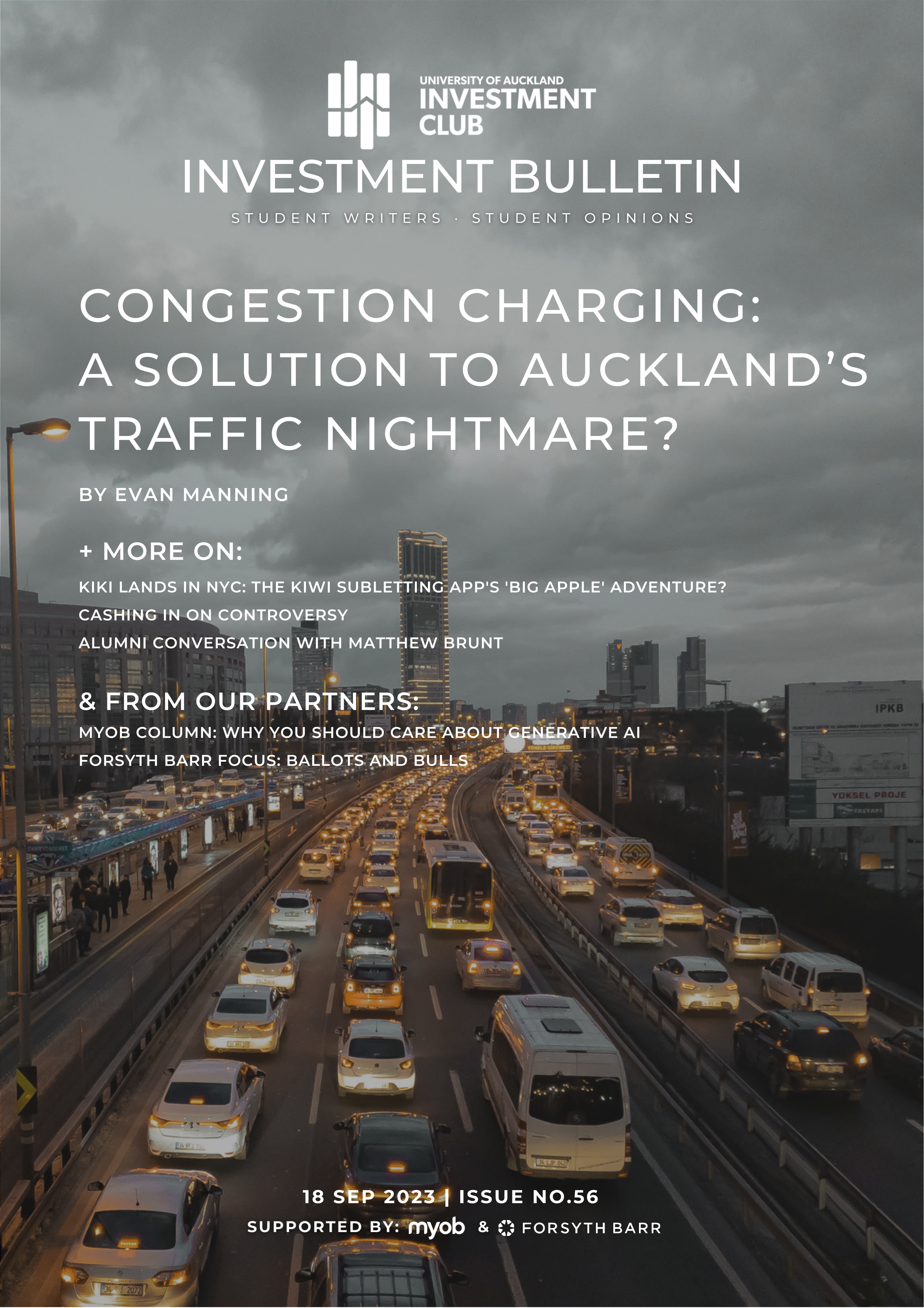

UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

CONGESTION CHARGING: A SOLUTION TO AUCKLAND'S TRAFFIC NIGHTMARE?

BY EVAN MANNING

+ MORE ON:

& FROM OUR PARTNERS:

18 SEP 2023 | ISSUE NO.56

SUPPORTED BY: myob & FORSYTH BARR

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Contents

An Update from the fund

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

Lifestyle Communities

By Abbey Patten & Wynton Brick

Lifestyle communities develop and manage lifestyle villages, providing affordable housing for over 50s downsizing their home in Victoria, Australia. Lifestyle operate a land lease model, meaning residents buy their home and an equal share of the facilities, but leases the land from Lifestyle. These resort-style facilities include the clubhouse, indoor outdoor pools, spa, sauna, tennis courts, gym, a cinema, library and workshop.

Lifestyles reoccurring revenue has more than doubled over the last 5 years. Their revenues are driven by 2 key segments: Rental Fees and Exit Fees. Rental fees are weekly cost associated with maintaining the facilities of the community, whereas Exit Fees are up-to 20% of the re-sale price upon exit. In addition, Lifestyle have increased their land acquisitions and are now developing 3 communities per year. These new developments have attained green star standards, provide roughly 200 homes per community, and have a development margin of 20%.

Lifestyle has developed a strong and desirable brand in Victoria, with most sales being as a result of referral, and waitlists for all communities. Lifestyles are well positioned to capture increasing demand from the aging population, and with 11 communities in the development pipeline in a relatively unsaturated market, we see them scaling to develop an impenetrable dominance in Victoria. Lifestyle passed the vote by unanimous decision. The committee loved Lifestyles business model, their aggressive development strategy and believe it is well positioned to capitalise on the growing aging population and property demand in Victoria, Australia.

