nikko am
Nikko Asset Management

# NIKKO AM ARK GLOBAL DISRUPTIVE INNOVATION FUND

## Fund Update

### Fund Performance (%) AUD

| | 1 Mth | 3 Mths | 6 Mths | 1 Yr | 2 Yrs p.a. | 3 Yrs p.a. | Since Inception p.a. |
|---|---|---|---|---|---|---|---|
| Fund growth return (net) | -22.65 | -35.51 | -57.46 | -55.82 | -10.27 | -0.73 | -0.71 |
| Fund distribution return (net) | 0.00 | 0.00 | 0.00 | 0.00 | 0.10 | 0.07 | 0.06 |
| **Total Fund return (net)** | **-22.65** | **-35.51** | **-57.46** | **-55.82** | **-10.17** | **-0.66** | **-0.65** |
| MSCI All Countries World Index* | -2.79 | -9.23 | -6.60 | 2.78 | 12.68 | 9.06 | 8.77 |

Source: BNP Paribas. 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. Inception date: August 2018.
*Reference Index shown for illustrative purposes only: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian dollars (unhedged).

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

Key contributor to absolute performance:

- **Twitter** traded up meaningfully during the month after Elon Musk disclosed a significant stake which evolved into, pending approval, an outright purchase of the company. Musk is a visionary entrepreneur and an active Twitter user whose appointment to its Board of Directors could benefit the company in unexpected ways.

Key detractors from absolute performance:

- **Teladoc Health** the largest, global digital health platform, fell significantly after its quarterly earnings report. ARK believes the primary reason for the sudden stock decline was Teladoc's 25% reduction in 2022 adjusted EBITDA guidance owing to a decrease in marketing yield in one of Teladoc's DTC mental health channels.
- **Coinbase Global** traded down alongside crypto markets. ARK believes Coinbase has emerged as the premier regulatory-compliant cryptocurrency exchange and should be a prime beneficiary as the opportunity for crypto-assets evolves.
- **Tesla** detracted from performance despite a strong earnings report that featured record deliveries and operating margin. The company unveiled plans to produce a steering-wheel-less and pedal-less robotaxi vehicle in 2024, a much stronger commitment to robotaxi commercialization than the company has made to date.
- **Unity Software** and **Roku** also detracted from absolute performance.

### Top 10 Holdings – Underlying Fund*

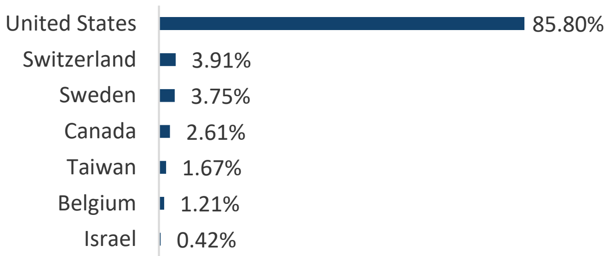
| Security Name | % of Fund |
|---|---|
| Tesla Motors, Inc. | 9.10 |
| Zoom Video Communications Inc | 6.86 |
| Roku Inc | 6.57 |
| Block, Inc | 5.65 |
| Coinbase Global Inc | 5.38 |
| Exact Sciences Corporation | 4.45 |
| Unity Software Inc | 4.45 |
| Teladoc Health, Inc. | 4.05 |
| Twilio, Inc. Class A | 3.92 |
| Crispr Therapeutics Ag | 3.91 |

*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).

### Portfolio Composition – Underlying Fund*

| | Exposure (%) |
|---|---|
| Cloud Computing | 16.20 |
| Digital Media | 14.70 |
| Gene Therapy | 7.70 |
| E-Commerce | 7.10 |
| Big Data & Machine Learning | 6.40 |
| Blockchain & P2P | 6.00 |
| Mobile | 5.70 |
| Instrumentation | 5.50 |
| Molecular Diagnostics | 5.00 |
| Internet of Things | 5.00 |
| Social Platforms | 4.10 |
| Bioinformatics | 3.90 |
| 3D Printing | 3.10 |
| Energy Storage | 3.00 |
| Beyond DNA | 2.50 |
| Autonomous Vehicles | 2.00 |
| Development of Infrastructure | 0.90 |
| Robotics | 0.60 |
| Targeted Therapeutics | 0.30 |
| Next Generation Oncology | 0.30 |

### Country Exposure – Underlying Fund*




## Market Outlook

Broad-based global equity indices (as measured by MSCI World)) depreciated significantly in April as macro headwinds hurt consumer, business, and investor confidence. The broad sell-off was one of the worst months for technology-related stocks since 2008 (as measured by the Nasdaq Composite). If the market remains volatile and the economy continues to slow down, shares of companies in the disruptive innovation space offering scarce growth opportunities and improving fundamentals should benefit, especially as businesses and consumers seek solutions that solve problems, drive efficiencies, and reduce costs.

