UNIVERSITY OF AUCKLAND
INVESTMENT
CLUB

# INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

IT'S TIME WE TALKED ABOUT

# THE UNITED NATIONS

BY ANISTON INGER-HOLLAND

+ MORE ON:
CASINO ROYALE 2.0: MARKET MAYHEM

&

## CONVERSATIONS WITH UAIC ALUMNI

NIKHIL LUTHRA & CARLEY PENG

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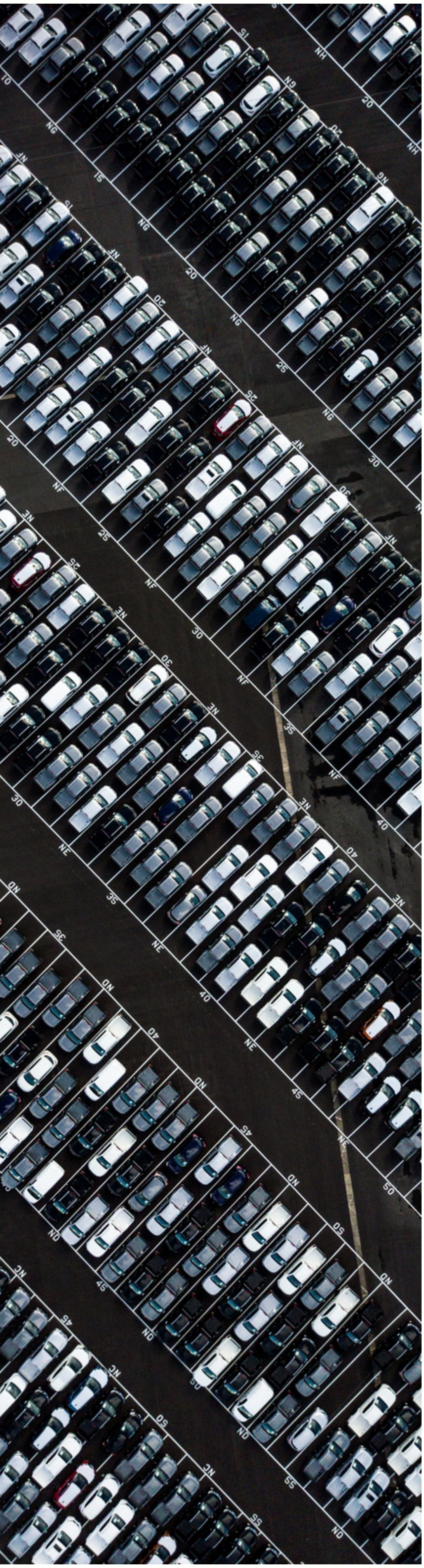


# An update from the fund

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

## THE COLONIAL MOTOR COMPANY (NZX:CMO)

The Colonial Motor Company is the largest motor company by revenue and number of dealership service centres in New Zealand.

By adopting a franchise model and bestowing autonomy to its partner dealerships across the country, Colonial has delivered consistent and stable shareholder value by tailoring its offering to grassroots New Zealanders. With multiple dealerships and service centres in development, Colonial appears set to continue delivering value by taking advantage of government subsidies focused on electrifying New Zealand’s automotive industry and servicing the nations aging fleet.

Colonial operates with low long-term debt and finances stable growth through 30% of its Net Income. The company has zero analyst coverage by the New Zealand Financial Industry and has approximately 2/3 of its 350m market cap in property assets. Low institutional ownership, no shareholder dilution and 70% of Net Income attributable to shareholders through dividends demonstrates Colonial as an interesting, yet attractive investment opportunity.

The Investment Committee passed CMO to the valaution stage by a vote of 8/14. Jarrod Ong, Gavin MacMillan and Daniel Mar will conduct the valuation.

*"The classic underfollowed stock"*

*- Jarrod Ong*

GRAINCORP (ASX:GNC)

GrainCorp is one of Australia's largest agribusinesses who operate in the handling, processing, and exporting of grains and oils. Their production reach extends to over 350 customers in 50+ countries.

