UNIVERSITY OF AUCKLAND
INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

200M WIDE, 170 KILOMETRES LONG:

WILL YOU BE JOINING THE LINE?

BY BENJAMIN HALL

+ MORE ON:

PORSCHE'S FUTURE

ETHICAL INVESTING

THE ANATOMY OF ATTENTION

& FROM OUR PARTNERS:

BUSINESS IN A CHANGING WORLD

HISTORY (SOMETIMES) REPEATS

22 AUG 2022 | ISSUE NO.40

SUPPORTED BY: myob & FORSYTH BARR

The University of Auckland Investment Club
Investment Bulletin Team 2022

Andrew Meng
Bulletin Editor-in-Chief

Timothy Cross
Senior Writer

Rohan Bhatt
Senior Writer

Joshua Paul
Senior Writer

Luka Borich
Senior Writer

Zac Ballantyne
Senior Writer

Aniston Inger-Holland
Senior Writer

Issie Dekker
Writer

Phoebe Horton Andrews
Writer

Isabella Ho
Writer

Daniel Vaz
Writer

Anthony Kwan
Writer

Skip Gee
Writer

Salvy Fung
Writer

Keegan Macdonald
Writer

Faheem Ibrahim
Writer

Andrew Huang
Writer

Dylan Didi
Writer

Benjamin Hall
Writer

Prices as at Friday 19th August 2022
unless otherwise stated

THE UAIC BULLETIN IS BROUGHT
TO YOU IN PARTNERSHIP WITH:

myob

FORSYTH BARR

Contents

GLOBAL

Will you be joining The Line?

BY BENJAMIN HALL

It's not surprising to hear Saudi Arabia is creating yet another extravagant and ambitious megaproject. We see its cities filled with forward-looking structures seeking to pave the way for an innovative and advanced future. A recent development in Saudi Arabia has gathered plenty of attention and promising potential that has people wondering if this is just another fantasy world.

Images / Neom Project

In the past month, Saudi Arabia has unveiled designs for its impressive urban project "The Line". As the project name suggests, The Line will be a one-building city enclosed by two 500-metre-high mirrored walls. These walls will run in parallel for 170 kilometres over the desert covering a 34 square kilometre footprint.

The Line will harness new technology such as AI and Green Tech to create a sustainable city for the future that runs entirely on renewable energy. With only high-speed trains as the mode of transport, The Line will be completely carbon emission and pollution free. People will be able to ride along the length of The Line in just 20 minutes, as well as travel only five minutes for any daily necessities.

Leading this development is the Crown Prince and Chairman of the NEOM Board of Directors, Mohammed bin Salman, who stated The Line will "challenge the traditional flat, horizontal cities and create a model for nature preservation and enhanced human liveability". Located near the Red Sea, The Line takes a vastly different approach to the structure of most traditional cities that typically radiate out from a central point.

The Line will contain residential, retail and leisure areas organised in a three-layer system: pedestrian layer, service layer, and spine layer. The "pedestrian layer" is the surface level where the nine million residents will live and do their daily activities such as work, shop, and wonder. This layer will be filled with greenery and nature allowing 95% of nature to be preserved in the Neom lands. Below the pedestrian layer is the "service layer" which acts as an invisible layer of infrastructure containing necessities such as electricity, internet, and water networks. Finally, the "spine layer" provides a mode of transport in the form of high-speed trains as well as a next-generation freight transport system. While this is all great, The Line does feel like a forced living situation with not a lot of choice. Enclosed in a 200 metre wide gap by two glass walls doesn't seem like the ideal environment where you could easily see yourself craving for that outside world. The Line may feel like a holiday or escape into a fantasy world but in reality, it's life.

The cost of this megaproject is astronomical and is predicted to cost around $500 billion upon completion. An $80 billion Neom Investment Fund has been set up by Saudi Arabia as well as an initial public offering of the megaproject is being planned in the next couple years. Global investors, Ray Dalio and Tim Collins, have shown interest in the megaproject which may spark some interest from others.

With the first phase of two underway, the megaproject plans to house 1.5 million residents by 2030 with $320 billion in costs. Half of the cost will be covered by the Public Investment fund with the other costs expected to be covered from other sovereign wealth funds in the region, private investors, and the initial public offering on the Saudi Stock Exchange.

