UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

BEHIND THE COLLAPSE OF

TerraUSD

abbr. UST

~~An algorithmic 'stablecoin' with a value pegged to the USD~~ FAILED

See also: **PONZI**

ARTICLE BY

ANTHONY KWAN

+ MORE ON:

WHAT'S GOING ON IN SRI LANKA?

GLOBAL WOMEN TALK

JACINDA'S TRAVELS

& FROM OUR PARTNERS:

THE DIGITAL DISCONNECTION CHALLENGE

BEAR MARKETS DON'T LAST FOREVER

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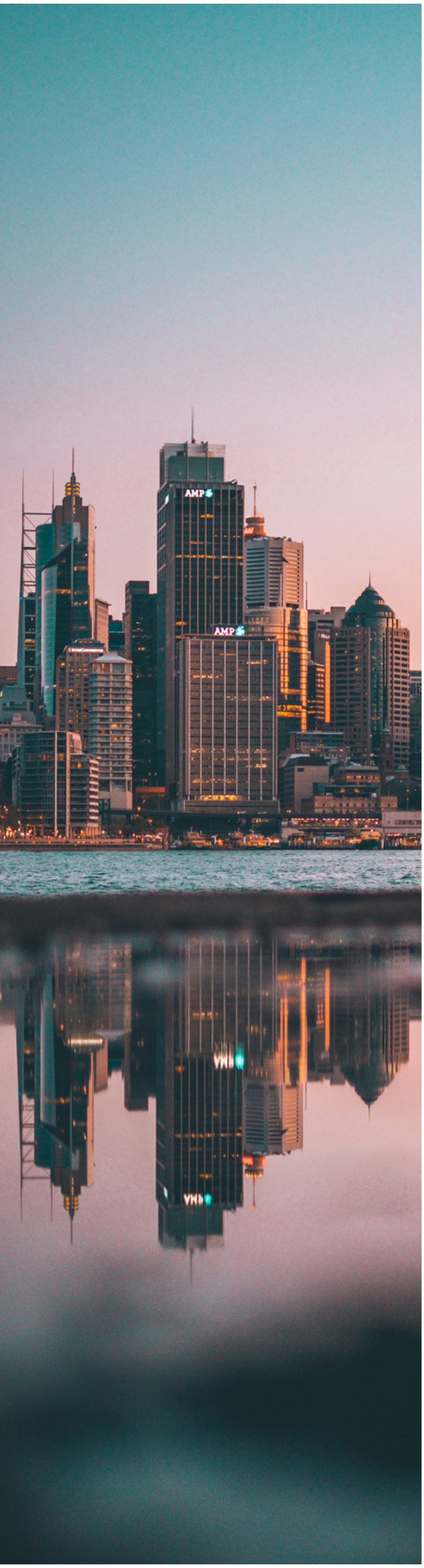


An update from the fund

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

HMC CAPITAL (ASX: WES)

The goal of HMC Capital (ASX: HMC) is to be Australia's leading alternative investment asset manager.

In essence, HMC Capital owns, develops, and manages long-term value assets. Under its management are two REITS: HomeCo Daily Needs REIT (ASX: HDN) and HealthCo Healthcare and Wellness REIT (ASX: HWC). The former has 51 properties, with the likes of Woolworths and Wesfarmers as tenants. Its portfolio comprises neighbourhood retail, large format retail, and health and services.

As such, it provides essential and everyday needs while avoiding sectors dependent on customers' discretion - for example, fashion stores. In contrast, HealthCo Healthcare and Wellness REIT owns properties used as hospitals, aged care, childcare, etc.

As insiders own 8% of HMC Capital, the company's management has clear incentives to perform exceptionally. Its diverse tenants also ensure its financial performance during all economic events. Currently, HMC Capital has AUD$5 billion+ AUM but aims to have $10 billion+ AUM by 2024. HMC Capital is well on track to achieving this target as it saw 280% growth in 1H 2022, which was largely funded by acquisitions - emphasising HMC Capital's robust scalability in real estate.

Unfortunately, the Investment Committee has not passed this stock for valuation

"Manging funds better than we can"

- Anna Marsden & Ellie Xu

CHANNEL INFRASTRUCTURE (NZX:CNI)

Channel Infrastructure is New Zealand's leading fuel infrastructure company, previously operating as an oil refinery under the name 'Refining NZ' but converted to an import terminal system in April 2022.

Channel Infrastructure operates as a monopoly as it supplies 70% of New Zealand's fuel demand due to its highly strategic infrastructure. The conversion to an import terminal puts Channel Infrastructure in a strong position for future growth as it will provide New Zealand's largest transport fuels storage capacity and supply all jet fuel to Auckland International Airport.

Channel Infrastructure is also well positioned to support the transition to future fuels e.g biofuels and supporting the decarbonisation in New Zealand's economy. Operating as an import terminal will also see more stable revenue forecasts compared to their more volatile historical earnings.

The Investment Committee passed CHI to the valuation stage by a vote of 9/14. Flynn Davies, Anna Marsden and Ellie Xu will run the valuation.

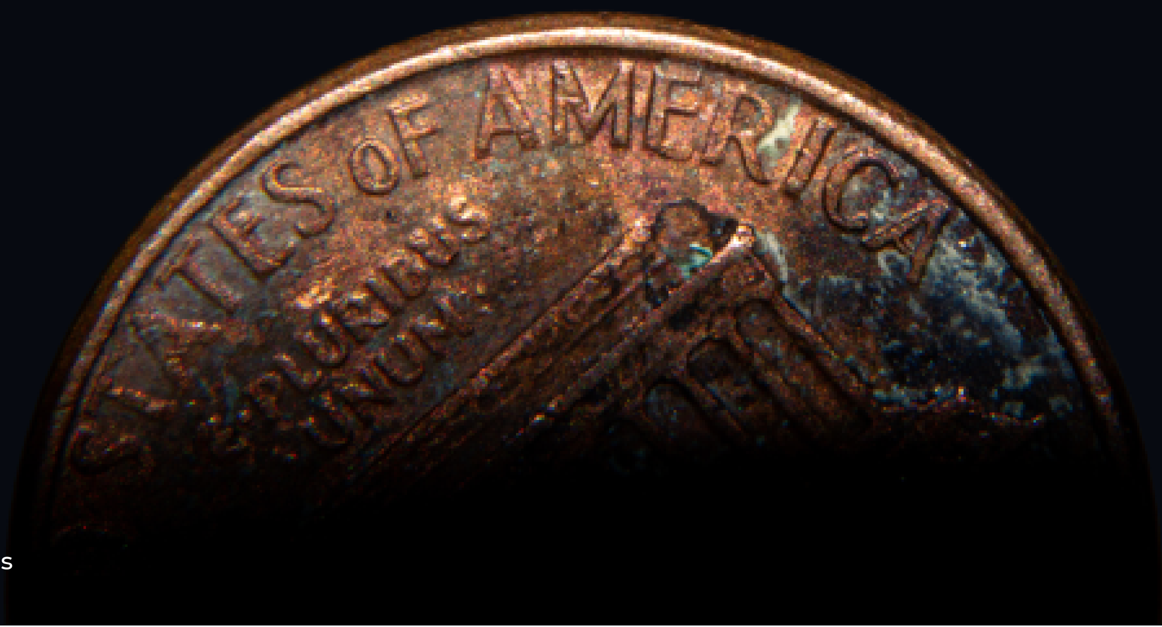
Marsden Point

CRYPTO

Behind the collapse of TerraUSD

BY ANTHONY KWAN

Stablecoins are cryptocurrencies that have their value pegged against some external currency or commodity. Their main use is to offer a “safe” place to hold cryptocurrency, without the volatility, and to allow easy transactions for other coins through exchanges. However, the collapse of stablecoin TerraUSD (UST) backed by Luna (a cryptocurrency), proved that nothing is truly stable in the world of cryptocurrency.



