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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The Editor's Note

WRITTEN BY NIKHIL LUTHRA

G'day team, Nik here. Your UAIC Bulletin Editor for 2020. I am in the fourth year of my BCom/BA, majoring in Finance, Marketing and Economics.

As a kid born and raised in Auckland to Indian and Chinese parents, my childhood was largely dominated by schoolwork and Cricket. I have been investing since I was 13, although this is largely due to my dad being an investment advisor. That being said, I have developed a keen interest in the financial markets. An interest that I look forward to sharing with you all through Bulletin this year. I am particularly interested in consumer and luxury stocks, with tech companies definitely bringing up the rear.

"My vision for Bulletin in 2020 is to publish consistent, high-quality outputs. Stimulating both the educated and just-curious investor alike"

So far this year, we have had the largest number of applicants in both Bulletin and IC history. Although the process was arduous, I cannot wait for you to read our articles over the coming year. I was particularly conscious to select writers with a diverse range of interests and finance knowledge.

The outcome of which, shall hopefully intrigue and enlighten all readers. From the most intelligent of investors, to the investing 101 student.

This week we are covering topics from monetary policy to the secondary sneaker market, albeit largely COVID-19 focused.

Maybe I am being blindly optimistic, but it seems like things may be on the up. As I am writing to you, the S&P500 just bounced back with its best week since 1974!

Have fun churning through these pages whilst on lockdown and I hope to see you again next week.

CONTRIBUTORS THIS WEEK

Sam Jain has a passion for the alternative investment markets, hence he has chosen to write about the second-hand sneaker market.

Kyle Quindo possesses a keen eye for current event in finance, Kyle has written about interest rates in China.

Sean Flower is passionate about technology and start-ups, Sean is exploring the ramifications of working from home.

Kai Yun Gao is keen to explore the intersection between investing and the environment. She does just that in her article this week, questioning the moral implications of consumerism during COVID-19.

Tim Cross is passionate about macroeconomic effects on the stock markets. This week he explores the future of Metlifecare and what could have been.

Meet the presidents

DAVID SAUL

I am what one would call a "veteran" of the club. UAIC was the first club I signed up for when I started university in 2017.

I attended Investing 101 with Raymond Webb and fell in love with the idea of value investing. I joined the Bulletin as a writer in July 2017 and wrote on a range of topics relating to the financial markets, global economy and political landscape in new Zealand. I moved across to the Investment Committee in 2019 as an analyst, and have since become a Co-President of the club starting 2020. In this time, I've made some lifelong friends, developed my investing skills and learned to present and pitch in front of an audience.

In my spare time I love to watch and play sports (namely tennis and football), head out to practise my photography, play FIFA and Call of Duty, hit the gym and go for runs.

CONNOR MCDOWALL

Relatively speaking, I am new to the Investment Club. I joined the club at the start of 2019.

I became an analyst on the Investment Committee in July 2019. My current role is Co-President of the Club. My background spans infrastructure, corporate finance, consulting, and energy. In my spare time, I read, ski, fish, and swim. Although, I haven't been a member of the club for very long, the relationships I formed in the last year alone continue to be instrumental in developing my business acumen. UAIC helps you learn how financial and investing decisions drive business strategy. David and I continue to be incredibly excited to share our joy of finance and investing with you.

INVESTING IS FOR EVERYONE

We want one word to define this year for the club, and that word is "value".

Our goal is to maximise the value proposition for our members.
To make this happen, we have organised for there to be regular educational content, a women engagement programme, new competitions exploring exciting areas of finance, a fresh social events initiative, a streamlined Investment Committee pitching process and a fortnightly Bulletin.

It is not just the start of a new decade for the club, it is the start of a new era.

