INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

THE NEW KID ON THE BLOCK

BY ANISTON INGER-HOLLAND

+ MORE ON:

FINE WINE TO NUMB INFLATION WORRIES
AFRICA: THE SUPERPOWER THAT DOESN'T KNOW IT
HOW WILL A CREDIT CRUNCH IMPACT THE ECONOMY?

& FROM OUR PARTNERS:

NEW ZEALAND SMES AND DIGITISATION
BANKING PANIC CROSS THE ATLANTIC

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An Update from the fund

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

RioTinto

RIO TINTO (RIO:ASX) SUMMARY

Rio Tinto (RIO:ASX) produce iron ore, aluminium, copper, and other minerals such as lithium. These resources are essential in construction, electronics, transportation, and consumer goods. Their largest mines sit in north-western Australia, with global operations taking advantage of large copper and lithium deposits being discovered in Mongolia, Argentina, and Serbia. Rio provide resources for the global energy transition due to their diversification into copper and lithium. EVs use lithium-ion batteries, which continues to see enormous demand from individuals and businesses. Further, copper conducts heat and electricity, making it extremely valuable as demand for renewable energies such as wind and solar increase. Combined with a reduction in operating costs, increased automation, and significant investment in decarbonising their operations, Rio are positioned for long-term growth and sustained competitive advantage. Rio recently conducted a considerable management overhaul, hired 500 climate and social professionals to guide ESG policies and embarked on a mission to change company culture. However, given Rio's history of scandal, the committee's ESG concerns persisted. Concerns also arose regarding the cyclicality of iron ore prices, which is heavily reliant on Chinese demand and drives 60% of company annual revenues. Rio Tinto did not pass the committee vote, with committee members suggesting they liked the company's outlook, but wanted proof of change on an ESG platform before buying.

"The classic necessary evil company supplying the world's climate neutral goals"

FINANCE

The New Kid on the Block

BY ANISTON INGER-HOLLAND

ChatGPT, an artificial intelligence language model developed by OpenAI, is one of the most advanced and powerful language models in the world. Trained on a massive dataset of human language, ChatGPT is capable of generating coherent and contextually relevant text in response to a wide range of prompts and questions. As such, the implications of ChatGPT are wide-ranging and significant, with the potential to impact numerous areas of society.

Including the ability to write an introduction to an article about itself. ChatGPT is next-level artificial intelligence. The possibilities are endless - which can be daunting in the AI space. Upon being promoted to write a summary about itself, even ChatGPT gave discussion on its flaws and limitations. The fact that it can give a critical analysis on itself is a type of self-awareness that even some people don't possess, let alone other artificial intelligence tools. But what are those implications and how can we maximise its benefits?

ChatGPT gives Google a run for its money as a search engine. The days of googling and sifting through websites with irrelevant information are over. Rather, a simple question to ChatGPT results in a quick summary of the information specific to your question. If you need a citation, one will be provided. In a world where time is money, this is a valuable tool. However, ChatGPT is not without limitations. You can be provided with incorrect or biased information, which means it is still necessary to validate your information with other sources. As a law student I have been utilising ChatGPT for case summaries before I read a long decision filled with jargon and incomprehensible terms. For famous historical cases, these summaries are excellent but for the more obscure cases, ChatGPT is not reliable.

In what other areas can you utilise ChatGPT? ChatGPT can create an exercise and meal plan according to your needs, rewrite your work for clarity and write complex code. If you are applying to your dream job, input the job's description and your qualifications and ChatGPT will tailor a resume and cover letter specifically for you. Not only does ChatGPT have the capability to be your personal assistant, it might also be effective as your stock broker. Finder.com recently found that ChatGPT's stock picks over a span of 8 weeks made a gain of 4.9%. This was in comparison to the ten most popular investment funds in the United Kingdom, whose picks returned a loss of 0.8%.

Algorithmic trading and other intelligent tools are not new, but if a concept like ChatGPT can beat institutional funds then that is an area to watch out for. According to finder.com, 8% of the people surveyed said they were already using ChatGPT for financial advice while a further 19% said they'd

consider using it for financial advice. While these are not big numbers, ChatGPT is relatively new on the scene and with this initially positive feedback, it has potential to grow.