Different stablecoins have different methods to prove their worth to ensure they are fully backed. The largest is Tether, which is pegged to the US dollar and backed by cash reserves or cash-equivalent assets (at least that's what they say). While UST is backed by an algorithm instead in association with Luna.

Blockchain allows the use of smart contracts which contain code that can automatically change the supply and demand of UST. UST was built and linked with Luna, where 1 UST was equivalent to $1 worth of Luna, so that someone holding 1 UST could always get $1 in value back. For example, when the value of UST is greater than $1, it encourages people to trade $1 worth of Luna for one UST, driving up the supply of UST and its price down. When one UST is worth less than $1, the opposite is true - it encourages people to trade it in for $1 of Luna, driving the circulation of UST down.

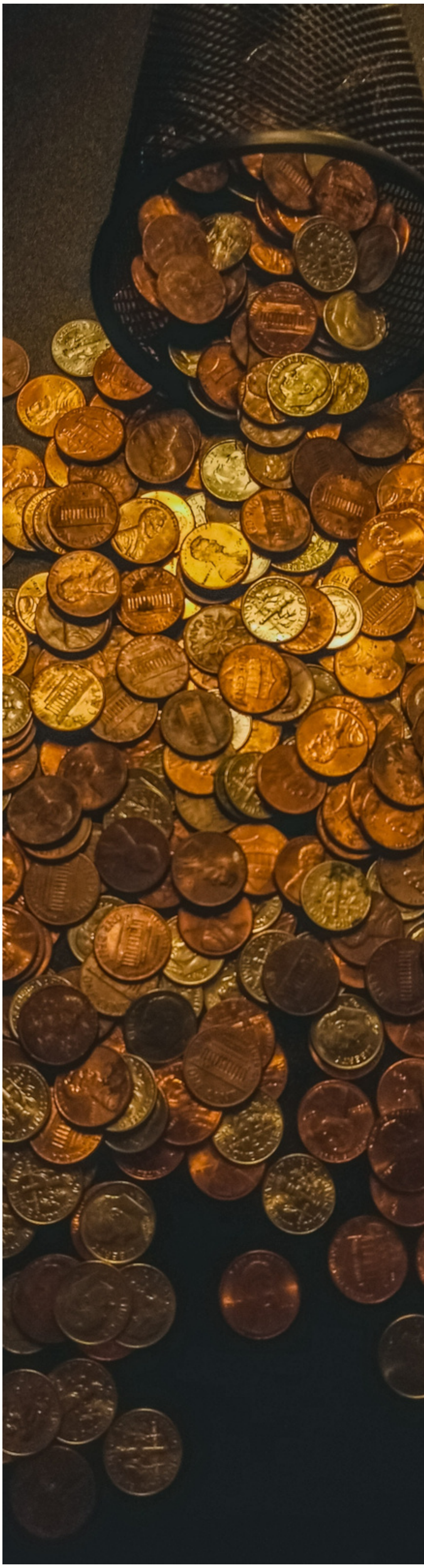
Simple supply and demand right? What could go wrong?

Those in the crypto space will be familiar with various projects and funds who promise insane interest rates upon staking (locking) up your cryptocurrency. UST used a project called "Anchor" which promised interest rates up to 20% for UST deposits. This attracted investors to deposit UST in a cryptocurrency equivalent of a bank, and led to Luna's rapid rise to over $100 per coin.

As Luna and UST grew, Do Kwon (the founder of Luna) bought Bitcoin and Avalanche to add to a reserve to meet the demand of UST and provide a more traditional sense of backing. However, the attraction of UST was the high interest rates and that was only sustained if more and more people kept buying into the ecosystem; like your typical Ponzi schemes.

On May the 2nd 2022, the Anchor protocol dropped its interest rates and a few days later a substantial amount of UST was withdrawn and exchanged for another stable coin (for unknown reasons). The drop in interest rates and withdrawals had a domino effect as more people withdrew from Anchor. As UST began to lose its peg, Luna couldn't help re-peg it due to loss of investor's confidence and an overall bearish sentiment across the financial markets. To add icing to the cake as more UST was withdrawn, more Luna supply was added, catalysing its demise. Now fast forward to the present, Luna and UST are now practically worthless. Luna went from a peak of $100 per coin to being worthless in the space of a couple of days, destroying people's investments.

The markets this year have been constantly up against high inflation and aggressive Federal Reserve interest rate hikes. This has led to persistent selling pressure in the cryptocurrency market due to its high risk nature. Cryptocurrency isn't widely accepted yet and Luna's collapse undermined the legitimacy of the market and reduced investor's confidence. Luna's collapse ultimately dragged the prices of all other cryptocurrencies down. Luna



definitely is not the first nor will it be the last Ponzi in the cryptocurrency space and its collapse brings eyes to other crypto platforms which offered similar yearly returns to Anchor.

Celsius is a decentralised finance crypto project where they let investors deposit crypto like a bank and offer you a return. They promised 17% annual percentage yields (APY) and you can probably tell where this is heading.