GrainCorp operates as two segments: Agribusiness and Processing, which comprises 78% and 22% of EBITDA respectively. GNC looks to utilise their assets better by repurposing their port infrastructure and increase storage capacity to meet higher demands. GNC also focuses on targeted growth opportunities with investments and research collaborations aligned with their key strategy.

A bumper crop year and strong crush margins has driven strong performance across GNC's key units. With a 10 year crop protection contract ensuring cash during poor harvests, GNC has weathered itself from the cyclical nature of its business. A positive balance sheet indicative of strong liquidity and a low long-term debt to equity places GNC in a great position for investment.

The Committee passed GNC to the valuation stage by a vote of 12/16. Raewyn Leow, Bronson Cotter, and Abby Sathyendran will take on the valuation.

*"Tumbling equities doing your head in? Commodities are here to help."*

*- Bronson Cotter*


GLOBAL · POLITICS

# It's time we talked about the United Nations

BY ANISTON INGER-HOLLAND

The United Nations was founded in 1945 after World War 2 with the ambition of maintaining global order, protecting human rights and preventing another global war. It was an attempt to move on from the failure of its predecessor, the League of Nations. Whilst the United Nations has done plenty of admirable work in these areas, there is a foundational problem that needs to be addressed: the entire structure of how the General Assembly and Security Council operates.

The severe flaws in the way the United Nations operates means significant inaction on the most urgent issues. This inaction has been at the forefront of recent months after the invasion of Ukraine by the Russian Federation. Ukrainian president Volodymyr Zelenskyy scolded the United Nations Security Council in an address last month, accusing the organisation of allowing Russia to use their veto as a “right to die”. He noted that the United Nations’ inaction “undermines the architecture of global security” and that if the United Nations continued to allow Russia’s behaviour, then “countries will have to rely only on the power of their own arms to ensure their security and not on international law. The United Nations can simply close.”

In Zelenskyy’s scathing address, he accused the United Nations of essentially bowing to Russia as well as other nations who have caused conflicts such as the war in Syria, the Israel-Palestine situation, and conflicts in Somalia and Yemen. However, this needed to be said. It has been a long-standing criticism of the United Nations that their work in the General Assembly is barely legally binding and any efforts made in the structurally stronger Security Council can be wiped out by an arbitrary veto power.

The atrocities in Ukraine, especially in areas such as Bucha which was decimated by Russian forces, highlight the fact that veto powers are typically held by the most aggressive countries such as China, Russia and the United States. Thus there may be some truth in Zelenskyy's claim that the veto power is the "right to die" as the most powerful countries can veto decisions on their own wars.

Whilst the veto power was designed to maintain international stability and avoid military use, when countries like Ukraine cannot rely on the Security Council's assistance and need to take their security into their own hands, what good is the veto power? The five countries with veto power were once the only holders of nuclear weapons and thus a veto power seemed justifiable for reducing the risk of nuclear war, but now other countries also hold nuclear weapons making the tool of veto power undemocratic and outdated.

Ukraine isn't the only country that has faced inaction from the United Nations in a time of need. Transnistria, a breakaway state officially recognised as part of Moldova, has also had its issues concerning Russia - issues that would drastically affect Ukraine with Russia's alleged plan of control, cutting Ukraine off any access to the Black Sea. This has many implications but, again, the United Nations lacks action. Subsequent inaction has also occurred in the area of the Gaza strip and many other areas around the world.

Although a large consequence of an organisation in the same league of the United Nations with actual power to act is the abrasion of sovereignty. Sovereignty is integral to member states and their people. At the very least, however, we need to stop pretending that the United Nations is an authoritative source and start realising that it's time to begin taking serious action. As Zelenskyy noted in his address, reformation needs to happen. I believe the Security Council should be the first thing to change. And if the United Nations cannot reform, Zelenskyy may be right in saying "the next option is to dissolve yourself."