Investment Committee

AN UPDATE OF THE FUND WRITTEN BY IC CHAIRMAN NEHAAL RAM

INTRODUCTION

Hi, I'm Nehaal! I'm a third year BCom/BSc student with majors across Finance, Accounting and Computer Science. This year, I'm the Investment Committee Chairperson. As the Chairperson, I'll be running the Investment Committee, a group of analysts that meet twice a week to hear pitches across the NZX/ASX markets and conduct valuations to see if any potential investment opportunities match our value-investing mandate. As part of the Investment Committee, we learn more about company research, business analysis and valuation modelling – look forward to seeing a couple pitches being presented in the short future!

2020 SO FAR

At the start of Semester One, Investment Committee ran interviews to select the Equity Analysts for 2020. This turned to be the most competitive round in recent years. 14 Equity Analysts were chosen, each coming from a unique background and bringing their own insights onboard the Committee.

As part of the on-boarding process, three tutorials were run to help develop business analysis, fundamental accounting and valuation modelling. Two Senior Equity Analysts, Andrew Meng and Michael de Boyett ran the first meeting, covering the components of a qualitative pitch. Then, the current Investment Committee Chairperson, Nehaal Ram ran a valuation overview and interlinked 3-statement model tutorial. Lastly, past Investment Committee Chairperson Amaan Merchant delivered a thorough Discounted Cash Flow tutorial, followed by a live example.

THE PITCH

Shortly after, our first pitch ran and passed, with Michael pitching Nearmap Ltd (ASX:NEA). Nearmap Ltd (ASX:NEA) is an Australian aerial imagery technology and location data company that provides aerial imagery across Australia, New Zealand and North America. A growing business model coupled with a strong product pipeline and low churn, Nearmap is considered to be at the forefront of the imagery technology. Having a revenue base from a plethora of sectors with a sound growth strategy, Nearmap is poised to exponentially further it's successful track record. Whilst profitability, privacy and contractor compliance are risks, Nearmap Ltd presents itself as a company that matches our value-investing mandate and can deliver strong returns. The Investment Committee vote has passed 13/14, with Michael de Boyett, Nehaal Ram and Anna Marsden now working on the valuation.

"Nearmap is Google Maps on steroids" - Michael de Boyett, Senior Equity Analyst

Exploring index funds

PART 1: WRITTEN BY CHRIS WONG AND TRIBHUVAN KRISHNAN

A BRIEF HISTORY

In as early as 1960, the notion of an index fund was created by the University of Chicago students E.Renshaw and P.Feldstein. Their concept for an unmanaged investment company attracted little support, however, it marked the starting point for a series of events.

It wasn't until 1975 when Jack Bogle established the First Index Investment Trust which tracked the Standard and Poor's (S&P) 500. When it first launched, it garnered negative attention from competitors labelling it as 'un-American', calling it 'Bogle's Folly'. As of 2009, the Vanguard Group became the largest mutual fund in America managing approximately USD5.6 trillion worth of assets.

WHAT IS A MUTUAL FUND?

To understand an index fund, the definition of a mutual fund must first be explained. A mutual fund is a form of investment vehicle which involves a pool of capital collected from various investors. The capital of the mutual fund is operated by the fund manager. The key role of the fund manager is to allocate the fund's capital in an aim to generate income or capital gains for the investors of the mutual fund. There are different types of mutual funds that represent different investment strategies.

The fund manager constructs a portfolio and manages it in a way that aligns with the investment strategies outlined in the offer document. A portfolio is simply the collection of assets picked by the fund manager. Mutual funds allow retail investors the opportunity to engage with professionally managed portfolios of bonds, stocks, and other investments. The performance of the mutual fund is tracked by calculating the change in the valuation of the fund which is the result of the performance of the underlying holdings.

A mutual fund may generate a return for its investors in the following ways. A return is another way of describing profit generated from investments. Firstly, an income can be produced on dividends of stocks and/or the interest on bonds that are held in the portfolio. A mutual fund may give the income it generates over the year to investors in the form of a distribution to the investors or it may reinvest the income it receives. In most cases, the mutual fund will allow investors two options for how they use the distribution. The first option is to allow investors to realise their distributions by cashing out. The alternative option is a scheme that will give investors the opportunity to reinvest their distributions to purchase more units of the mutual fund. A unit may be thought of in the same way as a share of a company as the process of buying/selling a share or unit is identical. Secondly, the value of the fund's investments may grow, which is described as capital gains. In New Zealand, there is no tax on capital gains which derive from increased unit prices.