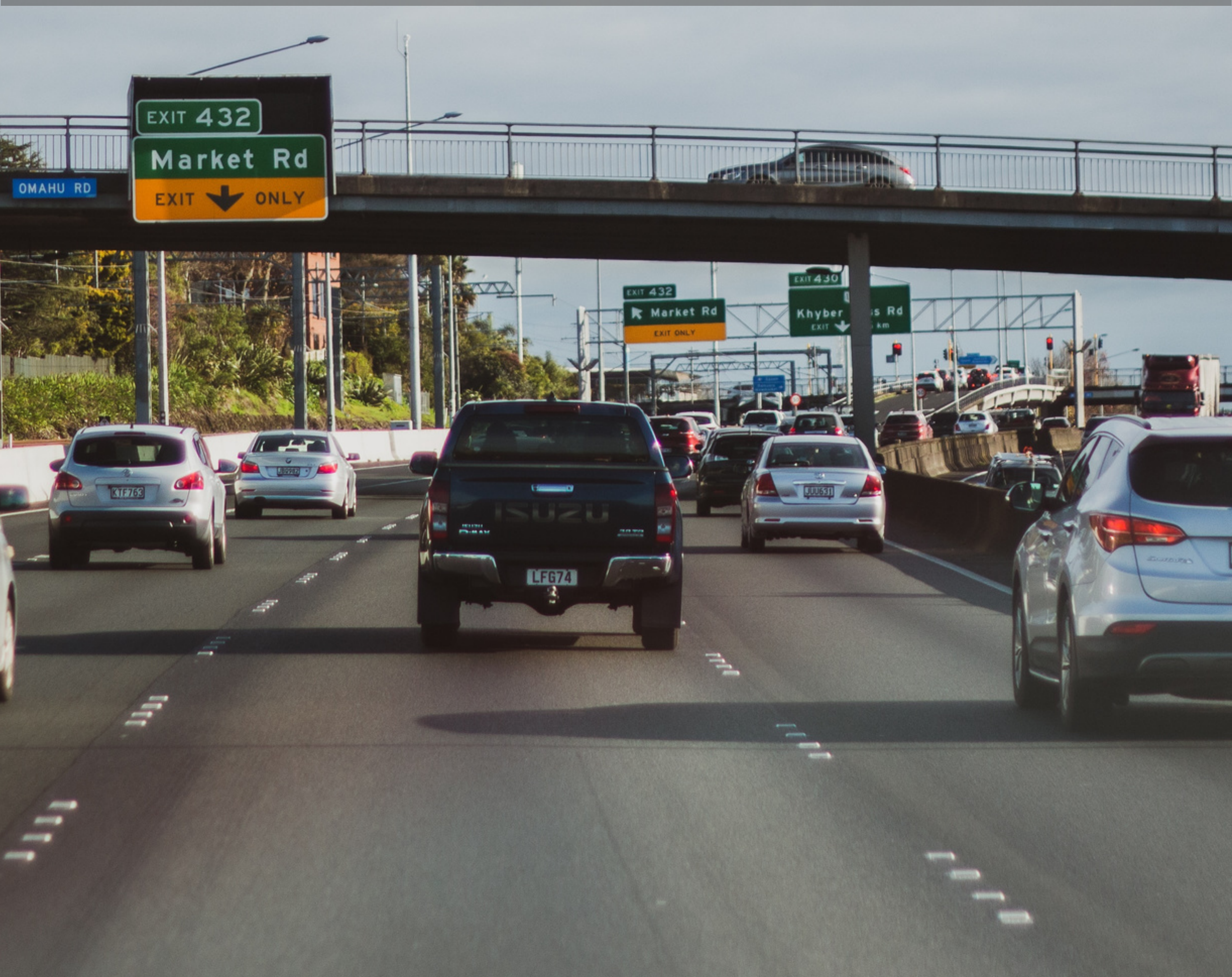
"Lifestyle Communities are selling every retirees dream - and with their aggressive development strategy, they're selling shareholders the dream too."

LOCAL

Congestion charging: A solution to Auckland's traffic nightmare?

BY EVAN MANNING

The sails on the harbour, the silhouette of the Skytower on the skyline, and beautiful mountains are but some of the great things about New Zealand's largest city. Yet against this backdrop is an unfortunate traffic problem, a problem that makes Auckland one of the most congested cities in the world



There are a number of reasons for this phenomenon - a poor public transport network, a rapidly increasing population, and even Auckland's location on an isthmus limiting the number of potential routes. As any local knows, a cornerstone of the present-day Auckland experience is being stuck in a frustratingly slow crawl of traffic.

But a frustrated population is not the only outcome of Auckland's traffic nightmare. If the hours spent every week sitting in traffic reduce employees' work hours, this has a huge economic impact. And if sitting in traffic doesn't cut into work hours, then it is limiting the time that people can spend connecting with family and friends, or taking up new hobbies, or volunteering in their community. The congestion problem creates clear economic and social harms, and therefore it is a priority for the government to solve. As part of a variety of policies that could be undertaken, one that I propose as being integral is introducing congestion pricing in Auckland.

Congestion pricing is a broad economic term that refers to increasing prices at peak times for services that are subject to cyclic increases in demand. The thinking behind this pricing model is to encourage users who can be flexible with their usage to shift away from peak periods to times when it is less expensive.

The most optimal way to implement this in Auckland is to replicate the system that will shortly be unveiled in Singapore, named the 'next-generation ERP system'. This system uses in-car GPS units to implement distance-based road pricing, where drivers are charged based on the distance travelled on congested roads. Dynamic prices are set to keep traffic moving at predetermined 'optimal' speeds. Every registered vehicle in Singapore has an In-Vehicle Unit mounted under the windshield, and something similar can be used in Auckland to show pricing information and determine the amount of congestion charges to be paid. Different times and routes would have different congestion prices charged on a per-kilometre basis. Information on prices could also be included on an app and website, and integrated into apps like Google Maps, in order to allow people to plan trips effectively.