MARKETS

# Casino Royale 2.0: Market Mayhem

BY ROHAN BHATT

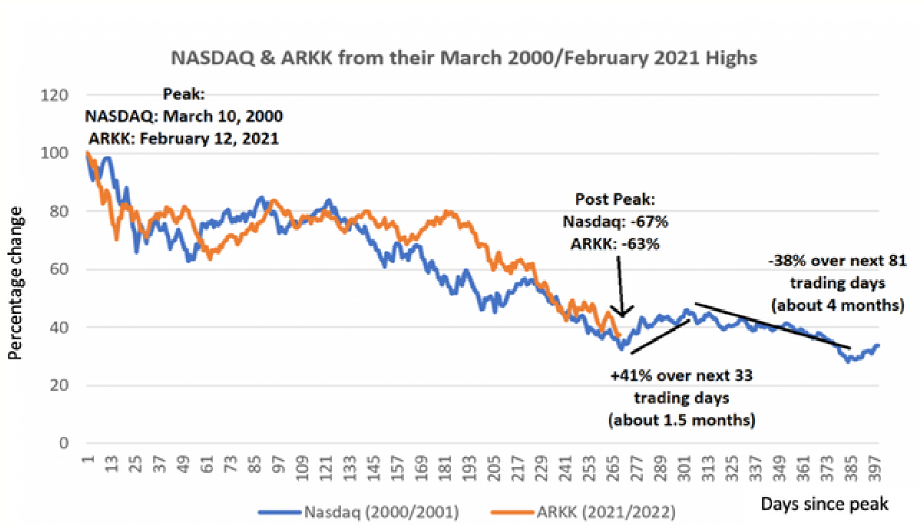
A fortnight ago, two somewhat experienced investors relayed their thoughts on the financial markets at Berkshire Hathaway's annual shareholder meeting. The overarching message was one of dismay, with the current state of the stock market labelled "a gambling parlour". Stock tickers had become poker chips, engulfed in a "mania of speculation" – cash them in and pray. Now, either the two speakers had lost money at the casino the night before, or their words were cherry-picked with good reason. Given that their names happen to be Charlie Munger and Warren Buffett, I'd bet on the latter.

After being criticised for relying on outdated methods during the post-pandemic boom, Munger and Buffett's comments are both timely and necessary. Aged 98 and 91 respectively, they have seen it all when it comes to stock markets. At this stage of their careers, the probability of them being right may well be equal to their age. Betting against them is betting against decades of experience – proceed at your own peril. Interestingly, Munger and Buffett's statements are more than just a recognition of prevailing market mayhem. They are warning bells.

The first half of 2022 has not been entirely kind to investors. Amidst rising inflation and interest rates, Russia's invasion of Ukraine, a looming global recession and a few earnings reality checks, financial markets have inevitably begun gravitating back to normality. The S&P500 has declined for six weeks consecutively, something which hasn't occurred since 2011. Down 16% year to date, all S&P500 sectors have taken significant hits.

In the same vein, the NASDAQ's decline of 13.3% in April was its worst monthly performance since the gloom of 2008. Headlines were grabbed by Netflix's 35% one day drop, alongside a turbulent month for Tesla thanks to its CEO. Worth mentioning is Cathie Wood's ARK Innovation ETF (ARKK) – a hot tech high-flyer that returned 150% to its investors across 2020. Having now been overtaken by Buffett's value-based Berkshire portfolio, prospects look eerily like the 2000 dot-com bubble burst, as per the included graph.

ARKK was Buffett's kryptonite at its February 2021 peak, with its top 10 holdings including Tesla Inc, Zoom Video Communications, Block Inc (previously Square), and Roku Inc. All these stocks touched all-time highs amidst the pandemic, and valuations were supposedly justifiable. Currently, ARKK is trading at USD 43.60 – approximately 16% lower than its market price prior to the entire pandemic itself. What is worrisome, however, is that the stock market's sentiments are being shared amongst asset




classes, including commodities and cryptocurrencies.