COVID-19: Have we forgotten about climate change?

WRITTEN BY KAI YUN GAO

THE 21ST CENTURY HAS SEEN A SHIFT TOWARDS RAISED CONCERNS ABOUT HOW OUR LIFESTYLES ARE A DETRIMENT TO THE ENVIRONMENT. THE 2019 GLOBAL CLIMATE STRIKE WAS LED BY YOUNG PEOPLE, AND THE 2016 PARIS CLIMATE AGREEMENT MADE SIGNIFICANT STEPS IN SETTING CARBON-EMISSION TARGETS.

GIVEN THE CURRENT CIRCUMSTANCES, DOES ENVIRONMENTAL SUSTAINABILITY EVEN MATTER?

COVID-19 has caused a surge in stockpile consumer practises. Widely reported were the empty toilet paper shelves, three months wait times for hand sanitiser, and even 1-per customer limits on a single $5 face mask. Regular consumer use of disposables has grown as well. Wet wipes, hand sanitiser, face masks, and gloves, to name a few. Apart from the social etiquette to adopt the usage of disposable face masks and gloves, some essential service establishments require it upon entry. It isn't uncommon to wait up to an hour to get into supermarkets, only to be denied entry when you don't have a face mask on. This has made it a necessity for many households to purchase these basic protective gears.

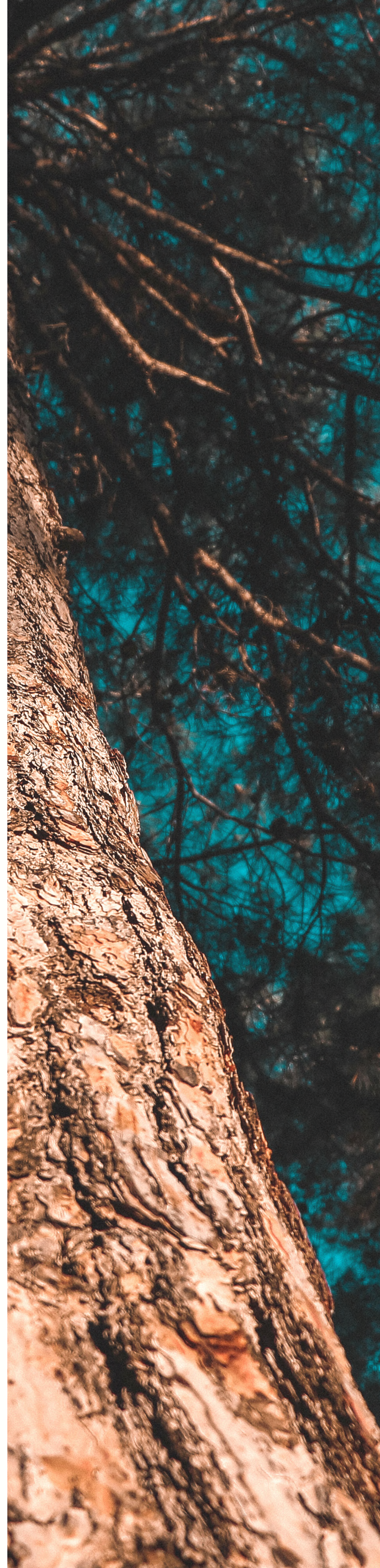
Furthermore, it is an unfortunate necessity that medical workers use disposable goods. Over 3000 COVID-19 tests are being conducted daily in New Zealand, and hygiene in healthcare facilities cannot be compromised. Meaning increased changing and usage of sanitised disposable equipment. With the current situation, increased waste is an unavoidable consequence.

