UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

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BY RILEY BOGARD-ALLAN

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6 MAY 2024 | ISSUE NO.61

SUPPORTED BY FORSYTH BARR

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LOCAL

Being Hoodwinked? Landmark Listing Seduces Retail Investors

BY RILEY BOGARD-ALLAN

On April 2nd the unassuming Being AI Limited listed on the New Zealand Stock Exchange (NZX:BAI) and in doing so became the country's first publicly traded artificial intelligence-based business. Three days later, regulators were cautioning investors about the stock's volatility. A week later, BAI mysteriously purchases education assets and becomes responsible for 300 students. The tale of this history-making company is entertaining, concerning and thought-provoking all at the same time.

350%. This was the handsome return early investors into BAI had won by the time “trade with caution” statements were plastered across the NZX and brokerages like Sharesies. Shares hadn’t broken 10 cents but shareholders may have realised thousands or even millions of dollars of wealth. The frenzy hasn’t stopped there though. BAI shares are currently priced at $0.0910. I’ll let you do the maths.

Let’s get some context. In true AI, nonconformist, salmon-swimming-upstream fashion, BAI did not list through an IPO. Rather, publicly-listed Ascension Capital (ACE) acquired the “Being AI group of companies” and rebranded itself as such. ACE delisted and BAI took its place in what is known as a reverse listing. BAI reportedly has three branches: AI consulting, an investment arm and Being Labs, which serves as an incubator.

So who are the movers and shakers behind BAI? Co-founder and director David McDonald appears to be the front man. A google search reveals he has had several short lived Web-3 related companies.

Sean Joyce of Excalibur Capital Partners and his brother Michael appear on the companies extensive shareholding list with a cool 100 million shares between them. We also have Miss World New Zealand, Mrs Katherine Allsopp-Smith. She is a director and along with her husband, rich-lister Evan Christian, retains effective control over the voting rights in all the 250 million shares held by the Te Turanga Ukaipo Charitable Trust, a seemingly venerable outfit dedicated to education.

I hesitate to connect any dots here, but maybe this explains BAI’s acquisition of Mount Hobson Academy which is an online learning platform that utilises a project-based curriculum for junior students and teaches NCEA at years 11-13.

BAI clearly requires a weekly feature in Bulletin to dissect everything happening here. New Zealand’s first public AI company seems to be concerned with anything but its namesake. This worries me a great deal.

Many retail investors – that is, Mum and Dad investors or students like myself and everyone in between – were interested in the stock due to the widely held view that the age of AI is upon us. Purchasing shares of a company pioneering that which represents the future is not the worst investment thesis going around. So when they are formally cautioned, shares are illiquid and volatile and the company is buying schools, investors begin to ask questions.

At least, they should. The ordeal draws close parallels to the dot-com bubble of the late 1990s and early 2000s. In that case, the next big thing was the internet. Like Being AI, thousands of companies were listing with sky-high valuations. But often these companies’ revenues were zero and their assets amounted to an ‘OG’ domain name for their website.

Sure, some matured into the great technology companies we know and love today. But for most others, the euphoria had ended by 2000 when the dot-com bubble burst. By 2002, US$5 trillion in value had been wiped out since its peak two and a half years earlier.

Like tulips in the 1600s and fundamentally worthless internet companies of the turn of century, I wonder whether Being AI and those associated with it are not just taking vulnerable, wide-eyed investors for a ride.

But what does one do in light of this? BAI shares remain strong but could fall dramatically at any time. Though I am a strong proponent of markets as an efficient, albeit cut-throat allocator of capital, I also believe that security, reliability and transparency are foundational.

It is widely known that kiwis do not traditionally look to stocks or bonds as their go-to investment. At the same time, people of influence have, in good faith, tried to promote investing in the stock market. Prospective and existing shareholders, of BAI or otherwise, deserve to be in the know. Bodies like the Financial Markets Authority, NZX and Sharesies all have a role to play in ensuring investors are equipped and empowered to carry out due diligence.

Further, my belief is that material information should flow to shareholders instead of them having to navigate many clicks through the NZX or a company's investor relations portal. Too often news reaches investors after the tide has gone out and they are left stranded. Granted, whether the investor had their head in the sand all along is another matter. Some people cannot be helped.

