

## ARK GLOBAL DISRUPTIVE INNOVATION FUND

### Net returns as at 30 September 2023

	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception*
Fund growth return	-9.42	-7.65	2.49	7.35	-35.62	-20.61	-1.04	-2.00
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.04
Total Fund return <sup>‡</sup>	-9.42	-7.65	2.49	7.35	-35.62	-20.61	-1.00	-1.95
MSCI All Countries World Index <sup>^</sup>	-3.80	-0.37	6.43	20.34	3.57	10.70	8.92	8.94

*Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.*

\* Inception date of the ARK Global Disruptive Innovation Fund: August 2018.

‡ Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance.

<sup>^</sup> Reference Index shown for illustrative purposes only: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged).

### Portfolio review

The Fund underperformed broad based global equities during the month (net).

Key contributors to absolute performance:

- **UiPath** shares appreciated after the company posted an earnings beat in the second quarter, delivering year-over-year revenue growth of 18.6%. UiPath Inc. provides an end-to-end automation platform that offers a range of robotic process automation solutions.
- **Palantir** shares saw gains after the company secured a contract with the U.S. Army to conduct research and development services in the area of artificial intelligence and machine learning. Earlier in the month, Palantir entered into an enterprise agreement with Babcock International Group to strengthen the latter's digital defense capabilities through Palantir AIP.
- **Roblox** shares rallied on the back of a bullish investor pitch. Roblox provides a creator-first digital entertainment platform and a 3D engine, both of which allow third-party developers around the world to create games and experiences for users.
- **Meta Platform** shares rose after an analyst opened up a 90-day positive catalyst watch ahead of the Meta Connect event. The analyst predicted that more of Meta's generative artificial intelligence plans, as well as next quarterly results could be revealed then.
- **Verve Therapeutics** shares saw gains after the company confirmed that data from a Phase I trial for its gene editing drug VERVE-101 would be presented

at a medical event in November. VERVE-101 is an in-vivo gene editing therapy targeted at the cardiovascular disorder heterozygous familial hypercholesterolemia (HeFH) in the company's ongoing heart-1 Phase 1b clinical trial

Key detractors from absolute performance:

- **Block** shares dipped after the company disclosed that the CEO of Square, Alyssa Henry, will depart on October 2nd. Jack Dorsey will step in to manage the seller ecosystem division.
- **Roku** shares slipped following an analyst downgrade which cited concerns over valuation and slowing revenue growth. Roku is a connected television (CTV) operating system and hardware provider that distributes various streaming platforms to millions of households globally.
- **Ginkgo Bioworks** shares along with other genome names were down as part of a greater market rotation out of the sector this month. Ginkgo Bioworks announced a partnership with Factorial Biotechnologies to develop a novel enzyme for use in Factorial's single-cell next-generation sequencing library prep kit.
- **Unity** shares fell after the company changed its pricing structure for its Unity game engine. However, the company proposed a much more generous alternative shortly after (i.e., the Unity Personal plan will remain free and there will be no Runtime Fee for games built on Unity Personal). Additionally, no game with less than \$1 million in trailing 12-month revenue will be subject to the fee.

- **Shopify** detracted from performance on the back of relatively little company-specific news. Shopify announced a deal with Amazon that would allow Shopify merchants to offer a Buy with Prime option for payment processing and fulfillment. Further, Shopify announced a partnership with the B2B retail marketplace Faire, which will recommend the latter's platform to Shopify merchants to find wholesale merchandise.

## Market outlook

Broad-based global equity indexes (as measured by the MSCI World) depreciated over the month. Relative to the MSCI World Index, the Energy, Financial Services, and Communication Services sectors outperformed in September, while the Technology, Real Estate, and Utilities sectors lagged. Some of the largest beneficiaries of the rotation to cyclicals—Energy and Financial Services—could be disrupted significantly during the next five years. In ARK's view, autonomous electric vehicles, and digital wallets—including blockchain technologies, cryptocurrencies, and decentralized financial services (DeFi)—will disrupt and disintermediate both Energy and Financial Services.

Recent economic data and comments from the US Federal Reserve (Fed) appear to have tempered investors' previous expectations of interest rate declines. Now, interest rate futures are pricing in a slowdown or recession and potentially one more rate hike before interest rates start to decline. Should an economic slowdown evolve into a hard landing, the slope of interest rate declines could steepen.

The Federal Funds Target Rate has surged 22-fold in the last year, a faster pace than all previous tightening cycles—including the one in 1980-1981 that crushed inflation—creating significant strains at regional banking and in commercial real estate. Bank deposits have dropped 3.7% year-over-year, the largest decline since 1948. ARK believes additional rate hikes will exacerbate this fragile situation.