To exacerbate the issue, recycling has been halted in certain regions around the country. For Auckland, this has meant that all paper and cardboard recycling is currently being sent to landfills. Previously, all paper and cardboard recycling was sent to India's paper mills, paper mills that are now in a trading halt. Consequently, the extra 4,500 tonnes of fibre waste per month being sent to landfills is a big setback for Auckland Council's 2040 zero waste goal.

From a short-term investing perspective, investors could investigate companies such as Medtronic (NYSE:MDT) and 3M (NYSE: MMM), which supply much of these disposable hygiene gears. They have bounced back nicely in the last month, whilst the rest of the market remains in a largely downward direction. An emphasis should be put on the short term. This growth is predictably going to be a short-term spike. Upon the market rebounding after COVID-19, this inflated share price is bound to fall. Once markets return to a business as usual schedule, industries will be grappling with how to recover from this recession, and competitively so. The current returns they are experiencing will not be maintained.

Although it looks like a smart time to invest into healthcare equipment manufacturing companies, it is uncertain at present to determine what kind of environmental impact will ensue. The nature of their products bought by the regular consumer are environmentally unsustainable. Prime Minister Ardern had to publicly address the issue of wet wipes being flushed down household toilets, clogging the sewage system and blocking waste channels. There is already so much pressure on waste in the climate change movement.

As an environmentally conscious investor, although markets are looking grim, it will be both a risky and ethically conflicting decision to put money into healthcare supplying companies.



China has something the world wants, but can't have

WRITTEN BY KYLE QUINDO

DON'T FIGHT THE FED. A COMMON SAYING, INFERRING THE POWER CENTRAL BANKS HAVE OVER THE TREND AND CONSENSUS OF THE FINANCIAL MARKETS AND THE ECONOMY.

CHINA WAS RIGHT NOT TO CUT RATES. BUT NOW IS THE TIME TO DO JUST THAT.

With unprecedented rate cuts around the world, it is easy to imagine the mindset these banks hold. However, there is one central bank that, at least for now, has been generally reserved? in their approach towards their fight against the virus.

The Peoples Bank of China has been weary to cut their lending rates in favour of a more direct approach, such as bond issues, direct lending and lowering the reserve ratio required for banks. Thus, injecting more than 1.7 trillion yuan (220 Billion USD) of liquidity into the money markets. In the current stage of the Coronavirus, China's reluctance to boldly pull the interest rate lever has been the right move. Stimulus is useless if businesses go bankrupt before they can take advantage of it. China has recognised that businesses need cash to survive this crisis. "The PBOC doesn't use its bullets all at once. China has plenty of room in monetary policy" Ma Jun, a PBOC adviser stated.

This is a stark contrast to how 38 other central banks have tackled the issue of Coronavirus. A myriad of interest rate cuts, bond buying, emergency lending, and swap lines in hopes to keep the global economy afloat till the effects of the virus subsides. Federal Reserve Chairman Jerome Powell stating that "When it comes to lending, we're not going to run out of ammunition. That doesn't happen" in regard to the Federal Reserve's unlimited bond buying program.

With the epicentre of the virus, Wuhan, slowly coming back online, the PBOC needs to cut rates as soon as possible in order for the stimulus to be effective. Chinese banks are being forced to take lower net interest margins in order to facilitate lending towards small-

to-medium businesses. To ensure stability in the money markets, the PBOC needs to increase the banks' net interest margins in order for banks to continue lending. This requires decreasing the deposit rate - the rate Chinese banks pay their savers - more than the amount they decrease lending rates. However, the PBOC is wary of cutting deposit rates, citing inflation and negative real interest rates for savers. "There needs to be more consideration when using it", Deputy Governor Liu of the PBOC on a statement to the press. Deposit rates are currently at 1.5%, with the 1-year lending rate standing at 3.2%.

