2022 Q3 Report

Victoria Student Fund
Charitable Trust

Contributors and Disclaimer

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Disclaimer

- Any information we provide is current at the time of writing and is not financial advice.
- If you want to invest you should consider seeking professional legal, financial, taxation or other advice to make sure it is right for your goals, financial situation and requirements.

Victoria Student Fund
Charitable Trust

Contents Page

Victoria Student Fund
Charitable Trust

Word from the Trustees

The last three months have been exciting for the Victoria Student Fund Charitable Trust. We have presented 14 of our financial literacy workshops to schools and sports teams. More details on these can be found under the impact section of the report. Furthermore, we put out the first set of our annual accounts. These can be found on our website or via the charities service register.

Additionally, we made our first investments. It was great for our analysts to pitch seven investment opportunities to our investment committee. The reports the analysts produced made some excellent points, and it was good to see the progression from our first stock pitch competition to these pitches. Ultimately, we decided to go with five of the ideas and have entered the market. More details on these holdings can be seen later in the report.

We also have a new website dedicated solely to the Victoria Student Fund Charitable Trust. We would really suggest having a look at this to understand what we are doing and to see what we have done so far. You can do this by clicking the link below.

www.vsfct.com

Finally, we are delighted to announce we are hosting our annual fundraiser event on the 17th of November at 5:30 pm at Forsyth Barr's offices in Auckland. Matt Henry, CFA, who is Head of Wealth Management Research at Forsyth Barr, will start the evening by giving a keynote speech. The trustees will then provide an update on the fund's progress and explain how the fund has helped improve financial literacy in New Zealand. There will then be a chance to mingle and ask any questions you may have. Complementary canapés and drinks will be provided.

Tickets are free so register now via the link below.

https://www.eventbrite.com/e/victoria-student-fund-charitable-trust-annual-fundraiser-tickets-451267191317

We hope you enjoy this update on the fund's progress and our analysts' views.

Thanks,
Dillon, Lachie & Oliver

Impact

Over the last three months, we have presented 14 financial literacy workshops. These workshops cover personal banking, loans, Kiwisaver, investments, taxes and budgeting. We have presented these to predominately schools but have also presented to a sports team. The majority of these workshops have been in Wellington. However, there was an expectation as we travelled up to Rotorua to present three workshops as part of the Graeme Dingle Foundation's Career Navigator programme at Western Heights High School. We want to say a big thanks to the PMG Charitable Trust for their support in getting us there.

It has been great to engage with young New Zealanders and see their interest in developing their financial literacy knowledge. It was particularly pleasing to see some of the students' learnings play out in our budgeting game at the end of our workshops.

Additionally, we hosted an Investing 101.5 workshop with Raymond Webb in partnership with the Victoria Finance and Investment Club. It was fantastic to be able to provide university students with a follow-up to the investing 101 workshops we ran earlier in the year.

We are looking forward to continuing to present even more workshops next year as we continue to look to expand our reach and grow awareness of financial literacy in New Zealand. If you are interested in having us come in and present, please get in touch with us at info@vsfct.com

Below are some photos from our workshops in Rotorua.

Victoria Student Fund
Charitable Trust

Financials

Profit and Loss

Victoria Student Fund Charitable Trust
For the 3 months ended 31 October 2022

	AUG-OCT 2022
Trading Income	
Donations	480.00
Interest Income	21.61
Total Trading Income	**501.61**
Gross Profit	**501.61**
Other Income	
Dividends	39.20
Total Other Income	**39.20**
Operating Expenses	
Brokerage Fees	122.50
Consulting & Accounting	167.34
General Expenses	266.81
Stripe Processing Fee	0.59
Workshop Expenses	106.00
Total Operating Expenses	**663.24**
Net Profit	**(122.43)**

Balance Sheet

Victoria Student Fund Charitable Trust
As at 1 November 2022

	1 NOV 2022
Assets	
Bank	
Cash Account	22.97
Payments	89.41
Savings	6,614.11
Total Bank	**6,726.49**
Current Assets	
Imputation Credits	9.30
Investments	6,006.85
Total Current Assets	**6,016.15**
Total Assets	**12,742.64**
Net Assets	**12,742.64**
Equity	
Current Year Earnings	4,447.20
Retained Earnings	8,295.44
Total Equity	**12,742.64**

Holdings

Summerset Group Holdings

Summerset is the third largest operator and second largest developer of retirement villages and aged care facilities in New Zealand.