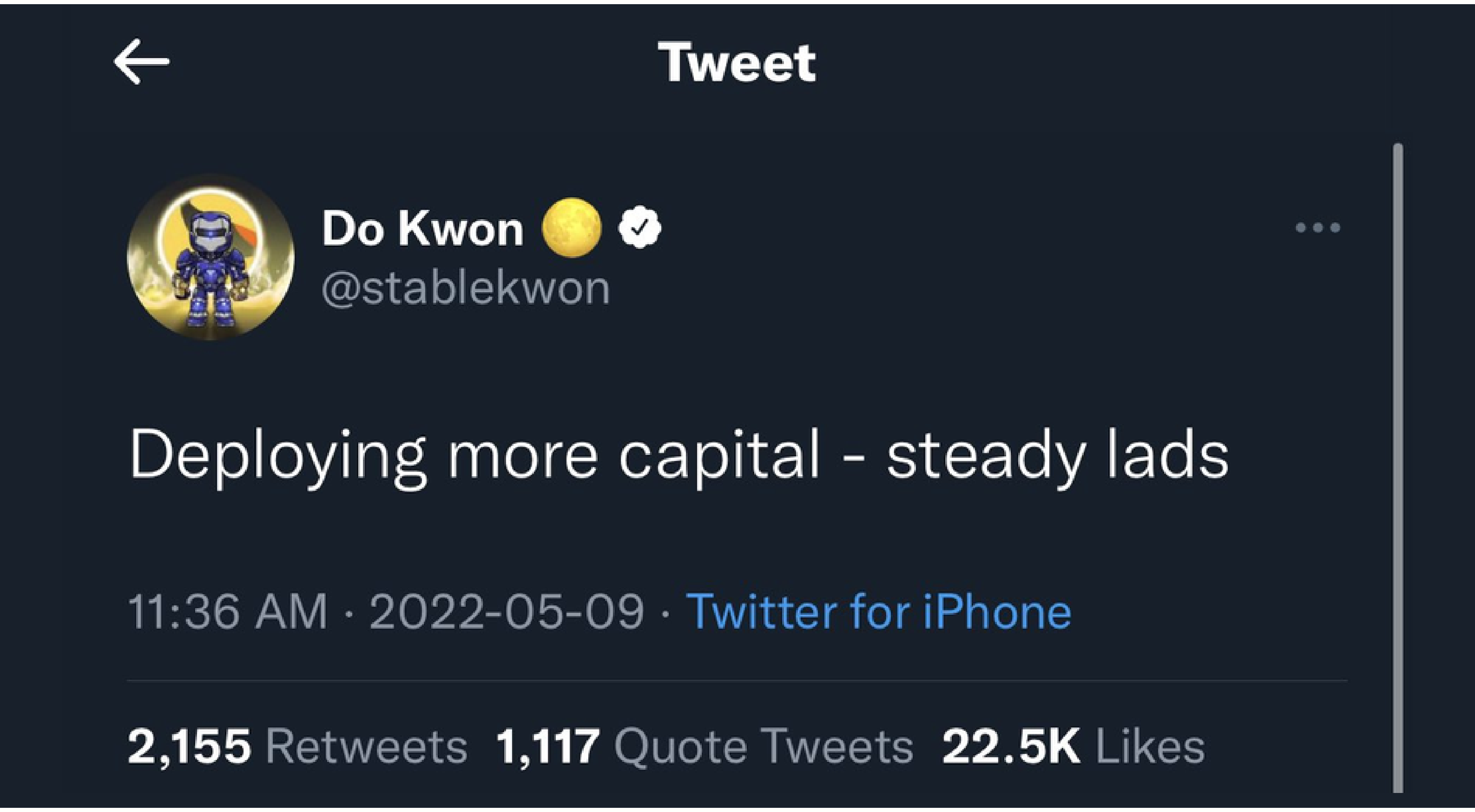
First of all, how do these lending platforms offer an insane return?

They say they lend to institutional investors at a higher interest rate but due to the nature of decentralised finance it is unverifiable. However, it is believed that firms like Celsius use customer funds for their own margin/leverage trades.

The nature of decentralisation brings out ambiguity. Cryptocurrency's rise in dominance came when people heard about 100% returns in days and so leverage trading in that environment was “free money”. However any margin/leveraged trades means there will be a liquidation price as you are borrowing money against your own capital in attempts to make more, and if the liquidation price hits, you are forced to sell to pay back your loans.

The risk of margin trading was hardly remembered during a bull market, but with the market we are in now plus the Luna situation, Celsius eventually met its demise. As prices plummeted, these liquidation prices were chased down by “whales” (very rich individuals). Celsius was going down a spiral of death and so were forced to repay their loans first by locking withdrawals of their customers’ accounts. Therefore, people who deposited crypto in Celsius lost all their money and Celsius became bankrupt as a result.

Celsius wasn’t the only company that went bankrupt as others did too while more are rumoured to be secretly insolvent. The cryptocurrency space is like the Wild West; the lack of regulation, greed and money available is perfect breeding grounds for Ponzis. Who’s to blame though: the Ponzi, or those willing to believe you can get 20% a year doing nothing?



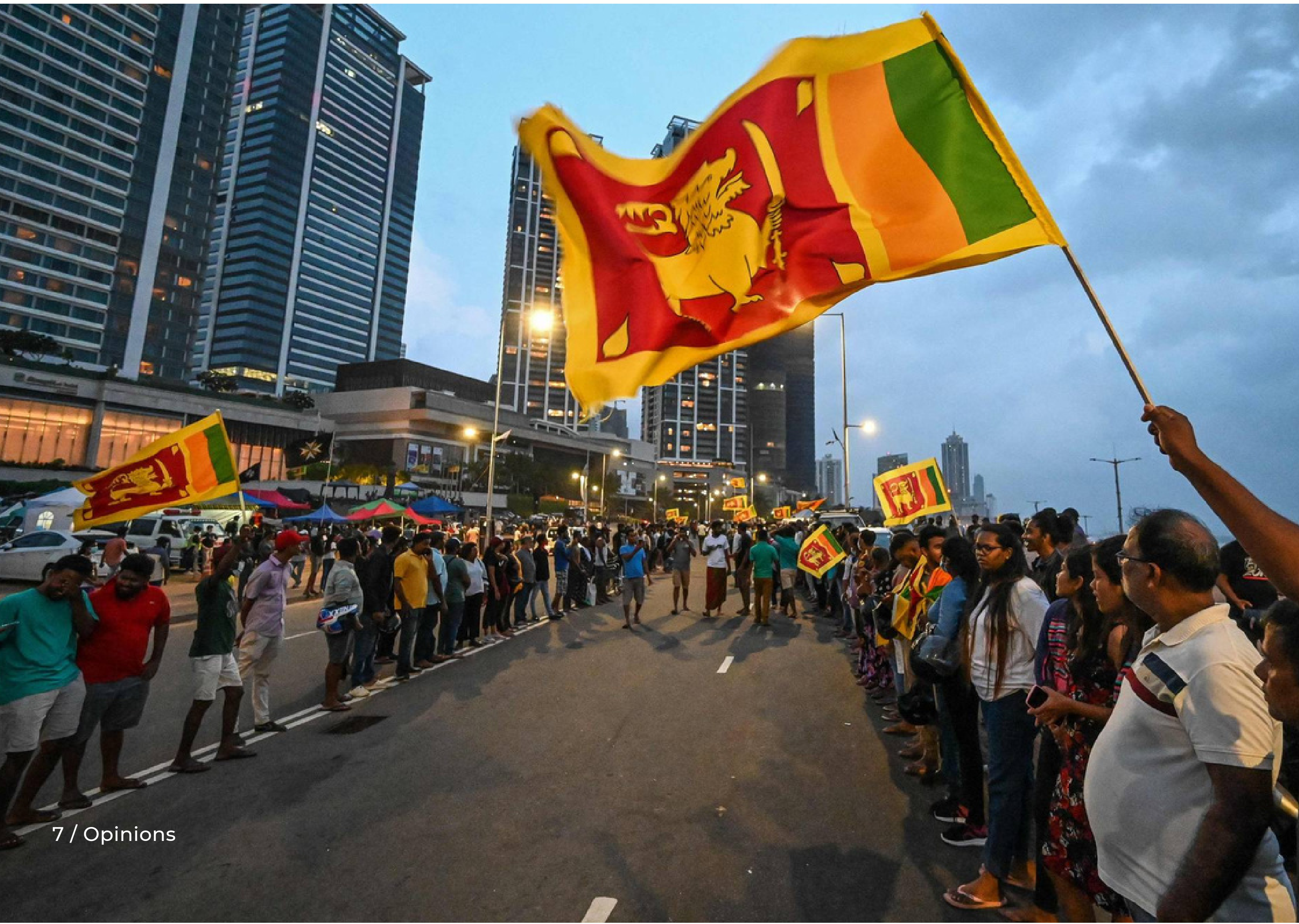
Do Kwon's famous tweet before Luna and UST's collapse.