This leaves the PBOC in a difficult situation, balancing short term relief with long term objectives. It is easy to look at this situation from a very high-level perspective, to ignore future mandates and focus on the current situation. However, like most central banks, the PBOC has a dual mandate: to maintain price stability and to promote growth through the management of monetary policies. A decrease i only the lending rate would destroy the already shattered banks, who are the intermediaries between the Chinese government and the small to medium businesses. A decrease in only the deposit rate would spur inflation issues. Either of these options will deviate the PBOC from the dual mandate given to them by the state.

Investors in Chinese banks should be cautious. Given the low interest rate environment, net interest margins for banks are being Squeezed. Pair that with questionable Coronavirus data coming out of China which may mean the banks will be hit harder with defaults and borrowings over the next coming months.

Anything but an increase in the bank lending deposit spread from deposit and lending rate cuts will satisfy the PBOC's mandate and help prevent a total collapse of their economy. However China needs to do it hard and fast, or else risk all the advantage they have gained from not cutting rates in the first place.

Working from home A catalyst for change?

WRITTEN BY SEAN FLOWER

THE NATIONWIDE LOCKDOWN HAS CHANGED THE WAY WE ALL WORK. BUT IS REMOTE WORKING A REACTIVE DETRIMENT OR A CATALYST FOR CHANGE?

Leading up to this crisis, remote working has become more commonplace. Many large technology firms already had the pre-existing infrastructure to cope with the change. This allowed them to be the first adopters of the remote working initiative to help in the battle against COVID-19. With Amazon, Microsoft, and Google advising workers to stop coming to their offices and adopt remote working protocols in late February, before the rest of the working world had the means to do so.

Driving this initiative, the HR buzzword of today – flexibility. Flexible working has become a value-add for individuals who not only require flexibility but those who could become more productive as a result.

I believe that I've become more productive. No commuting and a structure that works for best for me, all in the comfort of my own home has been useful in managing my academics. However, I'm sure we have all experienced this major negative; a disconnect when it comes to collaboration and discussions. Thus, begging the question: In a post-COVID-19 world, will we still see the importance of going into work on days when there is an absence of collaborative working?

With the infrastructure now in place for organisations that had yet to adopt remote working initiatives, and staff now becoming up-skilled in the area: What's to stop those who find it more productive and beneficial from continuing to do so? I believe we are heading into a new era of work. A lasting change that was not possible until now, with productivity viewed as a function. A lasting change that was not possible until now, with productivity viewed as a function of each employee's individual factors. As we navigate this crisis, I encourage you all to use this as an opportunity to discover what works best for you, to maximise your productivity at an independent level. As we come out of this, a lot of people, employers and employees, may have a newly found perspective on what works best for themselves and their organisations.

Taking more of an economic viewpoint, it's arguable that companies such as Slack, Zoom, Google and Microsoft are set to capitalise on this transition. A degree of long-term retention may amount amongst organisations using their tools. For example, Zoom tutorials may become more commonplace at University, and Google Drive and Microsoft OneDrive collaboration may be preferred over working and brainstorming in-person. Regardless, investors must hold this in their minds; this strange time is sure to have a lasting effect once we return to normalcy.

Metlifecare
To be, or not to be?

WRITTEN BY TIM CROSS

“TO BE, OR NOT TO BE, THAT IS THE QUESTION: WHETHER 'TIS NOBLER IN THE MIND TO SUFFER. THE SLINGS AND ARROWS OF OUTRAGEOUS FORTUNE, OR TO TAKE ARMS AGAINST A SEA OF TROUBLES.”

Metlifecare (NZE: MET) was in the middle of a takeover from the Asia Pacific Village Group (APVG) - an entity of the Swedish hedge fund - EQT fund management. It was agreed that AVPG would buy MET shares at $7, a premium of 15c over the then-current price of $6.85. News broke three days ago that APVG would be exercising their termination rights and that the takeover is now off. As a result, the MET share price suffered huge losses and closed at $3.77, down from $6.88 a month ago. This leaves investors with a unique situation. ‘To be’ could be purchasing these shares at $3.77 with the idea that the stock is now undervalued and investors could make a stable gain. ‘Not to be’ could be not purchasing these shares and watch investors fall into a sea of trouble.