Summerset provides the full range of care at its villages. It has villages in both New Zealand and Australia.

Exchange	NZX
Ticker	SUM
Initial Investment	$1,972.9
Investment date	07/09/2022
Industry	Age Care

Pushpay Holdings

Pushpay Holdings is a software as a service company with the primary objective of helping mission based organisations provide a platform for donations online. They operate in the US, Canada, Australia and New Zealand.

Pushpay Holdings aims to make donations easy for customers by providing a very user friendly based software in which customers can give as little or as much as they would like to their local parish.

Exchange	NZX
Ticker	PPH
Initial Investment	$970
Investment date	07/09/2022
Industry	Technology Services

Genesis Energy

Genesis (GNE) is one of the five major electricity generators and retailers in NZ. It operates under a mixed ownership model with the NZ government holding a 51% majority stake.

GNE's revenue is generated by four key activity segments.

- Retail, supplying energy (electricity, gas and LPG) to end users.
- Wholesale, supply of electricity to the wholesale electricity market, supply of gas and LPG to wholesale customers, and the sale and purchase of derivatives to fix the price of electricity.
- Kupe, exploration, development and production of gas, oil and LPG.
- Corporate, head office and administrative functions.

GNE generates electricity from a number of thermal, hydro, and wind generation assets around NZ.

Exchange	NZX
Ticker	GNE
Initial Investment	$996.60
Investment date	07/09/2022
Industry	Utilities

*Initial investment amounts exclude brokerage fees and are in NZD

Holdings

James Hardie Industries

James Hardie Industries is the worlds leading producer of high performance fibre cement and fibre gypsum building solutions.

It has approximately 4,800 employees across operations in North America, Europe, Australia, NZ, and the Philippines.

JHX produce a variety of products with both internal and external applications for new builds, repairs and remodelling.

Exchange	ASX
Ticker	JHX
Initial Investment	$1,100.4
Investment date	27/09/2022
Industry	Construction Materials

Smartshares US 500 ETF

The US 500 Fund's investment objective is to provide a return (before tax, fees and other expenses) that closely matches the return on the Vanguard S&P 500 ETF (which, in turn, looks to provide a return that closely matches the return on the S&P 500 Index).

The S&P 500 Index is made up of 500 of the largest financial products listed on the New York Stock Exchange or NASDAQ Stock Market.

Exchange	NZX
Ticker	USF
Initial Investment	$963.91
Investment date	07/09/2022

*Initial investment amounts exclude brokerage fees and are in NZD

Macroeconomic Update

The third quarter of 2022 witnessed a series of interesting macroeconomic and geopolitical news.

Global Inflation

Inflationary pressures continue to haunt global markets and economies around the world. The Fed has continued its hawkish stance and is poised to further increase the Fed funds rate by another 75 basis points at the November meeting. The pace of increase is setting all-time records in an attempt to cool inflation. Recent inflation numbers came in above the market's expectations at 8.2%, although it was 0.1% lower than August numbers of 8.3%. The troubling read was that the core inflation was broad-based. The annual core inflation rate is 6.6% for the 12 months ended September 2022, the largest increase since August 1982 and after previously being 6.3% in August, as the U.S. Labour Department reported. Core inflation excludes certain items that are known for their volatility — namely, food and energy.

The annual inflation rate in the U.K. rose to 10.1% in September 2022 from 9.9% in August, returning to the 40-year high hit in July and surpassing market expectations of a 10% rate. The largest contribution to the increase was from food (14.8% vs 13.4% in August), namely oils, fats, and dairy products. Consumer costs also grew sharply for housing and utilities (20.2% vs 20%) amid soaring prices for electricity, gas, and home fuels. On the other hand, cooler price growth for motor fuels further slowed inflation for transportation (10.6% vs 12%), as the average petrol and diesel prices were at 175.2 and 186.6 pence per litre, respectively, compared to 134.6 and 137 pence a year earlier. The annual core rate, which excludes energy, food, alcohol, and tobacco, rose to a record high of 6.5% compared to expectations of 6.4%. On a monthly basis, consumer prices rose by 0.5% in September, unchanged from the previous month.

