

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)	-5.90	-32.72	-53.95	-65.30	-24.07	-5.73	-4.23
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.06
Total Fund return (net)	-5.90	-32.72	-53.95	-65.30	-24.07	-5.66	-4.18
MSCI All Countries World Index*	-4.47	-7.90	-15.61	-8.02	8.39	6.93	6.85

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:

- **Intellia Therapeutics**, recent receipt of an orphan drug label designation for NTLA-5001, which targets acute myeloid leukaemia, is a positive development.
- **Veracyte** demonstrated the efficacy of its Afirma Genomic Sequencing Classifier to improve the accuracy of thyroid cancer diagnosis. The pioneer in gene expression-based prognostic testing is one of the most vertically integrated molecular testing companies on the market. In ARK's view, its decentralized testing portfolio (assays and instruments) should position the company to win a significant share within and beyond the US.
- **UiPath** was added to the Russell 3000 Index and raised its full year non-GAAP operating income guidance while reaffirming revenue guidance.
- **Roblox** rallied during the latter half of the month after the gaming platform company reported 50.4 million daily active users for May, a 17% year-over-year increase. ARK believe that Roblox is well-positioned to continue as a leader in consumer digital worlds and entertainment.
- **CRISPR Therapeutics** experienced volatility after the share price fell during the company's Innovation Day but recovered to end the month in positive territory. Many research analysts reacted constructively to the Innovation Day, emphasizing the company's strong pipeline and recent data releases.

Key detractors from absolute performance:

- **Coinbase Global** depreciated amidst a broad crypto selloff triggered by events including the collapse of Terra/Luna, and liquidity issues at Celsius, among others. ARK maintains

conviction in Coinbase being a leader in various parts of the crypto ecosystem.

- **Block** fell alongside general fintech weakness. Apple's expansion into the "Buy Now, Pay Later" market and Block's exposure to crypto have some investors worried.
- **Roku** traded down this month as part of a larger selloff across equities related to streamed content and/or digital ads.
- **Exact Sciences** retracted amid a broad-based market selloff impacting growth names disproportionately.
- **Tesla** remained under pressure as several analysts cut delivery estimates, citing macro headwinds and supply chain problems, including the Shanghai shutdown.

Top 10 Holdings – Underlying Fund*

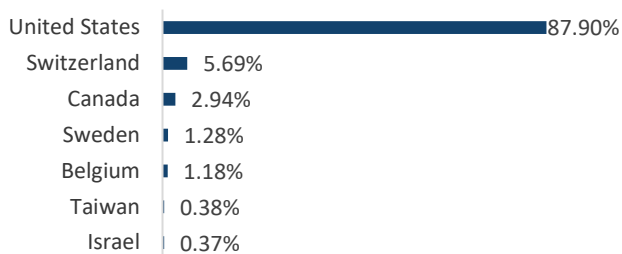
Security Name	% of Fund
Zoom Video Communications	9.21
Tesla	8.87
Roku	8.76
CRISPR Therapeutics	5.69
Teladoc Health	4.67
UiPath	4.65
Block	4.48
Intellia Therapeutics	4.46
Exact Sciences Corporation	4.05
Unity Software	3.75

*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	18.60
Digital Media	13.59
Gene Therapy	10.39
E-Commerce	6.91
Instrumentation	6.45
Big Data & Machine Learning	5.53
Internet of Things	5.38
Mobile	5.09
Bioinformatics	4.88
Molecular Diagnostics	3.86
Blockchain & P2P	3.84
3D Printing	3.45
Beyond DNA	3.24
Energy Storage	2.90
Autonomous Vehicles	2.06
Social Platforms	1.60
Development of Infrastructure	0.89
Robotics	0.71
Targeted Therapeutics	0.30
Next Generation Oncology	0.24
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

Broad-based global equity indices as measured by MSCI World depreciated in June as consumers, businesses, and investors weighed the likelihood of a global recession. Innovation stocks, particularly those outside the broad-based indexes, remained volatile, swinging dramatically from week to week. If the markets remain volatile and the economy continues to plunge 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 global equity indices as measured by MSCI World, the Health Care, Consumer Staples, and Utilities sectors outperformed in June, while the Materials, Energy, and Consumer Discretionary sectors lagged. 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 seventeen 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, 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, and away from many emerging growth opportunities centred on disruptive innovation. 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 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 solves problems and disrupts legacy industries can surprise with significant exponential growth trajectories.

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 6 basis points with brief inversions, suggesting that if the Federal Reserve raises interest rates, both real growth and inflation could surprise on the low side of expectations. US consumer sentiment as of June 2022, measured by the University of Michigan, plummeted 8.4 points to 50, a historic low that has undercut levels 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.

The odds of a global recession increased meaningfully after Russia invaded 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 seems to have entered recession. China seems to have erred on the side of restraint, and in the US, the Atlanta Fed’s GDPNow is forecasting another sequential decline in real GDP, a recession.

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 5.4%, roughly 250 basis points below its level during the pre-coronavirus crisis which, when coupled with historically low consumer sentiment, suggests less room for consumption. In the last year, businesses and consumers seemingly overreacted to supply chain bottlenecks of goods and labour by building “inventories”. During first-quarter earning releases, giant retailers that typically manage their supply chains exceptionally well, reported inventories building at a 20% plus rate in real terms. The price of Nvidia’s RTX 3070 GPU has dropped more than 65% to the MSRP (manufacturer’s suggested resale price) for the first time since its launch in October 2020. Taiwan Semiconductor has reported that its customers are pulling orders in response to inventory build-ups. In ARK’s view, companies that struggled to keep up with demand double- and triple-ordered, creating an inventory pile-up that will have to unwind. ARK was not surprised to learn that the Institute for Supply Management (ISM) reported the first contraction in new orders since mid-2020. In the short term, along with other geopolitical forces, this 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.

Again, if ARK is correct in their assessment that growth, inflation, or both will 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 rapidly, causing 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 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.

Important Information

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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 61.02 million Minimum Investment AUD 10,000

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

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