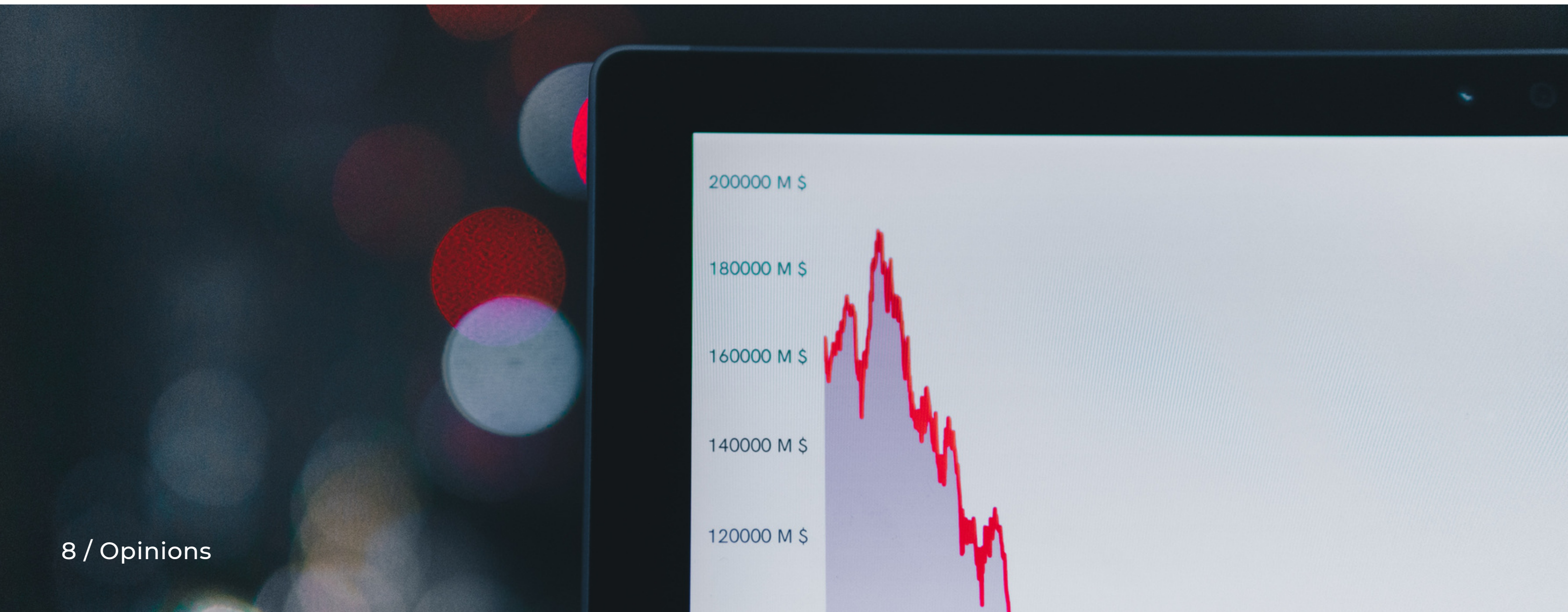
Historically, a drop of 20% in overarching market indices sees the emergence of a bear market – where investors become more risk-averse, and stocks become less of an attractive investment. The numbers don't make for pretty reading, and unfortunately, the next few years may well be characterised by a slow recovery. However, a trip to the casino never goes wasted, as long as one learns not to gamble again.

Replacing the urge to speculate with the effort to invest is exactly what Munger and Buffett are asking from investors, retail and institutional alike. The rise of accessible investing platforms (including Reddit) and growth in managed funds makes it a collective responsibility to ensure markets are not underpinned by speculation. This is when perspective and perception both become pivotal. If markets and the underlying stocks are perceived as profit churning machines, one of two things are guaranteed. Investors will inflate the market to irrationality, and an entire generation will bear the brunt when reality hits. Perhaps it pays to remember that markets only go as far as investors take them, more so than the opposite.

We will have to wait and see whether the second half of 2022 serves to provide another market reversal. Nevertheless, lessons are in abundance already. Hot stocks are termed hot because they eventually have to cool down. Winter is always around the corner. Investments in these assets, without a sound understanding of the business itself and an appropriate valuation approach, are indeed akin to going all-in on a hand of poker before the cards have been dealt. You may win once. Perhaps even twice. But one bad hand can undo it all.

Secondly, investing successfully over a consistent period of time is difficult – there are no two ways about it. This is why Munger, Buffett and other investors who have stood the test of time deserve the respect they get. Naturally, it pays to follow the advice of those most experienced. If Michael Jordan held annual general meetings to discuss his thoughts on basketball, you'd best believe every NBA player would want a seat at the table. In the end, successful investing can follow numerous approaches, but certain truths will always hold. One such truth is that speculation, in the long-term, is a losing game.