Dominating most broad-based indices, several mega-cap stocks seem to have lured risk-averse benchmark-sensitive investors into crowded trades, and away from many emerging growth opportunities centred on disruptive innovation. Investors in broad-based equity indices seem to be shorting innovation, perhaps inadvertently and, if history is any guide, to their detriment. As a result, they could be missing the next Amazon, Apple, or Tesla. In the last 15 to 25 years, these companies invested aggressively at the expense of short-term profits. Amazon disrupted the legacy brick and mortar retail market and captured a disproportionate share of the e-commerce opportunity. In the early days, Wall Street also missed the potential of Apple's iPhone to disrupt Nokia, Samsung, Motorola, and Blackberry and, in the last five years, many investors denigrated bitcoin and crypto assets as Ponzi schemes. For many years, traditional auto analysts proclaimed that Tesla was doomed to failure: they did not understand that Tesla was a robotics, energy storage, and artificial intelligence company, not an auto company. Controversial and volatile in the short-term, companies focused on innovation that solve problems and disrupt legacy industries can surprise with significant exponential growth.

The odds of a recession appear to have increased meaningfully after Russia's invasion of Ukraine. Although inflationary in the short term, the rise in oil prices has imposed a highly regressive tax on consumers. Highly dependent on Russia for energy, Europe probably has entered recession, China seems to have erred on the side of restraint, and real GDP in the US declined during the first quarter.

Relative to the global equity indices (MSCI World), the consumer staples, energy, and uUtilities sectors outperformed in April, while the communication services, consumer discretionary, and information technology sectors lagged. 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 from 159 basis points to 19 basis points with brief inversions, suggesting that if the Federal Reserve raises interest rates, real growth, inflation, or both will surprise on the low side of expectations. US consumer sentiment (as of April 2022, measured by the University of Michigan) is lower today than at the depths of the coronavirus pandemic and down to levels last seen during both the 2008-2009 Global Financial Crisis and the early 1980s when inflation and interest rates hit double digits. With the exception of the 2011 European Debt Crisis, the current consumer sentiment levels have been associated with recessions.

Some of the largest beneficiaries of the rotation to cyclicals during the past fourteen months––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.

While public equities in the pure-play innovation space have collapsed during the past year, late-stage private market valuations have soared. Based on ARK's analysis, the median value of late-stage start-ups announcing new funding rounds in February has soared roughly 180% in the median of 260 days since their prior funding rounds. At the same time, the MSCI IMI Innovation Index has depreciated by 14%. While valuations associated with pure-play innovation companies in the public and private markets are at odds, in ARK's view the truth is somewhere in between the two, signalling a potential upside to valuations in the public equity markets.

In ARK's view, long-term inflation fears have been overblown because the US economy contracted during the first quarter and inventories piled up. At the same time, the war in Ukraine and policy restraint in China put the brakes on the other two major economies in the world. During the first quarter, real GDP in the US dropped 1.4% at an annual rate. At the same time, the consumer savings rate dropped to 6.2%, roughly 200 basis points below its pre-coronavirus crisis, suggesting less room for future consumption. Meanwhile, in the last year businesses and consumers seemingly overreacted to supply chain bottlenecks of goods and labour by building "inventories". In the short term, along with other geopolitical forces, this hoarding has pushed US consumer price inflation to 8.6% on a year-over-year basis, a rate that ARK believes deflationary forces – good, bad, and cyclical – are likely to unwind during the next year.

Innovation is the source of good deflation, as learning curves cut costs and increase productivity. Yet, ARK believes many companies have catered to the short-term-oriented, risk-averse shareholders and have satisfied demands for profits/dividends "now". As a result, many have leveraged their balance sheets to buy back stock, bolster earnings, and increase dividends. In so doing, many have curtailed investments in innovation and could be ill-prepared for the impact of 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 are likely to surprise on the downside, scarce double-digit growth opportunities will be rewarded accordingly. The onset of the pandemic and subsequent variants generated broad-based fear, uncertainty, and doubt (FUD) in the equity markets, causing what seemed to be indiscriminate, algorithmic selling as a form of short-term risk management. Typically, FUD accelerates the adoption of new technologies as concerned businesses and consumers change their behaviour much more rapidly, causing new leadership to surface in the equity market. ARK believes the coronavirus crisis and the Russian invasion of Ukraine have transformed the world significantly and permanently, suggesting that many innovation-driven stocks could be productive holdings during the next five to ten years.

In ARK's view, the wall of worry built on the back of high multiple stocks bodes well for equities in the innovation space. The strongest bull markets do climb a wall 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.

## Key Facts

**Responsible Entity**
Yarra Investment Management Limited

**APIR Code**
NIK1854AU

**Investment Adviser**
ARK Investment Management LLC

**Asset Allocation (via Underlying Fund)**

| | |
|---|---|
| Global Equity | (Min 90%, Max 100%) |
| Cash | (Min 0%, Max 10%) |

**Buy/Sell Spread**
0.25%/0.25%

**Management Cost**
1.35% p.a.

**Distribution Frequency**
Annual^

**Fund Size**
AUD 73.6 million

**Minimum Investment**
AUD 10,000

^We expect annual income distributions to be minimal or nil at times.

## Contact Us

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### Important Information