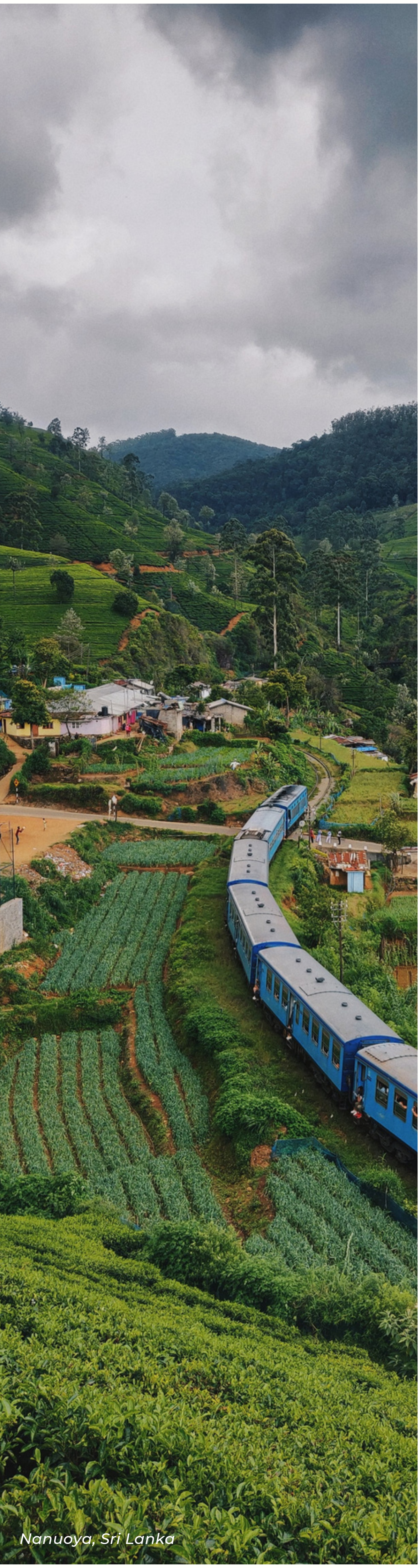
GLOBAL

What is Going on in Sri Lanka?

BY DYLAN DIDI

The People force a President to flee his country. The People demand radical economic and political change. The People command the world's attention. It may sound like a novel on Bernie Sanders' bookshelf, but it became a reality in Sri Lanka. *Aragayala* is the Sinhala word for struggle. It now also represents the Sri Lankan movement to remove its leader in response to a generation's worst economic and financial crisis.





Nanuoya, Sri Lanka

THE CRISIS

Sri Lanka has run out of money. The Sri Lankan government insisted on repaying its sizeable debts using foreign currency. Consequently, foreign currency reserves decreased from USD 8,864 million in mid-2019 to USD 2,361 million at the beginning of 2022.

With depleted foreign currency reserves, the country could not pay for essentials it imports like food, fuel, medicine, and paper. This led to electricity blackouts and a rampant 50% inflation rate. Moreover, Sri Lanka could no longer pay its foreign debt interest payments. In May, the country's central bank preemptively defaulted on its debt, making it harder to borrow money.

THE PRESIDENT

President Gotabaya Rajapaksa became Sri Lanka's President in 2019. He had built a reputation as a ruthless Permanent Secretary of the Ministry of Defence from 2005 to 2015.

At the time, Sri Lanka was in a civil war between the government and the Liberation Tigers of Tamil Eelam. War broke out as the Tamil Tigers sought independence from Sri Lanka following decades of perceived mistreatment by the Sinhalese majority government. The conflict began in 1983 and ended in 2009 when the Tamil Tigers surrendered. Rajapaksa was credited for helping end the war but criticised by international bodies like the UN for the over 40,000 civilian deaths.

Rajapaksa has faced further criticism for some of his policies as President. In 2021, his government banned chemical fertilisers, herbicides, and pesticides to enhance the organic tea market, having made the decision with no consultation with key stakeholders. In Sri Lanka, tea exports produced at least USD 1 billion annually. However, the ban saw tea production fall by 18% in 2022, only adding to the foreign currency shortage.

Rajapaksa was also criticised for a new tax policy in 2019, where he implemented cuts on eight different taxes. The consequence was reduced tax revenue and over one million fewer taxpayers from the beginning of 2020 to 2021. Both of these policies were also implemented at a time when Sri Lanka was experiencing a drop in tourism caused by the 2019 Easter Sunday bombings and COVID-19.

The President's critics were also sceptical about his personnel appointments. In Sri Lanka, there is a Rajapaksa dynasty. The President had three brothers and three nephews serving in his government. Notably, his elder brother, Mahinda Rajapaksa, a former Sri Lankan President, was appointed Prime Minister in 2019. As President in 2005, Mahinda Rajapaksa appointed his brother to his Ministry of Defence position. These appointments wreaked of nepotism. The failed economic policies and crippling shortages hurting ordinary Sri Lankans fuelled resentment towards the Rajapaksa family, thus creating the groundswell for a historic protest.