Funnily enough, my first ever Bulletin article discussed the role of narratives within financial markets. Back then, the prevailing narrative was one of delusional optimism. Now, the narrative may be on its way towards delusional pessimism. Thus, perhaps Munger & Buffett's words were a cry for stability. Markets are indeed cyclical, but the rate at which the pendulum has moved in recent times will do more harm than good to the financial and emotional health of investors. The post-pandemic bounce back was like expecting a band-aid to heal a deep wound. Two years later, the bleeding has re-emerged, and surgery might be the only option.



CONVERSATIONS WITH UAIC ALUMNI

# NIKHIL LUTHRA

Investment Banking Analyst | Craigs investment Partners
UAIC Co-President 2021 | Bulletin Editor-in-Chief 2020
BCom/BA Conjoint - Finance, Economics, and Marketing

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We're super excited to jump back into our *Conversations* series this week with a special piece featuring Nikhil Luthra, Investment Banking Analyst at Craigs Investment Partners and a former Co-President and Bulletin Editor of the Club. We sat down with him to chat about his journey from university to work and to hear his advice for students looking to crack into New Zealand's Investment Banking scene.

INTERVIEW & ARTICLE BY ANISTON INGER-HOLLAND, ISSIE DEKKER, AND ANDREW MENG

Many of our readers will be familiar with Nikhil. He was a highly visible member of the Investment Club for a number of years, and you might remember him as one of the Co-Presidents from last year or as the Bulletin Editor-in-Chief from 2020.

“Starting out at university, I barely touched clubs for two years. But once I began joining them in 2019, I decided that I might as well fully commit to it. Looking back now, I start to realise how valuable joining clubs like UAIC was. The people I met and the experiences I had through those clubs have been the largest determinant of where I am now.”

Born and raised in Auckland, Nikhil attended Westlake Boys High School on the North Shore, where he spent the majority of his time playing high-level cricket, tennis, and football. After excelling in maths and physics during high school, Nikhil attended the University of Canterbury to study Engineering. However, he quickly found that wasn’t the environment for him and made the switch to a Bachelor of Arts and Commerce conjoint at the University of Auckland in 2017.

Now, as a first-year Investment Banking Analyst, Nikhil’s day-to-day revolves around a range of tasks such as financial modelling, data analysis, business and industry research, and putting together presentation materials. The job of an Analyst can be incredibly varied, and Nikhil says you learn to be a “Swiss Army knife” with a range of quantitative and qualitative skills.

“In Investment Banking, there are three main types of work you’re involved in – advising clients during mergers and acquisitions, or helping clients raise capital in the debt or equity capital markets. In New Zealand, most juniors are considered ‘generalists’. We don’t necessarily specialise in one particular product type or industry group. Rather, we tend to work across all sectors in a ‘country coverage’ role. That wide breadth of work is something I’ve found to be quite valuable as it provides a chance for you to learn a little bit about everything and to get involved in a wide range of transactions.”

## ADVICE TO STUDENTS

It hasn’t been long since Nikhil was in our exact position. He graduated in 2021 and collected valuable internship and work experience at the likes of EY, Technology Investment Network (TIN), and NZTE along the way. Apart from UAIC, Nikhil was also involved with Beta Alpha Psi, SavY, and UN Youth. And it’s the diverse range of clubs, societies, and opportunities on offer at university that Nikhil encourages us to take advantage of and get involved in.

“It’s an incredibly unique time in your life where you have so much freedom and relatively low levels of responsibility. Make sure you make it a holistic experience and don’t rush it, enjoy it. University is the perfect time to get involved and find what you’re passionate about. And remember, if you do an extra year here or there, that’s never going to change someone’s opinion of you.

"One of the biggest things recruiters are looking for is team fit. Having good grades and proving you're capable are important, but people want to see you're an interesting and well-rounded person. They want to hear you talk about your interests and passions."

In addition to clubs being an excellent opportunity to explore what you're interested in, Nikhil pointed out that they also serve as a great opportunity to meet new people and connect with like-minded individuals of different year levels. And that can be incredibly handy when it comes to recruitment time.