Rewind three months to 30th of December and the day that the takeover was announced and life back then is almost unimaginable. For me, I was holidaying in Queenstown for the New Year. Looking forward to moving up north and starting at the University of Auckland in a couple of months.

Right now, I am writing this article quarantined and at home in Christchurch, having barely moved up to Auckland a month ago. My younger sister made a comment that living during the coronavirus pandemic feels like we are in a dystopia, I could not describe it better myself. The world is changing at such a fast rate. Each day brings increasing levels of uncertainty and change. It is truly a remarkable time to be alive.

The age-old accounting adage - cash is king is even more relevant in these turbulent times. Cash

allows companies to pay staff and make sure everything can run smoothly. It is important to have strong cash reserves. Yet in MET's case, it is clear that their reserves are slightly below 3.5 million dollars, making up only 0.09% of MET's assets.

Whilst this scenario might not be too worrying for a normal company, it is of paramount concern for MET. As their business plan revolves around the refundable occupation rights agreements. This is a $1.5 billion liability as it must be refunded to a resident's subject when the resident leaves the room.

Rest homes are extremely vulnerable to coronavirus. The median age for entering a rest home in New Zealand is 84. The fatality rate for over 80's is around 20%. There have already been multiple clusters at rest homes in Christchurch and Hamilton and it seems almost inevitable at this point that a MET rest home will end up with a cluster of infections and subsequent deaths. If a cluster does occur in a MET rest home, the economic consequences could be severe. Not only will MET scare away future customers and investors as their rest homes are deemed unsafe. They will also have to pay back the refundable occupation rights agreements. As MET has such low cash reserves, this problem would be exacerbated. When one considers that most banks will be unwilling to loan out money at this time, MET may struggle even more to generate revenue.

As an additional solution, MET could raise capital by issuing shares. This would normally be a successful way to raise capital, but there are multiple reasons why issuing shares now would be disastrous. First of all, the MET share price has already dropped a significant amount. Issuing more shares will increase the total number of shares, diluting their value, causing the share price to drop even more. On top of this, the largest shareholder in MET is the NZ Superannuation Fund who owns a 19.86% stake. As many New Zealanders have lost their jobs or had a reduction in income, a lot are drawing on their superannuation fund. As a result, the superannuation fund may look to reduce its holdings in MET and this will cause the share price to slump even further. Issuing shares now will cause the share price to plummet.

MET's practice of revaluing their retirement homes each year, and including any increase in value in the reported profit, also requires scrutiny. Does this constitute income inflation? In 2019, the increase in valuation was $53,860 million, significantly down on the $132,696 million increase reported in 2018. The lower revaluation figure was the main cause for MET suffering a 68% fall in profit from 2018 to 2019. While such revaluation is legal, I would question whether it really represents profit as it does not assist in the day-to-day operation of the company. Should the gain be recognised once an occupancy agreement is sold? If property prices now fall due to the economic effects of the coronavirus, as many analysts are predicting, how will that affect MET's revaluations for 2020?

I do not think the future is bright at MET. From my analysis I think that Investors who buy MET shares now may end up swimming in a sea of troubles, however the question remains. To be or not to be?

The $2 billion secondary sneaker market

WRITTEN BY SAM JAIN

THE SECONDARY SNEAKER MARKET FUNCTIONS ON THE RESALE OF LIMITED-EDITION COLLECTIBLE SNEAKERS AND IT IS GROWING RAPIDLY. A RECENT REPORT BY INVESTMENT BANK COWEN & CO SUGGESTED THAT THE GLOBAL RESALE SNEAKER MARKET COULD BE WORTH $US6 BILLION BY 2025. ALL AROUND THE WORD, YOUNG ENTREPRENEURS ARE CASHING INTO THE HYPE, WITH SOME MAKING MORE THAN 6 FIGURES A YEAR. INDEED, THE DEMAND FOR CERTAIN SNEAKERS IS SO HIGH THAT MANY INVESTORS HAVE STARTED TO SEE SNEAKERS AS AN ALTERNATIVE INVESTMENT CLASS.