By the end of the megaproject, The Line will provide 380,000 job opportunities and is projected to bring over $40 billion into Saudi Arabia's economy over the next decade. It could be anyone's guess if this long term investment will come out as a positive financial decision. With $500 billion in costs, this is a very gutsy proposition by Sauda Arabia, yet are we still surprised?

Whether or not this megaproject comes to fruition, many people are sceptical yet intrigued, including myself. Although it seems unrealistic, ambitious, and out of this world, this would be a phenomenal achievement that paves the way for future imaginative projects.

GLOBAL

Changing Gears: Porsche's Public Power Play

BY PHOEBE HORTON ANDREWS

As it makes inroads into the electric vehicle market, Porsche AG is looking at an Initial Public Offering (IPO), with the earliest potential date being in Q4 2022. Can Zuffenhausen reinvent itself yet again, or should it stay in its lane?

Porsche is an interesting case study. Dating to the 1930s, it has its origins as a design firm: Ferdinand Porsche, the founder, consulted on the development of the car that would eventually become the Volkswagen Beetle. But Germany's economic landscape changed after the War, meaning the fledgling company had to reinvent itself.

First built in an Austrian shed, the 356, a clairvoyant exercise in saving money (by sharing many of the Volkswagen's parts and even its distinctive Coleopteran look) was a success in the late 1940s racing circuits. Through the 1950s and early 1960s, the company further developed its pedigree with additional models like the 550 and 718. In the 1960s, the company introduced a new, heavier, more powerful car: the 911. A hit with consumers, especially those in the United States, the 911 ushered in a new era for the firm. It has remained in production for the sixty years since, with over a million examples produced, and is one of the most iconic cars of all time.

But by the end of the century, fortunes had changed, newer front-engine models were failing to meet sales expectations, and it became "apparent that the sports car had its limits on the market", according to Anton Hunger, Porsche's former head of PR. Instead of a swan song, the company opted to produce an ugly duckling: the Cayenne.

Spicing things up, the four-wheel drive SUV represented a bold foray into a new market. By building on Porsche's brand equity while presenting a practical, family-focused alternative, the Cayenne quickly became the company's best-selling model. Suddenly, Zuffenhausen gained access to a new crop of consumers who had always wanted a Porsche but lacked the justification for one. The Macan, a crossover launched in 2014, had a similar impact. This move was brilliant, increasing profits and setting the pace for other companies in the market to follow: Lamborghini only started producing an SUV in 2018, and Ferrari is yet to release theirs.

If there's a lesson in Porsche's parable, it's one of change and reinvention. But there's something new on the horizon: the death of the internal combustion engine and the birth of the everyday electric car.

In a Kodak moment, despite being well-placed, Porsche failed to recognise the immediate potential of electric vehicles. Tesla took the market by storm in the 2010s, and by 2013, the Model S was already the best-selling car in some European markets, such as Norway. But Tesla is highly controversial due to its business practices, publicity around Elon Musk, and its share price, which almost doubled over 2021 despite the company neither producing twice as many cars nor twice as much profit.*

As Porsche charges ahead with EVs, it positions itself as a key competitor to Tesla. But it's in a strong position: Zuffenhausen made more new Taycans than 911s last year, and has plans to electrify the Macan, one of its best-selling models. On the back of this success, the company is looking at an IPO.

Targeting an EBITDA margin of 27% by 2026 – which puts it ahead of both Tesla and BMW – the company is looking towards its existing capital, economies of scale, brand recognition, and market access.

Porsche's IPO seems promising and could make waves in the market for electric vehicles.

Crucially, it could send a signal to markets about the true value of EV producers - one that might shock Tesla, which has enjoyed trading at a premium in the relatively-uncontested space. Tesla lacks the status and enduring pedigree of Zuffenhausen, and may struggle to manoeuvre as deftly in higher-margin luxury segments.