Congestion charging in Auckland kills two birds with one stone- firstly by reducing traffic along Auckland's busiest routes, and secondly by creating a fairer system more aligned with a 'user pays' principle.

There are three ways in which congestion pricing reduces the times spent in traffic. Firstly, it incentivises people to switch from private cars to public transport. When drivers face higher costs for driving during peak traffic hours, many will opt to take buses, trains, or other forms of public transport, which reduces congestion along Auckland's busiest routes.

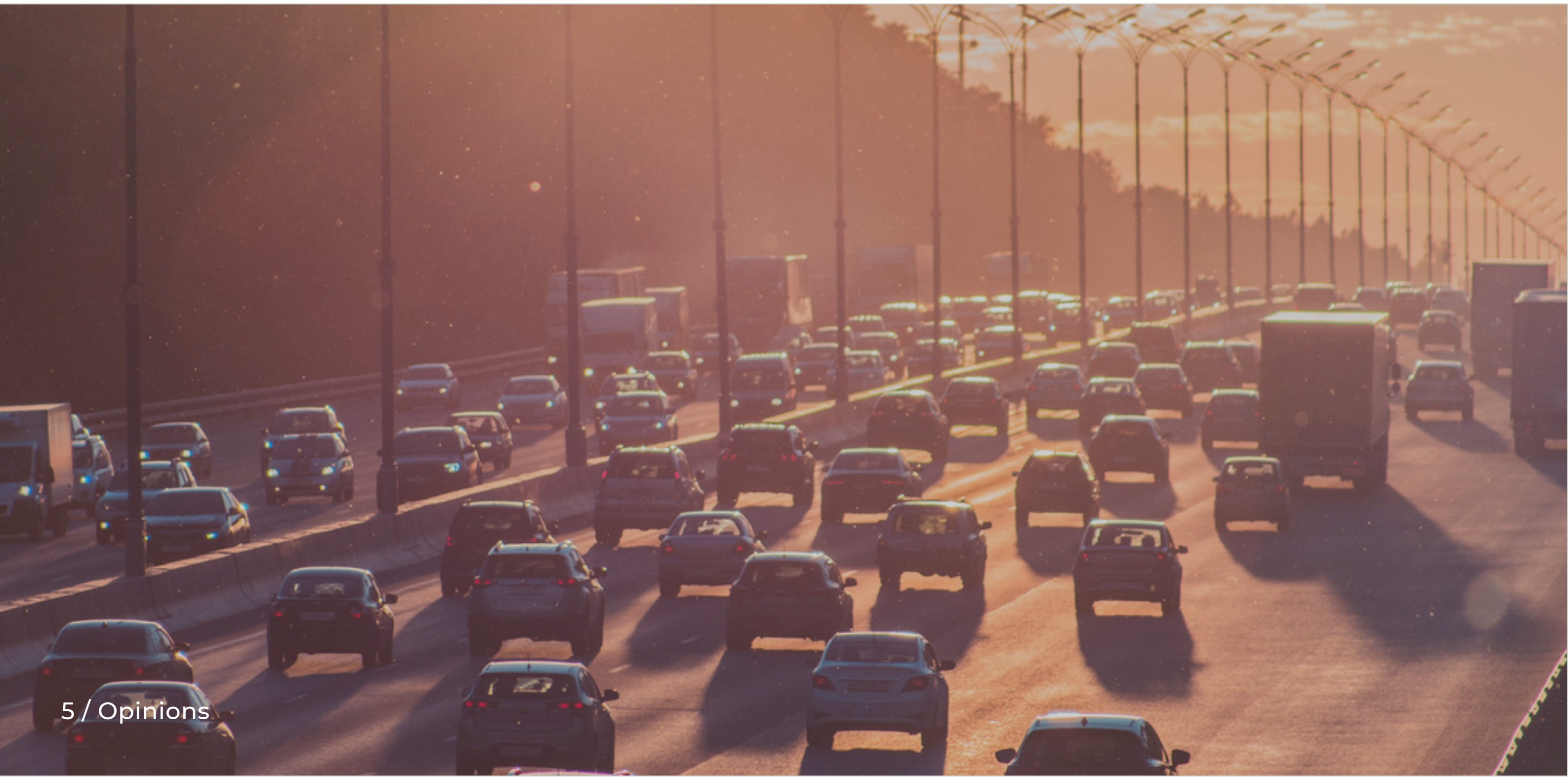
Secondly, congestion pricing encourages commuters to adapt their schedules to avoid peak traffic hours, saving them time and money. An employee might choose to start their workday earlier or later to avoid the congestion fee. A parent might decide to do the family grocery shopping at 11am instead of 5pm. An effective congestion charge can also cause economy-wide changes. It might become more commonplace for morning meetings to be held over Zoom instead of in-person, allowing workers to come into the office later and avoid the congestion fee. In this way, those who go to the office to do work that can be WFH will pay for the full social cost of doing so, while those who reduce unnecessary travel will benefit.

Finally, congestion will be reduced by commuters seeking out alternative routes to avoid charges on the most congested roads. This diversification of routes helps distribute traffic more evenly across the road network, creating a faster journey on commonly used routes.