The annual inflation rate in Australia climbed to 7.3% in Q3 of 2022 from 6.1% in Q2, above market forecasts of 7.0%. This was the highest point since Q2 1990, boosted by higher prices for new dwelling construction, automotive fuel, and food. Prices of food rose the most since Q4 1983 (9.0% vs 5.9% in Q3), while cost increased further for transport (13.1% vs 9.2%), housing (10.5% vs 9%), alcohol & tobacco (4.0% vs 2.2%), furnishings (7.7% vs 6.3%), recreation (5.0% vs 4.5%), health (2.7% vs 2.4%), and insurance & financial services (4.2% vs 3.4%). On a quarterly basis, consumer prices went up 1.8%, the same pace as in Q2, which remained the steepest pace since the introduction of the Goods and Services Tax, compared to a consensus of 1.6% due to further rises in the cost of new dwellings, gas, and furniture. The RBA Trimmed Mean CPI jumped 6.1% YoY, the fastest pace since the series began in 2003, exceeding the midpoint of the RBA's 2-3% target. Quarter-on-quarter, the index gained 1.8%.

The inflation rate in New Zealand decreased to 7.20% YoY in the third quarter of 2022 from 7.30% in the second quarter of 2022, as housing and household utilities showed significant increases with rising prices for construction (+17%), rentals for housing (4.6%), and local authority rates (7.3%). The next largest contributor was the transport group, due to higher prices for petrol (+19%) and diesel (+72%). Quarter on quarter, the consumer price index rose 2.2% in the September quarter, with increases in vegetable prices (+24%) being the largest contributor.

Macroeconomic Update

Currency Markets

The ICE U.S. Dollar Index DXY, +0.26%, which measures the U.S. currency's strength against a basket of six other currencies, is up 20.6% in the past 12 months, with the greenback thrashing major counterparts like the yen USDJPY, +0.64% and pound GBPUSD, -0.51% in the process while wreaking havoc all over the world.

Emerging markets have been wearing the brunt of the USD. The main problems stem from USD-denominated loans. A double whammy of increasing cost of servicing the loans as interest rates rise plus having to pay more vis-à-vis their rapidly depreciating local currency. This has caused social mayhem as governments scramble in trying to balance their budgets and cut down on social services, which affects the majority of the population on the breadline. Combined with the increasing cost of living, this is a recipe for political upheaval in developing nations.

Geopolitical Updates

The U.K.

The BOE sought to stem a sharp sell-off in Britain's 2.1 trillion-pound ($2.3 trillion) government bond markets, expanding its emergency buying to buying inflation-linked debt. The slump in government bond prices – and the subsequent surge in yields – has threatened to wreak havoc in the country's pension industry, hurt the housing market and increased the recession risks for the broader economy. Investors were already worried about the huge cost of the tax cuts and energy subsidies promised by the previous Prime Minister, Liz Truss, even before Finance Minister Kwasi Kwarteng announced more cuts to taxes late last month. Rather than heed Kwarteng's promises of stronger economic growth, investors took fright at the prospect of higher inflation caused by the unfunded fiscal policy, which they saw as forcing the Bank of England to speed up its interest rate increases. The sterling slid against the U.S. dollar, adding to inflation pressure in a country that relies on imports for its fuel, food, and other products. Even more worryingly for the BOE, yields on government bonds leapt, especially on long-term debt, causing problems in Britain's pensions industry.

With Liz Truss gone, the elevation of former chancellor Rishi Sunak to No. 10 seems to have brought stability to the gilt markets. It may yet be too early to declare an end to the financial crisis brought by the previous administration but suffice to say that the pound has regained some ground, and the yields are back to more normalised levels. The BOE is expected to raise interest rates by a minimum of 50 basis points to fend off rapidly rising inflationary pressures.

China Update

China's ruling Communist Party wrapped up its twice-a-decade congress recently, cementing Xi Jinping's iron grip on power and revealing a new Central Committee missing two key officials lacking close ties to the leader poised to clinch a third five-year leadership term as party general secretary, breaking with precedent and solidifying his place as China's most powerful ruler since Mao Zedong, the founding leader of the People's Republic.

Macroeconomic Update

China Update Continued

As expected, Chinese leader Xi Jing Ping was elected supreme leader of the CCP for an unprecedented 3rd term. The new central politburo members appointed were all members of Xi's faction within the CCP. This new political reality in China spooked markets in HKSE, Shanghai and China-related ADRs markets, tumbling 5% right at the conclusion of the congress.

To add salt to the wounds, the recently enacted US Chip Act is bound to strangle Chinese ambitions of developing state-of-the-art semiconductors and related technology such as artificial intelligence.