Analysts' primary concerns are about managerial independence. Volkswagen, Porsche's parent company, would hold a majority stake in the firm if it were to go public, and the Porsche and Piech families would stick around with a minority stake. Furthermore, IPO activity has slowed in the wake of renewed fears of inflation, burgeoning interest rates, and conflict in Europe. Critical questions, such as what the appetite for luxury goods will look like in a market with high inflation, remain unanswered.

According to Porsche CEO Oliver Blume, more details will arrive in coming weeks.

** This is a simplification, but basically, there isn't a concrete, value-based reason why the company's share price should have gone up as much as it did.*

INVESTING

Ethical investing: Is it all a scam?

BY ANISTON INGER-HOLLAND

Ethical investing has been all the rage in recent years, particularly with the rise of retail investors. It’s only natural for a reasonable person to want to invest in companies that promote positive work and avoid those who contribute negatively. A recent report from the New Zealand Financial Markets Authority noted that 68% of New Zealanders want their money invested ethically and responsibly. But what actually is ethical investing? That’s where it gets complicated.

Ethical investing commonly refers to using one's own ethical principles to select investments. Those principles tend to include clean energy, sustainability and companies that provide a positive social impact. Typically investments in oil, nuclear energy, gambling, the military, weapons and tobacco are excluded.

Most investors opt into actively managed funds. Popular fund managers include Blackrock, Vanguard and in New Zealand, Simplicity. There are normally two types of funds: inclusion and omission, where the latter is most popular. Inclusion funds actively include companies that are contributing positively to ethical, social and governance goals. Unfortunately for investors, inclusion funds typically have higher fees and less diversification due to their extensive active management. Their active management also affects investors negatively, given the fact active fund management tends to fall behind the overall market.

Omission funds, on the other hand, are made by excluding companies. A common technique is tracking an index, such as the NASDAQ composite, and removing companies who are deemed unethical by their standards. But what makes a company unethical?

Simplicity's Kiwisaver is a well-known ethical-by-omission investment fund. On their website they state that their investments exclude companies with significant involvement in fossil fuels, weapons, and gambling; but also those who contravene the principles of the United Nations Global Compact on human rights, anti-corruption, the environment, and labour. Whilst they can be commended for having a higher standard of ethical investing compared to other funds, some of their investments may be contradictory to their purpose.

For example, they invest in Vanguard's Ethically Conscious Index Fund which includes companies like Coca-Cola, PepsiCo, Unilever and Nestle. These are the biggest plastic polluters in the world. When climate change is at the forefront of everyone's minds, it's difficult to be ethical and also invest in companies that are significantly impacting the world in such a negative way. This also excludes the concerns regarding these companies' labour and business practices. These plastic polluters aren't the only ones included in these funds, where you also have Apple, Facebook, Alphabet, Amazon. All companies that have highly questionable ethics. This isn't a Simplicity problem, it's extensive across most "ethical" funds. And given the FMA's report also noted that most Kiwisavers don't read the product disclosure statements of their investments, Kiwis aren't aware their investments may not be so ethical after all.

We also have the opposite problem: where companies or commodities are considered unethical when they bring great value to society. Nuclear energy is

often demonised and omitted from ethical lists due to its reputation as a dangerous source of power. But nuclear energy is one of the cleanest sources of energy and produces minimal waste. This waste can also be reused for heating, like in Europe and China. Despite popular belief, nuclear energy is also very safe. Shouldn't we be investing in research and development to make nuclear energy even better? This isn't the case as it is often omitted from ethical investment funds, despite the significant value to many countries. This all comes down to what an individual considers ethical or not - and that's highly subjective.

Are the returns better? The verdict is still out, but arguably ethical funds are outperformed by many other index funds due to their lack of diversification, active management, and aversion to high money-making sectors like oil and weapons. The funds that do perform well normally track very closely with indexes like the S&P 500 but if they were actually ethical, they would likely fall behind.

If you're an ethical investor, I know it might be difficult to acknowledge the extensive greenwashing of this industry. Ethical investing isn't wrong - we should all strive to make the world a better place - but it's not the most optimal choice, for the planet or your finances.

