be thrown back in the lake, the Ohakune Carrot is perhaps my favourite small-town attraction in all of Aotearoa. However, with the future of the Ruapehu ski fields teetering on a thread, it might become one of the forgotten wonders of the world. Ruapehu Alpine Lift (RAL) went under voluntary administration last year, and while there have been several offers by locals and life pass holders, there is an argument whether the Ruapehu ski fields are the best use of the mountain.

RAL that operated the Whakapapa and Turoa ski fields on Mount Ruapehu went into Voluntary Administration at the end of 2022. This comes after a tough three seasons due to Covid and wet La Nina weather conditions meant they were unable to make up their debt from building the year-round sky waka lift. RAL currently owes millions to MBIE, ANZ, local councils and Maori trusts as bond holders of Ruapehu Tourism. Life pass holders to the ski fields also hold a representative spot on the RAL board.

There have been four offers by independent companies to take over operations, but two are only for the Turoa ski field. There was a survey released recently to the life pass holders asking whether they would be willing to help fund the fields next season, taking inspiration from the South Island beach that used crowdsourcing to be bought by Abel Tasman National Park. MBIE and life pass holder representatives want $2500 and an additional $250 per holder for the next few years with the aim to raise between $6 million and $10 million. Life pass holders often have special and historical connections with Ruapehu, and life passholder representatives are confident the personal nature will encourage funding.

The Ngāti Rangi Iwi had an agreement with RAL and the Government to be involved in the decision making for operations, but were upset to not receive any communications before RAL went under voluntary administration. Ngāti Rangi and the other Iwi associated with National Park would like to let the maunga, who they refer to as Koro, rest for a year. The little amount of snow on the lower slopes the past few years indicates that the maunga needs to recover. Ruapehu is sacred to them, especially the higher peaks and crater lake and they "would never approve skiing activity to be near the peaks". The way Ngāti Rangi was not informed of RAL's voluntary administration is frankly appalling. As a country we are supposed to be trying to do better at respecting the cultural significance of our land, but this suggests we are far from it. Lack of support from the local iwi would be a disaster for any form of future activity on Ruapehu, and a huge step backwards in the Treaty of Waitangi.

Upon discovering more of Ruapehu's troubles, I wondered if it would be better just to shut down the ski field completely. The North Island ski field is far from major airports which means that they do not get the same numbers of international skiers that South Island fields do. From Auckland, if you get JetStar deals on a good day, it's cheaper for return flights to Queenstown than to drive down to Ohakune and up the maunga everyday. The snow is often better in the South Island, and there are many ski fields in close proximity. Queenstown and surrounding areas offer many more alternative attractions than Ohakune's, albeit pretty, sleepy town, with a variety of shops, wineries, and lake cruises to name a few for bad weather days or those not keen on snow everyday. Is it time for Ruapehu to concede to the South Island? The facts seem to very much suggest so.

If Ruapehu was to shut, what would become of Ohakune and Whakapapa though? Surely as a small town, Ohakune, would be wrecked if the winter rush was lost. While only 5% of the region are hired by RAL, businesses such as ski lodges and gear rental companies would lose out big time. The famed colourful and historical Chateau at the bottom of Whakapapa has already permanently shut its doors, suggesting their dim outlook on the coming years. On top of this, the costs of removing the lifts on the ski fields was estimated to be $50 million, and the ski club buildings an additional $30 million at least. This would be taxpayer responsibility if the land was handed back over to DoC, given RAL certainly does not have the funds to achieve this. While surrendering to South Island fields might seem like a smart solution due to Ruapehu becoming a less desirable holiday spot, it would be devastating for locals already struggling to recover from COVID and bad skiing conditions.

Given climate change has been a thing for many years and the effects have certainly been felt recently by the ski field, I'm surprised they have not already diversified into summer offerings. The year round gondola, Sky Waka, has recently opened but seems to only offer a few walks and a café at the top. Following suit from South Island fields, investing in bike trails and other non snow-sport activities makes sense to help address sustainability in the volatile seasonality of the snow sport industry. The Ruapehu community and iwi have come forward with several community value and sustainability centralised proposals on how to improve its tourism in the recovery from Covid, none of which involve ski fields. This is an awesome opportunity for whoever succeeds RAL to work closely with local stakeholders to ensure sustainability of the region. However, unless you're a really keen mountain biker, I can't imagine Aucklanders or Wellingtonians driving hours for a ride when there are the Redwoods and other closer alternatives.