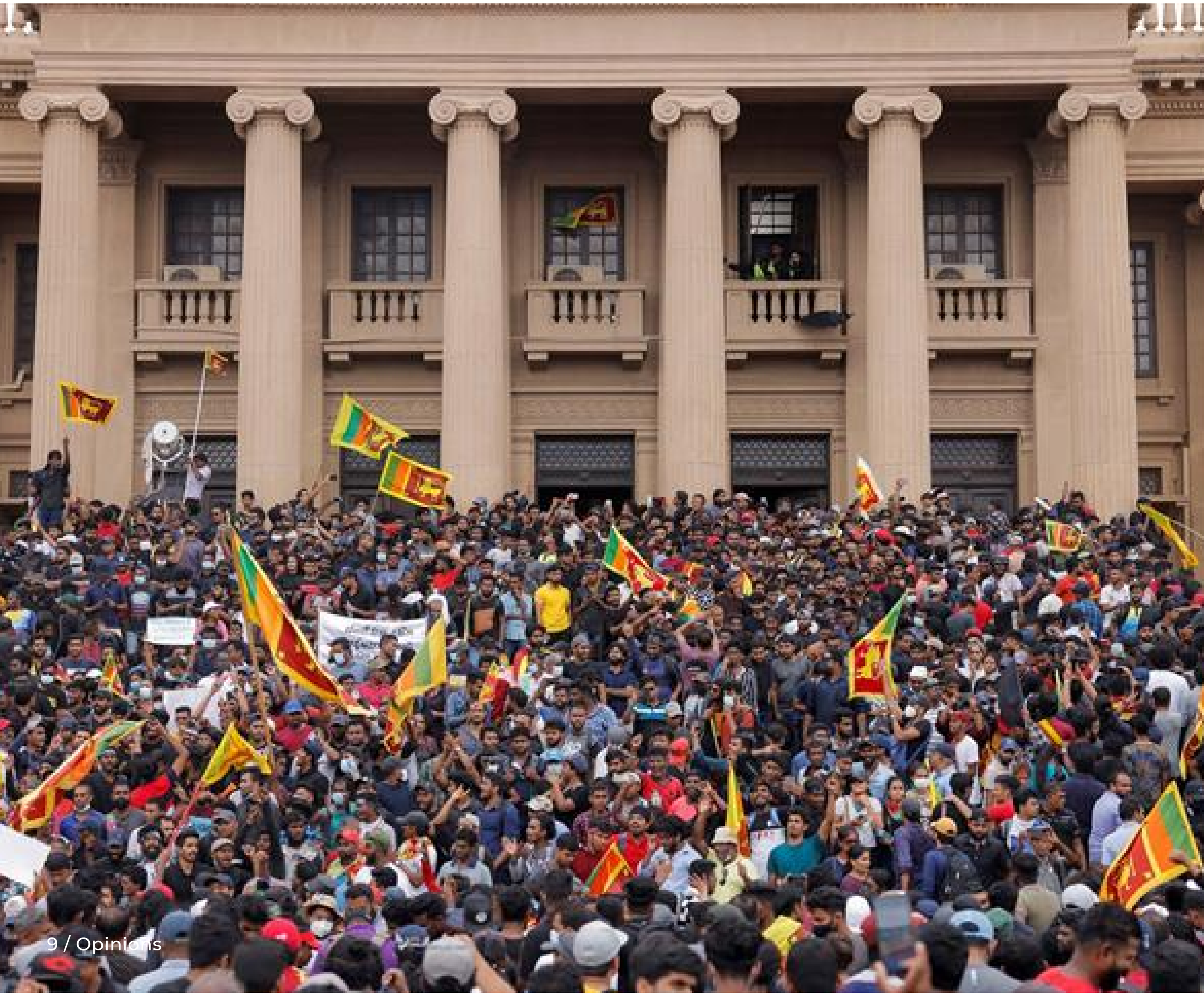
THE PROTEST AND RESIGNATIONS

Protests began in March. Initially, protestors demanded change outside of Rajapaksa's residence. By April, protestors were demanding Rajapaksa resign. In May, his brothers and nephews had all resigned from their positions. However, by July, he confirmed he would leave. On July 9th, the Sri Lankan Presidential Palace was stormed by protestors, and Rajapaksa fled to the Maldives and from there, to Singapore.

On July 21st, Ranil Wickremesinghe was elected President by Sri Lanka's Parliament. He had served as the country's Prime Minister five times. He is tasked with repairing the Sri Lankan economy.

In the short term, the President must resume negotiations with the International Monetary Fund for a bailout. In the long term, Sri Lanka will need major economic and political reform to ensure it can afford the essentials. This may lead to constitutional reform reducing a President's ability to implement specific policy.

Ultimately, the People of Sri Lanka used their voices to rally for change. The question is whether politicians who were complicit in the nation's economic and financial demise can be trusted to shape its future. Ordinary Sri Lankans can only hope.



DIVERSITY & INCLUSION

A summary of the Global Women Talk - 12 July 2022

BY ISSIE DEKKER

Global Women is currently running their Learn, Lead, Legacy series in conjunction with the Bay of Plenty Regional Council and ANZ. The first event in Tauranga was ANZ CEO, Antonia Watson in conversation with Cassandra Crowley. The event was at capacity, and it was easy to tell why as soon as Antonia started talking. I thought I would relay a few of Antonia's messages as she had some great points about being a woman in the finance industry.

Global Women is a New Zealand organisation that partners with organisations that focus on increasing diversity and inclusion in the workplace. They have over 350 members and run leadership mentoring programmes and advocate towards diverse leadership across the country.

Antonia was a great speaker, and Cassandra led the conversation well so that Antonia covered a range of topics. Antonia is the CEO of ANZ but started out as an accountant and has worked overseas. Cassandra oversees Te Arawa Management Limited and has a number of directorships. Antonia's journey to her current position was inspiring, as she has evidently always wanted to push herself. She mentioned how after growing her firm in Hungary, she felt she had achieved everything she wanted to and so instead of staying there, she challenged herself to come back to New Zealand and try to achieve more.

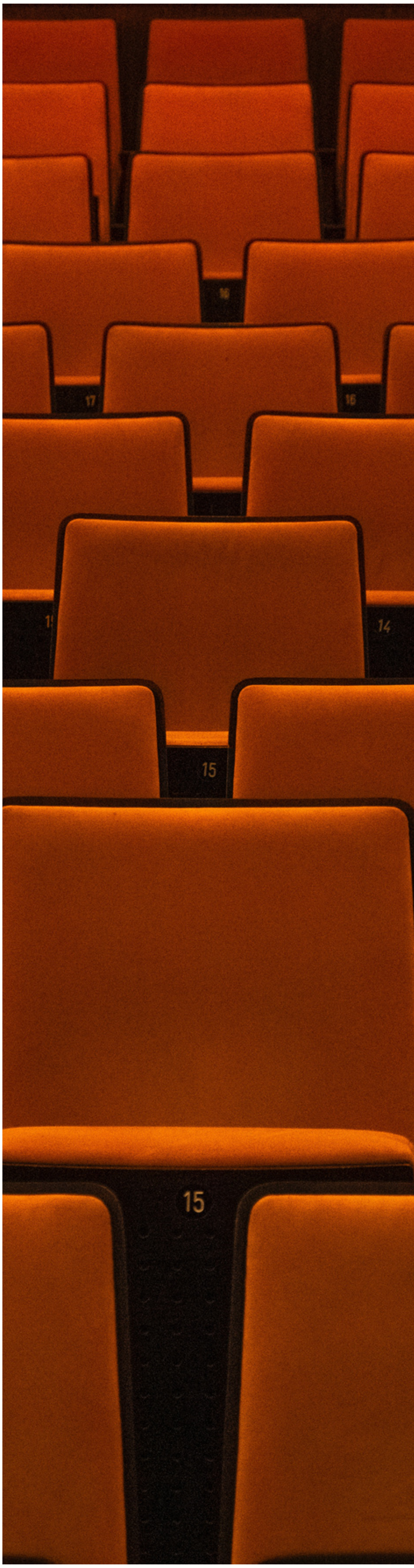
Cassandra asked about ANZ reporting their gender pay gap. By releasing the statistics on their own website, ANZ presented what it meant. While there is a gap between women and men, Antonia was particularly concerned about the difference between pay for employees who had been with ANZ for a while, as it reflected that those women were not moving up. It was important to publish the data and deal with it – what you measure you manage.

The banking industry is changing, and Antonia covered how investors aren't solely interested in the financial success of the company anymore. Investors are looking at companies' Environmental, Social and Governance policies and what they are doing to play their part in changing the world for the better.

Antonia raised some interesting points on how industries are proceeding to talk about what they are doing to try and change, the jobs they are creating in other areas and redistributing their resources to more sustainable practices. Investors themselves are looking for what firms are doing to play their part in this battle against climate change. This is such a big culture shift from previous years, and it shows how the finance industry is now more than ever about more than just numbers. It also gives us hope that firms realise now that something must give so we can slow down global warming and its effects.

In terms of career progression Antonia stressed the importance of telling people what you want, you cannot just sit around and wait for something to happen. If you want something, make it known. She shared a story of a man who attended a conference she was at who came up to her afterwards and told her "You have the job I want, that is what I'm interested in." If he hadn't mentioned that Antonia never would have considered him for that role as he was in a slightly different profession at the time.

