

# 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)	22.82	-4.09	-10.65	-45.29	-43.00	-10.03	-4.22
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.05
<b>Total Fund return (net)</b>	<b>22.82</b>	<b>-4.09</b>	<b>-10.65</b>	<b>-45.29</b>	<b>-43.00</b>	<b>-9.96</b>	<b>-4.17</b>
MSCI All Countries World Index*	3.14	0.67	1.46	-8.01	6.51	5.01	7.53

Source: Citi. 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 outperformed broad based global equities during the month (net).

Key contributors to absolute performance:

- **Roku** shares rallied after the company announced it surpassed 70 million active accounts globally, marking a 16% YoY growth. Roku also announced plans to release its own line of TVs this year. ARK believes Roku is a dominant player in the connected TV space, and it continues to operate the most successful independent TV OS in the U.S.
- **Tesla** rallied on the back of strong fourth quarter results, where Elon Musk told investors that Tesla had the ability to produce up to 2 million vehicles this year, assuming no hiccups. On that note, the company confirmed that the Cybertruck is on track to start production later in the year in its Austin, Texas factory. The company also provided an optimistic outlook on profits, citing that hardware-related profits are expected to be accompanied by an acceleration of software-related profits. This aligns with ARK's thesis on autonomous driving. Lastly, the company is slated to share details on its next generation vehicle, which ARK believes could be a purpose-built robotaxi, during its Investor Day in March.
- **Exact Sciences** rallied after guiding to a 28% YoY revenue growth as part of its fourth quarter earnings preview. Full year 2022 revenue, excluding COVID-19 testing, is expected to grow 25% YoY, with 34% and 7% growth in screening and precision oncology revenue, respectively. The company also guided to higher adjusted EBITDA profitability. ARK expects that as Exact's diagnostic capabilities continue to expand into indications other than colorectal cancer, the company will be well situated to replicate the standard-of-care status Cologuard has achieved in these other testing areas.

- **Coinbase** and other crypto-related companies saw gains on the back of a wider cryptocurrency market rally as investors seemed to have priced in the Genesis bankruptcy. ARK maintains conviction in Coinbase being a leader in various parts of the crypto ecosystem.
- **Square** shares also appreciated from this rally in the greater cryptocurrency market.

Key detractors from absolute performance:

- **Cerus** traded down after the company reported earnings and described 2023 as a "bridge year" in which the outlook remains unclear. In ARK's view, foreign exchange (FX) pressures and inventory issues in the international blood industry are weighing on the short-term outlook. Cerus is a biomedical products company supplying hardware and consumables under its flagship blood transfusion safety brand, INTERCEPT.
- **Prime Medicine** traded down on relatively little company specific news. Prime Medicine is a biotechnology company committed to delivering a new class of differentiated, one-time, curative genetic therapies to address the widest spectrum of diseases.
- **Organovo** traded lower on relatively little company specific news. Organovo is an early-stage medical laboratory and research company that designs and develops functional, 3D human tissue for medical research and therapeutic applications.
- **XPeng** and other Chinese EV automakers reacted to Tesla's price cuts, which could negatively affect their sales.
- **Iovance Biotherapeutics** announced that it acquired worldwide rights for Proleukin from Clinigen, an interleukin-2 (IL-2) product used to promote T-cell activity following a tumour infiltrating lymphocyte infusion. The company also reached an agreement with the U.S. Food and Drug

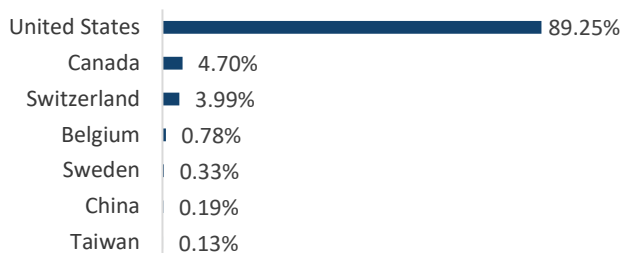
Administration regarding the Phase 3 TILVANCE-301 trial of lifileucel in combination with Merck’s cancer drug, Keytruda (pembrolizumab), in frontline advanced melanoma.