China, unfortunately, continues to pursue its zero Covid policy and never-ending lockdowns (restrictions etc.) despite paying a huge economic price. Unfortunately, for the rest of the world, this bodes serious implications for the supply chain, which adds to inflationary pressures.

On the equity front, there are no signs of capitulation yet. Markets are in a push-pull mode. On the one hand, fears of a recession may hurt earnings, but at the same time, being forward-looking may be viewed as a positive as the Fed is expected to stop increasing rates as recessionary threats should end the inflationary cycle.

Forward-Looking Thoughts

Inflation has clearly peaked but has yet to be definitive as far as inflationary numbers showing up. There is a lag effect with interest rates rises, and consumer spending is still relatively strong. It is more than likely that a mild recession is already on our shores. Recent reports have shown that inventories are piling up fast, and the semiconductor industry, which often acts as a canary in the coal mine, is slowing down (barring the automotive and medical sectors). It is more than likely we will see inflation numbers coming down fast towards the first quarter of 2023, and central banks around the world will pause interest rate hikes or even start pivoting towards a more dovish stance.

Australasian Equites Market Update

What's happened in the past quarter?

The Australian market has once again seen a downfall, dropping roughly 2.8% over the quarter. The fall in the market has largely been due to the further increase in inflation, with the CPI rising a further 1.8% to a 12-month inflation rate of 7.3%. Australia has recently been affected by utility price increases for both consumers and companies as a result of the continued Russia-Ukraine tensions. The tensions have seen gas and power prices skyrocket, with a 10.9% gas price climb over the past quarter, and forecasts that the prices would climb a further 20% over the next year.

On the other hand, the NZX 50 is up roughly 2.9% in the quarter but is down 16% compared to Q3 2021. The CPI inflation rate is 7.2%, with food prices up 8% on average, and the household and utilities category increased by 8.7%.

New Zealand and Australian tech stocks continue to reflect the international trend of declining tech stock prices and the growing possibility of a recession as EROAD, Serko, Xero, and Rakon fall following bearish tech trends set by tech giants Amazon, Meta, Alphabet and Microsoft following sub-par earnings reports which have seen the tech-heavy NASDAQ 100 falling 5.3% in the quarter.

The NZ energy sector was one of the main areas displaying resilience against economic headwinds, as Meridian, Mercury and Contact Energy all showed positive growth across the quarter. Additionally, Australia's energy sector was also among some of the best-performing sectors in Q3, with Woodside Energy Group (+3.97%) and Washington H. Soul Pattinson and Co (+14.63%) is amongst some of the best-performing energy stocks.

Our thoughts on what's next.

The world continues to face the economic aftermath of the COVID-19 pandemic and supply disruptions due to the Russia-Ukraine tensions. The next quarter will be much like the majority of this year, with the Australasian markets continuing to struggle through these ongoing macroeconomic factors. The Australian markets are anticipated to see some highs and lows over the next quarter. With the summer and Christmas/New Year period coming up, the tourism sector will be expected to perform with tourists making the most of their first summer with low COVID restrictions. On the other hand, the power and energy sector is expected to be further affected by utility price increases as the country moves towards a more sustainable power approach amongst all of the supply disruptions.

The RBNZ has recently increased the OCR to its highest level over seven years following a 50 basis point hike to 3.5%. Additionally, the RBA recently increased its OCR by 25 basis points to 2.6%, likely taking the edge off inflation in the upcoming quarter. All in all, I think the downward trend in the Australasian market will flatten due to the tourism boost the economy will receive despite continued expected inflation. However, they are not out of the woods yet, as they still have to navigate through the ongoing negative worldwide macroeconomic impacts.

Fixed Income Market Update

The September quarter gave way to some unpleasant surprises here in NZ, keeping on trend with how much of the year has unfolded. Inflation data released in October surpassed expectations, with inflation for the year to September being recorded at 7.2%, trailing closely behind this year's earlier June figure of 7.3%.

The RBNZ hiked the OCR 50bp bringing it to 3.5% on the 5th of October, prior to the release of the latest inflation data. However, as the inflation peak is proving to be more persistent than initially anticipated, markets are now expecting a 75bp hike in November. A peak OCR greater than 5% now looks likely during 2023, with the goal of further reducing consumer demand and taming stubborn inflation.