While he did not get the exact role Antonia had, he was mentored by Antonia and ended up at another firm doing exactly what he had



expressed interest in. This was very powerful, as often people see someone doing something and think they might enjoy that but keep it to themselves as some sort of dream, becoming complacent and just staying where they are. If you do not make it known what you want, how can you expect someone to help you get there? How are you going to learn the skills and pathways? Showing interest and passion is so important.

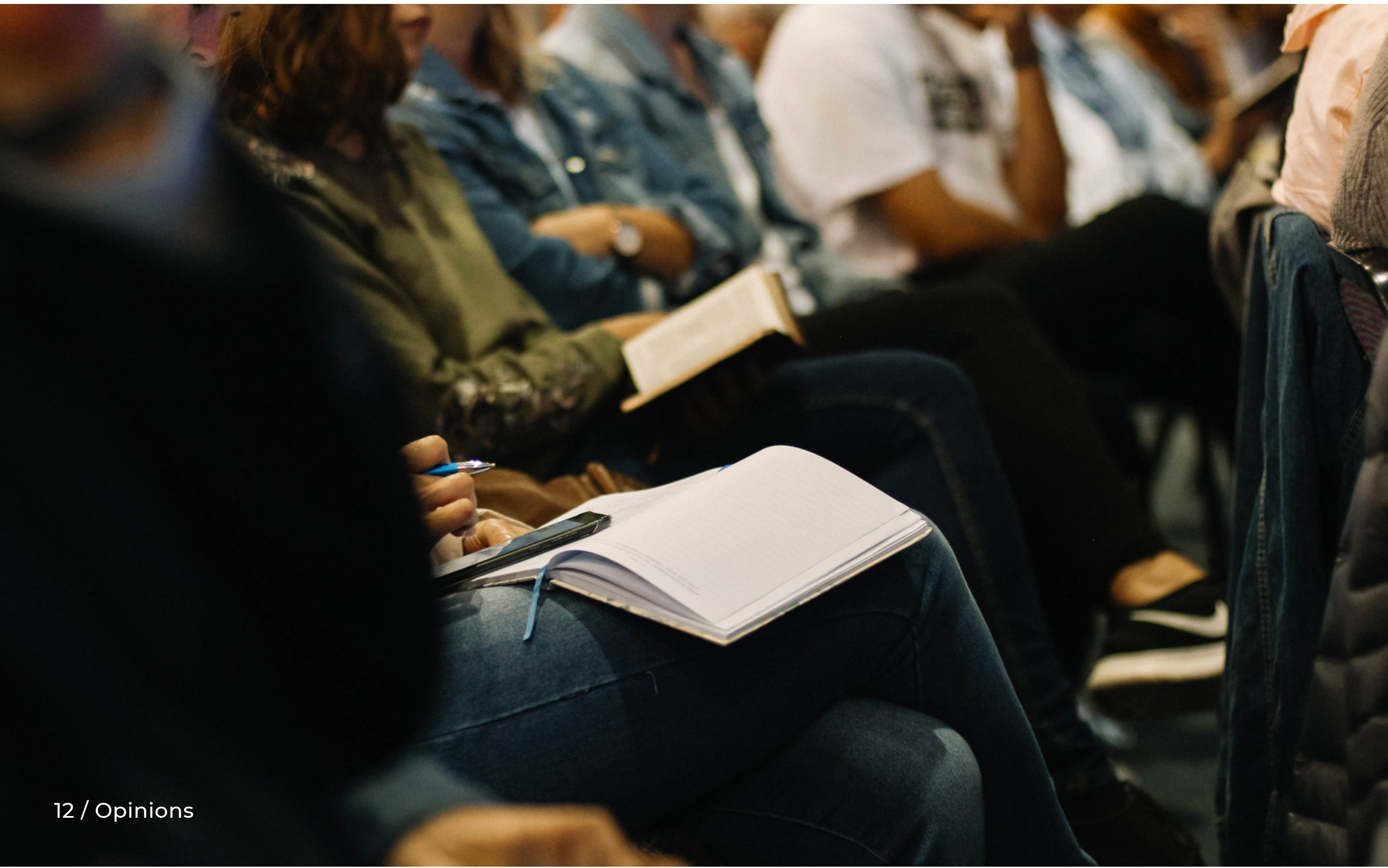
Following that, Antonia talked about how networking is incredibly valuable. I'm sure you already know this, but Antonia expressed how if you do find someone in the job you want, get a coffee with them and ask about how they got there. It helps to build connections with someone and allows you to find out more about their journey, and what exactly they do in their day to day.

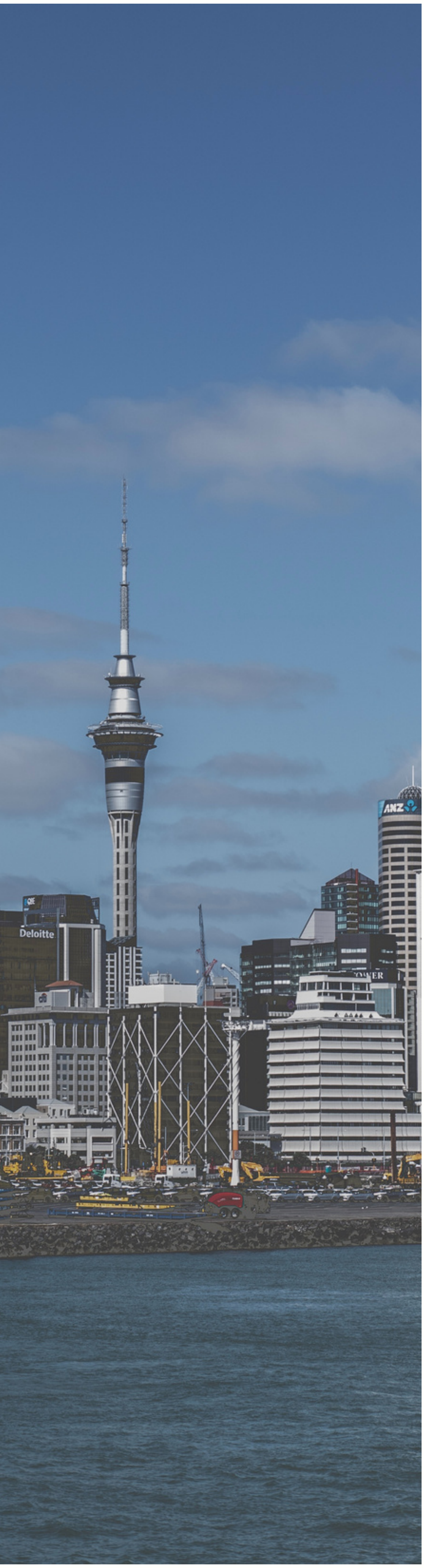
One of the attendees asked Antonia about her thoughts on firms' diversity hiring policies. Having a goal of reaching specific quotas for male and female employees has its pros and cons, Antonia argued.

Some of these policies forced companies to look further than their usual pool when hiring, making the industry more accessible. Instead of being chosen because you have the right connections, you are chosen because your skills and attitude suit the job. However, hiring someone just because they are a woman is also problematic. If you don't have the skill set or are not the right fit for a job, it is worse for everyone involved. Consequently, hiring boards are really starting to analyse and consider the skills and personality fit of everyone in the employment pool, which makes it much fairer than just taking someone who knows someone.