Congestion pricing is also a fairer way of apportioning costs across road users. If a 'user-pays' principle is the fairest way to fund infrastructure, then this principle is best met with congestion charging. Currently, there are three main methods of trying to apply costs within a user-pays framework- each with their flaws. Fuel taxes charge road users based on how much petrol they use, yet this fails to consider the fact that poorer individuals often drive less fuel-efficient cars, and so the tax is often unfairly borne by those with lower incomes. Toll roads also imperfectly capture the costs imposed by drivers. Whether a driver is driving on a congested toll road (slowing down many others' commutes and imposing a high cost) or driving on an empty toll road (imposing almost no marginal cost) the toll fee is the same. Finally, road user charges, using diesel burnt or tonnage and axle count to calculate charges, similarly run into the problem of not capturing the true costs imposed by drivers. A well-designed congestion pricing model, on the other hand, best captures the full social costs imposed by drivers travelling at peak times.

Congestion pricing also allows for more alternatives to lower one's road charges. Under the status quo, charges can usually only be avoided by either taking public transport or not travelling at all. However, congestion pricing offers the flexibility to travel at different times to avoid the charges, or to take alternative routes to reach a destination.

This policy presents an interesting opportunity to implement near pure economic theory in the real world. Using the technology available to us, it is now possible to apportion costs far more accurately than ever before, and to create a more efficient and dynamic system for managing traffic flows. The system is relatively inexpensive, and can be implemented alongside other policies like improving public transport networks and building new roads. Greatly reducing traffic is very achievable, and congestion pricing is an inexpensive, fair and effective way to tackle this problem.



LOCAL

Kiki Lands in NYC: The Kiwi Subletting App's 'Big Apple' Adventure?

BY HANNAH JONES

The timing of discovering New Zealand's start-up, Kiki (formerly known as EasyRent), and my need for an awkward three-month rental in Wellington over the summer was a lucky coincidence.

At this time of year, many students are faced with one of three problems: paying double rent over the summer as they move cities for a summer job, paying rent for a room they won't use or ending their lease and finding a new lease at the start of the next uni year.

Numerous practical options exist for short-term rentals, such as Airbnb or the old-fashioned hotel. Similarly, for long-term stays, platforms like OneRoof, which currently lists over 1,000 rental properties in Auckland, or dedicated Facebook groups offer clear solutions. For mid-term rentals (one to six months), things get a little messier.

The hassle of finding someone to live in a room over summer somehow always seems to outweigh the alternative of paying thousands of dollars in rent for an empty room. Additionally, the thought of renting your living space to a complete stranger for an extended period of time can be a huge deterrent to finding a temporary subletter. So, what are students to do?

Ex-UOA student Toby Thomas-Smith, alongside co-founder Jack Montgomerie, launched Kiki, a mid-term rental app to solve this problem. Their latest round of seed funding, led by Australian VC firm Blackbird Ventures raised USD$6 million, which Kiki claims is the highest seed round ever achieved by a Kiwi start up.

To solve this, the app adopts an invite-only approach, which is designed to provide a level of trust and motivate users to respect each other's spaces. To gain access, individuals are required to connect their Instagram accounts. Thomas-Smith requires selfies as part of membership, to promote a friendly space, where rather than renting to strangers, people rent to "friends of friends". Instagram also serves as the primary communication platform between renters and listers since Kiki lacks a built-in direct messaging feature.

Kiki had adopted the now-iconic Tinder model, with swipe-left and swipe-right functions to match renters and rentees based on their likes, interests and needs. Kiwi entrepreneur of Zuru fame Anna Mowbray has also employed the "swipe right" model for her new venture Zeil, a jobseeker marketplace where users can effortlessly save and apply for jobs they find appealing by swiping right.

Kiki also offers a management tool allowing users to monitor punctual payments, securely hold deposits, and electronically sign sublet agreements. Kiki charges a 10% fee based on the rental price for each listed property. For users of Kiki, the purpose is avoiding paying double rent or rent for an unused room, rather than profit.

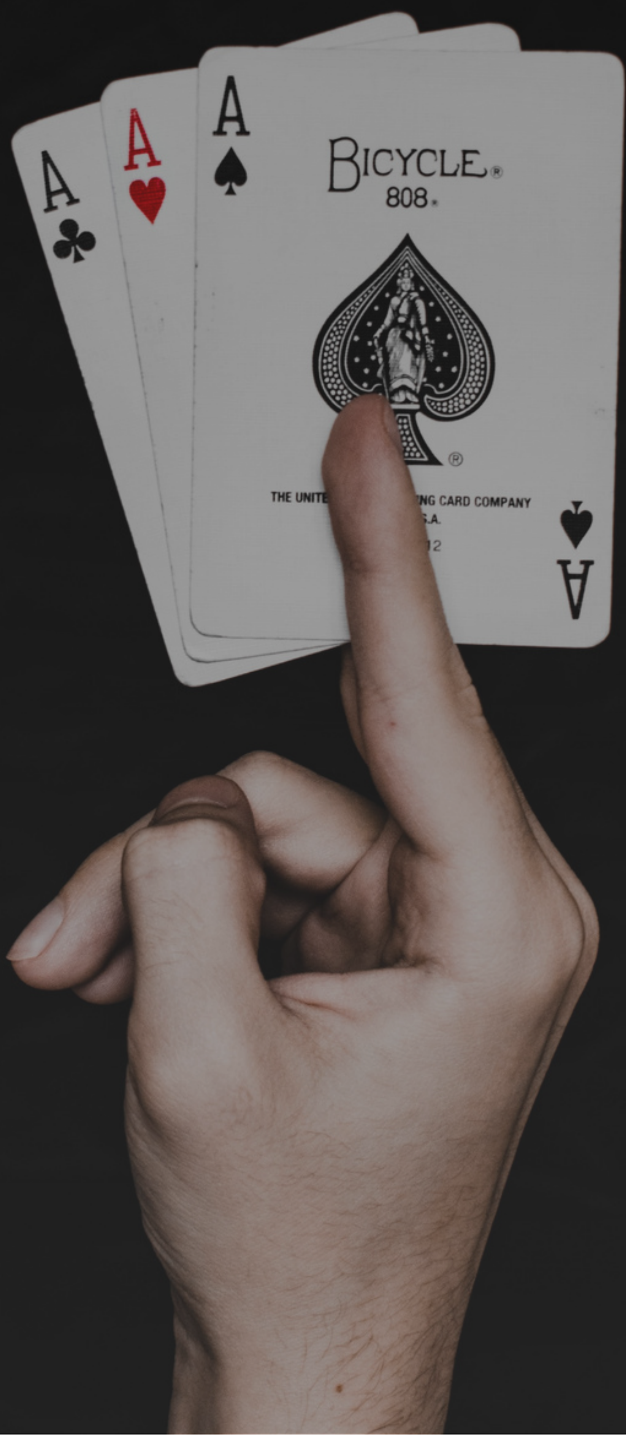
As for my lucky coincidence, it turns out it is too good to be true. Kiki has paused their New Zealand and Sydney operations to launch full-throttle in New York (interestingly only offering the app to Australians initially). While their overseas growth means I find myself still accommodation-less for this summer, I'll be closely following Kiki's journey and am excited to see a potential homecoming in the future (see you next summer?).

