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)	-5.18	-2.60	-36.08	-62.72	-30.40	-3.50	-3.23
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.05
Total Fund return (net)	**-5.18**	**-2.60**	**-36.08**	**-62.72**	**-30.40**	**-3.43**	**-3.17**
MSCI All Countries World Index*	-1.96	-1.26	-6.02	-10.33	8.04	7.41	7.43

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 contributors to absolute performance:

- **Signify Health** traded up following rumours of CVS's interest in acquiring the company. News of the potential acquisition comes after Amazon's recent acquisition of One Medical, suggesting an emerging pattern of consolidation in the digital healthcare space. Signify Health seeks to activate the home as central to healthcare, enabling its members to avoid inefficient and unnecessary medical costs..
- **Unity Software** rallied following the announcement of AppLovin's all-stock offer to buy Unity in an attempt to stop the Unity/ironSource merger, which was set in motion in July. Unity rejected the bid, stating that the merger agreement with ironSource provided better value to Unity shareholders.
- **Invitae** reported 17.5% revenue growth this quarter. Management attribute this rapid improvement to several initiatives they have been implementing to establish Invitae as the global leader in delivering personalized, genetically-driven healthcare.
- **DraftKings** surged amid strong second quarter earnings, generating revenue of $466M, up 56% from last year. The number of monthly unique paying (MUP) B2C customers increased to 1.5M, representing an increase of 30% compared to the same period last year. Furthermore, the average revenue per MUP was $103, also up 30% year over year.

Key detractors from absolute performance:

- **Zoom** traded down after the company reported second-quarter earnings, which beat consensus expectations for EPS but missed on revenues.
- **Exact Sciences** traded down on relatively little company-specific news. The company posted strong second quarter results earlier in August but lowered its guidance for FY22.
- **CRISPR Therapeutics** slid on the back of an earnings miss in the second quarter. The company missed EPS and revenue by $0.19 and $2.04M (down 100% YoY), respectively.
- **Teladoc Health** fell following a downgrade by Wall Street analysts, who raised concerns about near term performance.
- **Tesla** experienced volatility as Musk suggested that the US economy is likely to see a "relatively mild recession for something like 18 months." Additionally, Musk updated the timeline for the rollout of its Cybertruck, which was originally slated to enter production in 2021, and revised the vehicle's initial pricing expectations. In addition, the company has paused orders for its Cybertruck outside North America, and its Model 3 Long Range vehicles in the United States and Canada, citing lengthy delivery backlogs.

Top 10 Holdings – Underlying Fund*

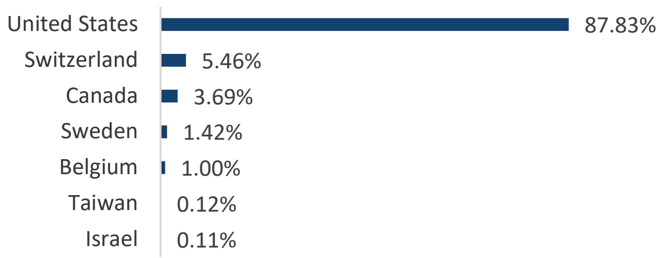
Security Name	% of Fund
Tesla	9.27
Roku	8.13
Zoom	7.87
Crispr Therapeutics	5.46
Block	4.87
Unity Software	4.61
Intellia Therapeutics	4.54
Teladoc Health	4.19
Exact Sciences Corporation	4.10
Uipath	4.09

*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	16.98
Digital Media	14.97
Gene Therapy	10.23
E-Commerce	7.78
Instrumentation	5.70
Big Data & Machine Learning	5.67
Internet of Things	5.45
Mobile	4.99
Beyond DNA	4.65
Bioinformatics	4.65
Blockchain & P2P	4.11
Molecular Diagnostics	4.09
Energy Storage	3.03
Autonomous Vehicles	2.38
Social Platforms	1.61
3D Printing	1.52
Development of Infrastructure	0.93
Targeted Therapeutics	0.72
Robotics	0.46
Next Generation Oncology	0.05
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

Broad-based global equity indexes (as measured by the MSCI World) finished lower after a volatile month, as investor sentiment flipped from a potential Fed pivot to a hawkish clamp down. If the Fed missteps and the economy falls further into recession, companies in the disruptive innovation space should offer scarce growth opportunities, especially as businesses and consumers seek solutions that solve problems, drive efficiencies, and reduce costs, benefiting their share price.