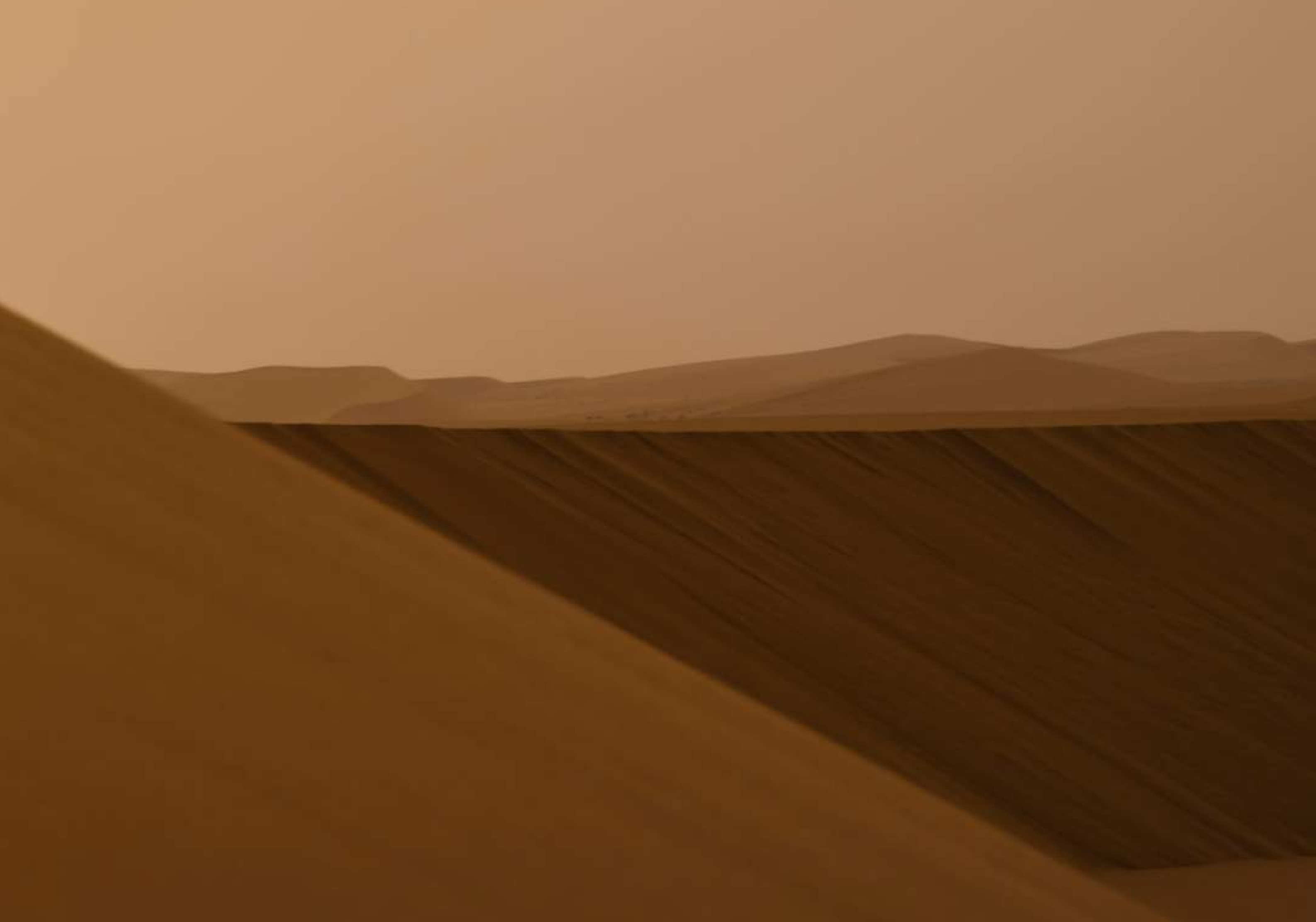
What can we do? Invest in our communities with our dollars. Support brands that objectively do better than others. Support charities that do legitimate work in your local community. Implement strategies in your daily life that align with your values. If you care about the planet, cut down on waste and take public transportation. If you want workers treated better, shop at places where you know labour laws are exceeded, where workers are compensated and have safe working conditions. We can make a difference without a greenwashed fund.