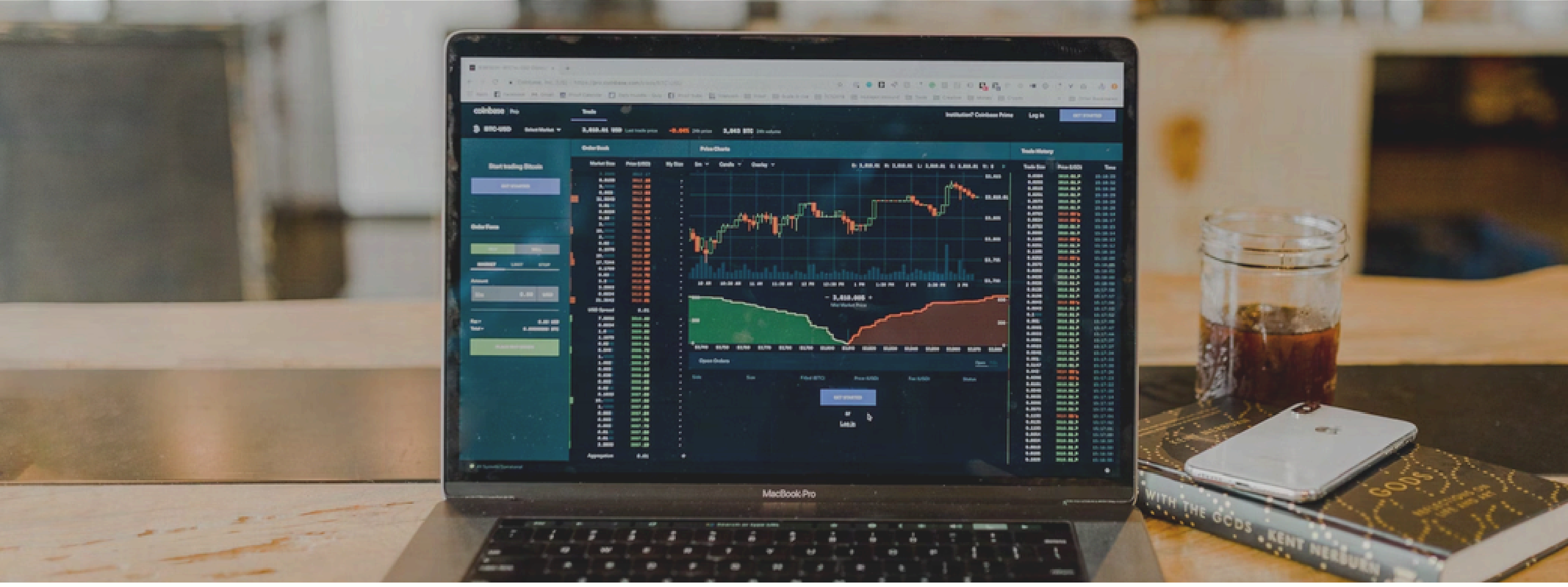
So there you have it: New Zealand's first AI listing. It is perhaps a tale only a generative chatbot could dream up. I expect this article may be revisited years from now to check in on Being AI. In more ways than one, here's hoping it is the success story we all want it to be.

GLOBAL

The Clock That Never Stops: Why the NYSE Shouldn’t Embrace 24/7 Trading

BY CONNOR PETRIE

While New York is known as the city that never sleeps, the New York Stock Exchange (NYSE) might be better off taking its nightly rest. The New York Stock Exchange is discussing whether to start trading 24/7, and the NYSE’s data analytics team primarily drives this proposal. The proposal comes courtesy of increased trading volumes during off hours, which has been heavily influenced by the surge of cryptocurrency markets and the high demand for nonstop access to the markets. However, turning the NYSE into a 24/7 operation could lead to unintended consequences that disrupt more than just the trading floor.



24/7 NYSE

By extending its trading hours to 24/7 the NYSE could considerably improve its trading activity by providing access to investors globally from other time zones. This accessibility would be attractive to foreign investors which could potentially mean larger trading volumes and increased transaction fees, improving revenue. Additionally, the ability to make trades at any time of the day allows investors to react more quickly to headlines and news which could sway the market.

Market Stability

Nevertheless, an unintended side effect of expanding the NYSE to a 24/7 model is higher volatility, as the smaller trading volumes outside of the traditional hours can lead to significant price fluctuations.

Historical data has shown that after-hours trading tends to increase volatility due to the lower liquidity in the stock market at these times. If the market is open for more hours, it may be that the trading volumes are spread out over extended hours rather than an overall increase. This may lead to lower liquidity during peak hours, making trading less efficient and difficult. This can compromise the very foundation of market stability if extended to a full-day model.