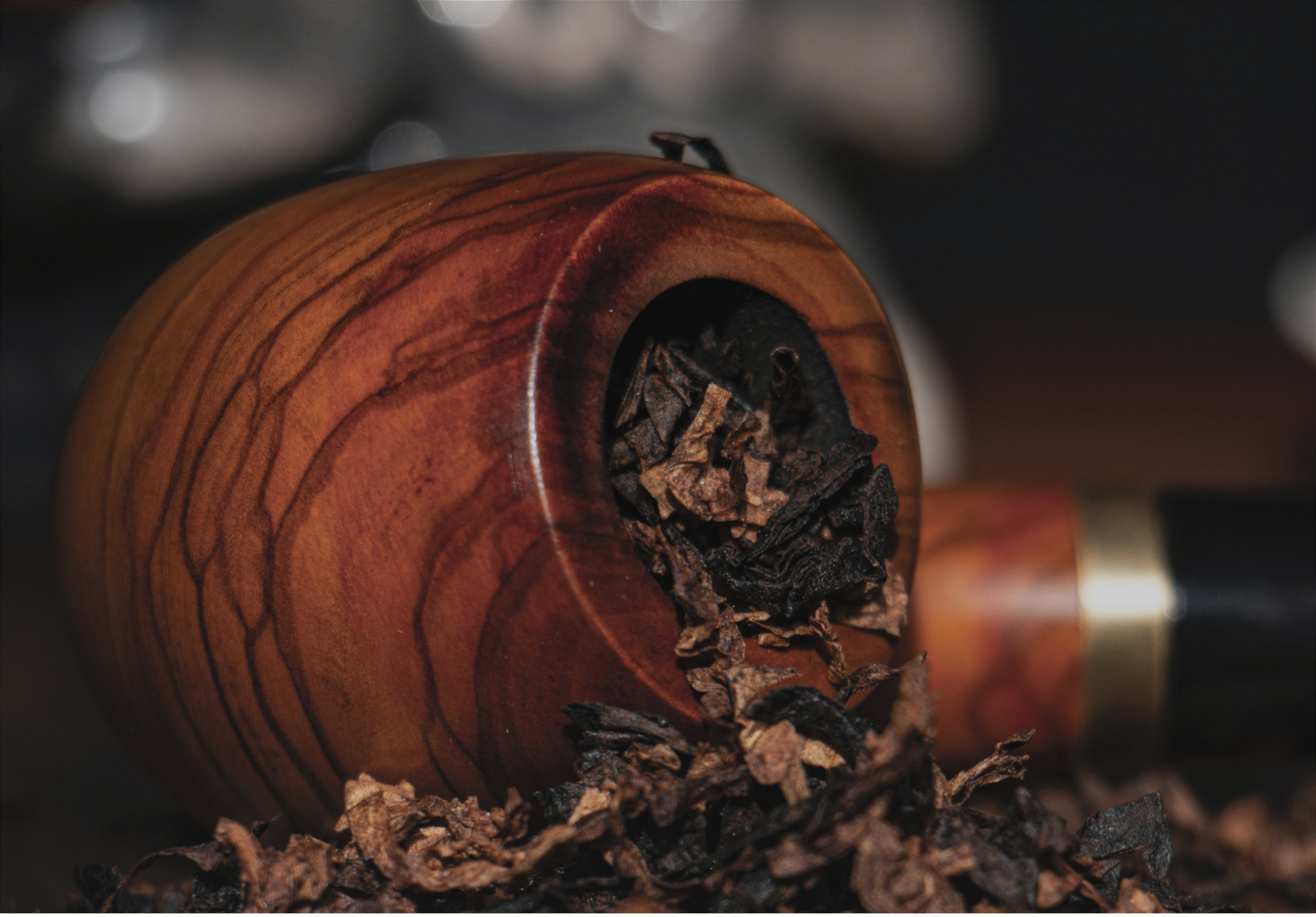
GLOBAL

Cashing in on Controversy

BY DANIELLE SMITH

For a long time, sin industries have churned out more than favourable results across the sharemarket. Driven shamelessly by the pursuit of profit, stocks across the gambling, alcohol and tobacco industries have thrived by capitalising on humanity's weakness. These so-called "sin stocks" have long basked in their reputation for being recession-proof, with demand for their products remaining steadfast, irrespective of economic fluctuations - people will drink, smoke, and gamble in both good times and bad.





Prior to 2017, sin stocks consistently demonstrated an impressive track record, outperforming the MSCI World index by nearly 5% annually. However, from 2017 to 2019, this trend took a turn, with sin stocks experiencing an annual decline of approximately 6%, causing investment in these companies to dip as ESG's took off. However, sin is back in.