Portfolio Composition – Underlying Fund\*

	Exposure (%)
Cloud Computing	18.89
Digital Media	12.99
E-Commerce	9.97
Gene Therapy	8.25
Instrumentation	7.50
Big Data & Machine Learning	6.15
Mobile	5.52
Molecular Diagnostics	4.92
Internet of Things	4.89
Blockchain & P2P	4.71
Beyond DNA	4.05
Energy Storage	2.86
Bioinformatics	2.37
Social Platforms	1.92
3D Printing	1.31
Autonomous Vehicles	0.96
Development of Infrastructure	0.83
Robotics	0.82
Targeted Therapeutics	0.70
Next Generation Oncology	0.42

\*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).

Country Exposure – Underlying Fund\*



Market Outlook

Broad-based global equity indexes (as measured by the MSCI World) rallied vigorously in January. The Federal Reserve’s preferred measures of inflation and wages both cooled, easing fears of a significant rise in rates from current levels. The personal consumption expenditures core price index, which excludes food and energy, rose 4.4% in December from a year earlier while the Employment Cost Index for the fourth quarter rose 1.0%, slowing from the prior quarter and below expectations. During his press conference on February 1st, Fed Chairman Powell committed to “ongoing increases” but only “a couple more”, signalling that the Fed may be near the end of its tightening cycle.

Relative to the MSCI World Index, the Consumer Discretionary, Communication Services, and Materials sectors outperformed in January, while the Health Care, Utility, and Consumer Staples 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.

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 228 basis points, from 159 to -69 basis points, suggesting that if the Federal Reserve does not pull back its rate increases, both real growth and inflation could continue to surprise on the low side of expectations. US consumer sentiment (as of January 2023, measured by the University of Michigan) ticked up to levels slightly above those last seen during the coronavirus pandemic, the 2008-2009 Global Financial Crisis, and the early 1980s when the economy suffered two recessions and inflation and interest rates hit double digits. Meanwhile, according to Federal Reserve Economic Data (FRED), the consumer saving rate has collapsed from 26% to 3.4%, near levels last seen during the 2008-2009 Global Financial Crisis, suggesting that consumers do not have the means for significant real consumption growth.

In ARK’s view, deflation is a more significant risk than inflation, with commodity prices and massive retail discounts during the holidays corroborating this point of view. The prices of gold, copper, and lumber, three commodities that led or flagged the rise in broad-based inflation, are down from their recent peaks. Previously an outlier, oil price inflation has also decelerated. Surprisingly, even though the oil price has dropped from \$130 per barrel to \$79, the S&P Energy Sector ETF (XLE) is not far from its all-time high.

The combination of geopolitical forces and inventory hoarding pushed US consumer price inflation, a lagging indicator of inflation, to 6.5% on a year-over-year basis, a rate that ARK believes deflationary forces, good, bad, and cyclical, will continue 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, giving new leadership an opportunity 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.

While the 2022 bear market obscured many disruptive breakthroughs, innovation continued apace thanks to artificial intelligence (AI), genomics, and space exploration, among others. ChatGPT, a version of GPT-3 tuned for conversation dialogue, already scores above the national average on SAT questions, highlighting the power of AI. In the UK, a research hospital used an advanced version of gene editing called base-editing to cure a 12-year-old girl with leukemia who had failed dozens of therapies. SpaceX launched 61 Falcon9 rockets, reusing the last one within 21 days, compared to 356 days for the first one. In ARK’s view, companies sacrificing short-term profitability to invest heavily in innovative technologies will enjoy exponential and highly profitable long-term growth opportunities.

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## 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<sup>^</sup>

### Fund Size

AUD 58.2 million

### Minimum Investment

AUD 10,000

<sup>^</sup>We expect annual income distributions to be minimal or nil at times.

## Contact Us

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