Health and Decision-Making

A shift to a 24/7 model raises significant concerns regarding the health and well-being of traders and other market participants. The 24/7 exchange trading, aimed at keeping up with modern demand, may decrease effectiveness as trade participants struggle to make good decisions due to mental and physical exhaustion. This will likely lead to poorer market outcomes, affecting investor confidence and the economy as a whole.

To have continuous market operations, people must always be responsive and alert. This would disrupt regular sleep cycles as well as natural day-night rhythms. These interruptions forced by the new 24/7 NYSE market are widely known as contributing factors for many health issues, such as hypertension, increased risk of cardiovascular diseases as well as weakened immune functionality.

The continuous pressure of trading significantly impacts mental health, intensifying anxiety and depression, which in turn impairs decision-making and other cognitive functions. This impacts individuals personally but also impacts trading as a whole. Decision fatigue, a well-documented consequence of prolonged cognitive engagement, can lead to loss of strategic thinking and errors in high-stakes environments.

Operational and Regulatory Complexities

Transitioning to a 24/7 trading environment may increase the transaction fees received for the NYSE, as more trades are being executed. However, this additional revenue must be balanced against higher operational costs.

The new environment presents substantial logistical challenges. For instance, continuous operations require extensive funding for the development of new technological infrastructure, increased regulatory scrutiny and additional staff compensation. The intricacies involved in successfully and securely aligning these factors is a headache the NYSE will have to overcome.

Market Downtime

Market downtime is essential because it gives market participants time to reflect on their decisions, conduct a detailed analysis of previous activities and plan future investments. Therefore, market downtime doesn't mean a halt in trading.

Throughout history, many instances have shown that constrained trading times helped prevent possible disasters. For example, market closures during significant disruptions, like after 9/11 and during extreme weather events, have helped prevent panic-selling and provided time for proper dissemination of information. In this way, market downtime is able to support both stability and resilience in the market.

Conclusion

Although a 24/7 market may seem very attractive, the current NYSE trading hours provide stability over time, which is crucial for maintaining a well-functioning market. Changing this long-established pace could trigger a chain reaction across global financial markets, impacting everything from traders' welfare to the balance of international markets.

The NYSE should prioritise stability, health, and integrity over the expansion of trading hours. Doing this is important for encouraging long-term investor confidence, reducing health risks, and ensuring ethical trading. The potential costs of transitioning to a non-stop trading environment far outweigh the benefits in this delicate global financial ecosystem.

GLOBAL

Temu: The Allure and Controversy of China's E-Commerce Powerhouse

BY WAEJEN KWAN

Early last year, I was bombarded with ads on every platform with the same bright orange logo: Temu. Scrolling through TikTok, I saw countless people saying the same thing: "What is Temu, and why am I getting so many ads from them?". From my first impressions, seeing their ads promise ultra-low prices and a shopping experience that lets you "shop like a billionaire", I just assumed it was another AliExpress but with hidden caveats around the price. However, there was a lot more to the story.

If you're anything like me or the millions of other people who love cheap stuff, chances are you have heard about Temu. Imagine buying a fleece sweater for just $20, a set of motion detector LED lights for $5, or an electric milk frother for only $3; who wouldn't be interested?

Launching in the U.S. in September 2022 (and then the rest of the world in March 2023), Temu has emerged as an e-commerce powerhouse and captured the attention of millions of consumers through its staggeringly low prices and aggressive online ad campaigns. In 2023, Temu managed to run a Superbowl ad, which saw their popularity skyrocket.

Within less than two years of operation, Temu has expanded from China to 49 countries, topping the App Store charts in multiple countries. It has captured over half the U.S. market share of its closest rival, the fast fashion giant Shein.

Among the piles of extremely cheap clothes, bags, household gadgets, toys, and kitchen tools, it makes you wonder how Temu offers such low prices compared to its competitors.

At its core, Temu has adopted a business model that streamlines the connection between consumers and manufacturers. By dispatching goods directly from the factories to consumers' doorsteps, Temu eliminates the middleman and the need for multiple stages of transportation and warehousing. Temu says this addresses some of conventional retail operations' most significant expenses and inefficiencies.

With this business model, Temu aims to become a faster, leaner and cheaper version of Amazon. However, many people, myself included, question the business's longevity and whether they can sustain such low prices.

“A Digital Poker Machine”

Temu reportedly spent an estimated $3 billion in 2023 on marketing alone. The company is laser-focused on capturing customer mindshare and market share. Alongside the social media ads, Temu's app and website are a direct assault on the senses, filled with promotions and offers in return for referrals. The app bombards users with interactive prize wheels and reward systems, exploiting buyers' fear of missing out with countdown timers and rolling lightning sales and deals.