With rising interest rates, inflation mounting and heightened uncertainty, the economic climate is signalling that a recession is looming. Kiwibank's chief economist Jarrod Kerr has said that "We [should] expect further contractions in economic activity over 2023, and possibly into 2024," while Westpac's senior economist Michael Gordon said it was clear that the New Zealand economy was losing momentum. Investors are switching from stocks that offer growth, to stocks that offer value. These defensive stocks provide consistent dividends and stable earnings regardless of the state of the overall stock market. Typically, they are more mature companies, operating in sin industries such as gambling or tobacco.

The increase in investment isn't limited to singular investors or large institutions. Of the $98 billion invested in KiwiSaver, as of 2023, $8.6 billion, or 8.9% is allocated to unethical stocks, marking a noticeable increase from 7.2% in 2019. There has been a remarkable 50% annual growth in investments in tobacco companies like Philip Morris, British American Tobacco, and Imperial Brands, amounting to over $21 million in KiwiSaver. Additionally, a substantial $292 million is invested in weapons companies, which includes producers of nuclear weapons, as well as handgun manufacturers and retailers.

Tobacco stocks are witnessing their best year in a decade, mirroring the resurgence in the oil and gas sector. The latter has benefited from increased demand post-pandemic, and the turmoil caused by Russia's invasion of Ukraine further driving up oil prices.

Demand increasess because people consume more alcohol and cigarettes when times are bad?

Simultaneously, the tobacco industry is thriving as investors flock to defensive stocks known for their reliable cash flows.

So why do sin stocks deliver better returns than stocks in general?

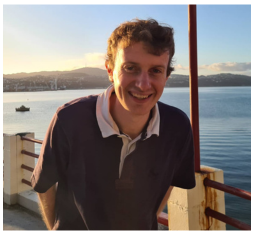
One big reason for the outperformance, is the deliberate exclusion of certain sin stocks by influential investors, particularly institutional giants. This exclusion often drives the price of these sin stocks down to levels that are unjustifiably low in comparison to their intrinsic value. This risk premium can be interpreted as compensation for accepting the higher risk of litigation or reputational impacts involved in holding sin stocks in the expectation of higher returns. Consequently, those willing to cash in on controversy typically outperform those who invest in more ethical stocks.

However, this doesn't mean we should be running to snap up shares in sin stocks to strengthen our portfolios. SkyCity is the only fund listed on the NZX50 that is considered a sin stock. With the constant threat of regulatory action, SkyCity’s share price has had a substantial risk premium factored in. This month, the New Zealand Department of Internal Affairs sought a 10-day suspension against SkyCity, citing alleged breaches of gambling harm minimization rules. The market swiftly reacted, witnessing a 15% drop in SkyCity's share price, which translated to over $260 million being wiped off the company's value. The looming threat of a $13 million revenue loss and a $7 million reduction in EBITDA, serve as a stark reminder that even traditionally resilient industries can face substantial challenges when regulations tighten and public sentiment shifts. While sin stocks may have their moments of allure, they warrant careful consideration in light of the evolving regulatory landscape and the potential impact on their long-term sustainability.

For investors this begs the question of where to invest. With the risk of disruption closer than ever, whether it be from government policies or regulations or even changing societal preferences, ethical stocks appear to be the better long-term option. However, if ethical companies cannot generate a return when market conditions are suboptimal, are they really the companies of our future? On the other hand, if increased regulation can cause such dramatic shifts in share price, perhaps these sin stocks stocks aren’t quite as defensive as we think they are.