As a woman in the banking industry, Antonia talked about having often been the only woman in the room. ANZ has a good ratio of men to women, but Antonia still finds herself wondering why all these people have spoken before she has had the chance. As a tall woman myself, I was chuffed when Antonia spoke to how her height gave her an advantage. It is quite hard to skip over someone tall, we're not exactly subtle in a room.

Body language is also important in conveying confidence. If you've ever said something in a meeting





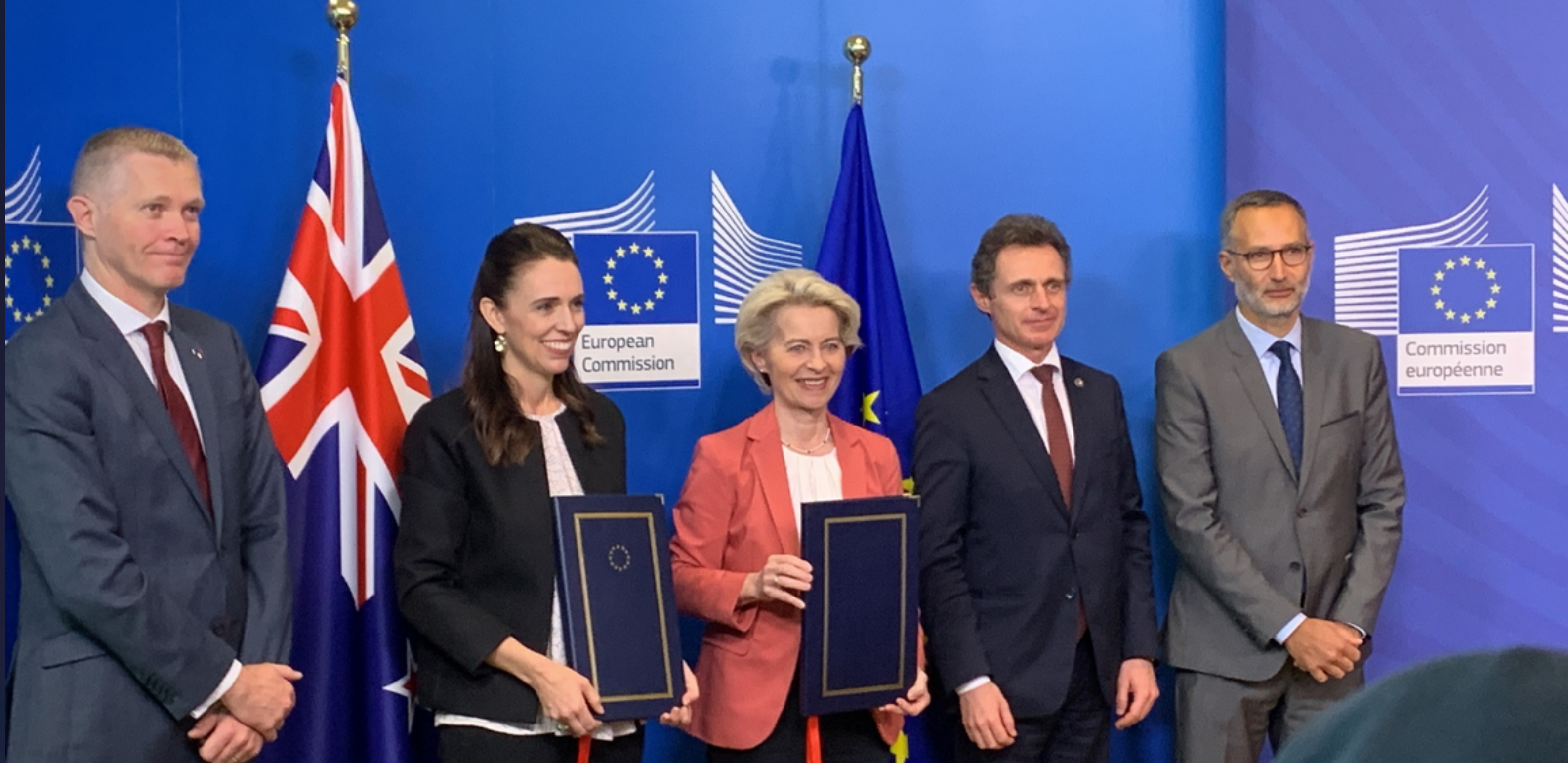
or group that no one heard, only to have someone else repeat it louder and get all the credit, Antonia has a perfectly professional comeback for you: “thank you for your support of my idea”. Pretending to be confident goes a long way.

Another of the attendees asked about how to avoid becoming the go-to person for mundane tasks in the office. Having been raised to a high standard of manners, Antonia often finds it difficult to turn someone down when they’ve asked her to do something. Getting coffee for everyone in the conference room is one of the times where Antonia felt she did not want to seem rude by not offering anyone else a drink while she was up.

Again, the message of moving onwards and upwards pushes through. If you want to advance in the corporate world, you don’t have to be perfect and polite all the time. Teaching others how to do something themselves or referring them to someone else were presented as ways to prevent this from happening. Getting onto it early and trying to prevent yourself from being put in that position was the best suggestion, however.

My favourite thing Antonia said was a quote from Madeleine Albright “there’s a special place in hell for women who don’t support other women.” Referring to a recent event, it sounded like she and the other Global Women members had a great network where they all offered different ways of showing their support and talking to different people. I think women already get so much stick from the world that supporting each other is key. We’re never going to move anywhere as a society if women don’t show that women are worth backing.

This start of the Learn, Lead, Legacy series was great, and Antonia had a lot of wisdom to share about being a woman in not only the banking industry but the advice was transferable across any situation. She was very inspiring to listen to, so a huge thank you to Global Women, Antonia, Cassandra, and ANZ.



TRADE

Jacinda's travels

BY ISABELLA HO

Undoubtedly, the New Zealand Government has had a lot on its plate in the realm of foreign affairs. As some university students enjoyed some travelling during their mid-year break, it seems that Jacinda has done quite some travelling of her own, from the European Union to the United States. As a result, New Zealand is now party to a free trade agreement with the EU (EUNZ FTA) after four years of negotiations. Yet, the Indo-Pacific Economic Framework (IPEF) agreement is still in its nascent stages.

A cursory glance at NZ's trade climate shows that the EU was a long-awaited partner. But that's not to say that we haven't benefited from our previous FTAs. Two of NZ's most notable megaregional FTAs are the CPTPP and RCEP. The two share certain similarities: both were negotiated at around the same time, both cover about a third of global trade and both bear the mark of geopolitical tensions. That is, CPTPP is known to be US-led treaty (before Trump left CPTPP). RCEP is known to be treaty where China made its mark, having been excluded from the CPTPP's trade liberalisation benefits.

This year has been an exciting one for bilateral FTAs too. Earlier this year, NZ has ushered in the UKNZ FTA. Interestingly, the UKNZ FTA negotiations managed to be completed before the EUNZ FTA negotiations although the UK could not enter treaties for a certain amount of time post-Brexit. So what's the deal (pun-intended) with the EUNZ FTA and why did it take so long?