GLOBAL

The anatomy of attention: A lesson from the Magicians of the Middle East

BY LUKA BORICH

I have always found magic fascinating. One of my earliest memories as a four-year-old was watching a magician pull cards out of thin air. The ability to seemingly read minds, teleport, commit impossible acts of contortion and control, can be intoxicating. Even as an adult, everyone can appreciate the brief moment of wonder that comes with being 'fooled' by a magician.



But really, performing magic is the art of manipulating attention. To use magician-speak, 'misdirection' is at the heart of every trick. *You look in my right hand whilst my left swaps the card.*

When I see some of the investments made by the Public Investment Fund (PIF), I am reminded of what it feels like to watch a magic show. Even as a sceptical adult, there's a sense that I'm being misdirected, that I'm missing what's really happening.

For reference, the PIF is the sovereign wealth fund of Saudi Arabia. The name is ironic given how shrouded in secrecy the fund is, and for this same reason, it is difficult to discern the extent of their investments. Some sources put the figure at approximately USD$620 billion, but this should be taken with a kilo of salt. In their own words, PIF is "the engine driving the transformation of Saudi Arabia's economy."

Investments made by the fund into sports seem to grab the most attention. Famously, the PIF holds a majority stake in Newcastle FC (a football club in England), and more recently funded the LIV golf series which rivals the PGA tour. Following these investments, the Kingdom of Saudi Arabia has been accused of 'sportswashing'. This can be loosely defined as when a country makes public investments to hide their otherwise poor track record of human rights domestically.

Whether or not you consider PIF investment as sportswashing, it is undeniable the hardship faced by many in Saudi Arabia. The extent of the human rights abuses is not a topic to be covered here, but among the list is their use of the death penalty, crackdown on free speech, and restrictions on clothing.

So what does this say about those who play in Newcastle, or those golfers who partake in LIV? Are we to take their acceptance of Saudi money as a tacit endorsement of the regime that funded them?

Questions like these are thorny and carry a lot of baggage. By way of example, Tiger Woods reportedly rejected over $700 million from LIV and has vocalised his ethical opposition to the issue. But money to Woods is like paper to us, and even paper to other golfers. If LIV money allows other golfers to set up charities and support communities local to them, in what world should they reject that?

Beyond sports, PIF had a stake in Uber until recently, and still have stakes in companies like Nintendo and Electronic Arts. If we are indicting sportspeople, does the hammer of justice extend to customers of these companies too? Disney, Boeing, Facebook and Bank of America are all in the portfolio as minority stakes.

Those last few may give you pause, and they should. The Kingdom of Saudi Arabia truly spreads far and wide, even if their borders don't. This is what happens when you have oil money. To be wealthy in a nation of oil is unimaginable to those in a nation without.

This doesn't answer the question of whether we can accept 'dirty' money from PIF, or what even is 'dirty' money at all. On questions like these I feel like my four-year-old self again, desperately explaining how the human in front of me can materialise cards.

Maybe the Kingdom is just trying to repair their image. Maybe things in the Middle East will improve if we reject their money, or if we accept their money. Whether you detest, protest or celebrate investments from sources like PIF, we cannot stop paying attention to where the money is from and where it goes.

Whatever one feels about geopolitics and the impact on society, we must accept that the money is coming. Just keep an eye on the sleeves.

Riyadh

MYOB Column

How your business can thrive in a changing world

MYOB Community Relations Manager, Leanne Berry, shares some steps for leading change management in your business, and it goes beyond digitisation.

The operating environment for SMEs (Small and Medium Enterprises) is in a constant state of change. From global pandemics, environmental disasters, and now rising inflationary pressures to name a few, the business community has had to move from one set of challenges to the next without much time to catch a breath.

The individuals and businesses that are most adaptable are those most likely to survive, if not thrive, when the ground is shifting beneath them. So how can SMEs best adapt and evolve to seize the opportunities that change can bring?

Read the full article here.

Forsyth Barr FOCUS

History (sometimes) repeats

“Whoever tries to impede us, let alone create threats for our country and its people, must know that the Russian response will be immediate and lead to consequences you have never seen.”

- Vladimir Vladimirovich Putin

Read the full article here.

UNIVERSITY OF AUCKLAND
INVESTMENT
CLUB