Relative to the MSCI World Index, the Energy and Utility sectors outperformed in August, while the Information Technology and Health Care sectors lagged. The Energy sector was the lone positive performer. Some of the largest beneficiaries of the rotation to cyclicals during the past eighteen 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.

Dominating most broad-based indexes, several mega-cap stocks seem to have lured risk-averse benchmark-sensitive investors into crowded trades, buying on the selloff, and away from emerging growth opportunities centred on disruptive innovation. In ARK's view, investors in broad-based equity indexes seem to be shorting innovation, perhaps inadvertently and, if history is any guide, to their detriment. As a result, they could be missing investment opportunities like the next Amazon, Apple, or Tesla, companies that invest aggressively at the expense of short-term profits. For years, as many investors assumed that it would go bankrupt, Amazon invested in an effort to disrupt legacy brick and mortar businesses, capturing a disproportionate share of the retail e-commerce opportunity. In the early days, Wall Street also missed the potential of Apple's iPhone to disrupt Nokia, Samsung, and Blackberry. Recently, it also denigrated bitcoin and other cryptoassets as Ponzi schemes. In another example of truly disruptive innovation, traditional auto analysts deemed Tesla 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 solves problems and disrupts legacy industries can surprise on the upside with significant exponential growth trajectories. In ARK's view, active management will play a crucial role as many disruptive companies will compete in winner-take-most markets.

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 189 basis points, from 159 to -30 basis points, suggesting that if the Federal Reserve continues to raise interest rates, both real growth and inflation could surprise on the low side of expectations. US consumer sentiment (as of August 2022, measured by the University of Michigan) ticked up slightly but remains at levels last seen during the coronavirus pandemic, the 2008-2009 Global Financial Crisis, and the early 1980s when the economy suffered two recessions while inflation and interest rates hit double digits. Meanwhile, the consumer savings rate has dropped to 5.0%, the lowest since August 2009, suggesting that consumers do not have the means for significant real consumption growth.

In ARK's view, long-term inflation fears have been overblown because the US economy is contracting and inventories have piled up. The prices of gold, copper, and lumber, three commodities that led the rise in broad based inflation, have broken down, are below their respective 2021 lows, and are down on a year-over-year basis. Oil price remains an outlier, but its price has fallen 31% since its peak in March. Semiconductors, another "commodity" whose supply chain was pinched, have undergone a reversal in trend. For the first time since its launch in October 2020, the price of Nvidia's RTX 3070 GPU has dropped more than 65% to the MSRP (manufacturer's suggested resale price), and customers of Taiwan Semiconductor seem to be pulling orders in response to excess inventory. In ARK's view, in an attempt to satisfy stronger than expected demand, companies double- and triple-ordered goods, creating an inventory glut that will unwind as companies lower prices to clear their shelves. Furthermore, the dollar has continued to strengthen rapidly, a powerful deflationary force. The combination of geopolitical forces and inventory hoarding has pushed US consumer price inflation––a lagging indicator of inflation––to 8.5% on a year-over-year basis, a rate that ARK believes deflationary forces––good, bad, and cyclical––are beginning to unwind.

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 will surprise on the low side of expectations, scarce double-digit growth opportunities should be rewarded accordingly. The adoption of new technologies typically accelerates as concerned businesses and consumers change their behaviour much more rapidly than otherwise would be the case, allowing new leadership to surface in the equity 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 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
0.20%/0.20%

Management Cost
1.35% p.a.

Distribution Frequency
Annual^

Fund Size
AUD 63.57 million

Minimum Investment
AUD 10,000

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

Contact Us

Yarra Investment Management Limited
Level 11 Macquarie House
167 Macquarie Street Sydney NSW 2000, Australia
Phone: 1800 251 589
Fax: +61 2 8072 6304
Email: investor@yarracm.com

Important Information