

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)	9.16	-5.06	-38.77	-59.42	-23.73	-3.84	-1.98
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.06
Total Fund return (net)	9.16	-5.06	-38.77	-59.42	-23.73	-3.77	-1.92
MSCI All Countries World Index*	5.43	-0.11	-9.33	-5.70	10.69	8.08	8.15

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

Key contributors to absolute performance:

- **Tesla** rose in early July after it was announced that the company sold 78,000 of its Chinese-produced vehicles in June. That figure represents a 142% leap from May and a 135% jump from 2021. On the earnings call, Elon Musk said that the company aims to produce 40,000 vehicles a week by the end of this year.
- Shares of **CRISPR Therapeutics** and **Intellia Therapeutics** traded higher alongside what ARK believes was a meaningful market rotation into growth stocks led by the biotech segment. Biotech stocks generally are considered “high growth” and tend to perform better in a subdued interest rate environment. ARK also believes we may be seeing the beginning of a new trend of M&A consolidation in the biotech sector.
- Shares of **Block** and the broader fintech industry traded higher with the market rotation into growth stocks.
- Closely tied to the crypto market ecosystem, **Coinbase** rallied in tandem with major cryptocurrencies, offsetting the sell-off that followed reports of the SEC investigating a former Coinbase employee for insider trading.

Key detractors from absolute performance:

- **Roku** fell after the company missed both revenue and earnings estimates in its second quarter report. Management withdrew full-year revenue guidance, citing a slowdown in the growth of advertising budgets and a pull-back in consumer discretionary spending, and lowered guidance for third quarter revenue growth to 3% on a year-over-year basis.
- **Zoom** traded lower on relatively little company-specific news.

- **Invitae** traded lower after the company announced a major strategic realignment and corporate restructuring. Invitae’s current COO, Kenneth D. Knight, will replace Sean George as CEO. Randy Scott, Invitae’s co-founder and former CEO, will take an active role as Chairman of the Board, and co-founder Sean George will remain on the Board.
- **10X Genomics** fell as Wall Street appeared focused on the company’s Q2 revenue expectations of US\$114.5 million, down from US\$115.8 million a year earlier. The company announced the commercial availability of its Fixed RNA Profiling and Nuclei Isolation Kits. The new products could expand the company’s addressable market significantly.
- **2U** traded lower following a downgrade from ‘outperform’ to ‘neutral’ by an analyst. The analyst lowered estimates on US software stocks to reflect macro risks ahead of a likely recession.

Top 10 Holdings – Underlying Fund*

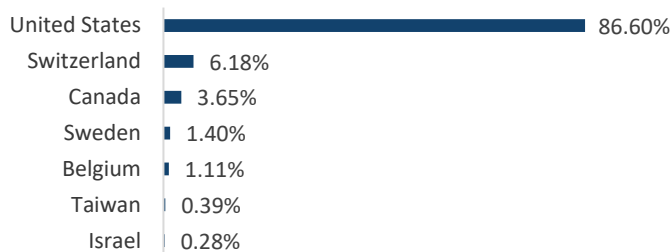
Security Name	% of Fund
Tesla	10.42
Zoom Video Communications	8.02
Roku	6.71
CRISPR Therapeutics	6.18
Block	5.14
Teladoc Health	4.67
Intellia Therapeutics	4.65
Uipath	4.28
Exact Sciences Corporation	4.19
Unity Software Inc	3.76

*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	17.09
Digital Media	12.67
Gene Therapy	11.26
E-Commerce	7.97
Instrumentation	6.09
Big Data & Machine Learning	6.00
Internet of Things	5.70
Bioinformatics	5.06
Mobile	4.88
Beyond DNA	3.99
Molecular Diagnostics	3.76
Blockchain & P2P	3.61
Energy Storage	3.46
Autonomous Vehicles	2.70
3D Printing	1.83
Social Platforms	1.68
Development of Infrastructure	1.06
Robotics	0.59
Targeted Therapeutics	0.43
Next Generation Oncology	0.05
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

Broad-based global equity indices, as measured by the MSCI World, appreciated in July as US Real GDP contracted sequentially - a technical recession - driving a rotation into growth stocks. If the economy continues to move into recession, 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.

Relative to the MSCI World Index, the consumer discretionary, information technology, and industrials sectors outperformed in July. Reversing a trend, the cyclical and value-oriented sectors underperformed their growth-oriented counterparts. 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 indices, several mega-cap stocks seem to have lured risk-averse benchmark-sensitive investors into crowded trades, buying on the sell-off, and away from emerging growth opportunities centred on disruptive innovation. In ARK’s view, 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 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 argued 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 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 181 basis points, from 159 basis points to -22 basis points, suggesting that if the US Federal Reserve continues to raise interest rates, both real growth and inflation could surprise on the low side of expectations. US consumer sentiment, as measured by the University of Michigan, held at 51 in July, a historic low that undercut levels seen during the COVID-19 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.

In ARK’s view, long-term inflation fears have been overblown because the US economy is contracting and inventories have piled up. Meanwhile, the consumer savings rate has dropped to 5.1%, the lowest since August 2009, which when coupled with historically low consumer sentiment, suggests less room for consumption. During the past year, in an overreaction to bottlenecks in the supply of goods and services, businesses and consumers appear to have accumulated “inventories”. In their first-quarter earnings releases, Walmart and Target – two companies that have perfected supply chain management – reported that inventories increased 32% and 43% in nominal terms on a year-over-year basis, which likely translated into 20-25% and 30-35% in real terms, respectively. Meanwhile, 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. Unsurprisingly, the Institute for Supply Management (ISM) reported a second sequential contraction in new orders for July. The combination of geopolitical forces and inventory hoarding has pushed the US consumer price inflation, a lagging indicator of inflation, to 9.1% 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 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 COVID-19 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.

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Key Facts

Responsible Entity Yarra Investment Management Limited	Buy/Sell Spread 0.20%/0.20%
APIR Code NIK1854AU	Management Cost 1.35% p.a.
Investment Adviser ARK Investment Management LLC	Distribution Frequency Annual [^]
Asset Allocation (via Underlying Fund) Global Equity (Min 90%, Max 100%) Cash (Min 0%, Max 10%)	Fund Size AUD 66.84 million Minimum Investment AUD 10,000

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

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