But it's not all sunshine and rainbows. There are a lot of consequences from the wide-spread availability of using this technology – as well as open doors for new problems in the future. For example, ChatGPT is a concern for universities and other educational bodies due to the risk of plagiarism. There is uncertainty as to how you can use ChatGPT and whether it constitutes plagiarism, but even when students are directly copying from ChatGPT it can be difficult for markers to detect although OpenAI is launching tools such as AI classifiers to combat this problem. There are also other concerns aside from plagiarism.

If you use ChatGPT for creating a resume for your dream job as suggested earlier, you are giving it large amounts of personal data. Not only does ChatGPT log every conversation you have including your device and browser data, you're giving away more identifiable data. In April of 2023, the Italian government placed temporary restrictions on ChatGPT to prevent it from collecting the personal information of Italians' which resulted in OpenAI making the chatbot unavailable in Italy. Access has since been restored but to comply with Italy's data protection agencies they have added age verification. OpenAI has since said it will "provide a new form for European Union users to exercise their right to object to its use of personal data to train its models."

It is not just regulators that are concerned about artificial intelligence like ChatGPT, but also the creators themselves. On March 22, Elon Musk-backed Future of Life institute called for a six month pause of developing new artificial intelligence and additions of ChatGPT. In the open letter, they highlighted that "Advanced AI could represent a profound change in the history of life on Earth, and should be planned for and managed with commensurate care and resources." However, Elon Musk received criticism as there are suspicions he is creating his own version of ChatGPT.

ChatGPT is definitely the new shiny thing on the block with an array of benefits and interesting features, but the possibility for a nefarious impact on humanity exists and is a genuine concern that governments and regulators should prevent. Only time will tell what happens next.

INVESTING

Fine wine to numb inflation worries

BY ANDREW HUANG

Often consumed during happy occasions, or even relied upon during dark and gloomy times — fine wine is a good friend to all!

In New Zealand, as of now, inflation is at a level which has not been seen since the 1990s. The consumer price index has increased 6.7% in the 12 months to March 2023. Similarly, around the world, the plague of inflation is also present. In the midst of such concerns and a possible future recession to come, it now looks very tempting to turn to our "good friend". In fact, I think it may be a good choice to offer our "fine friend" a place to stay in our investment portfolios.

Well, why exactly should you give our "fine friend" a place to stay? During times of economic uncertainty such as now, fine wine remains relatively stable compared to other asset classes. In fact, fine wine is in demand regardless of the state of the economy. This is due to scarcity and collectability, in which only 1% of wines are considered as investment worthy.

Going back to the high inflation environment of the 1990s, amidst an inflation rate of 8.8% as according to data by the International Monetary Fund, fine wine had seen some of its greatest returns of all time with the index for fine wine (liv-ex investables) producing an average return of 50% between 1994 and 1996.

In addition to this, finishing the year 2022, a year in which there was much turmoil — recession fears, Russia-Ukraine war, and interest rate hikes — many equity indices such as the S&P 500, Nasdaq and Dow Jones Industrial Average ended with their biggest annual drop since 2008. As according to the Cult Wines Global Index, fine wine had ended the year with a 20.54% annual return and outperformed gold, which finished with a 1.55% return.

Enough about the why, and more about the how! Traditionally, investing in physical bottles of fine wine involved many barriers to entry, with very high costs such as the cost of initial investment, storage costs and shipping costs. Hearing this you may be discouraged, but today this is no longer the case!

Presently, one can cheaply invest in fine wines through fine wine stocks or funds, but if you want to own actual bottles — that you can drink, savour, and appreciate — then look towards fine wine investment platforms. There are a multitude of fine wine investment platforms online, but today I would like to talk about the "sharesies" of fine wine investing.

How does it work? Vinovest will use an algorithm to automatically build a portfolio of fine wine based on your risk tolerance as well as investment amount. Once your portfolio is built, Vinovest then ships and stores the wine in a secure facility and manages the wine for you. Interestingly, one of the facilities that Vinovest uses is also used by the British royal family to store their wines.

Now, I know what you're thinking, does the investor actually own the wine? Yes! As a matter of fact, each time wine is added to your portfolio, legal documents are created to prove that you are the sole owner of the bottle of fine wine. This means that if Vinovest goes out of business, you will still hold ownership of the wine in your portfolio.

Most importantly, if you're feeling jubilant you may even drink the wine in your portfolio by having it shipped to your doorstep!

Hopefully I have piqued your interest today in regard to fine wine investing, but what is most important of all — what I have written is not investment advice...