While the Fed is determined to squelch inflation by increasing interest rates, the bond market has been signalling that it could be making a major mistake. Since March 2021, the yield curve (as measured by the difference between yields on the 10-year Treasury bond and the 2-year Treasury note) has flattened by 203 basis points, inverting from +159 to -44 basis points, the worst inversion since the early 1980s when the Fed was fighting entrenched double-digit inflation. This dynamic suggests that both real growth and inflation could surprise on the low side of expectations. In ARK's view, the Fed is making decisions based on lagging indicators—employment and headline inflation—and ignoring leading indicators that are telegraphing recession and/or price deflation.

Innovation is a potential source of good deflation, as learning curves can cut costs and increase productivity.

Yet, ARK believes many companies have catered to short-term-oriented, risk-averse shareholders, satisfying their demands for profits/dividends "now". On balance, they have leveraged their balance sheets to buy back stock, bolster earnings, and increase dividends. In so doing, many have curtailed investments and could be ill-prepared for the potential disintermediation associated with disruptive innovation. Saddled with aging products and services, they could be forced to cut prices to clear unwanted inventories and service debt, causing bad deflation.

If ARK is correct in their assessment that growth, inflation, or both will surprise on the low side of expectations, scarce double-digit growth opportunities should be rewarded accordingly. The adoption of new technologies typically accelerates during tumultuous times as concerned businesses and consumers change their behaviour much more rapidly than otherwise would be the case. As a result, stocks of innovation-oriented companies have historically performed better and emerged as new market leaders toward the end of a bear market. ARK believes the coronavirus crisis and Russia's invasion of Ukraine have transformed the world significantly and permanently, suggesting that many innovation-driven strategies and stocks could be productive holdings during the next five to ten years.

In ARK's view, the wall of worry bodes well for equities in the innovation space. The strongest bull markets climb walls of worry, a fact that those making comparisons to the tech and telecom bubble seem to forget. No wall of worry existed or tested the equity market in 1999. This time around, the wall of worry has scaled to enormous heights.

## Top 10 holdings (underlying Fund\*)

Security Name	% of Fund
Tesla Inc	8.6
Roku Inc	8.1
Zoom Video Communications Inc	8.0
Coinbase Global Inc	6.7
UiPath Inc	4.6
Block Inc	4.6
DraftKings Inc	4.6
Twilio Inc	4.0
Unity Software Inc	3.7
ROBLOX Corp	3.5

\* The Fund invests in the Nikko AM ARK Disruptive Innovation Fund (Underlying Fund), a sub-fund of the Nikko AM Global Umbrella Fund. The Underlying Fund is an open-ended investment company (Company) established under Luxembourg law as a 'société d'investissement à capital variable' (SICAV).

## Sector exposure (underlying Fund\*)

Element	Exposure (%)
Information Technology	31.5
Health Care	21.7
Communication Services	15.8
Financials	13.8
Consumer Discretionary	13.7
Materials	2.6
Industrials	0.9

## Portfolio composition (underlying Fund\*)

Element	Exposure (%)
Cloud Computing	17.4
Digital Media	15.3
Big Data & Machine Learning	7.6
E-Commerce	7.3
Blockchain & P2P	6.9
Gene Therapy	6.6
Instrumentation	6.0
Mobile	5.5
Internet of Things	5.1
Beyond DNA	4.6
Social Platforms	3.2
Energy Storage	2.8
Molecular Diagnostics	2.4
Robotics	2.2
Next Generation Oncology	1.9
Bioinformatics	1.7
Targeted Therapeutics	1.1
Autonomous Vehicles	1.1
Development of Infrastructure	0.9
3D Printing	0.4

## Features

<b>Investment objective</b>	The Fund aims to achieve a target average total return (before fees, expenses and taxes) of 10% to 15% per annum over a rolling five year period.	
<b>Recommended investment time frame</b>	7+ years	
<b>Fund inception</b>	August 2018	
<b>Fund size</b>	\$55.7 million as at 30 September 2023	
<b>APIR code</b>	NIK1854AU	
<b>Estimated management cost</b>	1.35% p.a.	
<b>Buy/sell spread</b>	+/- 0.20%	
<b>Platform availability</b>	Asgard BT Panarama Hub24 Macquarie Wrap Mason Stevens Netwealth	OneVue Praemium uXchange Wealth02

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## Applications and contacts

Investment into the ARK Global Disruptive Innovation Fund can be made by Australian resident investors only.

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