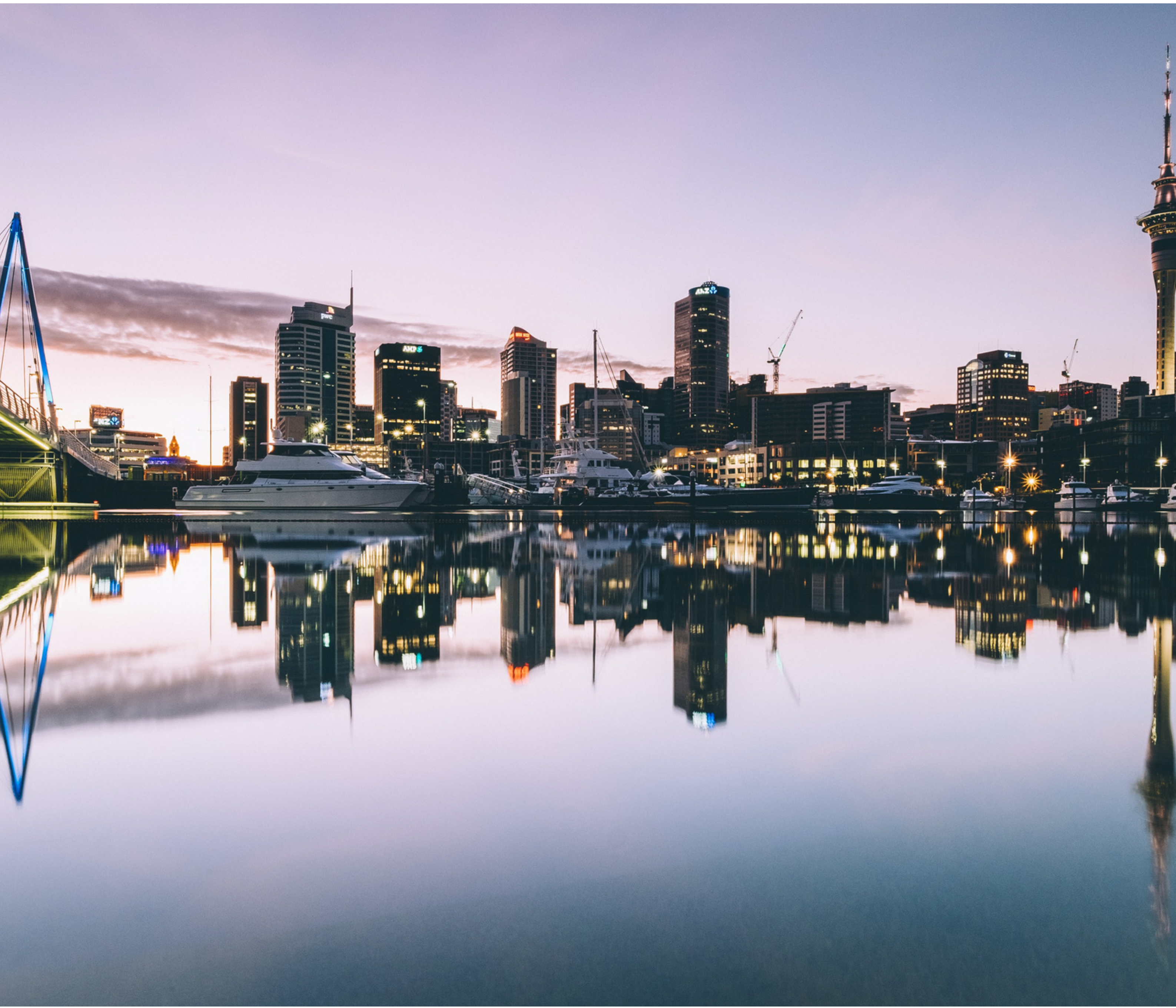
CONVERSATIONS WITH UAIC ALUMNI

MATTHEW BRUNT



INTERVIEW & ARTICLE BY RILEY BOGARD-ALLAN

Welcome back to the Conversation Series! I recently had the pleasure of speaking to Matthew Brunt, an Economic Analyst at the Reserve Bank of New Zealand. Matt completed a Bachelor of Commerce in Economics and Finance before gaining his Honours (First Class) in Economics in 2020. He was involved in UAIC's Investment Committee for two years, joining halfway through his second year.



Early life

Originally from the UK, Matt grew up in Christchurch and attended Burnside High School. He played a lot of sports growing up including football, swimming, tennis, cricket, water polo and more. Arsenal football club was perhaps his first love, having attended a match at Highbury Stadium as a child.

Like many of us, Matt didn't have a clear direction around what to study or what career he wanted to pursue. He credits a fantastic economics teacher, as well as his experience competing in the Reserve Bank Monetary Policy Challenge during his final year, as the catalysts for pursuing economics at university. As to his decision to make the trek north to Auckland, receiving the Top Achiever Scholarship was important, as it made his study more affordable.

At University

Like myself, Matt spent his first year at University Hall. He speaks fondly of his experience: "It was a great way to meet new people, especially when moving to a new city where you don't really know anyone." His time spent with UAIC was similarly enjoyable. He complemented his long stint in the Investment Committee with a position on the Economics Society executive. Matt was a Career Leader, providing advice on student's resumes and cover letters, and also did a bit of tutoring and assignment marking.

Matt completed two internships while at university. First, he spent a summer at accounting firm Grant Thornton. He then received an internship at the Reserve Bank. When asked about his motivation to go on to complete his honours in 2020, Matt says it was a combination of seeking further study and satisfying the Reserve Bank's requirements for entry into the graduate programme:

"At the time you could only start as a graduate if you had an honours or masters degree in economics, finance, or a related field. Auckland has some great postgraduate funding which made it more accessible. Honours is a nice way to introduce you to research but also, for economics, develop the knowledge that has been helpful in my job."

Working at the Reserve Bank:

Matt offered some insight as to why he chose to work at the Reserve Bank, especially when considering that private sector opportunities like investment banking tend to be top-of-list for UAIC alumni:

"I was really pleased to land an internship at the Reserve Bank, and my experience cemented the fact that I wanted to go back. The Reserve Bank has a great work culture, I am challenged by my work and grapple with some really interesting problems."

At the Reserve Bank, Matt has rotated through three teams. He

first worked in financial stability, particularly banking policy. The job involved analysis of international standards and recommending how to adapt policy at home. In his second year, Matt moved into financial markets, where he worked on summarising and synthesising the latest international developments. This year Matt moved into forecasting:

"Once a quarter, our team publishes the Monetary Policy Statement. We have about ten sector analysts and a whole range of other employees who work on the Monetary Policy Statement – I'm currently on external so look at the outlook for New Zealand's key exports and imports. Roughly half of the job is producing a forecast and staying on top of developments in your sector while the other half is drafting the Monetary Policy Statement."

Matt also made some interesting comparisons between the Reserve Bank of New Zealand and other central banks around the world. Being a relatively small organisation, graduates are able to gain more exposure to the different facets of a central bank:

"They are trying to create well-rounded central bankers. Graduates regularly present to the Monetary Policy Committee or Financial Stability Committee which include the Governor. It is pretty unique."

Looking ahead:

Matt has valued the variety of the graduate programme at the Reserve Bank. With experience comes the opportunity to take on more permanent roles:

"At the moment I am keen to keep my feet under the desk. I am really enjoying my current team, and Wellington is an awesome place to live."

Advice to students:

Matt recommends students involve themselves with extra-curricular activities such as clubs to gain experience, get to know other people and make the most of what university has to offer. A pivotal moment for him was a university research trip around Southeast Asia with 15 other students. He also recommends taking advantage of the support services available, particularly academic and career support.

A diverse skill sets is valued in most jobs. For example, Matt says he spends many hours a day programming. He noted that an economics background is not essential with the Reserve Bank growing other functions that require alternative expertise and qualifications like law. Key to his selection was having a genuine interest in what the Reserve Bank does. In terms of soft skills, Matt noted that the ability to take on feedback and work in a team is essential.