Ruapehu is in danger, and needs to think about the sustainability of its offerings. It will be interesting to see who comes out on top, if life pass holders are willing to fork out a few grand or if the mountain will become privately owned. Either way, Ruapehu needs to diversify their offerings beyond winter sports to ensure somewhat sustainable revenue, and ensure that all stakeholders are consulted.

GLOBAL

The Case Against Bailouts

BY JAMES MACLEAN

In March, Silicon Valley Bank (SVB) experienced the largest U.S. bank run since the global financial crisis and subsequently collapsed. Following this, U.S. officials announced that the federal government would guarantee all deposits in SVB and later made the same promise to depositors of Signature Bank, which also collapsed. This move contradicts the FDIC's previous guarantee of only up to $250,000 of deposits, leaving anything above this amount unprotected in the event of a bank failure. This unlimited guarantee sets a risky precedent and incentivises poor risk management, and therefore, the government should adopt a preventative approach to regulation rather than relying on last-minute interventions.

These recent bailouts of SVB and Signature Bank depositors have raised questions about the appropriate role of the state in the banking sector. It is crucial to understand the root causes of these banks' failures to demonstrate why such bailouts were unwarranted. SVB, in particular, received an influx of deposits from the tech boom, with which they decided to invest in long-term, fixed-income assets. This strategy is typically a safe one, as it guarantees returns if held until maturity. However, SVB failed to adequately anticipate the swift and substantial monetary policy tightening that took place in 2022. As interest rates increased, the value of SVB's bond portfolio declined significantly. Following a $1.8 billion loss on the sale of a portion of its bonds, SVB announced plans to raise capital to fortify its balance sheet. This event appears to have triggered a run on deposits, fuelled by venture capital investors advising their clients to withdraw their money from SVB. The situation raises questions about the efficacy of SVB's risk management strategy and regulatory oversight.

The government officials who advocated for the bailout of SVB and Signature depositors claimed that its collapse would create systemic risk in the wider banking sector if deposits were not guaranteed. However, this assertion lacks substance. SVB, the 16th largest bank in the United States, primarily served depositors concentrated in the technology industry. In fact, SVB's president, Greg Becker, himself argued this point while lobbying for more lenient banking regulations. Becker told a Senate committee that SVB would not pose any systemic risk in the event of its collapse. The government's actions, therefore, appear to have been unwarranted, and their decision to provide an unlimited deposit guarantee creates a dangerous precedent. Instead of using this ‘ambulance at the bottom of the cliff’ method, regulators should implement sensible preventative regulations that effectively mitigate risks and safeguard the banking sector.

The proponents of this bailout argue that a state guarantee of bank deposits is necessary because businesses cannot be expected to conduct proper due diligence on their banks. They contend that these banks collapsed despite meeting their regulatory obligations, implying that businesses had no way to foresee the bank's failure.

However, it is not unreasonable to suggest that companies should exercise some caution with their cash. It is evident that many companies that had deposits with SVB failed to do so. Digital media giant Roku, for instance, held almost half a billion U.S. dollars in SVB, most of it uninsured. Depositors such as Roku were aware of SVB's massive long-term bond portfolio. Given the media's extensive coverage of rising interest rates and slowing economic activity, it is difficult to understand why no red flags were raised earlier. Ultimately, the failure of SVB and Signature Bank can be attributed to the risk managers' failure to anticipate that depositors would need to withdraw their cash as economic conditions hardened. Investing such a significant proportion of their cash in long-term assets appears to have been a grave error. Therefore, instead of relying on government bailouts, depositors and banks alike should exercise caution and due diligence in their investment strategies to prevent such situations from arising in the future.