NZ government bond yields have risen across the board for all maturities (see table 1), which is no surprise as the markets are pricing in greater than anticipated CPI figures. Bond prices faced downward pressure as investors now expect a higher OCR necessary to battle inflation, which pushed up yields significantly, with 50bp increases not looking uncommon. Notably, the 10y yield has surpassed its mid-June peak of 4.26% to reach 4.655%. However, only to be outdone by the 2y and 5y yields of 4.663% and 4.670%, respectively. A 10y vs 2y spread of -0.8bp shows an inversion of yields for long-term vs short-term maturities, suggesting that the market's view on the long-term outlook is poor.

Across the ditch, a similar story is playing out, although to a lesser extent. The most recent inflation data shows CPI inflation of 6.1% for the year to June. However, in their August Statement on Monetary Policy, the RBA forecasted a headline inflation rate of over 7% by the end of the year. It comes as a surprise that the RBA only raised the Australian OCR by 25bp on the 4th of October, bringing it to 2.6%.

Rising rates, with more likely to come as inflation is expected to peak, have put upward pressure on yields as expectations are priced in. Yields on government bonds of all maturities, except the 3y, increased, with the 2y yield climbing 1.1bp in the month to reach 3.598% and the 10y climbing 27.9bp to 4.212% in the month. The yield curve maintained a normal shape suggesting a relatively calm outlook.

Residual Maturity	Yield			ZC Price			Last Change
	Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
1 month	3.660%	+24.0 bp	+204.0 bp				22 Oct
2 months	3.910%	+30.0 bp	+210.0 bp				22 Oct
3 months	4.160%	+37.0 bp	+217.0 bp				22 Oct
4 months	4.340%	+44.0 bp	+218.0 bp				22 Oct
5 months	4.510%	+50.0 bp	+218.0 bp				22 Oct
6 months	4.680%	+56.0 bp	+218.0 bp				22 Oct
1 year	4.380%	+40.0 bp	*n.a.*	95.80	-0.38 %	*n.a.*	22 Oct
2 years	4.663%	+52.1 bp	+140.6 bp	91.29	-0.99 %	-2.67 %	22 Oct
5 years	4.670%	+55.3 bp	+115.0 bp	79.60	-2.61 %	-5.37 %	22 Oct
7 years	4.643%	+54.5 bp	+107.7 bp	72.78	-3.59 %	-6.99 %	22 Oct
10 years	4.655%	+53.4 bp	+105.3 bp	63.45	-4.99 %	-9.62 %	22 Oct
15 years	4.710%	+50.9 bp	+107.8 bp	50.14	-7.04 %	-14.38 %	22 Oct
20 years	5.020%	+51.1 bp	+126.3 bp	37.55	-9.28 %	-21.48 %	22 Oct

Last Update: 22 Oct 2022 5:15 GMT+0

Table 1:
http://www.worldgovernmentbonds.com/country/new-zealand/

Global Market Update and Mutual Fund Ideas

Global markets experienced further declines into the third quarter. As inflation rates continued to reach decade highs, geopolitical tensions escalated, and central banks worldwide hiked policy rates and signalled future rate increases that were higher than expected.

Global inflationary pressures seemed to experience moderation on the back of lower oil and food prices. Agriculture organisations world food price index dropped to its lowest since the beginning of the Ukraine conflict. However, continuing inflation highs are significantly above central bank targets globally, which has anticipated market prices and policy rate increases.

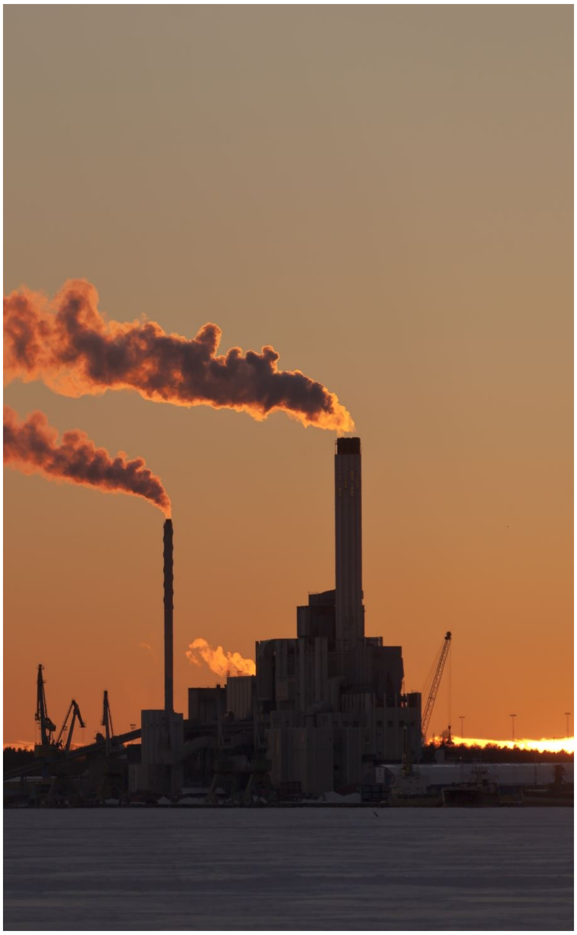
The stronger rise in energy and food prices predicted for Q3 may indicate easing pressures into Q4 as the stabilization of costs along with consumer price and manufacturer price data suggests inflation may have reached its peak, depending on the adapting monetary policy and further shocks to global supply chain and energy/oil contributors will determine its likely outcome.