The answer pertains to two sensitive areas of trade for the EU: agriculture and intellectual property (specifically geographical indicators, which give the EU exclusive rights to use names that identify a product's place of origin). Agriculture has always been a difficult sector to negotiate when it comes to the EU. In addition to the EU's rather protectionist approach to their agricultural sector, NZ's much lower and fewer duties for agricultural imports means that the EU already has good market access to NZ. There aren't many duties that NZ could offer to lower to incentivize the EU to lower their duties in return. Although NZ's red meat sector is understandably disappointed with what the FTA offers, the cards were not in our favour from the start.

Then there is IP. Like with agriculture, the EU has always aimed to protect IP through their FTAs. An FTA with NZ would be no exception. Yet, this undoubtedly has a jarring effect on NZ producers who are now told that they must prepare to change their product name. For example, NZ-made Greek Feta and Portuguese Port have 9 years to rebrand. However, the biggest source of uncertainty for NZ producers' IP investments is that the FTA reserves the EU's right to restrict new cheese names in the future. But on the flipside, the FTA affords NZ wine producers similar IP protection in the EU.

Whilst the EUNZ FTA is largely praised as a success, the fate of the Indo-Pacific Economic Framework is much more uncertain at this stage. Emeritus Professor, Jane Kelsey, describes it as "symbolic" of the US' re-engagement with the Indo-Pacific region, most likely in response to China's recent security agreement with the Solomon Islands.

The IPEF is not designed to be a FTA, yet market access to the US is what States interested in IPEF are looking for. NZ is not an exception to that sentiment. Reflecting on her conversation with President Biden, Jacinda says: "We also discussed the Indo-Pacific Economic Framework for Prosperity (IPEF). New Zealand is happy to join IPEF, but we do want it to be meaningful. We believe it can assist with the removal of non-tariff barriers and seed greater economic cooperation and integration."

With China having applied to join the CPTPP last year, geopolitical tensions in the Pacific are more apparent than ever. It remains to be seen how NZ plans to strike the balance between their economic interests and security interests – where both are equally crucial.

MYOB Column

The Digital Disconnection Challenge

A new report from MYOB highlights Australian and New Zealand's small and medium sized enterprises (SMEs) are experiencing a disconnection between digital applications, which are hindering, not helping them.

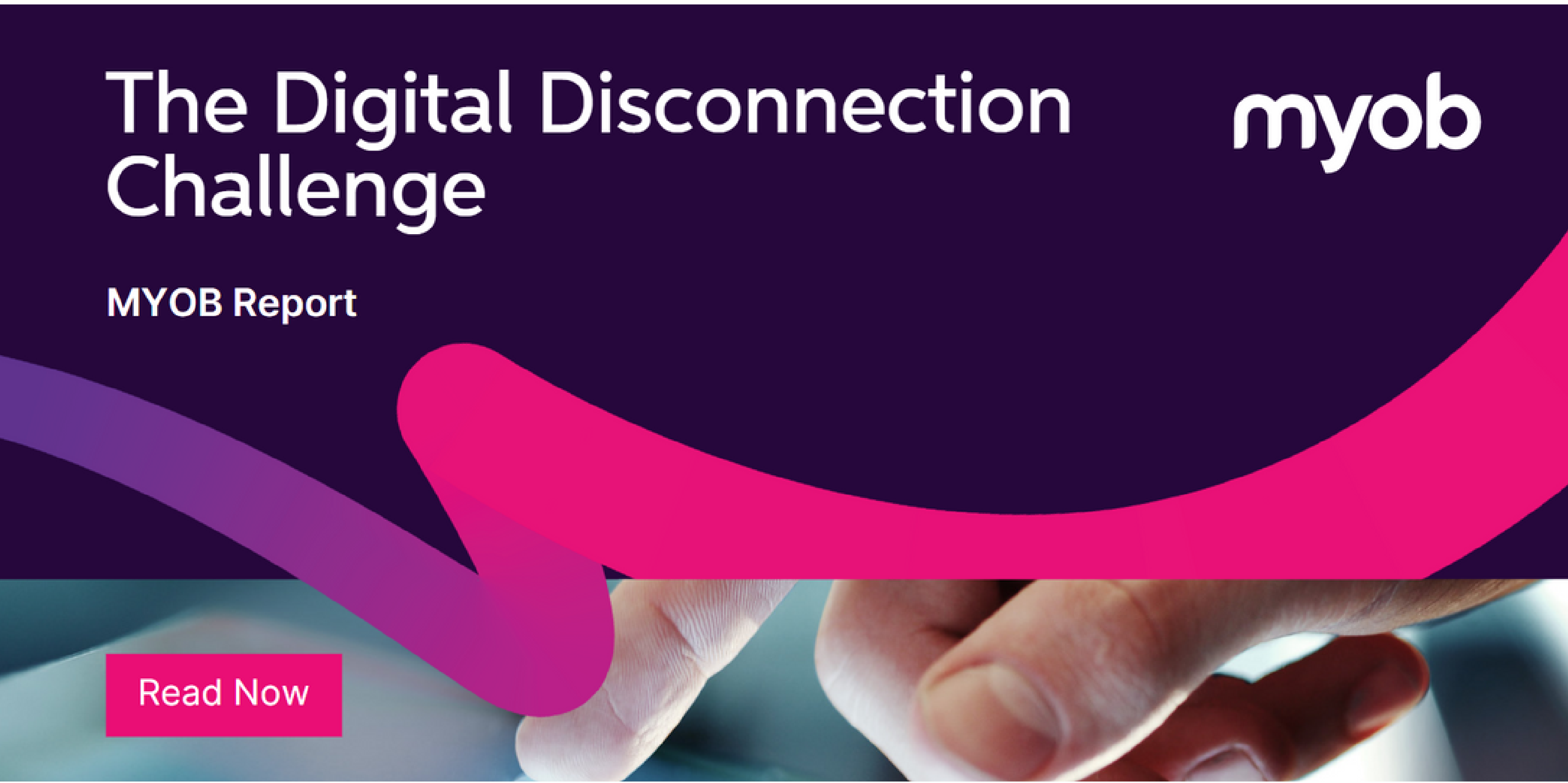
- Businesses lose one full day each week carrying out tasks caused by a lack of software integration
- New Zealand SMEs invest $501m yearly in digital solutions, yet half are experiencing 'bad digitisation'
- Local businesses are wasting $334m annually on unused digital tools

New Zealand's small and medium sized enterprises (SMEs) are collectively investing half a billion dollars ($501m) each year on digital solutions to help improve business operations, however half of these businesses are finding some of these tools are in fact hindering them.

In a survey of more than 500 New Zealand SMEs, half (50%) say they are currently experiencing 'bad digitisation' - where some of their business management software apps and tools are running in silos, rather than seamlessly integrating with each other.

The research also unveils that this disconnection of systems is costing businesses time, money and resources, and posing a strategic risk.

Read the full report here.



Forsyth Barr FOCUS

Bear Up, Bear Markets Don't Last Forever

It’s official. Last month global stock markets officially hit bear market territory. For most, watching investment portfolios decline sharply is disconcerting.

It’s okay if you have questions and concerns — you are not alone. At such times it’s easy to be tempted to batten down the hatches and remove all risk.

While avoiding sleepless nights is important, it’s a balance. History highlights long-term investors are better to be positioned for bull markets than hide from the bears.

Read the full article here.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