MYOB Column

Why you should care about generative AI

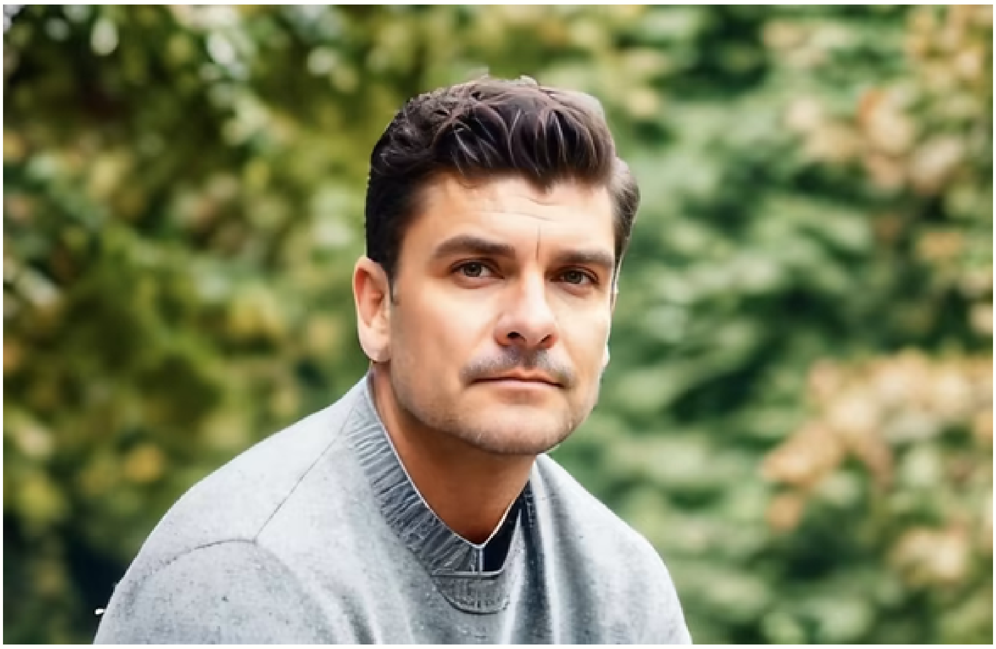
AI will bring increasingly sophisticated tools to the table as it evolves. Accountants should keep an open mind and explore what it can do.

Jerzy Filatow, technology segment lead at MYOB, recently shared with Accounting Times his thoughts and insights on what's going on with artificial intelligence in tech and the accounting industry.

He predicted AI will impact accountants and bookkeepers in these five areas:

1. Automating processes
2. Informing decisions
3. Managing risk and compliance
4. Client servicing
5. Content and communication

Read the full article here

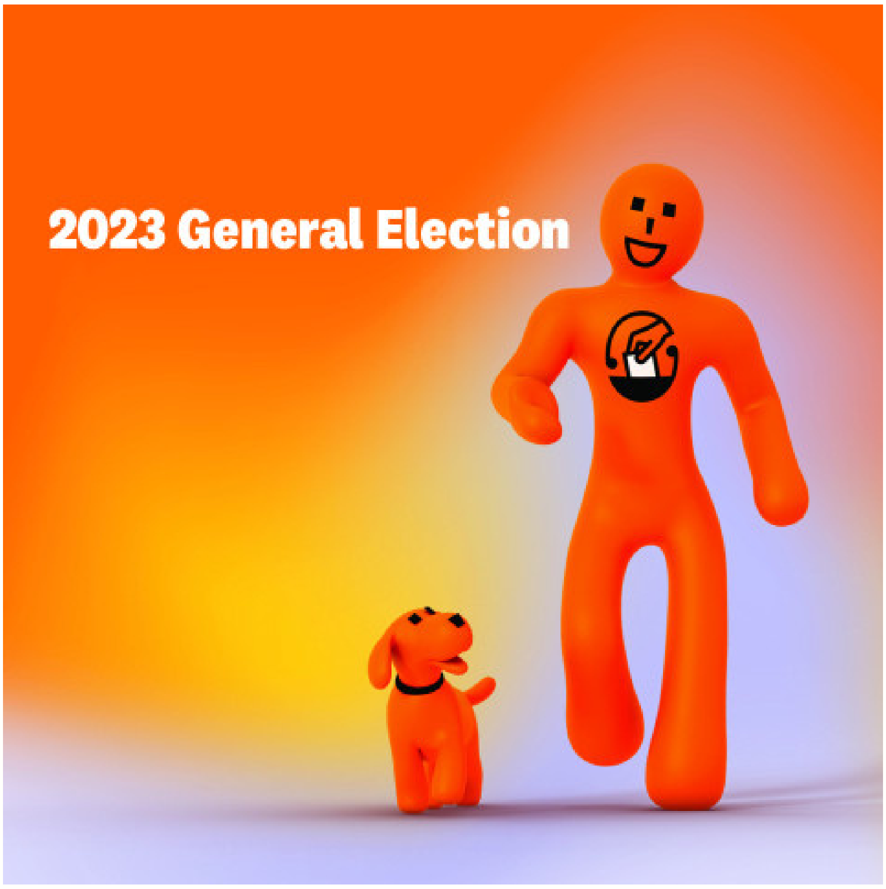


Forsyth Barr FOCUS

Ballots and bulls - Do elections impact financial markets?

Every three years New Zealand engages in the dance of the politicians, known as our General Election. Elections are often regarded as significant events, with the potential to shape the direction of a nation's policies and priorities. Given the attention and suspense they generate, the actual impact of elections on local financial markets is worth examining.

Read the full article here.

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