GLOBAL

Africa: the superpower that doesn’t know it

BY RILEY BOGARD-ALLAN

The latest uprising in Sudan has once again drawn the world's attention to the African continent. The conflict serves to shed further light on many African countries' continued civil and political unrest. It comes on top of the economic, social and environmental issues that are at this point synonymous with much of Africa. Their devastating effects have held Africa and its prospects for development captive for far too long. The dagger is this: a century from now, Africa is set to be home to our most populous cities. Thus, it is surely the next great continental superpower. Tragically, it does not know it and may never will.

Khartoum, the host of the fighting and Sudan's capital, is one of the cities expected to grow significantly over the next hundred years. Its population will balloon from 5.3 million to well beyond 60 million. The Congo's Kinshasa and Kenya's Mombasa are two more examples, while Nigeria's Lagos will become the world's most populous city, with a projected 80 million people in 2100. By the end of this century, one in three people will live in Africa.

The impending rise of the African continent as a whole signals a changing of the guard. Modern history placed Britain and Europe above the rest. Then came the 'sleeping giant', America, in the 1900s. Most point towards Asia as the next global hub - indeed, some feel it already is. The rise of China has been significant, while Jeff Bezos made headlines when he claimed this century would be the 'Indian century'. But with a young and rapidly expanding population, in which 40% of people are under the age of fifteen, Africa has real potential. Its growth up until now has been steady in nature, but clearly will be astronomical from this point on.

It follows that the continent will play much more of a role in the world economy, meaning a valid question (and there are infinitely many) is around what this might mean for investment. There are a great number of organisations, including those hailing from the West, looking to set up shop in Africa. Lagos, for example, is expected to be a financial capital of the world, meaning corporations are flocking to the area. Companies that provide infrastructure, hospitality and all the other services found in a CBD are understandably following suit.

Not surprisingly, there are also many who are still weary of Africa. One does not need to look further than Sudan to understand why. Even without the fighting, transparent economies are few and far between in Africa. Corruption, in particular, has seen the flow of capital stagnate as investors steer away from countries in which governments and legal systems simply do not function. Many pillars of the world of finance have weighed in on this. The Carlyle Group's David Rubenstein has relayed his concern at the level of corruption and lack of stringent regulation. Warren Buffet, although not unknown to moves outside the US (Japan comes to mind as a recent example) often advocates for the might of American business, as does CEO of JPMorgan Jamie Dimon.

The theory of investing in developing nations, or emerging markets, is that one is able to expose themselves to a high growth environment and reap the benefits of extraordinary capital appreciation. With China a possible exception, this has not played out in practice, at least broadly speaking, and market indices illustrate this. Dimon, although carrying a personal

Dimon, although carrying a personal bias and sounding increasingly like a Presidential hopeful, is correct in saying "America is still the shining light". Of course, such investments into emerging markets also come with an inherently heightened risk factor. We might venture this risk is further multiplied when there is civil unrest on your backdoor.

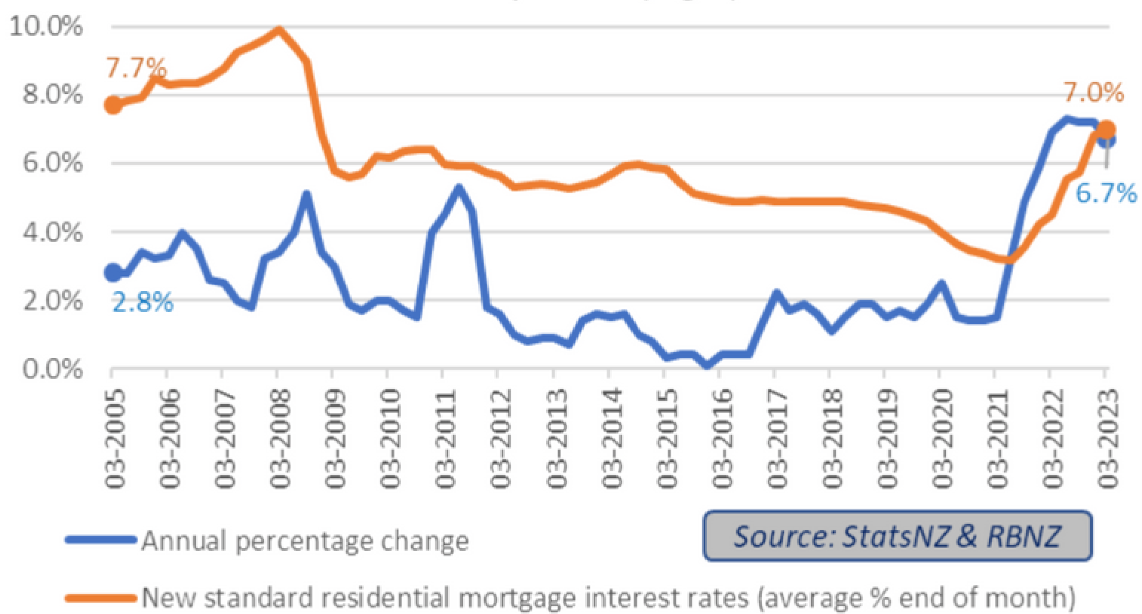
The African dilemma is a complicated one. The numbers do not lie; even with significant policy intervention that ensures sustainable development , African countries will be major players on the world stage in the near future. Investment prospects aside, already-developed nations have an obligation to address the societal issues that permeate throughout the continent. The superpower has some life in it yet.