The policy rate increases totalling 1.5% from the Fed, 1.25% from the European Central Bank, and 1% from the Bank of England. Rates are anticipated to increase to 4.5%, 3.5%, and 5.75% by the end of Q4 and the beginning of 2023 Q1 in the US, Europe, and the UK, respectively, as markets have shifted to price a considerably more aggressive path.

Equity markets saw losses across the board for all asset classes, with non-US equities experiencing some of the greatest falls as a result of the dollar's sharp increase against other currencies. The prices of most fixed-income categories went deeper into negative territory for 2022 as a result of the ongoing rise in bond yields.

Future Remarks

The global economy should continue to slow as we move into the fourth quarter, as certain economies enter a recession. The success of the measures used by policymakers to lessen the impact of the energy crisis on consumers and businesses will play a role in determining the size of this potential recession. Central banks will likely continue to fight against inflation ahead of promoting growth for the foreseeable future.



Global Market Update and Mutual Fund Ideas

Mutual Fund Summary

Amid rising inflation, economic uncertainty, and tightening monetary policy, growth funds broadly outperformed their value counterparts. Mid-cap growth was the best-performing in the quarter but was still down 1.9%. Meanwhile, the average large-value fund fell 5.9%. Growth's outperformance was a shift from the previous two quarters; the large-value category was down 16.7% for the year to date through the third quarter, while the large-growth category was down 31.4%.

These losses were at least less severe than in previous quarters. US stock funds finished the quarter down about 3% on average, with the growth stock funds faring better than value funds. Continuing my previous expected suggestions using the history and following market trends, longer-term investors ignoring recession talk, DCA investing during economic downturns and focusing on maintaining that broad-based diversification across investment portfolios will benefit long-term as the forward-looking markets will experience this positive return before the economy officially recovers.
Past performance is not a reliable indicator of future performance.

Note: Returns are for the period ending September 30, 2022. The returns include dividends and interest income and are based on data supplied by third-party provider RIMES and compiled by T. Rowe Price, except for the Nasdaq Composite Index, whose return is principal only. Sources: Standard & Poor's, LSE Group, Bloomberg Index Services Limited, MSCI, Credit Suisse, Dow Jones, and J.P. Morgan (see Additional Disclosures).

U.S. Equity Indexes	Q3 2022	YTD
S&P 500	-4.88%	-23.87%
Dow Jones Industrial Average	-6.17	-19.72
Nasdaq Composite (Principal Return)	-4.11	-32.40
Russell Midcap	-3.44	-24.27
Russell 2000	-2.19	-25.10
Global/International Equity Indexes	**Q3 2022**	**YTD**
MSCI Europe	-10.11	-28.42
MSCI Japan	-7.52	-26.11
MSCI China	-22.44	-31.12
MSCI Emerging Markets	-11.42	-26.89
MSCI All Country World	-6.71	-25.34
Bond Indexes	**Q3 2022**	**YTD**
Bloomberg U.S. Aggregate Bond	-4.75	-14.61
Bloomberg Global Aggregate Ex-USD	-8.85	-23.88
Credit Suisse High Yield	-0.44	-13.80
J.P. Morgan Emerging Markets Bond Global	-4.20	-22.24

Source : https://www.troweprice.com/personal-investing/resources/insights/global-markets-quarterly-update.html?fbclid=IwAR3iB-IG-xIYO8Mf35Hx8l2FU-UPs-U1K5VZsWL36dh-U3A7Amxq0lfbHjI

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