Additionally, it is worth noting that while SVB was complying with risk management regulations, those regulations had been significantly weakened after the Trump administration rolled back the requirements designed to prevent bank failures such as those witnessed in the global financial crisis. These included federal reserve stress tests on banks that assessed their susceptibility to interest rate changes and recession. These stress tests would have undoubtedly reduced the likelihood of SVB's collapse. It is crucial to acknowledge that regulatory laxity was a significant contributing factor to the bank's collapse. In light of this, the authorities must consider re-tightening regulations to ensure that banks maintain adequate liquidity and risk management practices to prevent such failures in the future.

It's important to consider the future implications of this bailout. The federal government has now opened the door to the possibility that they will guarantee all deposits any time a bank is in trouble. This creates a problem of moral hazard. Depositors can now safely assume that if the bank is big enough, their deposits will be guaranteed by the federal government. Knowing this, they will simply choose the bank offering the highest interest rate without regard to the bank's risk profile. Banks are now incentivised to take more risks, promise their customers higher interest rates and be more relaxed about managing the duration of their fixed-income assets.

In the wake of these recent bailouts, it is imperative that regulators re-implement the regulatory measures weakened by the Trump administration. The federal reserve stress tests should be restored to assess banks' ability to withstand interest rate fluctuations and recessionary conditions. Such tests provide depositors with valuable information on banks' risk profiles and incentivise banks to manage their long-term fixed-income portfolios more conservatively.

However, it is important to acknowledge that bank collapses are an inherent risk of our fractional reserve banking system, which is necessary to promote economic growth and facilitate business. We must accept that the free market operates on a reward-consequence paradigm, and banks must be accountable for their decisions without relying on the government to bail them out.

So what should regulators have done once the collapses of SVB and Signature Bank were imminent? The answer is nothing. The existing insurance provided by the FDIC would have guaranteed protection of personal savings in these banks. It is likely that many of the businesses with uninsured deposits would go under. While this may have caused systemic problems if the bank in question was J.P. Morgan or Bank of America, SVB's clients were mostly tech start-ups, while Signature Bank catered largely to clients in the Crypto industry. These types of businesses would not have caused widespread instability if bankrupted. However, the most important consideration here is one of principle. The government forfeiting its previous rules around bailouts of depositors is fundamentally wrong. These banks should have been allowed to fail. Doing so would have sent the message that caution and responsibility should be practised in the banking industry. Once more, bailouts such as these weaken the divide between government and private industry and are fundamentally contrary to the principles of capitalism.

MYOB Column

3 skillsets business leaders can use to futureproof their careers in 2023

Don’t put your career development off again in 2023. It’s possible to grow your business and your CV by focusing on the following three skillsets.

Entrepreneurs at heart, business leaders tend to be forward-looking, growth-oriented people who are always keen to learn more and do things their own way.

Whether you’re running an organisation of thousands or flying solo, it’s easy to fall into the trap of maintaining focus on the growth and development of your teams, your service offering or your cashflow and forgetting about keeping your own skillset up to date. That means, in order to reduce the risk of falling behind in years to come, you should start thinking about the skills you’ll need for tomorrow, today.

To get you started, this article will discuss the following three key skill areas for business leaders:

- Active learning skills
- Pattern recognition abilities
- Diverse networks and cultural intelligence

Read more here to discover how these attributes can boost your career long-term

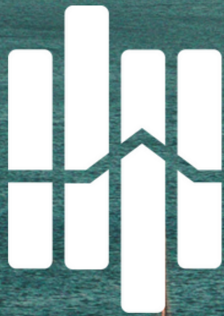
myob

Forsyth Barr FOCUS

Banking Tremors Cross the Atlantic

Ructions across the global banking sector has spread to Europe. On the heels of the collapse of Silicon Valley Bank and Signature Bank, the biggest US bank failures since the Global Financial Crisis, Credit Suisse has been rescued by Swiss rival UBS. The failure of one of the world's 30 systemically important banks is both remarkable and disconcerting. That said, all the banks that have failed in recent weeks faced idiosyncratic issues that are not widespread across the industry. Credit Suisse had been plagued by a series of scandals which had undermined customer confidence in the bank. While further failures are possible, even likely, we do not expect the crisis will become systemic across the industry.

Read the full article here.



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