GLOBAL

How will a credit crunch impact the economy?

BY DEVIKA MODAK

Whiffs of a likely recession are spreading in greater force and with more intensity than before, especially after the banking crisis. The chain of events of bank failures and financial contagion has once again tested the resilience of the global economy and added a compounding effect to the already prominent adversities of today. One of those impacts on the economy include a potential credit crunch.



A credit crunch is when lending is squeezed and/or when the conditions associated with lending become stringent - usually due to a lack of funds accessible to banks. The collapse of Silicon Valley Bank, Signature Bank, Credit Suisse as well as difficulties faced by others such as First Republic and Deutsche Bank, incited panic. Depositors rushed in to retrieve their money. Due to this as well as low investor confidence, small to medium-sized banks will struggle to generate capital. This will decrease their lending capacity.

What does this mean for everyone?

The credit crunch in the US in 2008 gave rise to complications with raising capital, worldwide. While today's crunch seems to originate in the US, this will likely also have flow-on effects globally. Such times do not foster great innovation as this is quite capital intensive. Economic progress is also hampered as GDP sees a fall. Nevertheless, I believe that certain segments will come off in a relatively stronger position than others when the economy swings upwards. This is due to their current positioning and this will be explored shortly.

Currently, inflation levels and interest rates in New Zealand are both high at 6.7% and 7.0% respectively, despite being inversely proportional. We haven't seen such a steep rise in rates or a change in inflation as well as both metrics being high together, in almost 20 years (refer to Figure 1). This situation with the expected credit crunch is likely to mean a double whammy for stakeholders across New Zealand and the world.

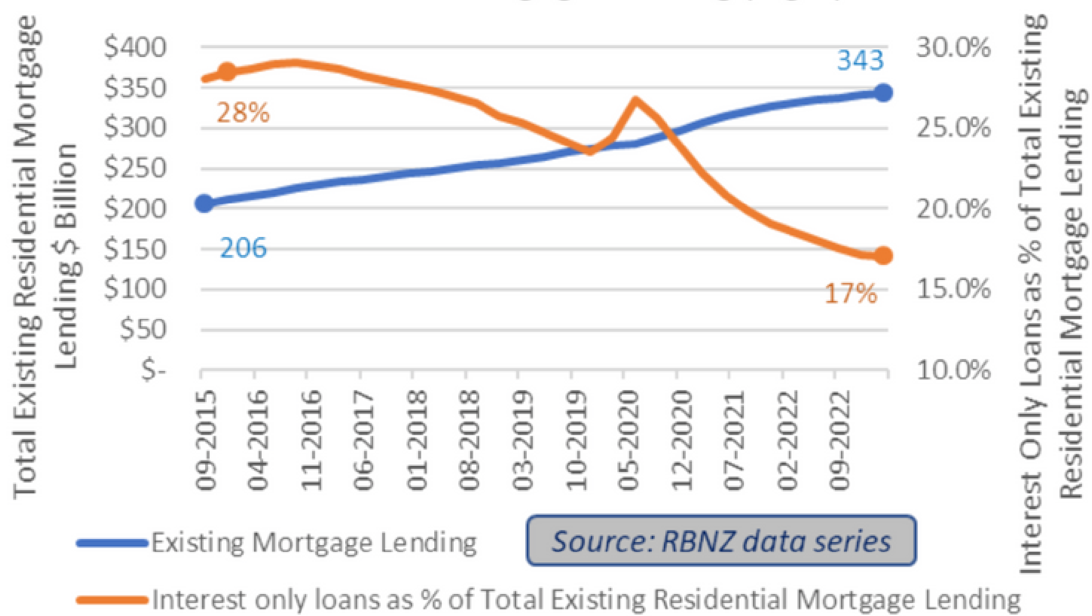
Consumers/Households:

In the 2008 credit crunch in the UK, there was a drop in consumption spending. This was a result of negative equity values in the properties owners held. In New Zealand, the housing market is a common investment avenue. Therefore, a similar impact is likely to be observed here. This in confluence with mortgagors facing repayment pressures, could drive down consumption spending even further.

Another impact of the credit crunch in the UK in 2008, was that mortgage shortages due to less secured lending brought about a decline in house prices.
This will most likely be reflected in New Zealand, proving to be a lucky time for first-home buyers.

This can also mean that future first home buyers will see their deposits reflecting a greater proportion of their house prices. They will have a higher equity value in regards to their loan than earlier, reducing repayment pressures from banks, all the while acknowledging the impact of rising interest rates.

Thirdly, the idea of upgrading property could be an attractive proposition for existing home buyers as the price differentials between properties are lower.



Businesses/Corporates:

Less credit available drives up the cost of credit, meaning firms will receive less bang for their buck! This means that in order to produce the same level of output, a greater level of input is required (cost-wise). Hence, firms who tend to borrow, might be financially pressed, increasing difficulties in conducting regular operations.

This is more likely to impact small and medium sized businesses as they have a smaller network with less access to resources and less funding avenues.

Firms that have a high amount of current liabilities on their balance sheet might face issues renewing loans or rolling over their debt, leading to repayment pressures.

Essentially, firms whose revenues are stable, sound and growing in relation to their increased costs have a greater chance of surviving. Those whose revenues are impacted, will feel the real pressure. Specifically, firms that produce desirable goods and services over necessities, might see less consumer demand impacting their earnings. As earnings decrease, there is less to cover their fixed costs which will stay constant regardless of the situation.

In the start-up space, players are less likely to receive funding. Firms which currently barely break-even, are in losses or are yet to prove themselves, may struggle to raise capital due to low investor confidence.

Those firms which produce goods on the lower end of the price spectrum might see a greater flock of consumer demand for their goods/services. They will likely see stronger revenues, allowing them to maintain their margins.

Housing Investors:

Interest-only loans are a commonly sought form of loan by investors as it provides enhanced interest deductibility, decreasing tax obligations. The existing mortgage lending rose from NZD$ 206 billion to $343 billion. However, the amount of interest-only loans as a percentage of total existing lending decreased to 17%. This testifies the insight that housing investors will espouse conservatism.

In summary, the expected credit crunch could indicate three key takeaways:
The era of cheap money is coming to an end, those who can generate revenue to cover their costs will emerge relatively stronger and the popularity of less-expensive alternatives will increase universally.

MYOB Column

New Zealand SMEs and Digitisation

New modelling highlights significant potential business returns and economic gains from increased levels of digitisation amongst New Zealand's SMEs. At the end of last year, MYOB released a white paper to explore opportunities to support more SMEs to realise these benefits.

Conducted by Infometrics on behalf of MYOB, new modelling examining MYOB and external data, reveals that action to address a digital lag and improve digitisation in Aotearoa's SMEs - shifting from no to low levels of digitisation, or low to moderate - would result in a benefit-cost Return on Investment of between 2.4 – 3.1 to 1.

When realised, this means for every $100 invested in incrementally improving the use of digital business tools in a small business, the return would be $240 - $310.

Overall, the new modelling reveals that improving digitisation amongst New Zealand's SMEs could equate to a gross benefit of $8.5bn (NZD) to New Zealand's economy and a 2.6% contribution to GDP.

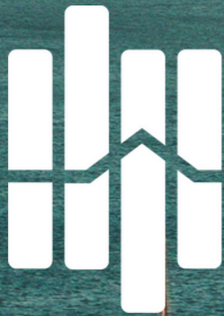
Read the full white paper here

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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