"At the end of the day, it's really hard to differentiate people on paper. If people can put a face to a name, or if there's someone in the workplace who can vouch for you, your personality, and your abilities – it goes a long way."

And when you first step foot into that dream internship or graduate position – Nikhil reminds us to make sure we appreciate the position and take advantage of the opportunity.

"It's a good idea to check your ego at the door. Stepping foot into an internship or graduate position can be a big change to what you're used to, in terms of going from being a senior student at university to now being the most junior and inexperienced member of the team. It's important to keep that perspective in mind, so that you go into your new position ready and able to maximise all of the opportunities in front of you."

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*Note: Some of Nikhil's quotes have been edited for clarity. This interview was conducted via Zoom on the 30th of April 2022 by Aniston Inger-Holland, Issie Dekker, and Andrew Meng.*

CONVERSATIONS WITH UAIC ALUMNI

# CARLEY PENG

Consultant | KPMG Australia (Melbourne)
UAIC Director of Competitions 2021
BCom/BSc Conjoint - Finance, Economics, and Statistics

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Last week, as part of the Conversations series, I chatted with Carley Peng, a consultant at KPMG in Melbourne, on consulting and life in Australia. Carley recently graduated with a Bachelor of Commerce and Bachelor of Science in Economics, Finance and Statistics. She was previously the 2021 Director of Competitions for the Investment Club. We are excited to share Carley's words of advice for younger students and her insight into the world of consulting.

INTERVIEW & ARTICLE BY SALVY FUNG

## ABOUT CARLEY

A familiar face around the business school, Carley was involved in multiple clubs during her time at university, including the Management Consulting Club (now UACC), 180 degrees consulting, and as our previous Director of Competitions in the Investment Club.

“In my final year, I got quite involved in the Investment Club. I got more exposure to it from my friends who were in it previously, and I ended up becoming part of the competitions committee. It was really interesting for me to see the behind the scenes of how a competition is run and everything that goes into each competition in the sense of what are the things to look out for in a financial model, the research that is done, and the presentation aspect of a pitch.

“I really enjoyed the community and talking to people not only about investments but also the economics of what’s happening around in the world and in the markets. Everything is connected; what’s happening in the real world is reflected in the financial markets. Investment Club is a great way for people to get exposure to investing and what’s going on around the world.”

Now in Melbourne, Carley is a Consultant at KPMG. In her spare time, she enjoys dancing, hiking and discovering the best places to eat in Melbourne.

“It happened that I was offered a job at KPMG in Melbourne. It was always my plan to move to Australia in a year or two, but since the opportunity came, I took it and here I am. Coming to Melbourne, I’ve found that I really enjoy life here. There’s always something to do. Melbourne has a vibrant nightlife and such a good food scene.”

## WORKING AS A CONSULTANT

Consulting is often recognised as an industry with diverse clients and work that varies on a daily basis. In her time so far at KPMG, Carley has worked with a range of clients in the utilities, distribution and agriculture industries.

“There are two types of work we do; one is called business development, which is creating presentations to win client work. This includes briefing the client on the problems they are facing, and how we would go about solving them, describing the resources we would leverage and the team we would propose.

“Other work includes client work that has been won. We have some industries like paddock to plate, which is everything from farming and agriculture to distribution and shelving. There is also lots of power and utilities work.

“When people come from consulting firms, they say consulting is different on a day-to-day basis. It’s not necessarily the actual day-to-day work; it’s that the work across each project is completely different. It depends on what the client is asking and the project scope.”

Joining a consulting team as one of two graduates, Carley says that she is well supported by her peers.

“I was pleasantly surprised with the culture of the team I am in. I haven’t found the work hours intense. If anything, it’s exceeding my expectations for work-life balance.

“I expected to go into a big firm and feel all on my own, but that’s not the case. We have a Consultant level group chat and are always going for coffee. You need to get comfortable with asking people for help. If you speak up, there are always people who are willing to help you.”

## TRANSITIONING TO WORKING LIFE

Transitioning from university to working life can be confusing to start, says Carley. After studying at university for four years, Carley now fully appreciates all of the effort that went into completing her degree.