A notable example can be Canadian Investor Miles Nadal, who spent $US1.2 Million buying 100 pairs of shoes at auction in 2019. Nadal argues that just like vintage cars, collectible sneakers hold historical and artistic value that would cause them appreciate in value over time.

The economics behind this market is simple. There is an extremely limited supply. For example, the Nike Mag 2016 released with 100 pairs. Because supply is restricted, only a certain number of consumers are able to purchase sneakers at release despite being incredibly high demand. This means that people who are lucky enough to be able purchase these sneakers at release can almost certainly sell them for a profit later on. For example, the “Nike Dunk SB Low What the Dunk” released for a price of $US120 and last traded at $US9000 on StockX, an increase of 7400%. The UK based consumer website myvouchercodes, recently created a small list of 50 pairs of sneakers that had significantly accumulated in value over the past few years with the returns ranging from (415% - 6514%).

Potential resellers go to extreme lengths to be able to secure a pair. A BBC report last year indicated that thousands of sneaker enthusiasts had camped overnight outside stores in the UK to get the latest pair of Adidas Yeezy Boost 350s. Within minutes of the stores opening, online resellers had started auctioning the £180 shoes for almost double the price. But it's not just the US or UK that is seeing such large amounts of demand. In fact, the NZ herald noted in November last year that dozens of people had camped outside the Auckland CBD Footlocker store for two days in order to obtain $260 Air Jordan 1 Retro High OG Fearless. Funnily enough there were only 25 pairs in that store.

Sneaker collecting originated in in the United States in the late 1980s. Arguably the main factors leading to its origin was the rise of hip hop culture, and the extreme popularity of Michael Jordan and his Air Jordan brand of sneakers. Within the next decades it had gone global thanks to the growing global interest in American pop culture. Traditionally collectible sneakers resulted from collaborations with sports stars (mainly NBA players) such as the Nike Air Max LeBron VII or the Adidas T-MAC 4. However in 2009, Rapper Kanye West collaborated with Nike and released the first Air Yeezy. This led to a trend of various artists such as Drake, Snoop Dogg and Jay Z releasing their shoes in collaboration with giants like Nike, Adidas and Puma further boosting the market. Soon notable fashion companies such as Comme des Garçons and Chanel also started collaborating with shoe makers to release limited edition sneakers. For example, “Adidas Human race NMD Pharrell x Chanel -2017” (A collaboration between rapper Pharrell Williams, Adidas and high end fashion label Chanel) only saw 500 pairs released. Collectors (popularly known as sneakerheads) seek to collect notable sneakers from a wide variety of brands.

The market has had its share of difficulties however. The presence of almost perfect replica’s presented challenges to sneakerheads as it became increasingly difficult to distinguish between legitimate pairs and fakes. However, with the rise of online resale marketplaces like StockX and Goat, many of whom offer verification services as part of their business model, has meant that collectors can now browse with relative safety and ease.

Overall, the future seems to be bright for the market as collaborations continue to rise and longer term demand does not seem to be waning.

Introducing our sponsor for 2020 - MYOB

MYOB BUSINESS PREPAREDNESS GUIDE TO HELP KIWI BUSINESSES

A Business Preparedness Guide has been developed for New Zealand businesses who may be looking for advice during the current COVID-19 pandemic.

The guide offers support in a range of areas from managing cashflow to business continuity and preparing for the eventual upswing. There is a focus on fundamental issues businesses are currently facing, including establishing secure and successful work from home operations, managing staff and dealing with leave.

There is a breakdown of wage subsidy and leave support, including how to apply, and how much employers are entitled to.

Visit www.myob.com/covid19 for the report and more resources on Covid-19 and your business.

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