Furthermore, Temu has gamified its shopping experience with addictive farming and fishing-style games that constantly leave you thinking you're about to score a massive coupon for free. "They kept shoving opportunities to earn more coupons in my face, but it always felt like you had to do just one more thing, refer one more friend before you'd finally get the promised abundance. It felt like a digital poker machine," said one Australian shopper.

No Sun without Rain

Amid its rapid growth, Temu has landed itself in many controversies. Only a month after their launch in October 2022, Shein sued Temu over intellectual property infringement, accusing Temu of hiring social-media influencers to make "false and deceptive statements" against the company and misleading consumers to think they were the same brand.

Temu has also been accused by the U.S. House Select Committee of avoiding sanctions under the Uyghur Forced Labor Prevention Act (UFLPA). The UFLPA restricts all imports from Xinjiang (a region in China) unless importers can prove that goods produced wholly or partly in the area are not made with forced labour. "Temu is doing next to nothing to keep its supply chain free from slave labour," said Republican senator and committee chair Mike Gallagher, referring to allegations of forced labour transfer programs.

U.S. politicians have accused Temu of exploiting a U.S. import law called the de minimis rule. The de minimis rule allows companies to skip import fees for smaller-value shipments. By shipping individual packages directly to consumers' homes rather than importing in bulk to a warehouse, Temu avoids paying import duties. This method also minimises the chance that Temu's packages will be screened for compliance with the UFLPA, which has allowed Temu and Shein to be responsible for more than 30% of all daily packages shipped to the United States.

In November 2023, a class-action lawsuit was filed against Temu on behalf of seven plaintiffs, alleging that the company violated its customers' privacy rights by gathering private data and utilising "deceptive" and "unscrupulous" techniques to acquire such data. The plaintiffs' lawyers said that experts evaluated the Temu app and discovered that it is "purposefully and intentionally loaded with tools to execute virulent and dangerous malware and spyware activities on user devices" and that Temu "misled people about how it uses their data."

Who Pulls the Strings?

Behind Temu is its parent company PDD Holdings, a self-described 'agricultural group' which also owns Pinduoduo. Pinduoduo, like Temu, sells inexpensive consumer goods and currently dominates China. After only nine years in business, PDD is just behind the world's largest e-commerce conglomerate, Alibaba, regarding stock market capitalisation and retail scale. It is on track to become the most valuable Chinese company listed on a U.S. exchange.

But the story those impressive figures tell hides a mystery that raises more questions than answers. For instance, PDD had 13,000 employees in 2023, significantly fewer than Alibaba and a small fraction of Amazon's 1.5 million employees. Where Alibaba spends $5 billion annually on property, plant, and equipment, PDD owns only $146 million in hard assets. Over 2020 and 2021, PDD reported selling $2 billion in merchandise without disclosing any inventory stocks on its balance sheet or the costs of those goods sold.

These questions add up to a larger one: Why do U.S. investors have so much trust and confidence in an opaque company whose financial statements lack pattern or explanation and whose operations, management, auditors, and regulators are located in a distant, untouchable jurisdiction?

Make the most of it?

Ultimately, Temu's product quality will be hit and miss. Still, people can agree that the absurdly low prices make up for it. In the meantime, my mum will continue to use Temu fully and buy more kitchen gadgets. As long as you can stand the moral ambiguity of the company and its other faults, I don't see why you shouldn't, either.

In the ever-evolving landscape of e-commerce, Temu's rise to fame showcases the power of innovation and disruption. Whether it can maintain its momentum and longevity amid the competition and controversies remains to be seen. Who knows how sustainable their business model is or how long they'll be able to stay at the forefront of the e-commerce landscape?

Despite the issues, I'm jumping on this bandwagon and riding it for as long as possible, making the most of its incredibly low prices and convenience.

Forsyth Barr FOCUS

Auckland Future Fund

Auckland Mayor Wayne Brown has proposed establishing a regional wealth fund, the Auckland Future Fund, to manage some of the city's assets. There are details to be worked through, but on face value we believe the idea has merit. No doubt some will say "of course Forsyth Barr is a supporter, they're an investment firm". And our response: "who would think that a fund that grows the city's wealth over the long-term, diversifies the city's assets, and provides benefits to Auckland and Aucklanders isn't a good idea?"

Read the full article here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