“You study until you get a degree, and you get a job. That’s your goal the whole time. Now you have to reorient yourself, set new goals and think about how you want your life to look in 5 and 10 years’ time. It’s a lot harder than saying I’m going to study for the next four years and get this degree and get this job. Now it’s a lot less structured in a way because you can take your life in any direction you want. You’re in full control of that.

“It’s a really relieving transition coming out of uni because you recognise how difficult university is. It was a fun time, but you can definitely give credit to how much work goes into finishing a paper and finishing a degree.”

For Carley, getting involved in student clubs was a way of trying new things and developing as a person, making friends along the way. On taking full advantage of your limited time at university, Carley has some final words of wisdom:

"Make the most of your experiences at uni. If you’re part of a student club, get involved! Your grades are not the only way you can develop yourself.

“It’s through co-curriculars, joining clubs and making friends there. Your grades are important, but there are other equally important things. Enjoy yourself as much as you can. Take chances and really put yourself out there.

“Start thinking about what opportunities you may want to take and prepare yourself for those. Have fun but be responsible at the same time. You need to strike a nice balance between the both.”

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*Note: Some of Carley’s quotes have been edited for clarity. This interview was conducted via Zoom on the 4th of May 2022 by Salvy Fung with help from Tim Cross and Andrew Meng.*

# MYOB Column

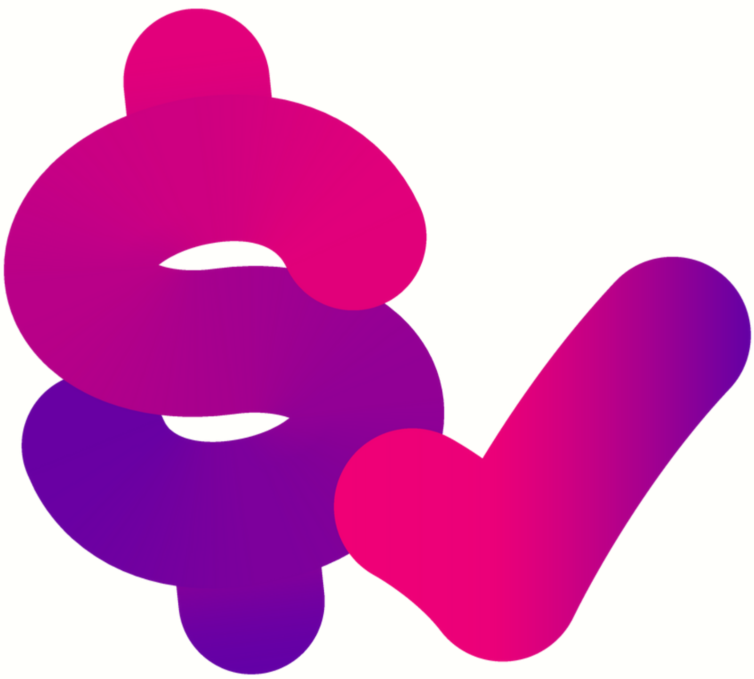
## Top of mind and top of Budget: SMEs and consumers want living costs prioritised in Budget 2022

As the Government prepares to deliver Budget 2022, both local businesses and consumers believe the focus should be on relieving the impact of rising costs, according to our latest research.

As inflation increases at the fastest rate in 30 years, the latest MYOB Consumer Snapshot – a survey of more than 1,000 New Zealand consumers – revealed that nearly three quarters (73%) of consumers are concerned about the current cost of living.

MYOB Head of Go-to Market – Jo Tozer, says consumers' key priorities revealed in the Snapshot underscore how much of a challenge the rising cost of living has become.

Read more from the latest MYOB Consumer Snapshot here.



# Forsyth Barr FOCUS

## How rising interest rates impact your bond portfolio

Typically investors think about bonds as being the stable safe part of their portfolio. Over the past 18 months or so this hasn't been the case and bond prices have seen some of their sharpest falls in history.

This is a good news and bad news story. While the market value of bonds has fallen, for investors who plan to own them to maturity these "losses" on bonds aren't permanent – they will still receive the same interest on their investment and be repaid in full when the bonds mature.

Furthermore, those investors reinvesting their money today will receive a higher return going forward.

Read the full report here.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