

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)	-5.78	-7.44	-9.84	-61.31	-38.44	-9.36	-4.79
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.05
Total Fund return (net)	-5.78	-7.44	-9.84	-61.31	-38.44	-9.29	-4.74
MSCI All Countries World Index*	2.89	5.77	4.43	-6.43	7.69	6.98	8.40

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

Key contributors to absolute performance:

- **Exact Sciences** delivered strong third quarter results and boosted its revenue guidance for the remainder of the year, causing its stock to rally. ARK believes with its breadth of oncology offerings, Exact will remain a leader within the early disease detection space.
- **Unity Software** saw gains after a better-than-expected CPI print brought about a broader market rally.
- **Shopify** rallied on record Black Friday/Cyber Monday results and also benefitted from a better-than-expected CPI.
- **Veracyte** rallied on the back of a third quarter earnings beat. The company raised its full year revenue and reported a YoY revenue growth of 25%, driven by the success of its Decipher and Afirma tests.
- **Block** rallied after the company posted record transaction volume over the Black Friday/Cyber Monday weekend, especially through its Buy Now Pay Later service, Afterpay.

Key detractors from absolute performance:

- **Twilio** traded down after the company reported third quarter earnings. Though Twilio surpassed Wall Street estimates for both revenue and earnings, management said that revenue growth would slow from 33% on a year-over-year basis to 18-19%.
- **Tesla** declined from a combination of concerns over demand in China, and Musk's involvement with Twitter. ARK's conviction in Tesla remains strong as we believe its vertical platform can propel two profound transformations in the automotive industry: electrification and automation. Despite

concerns, the Tesla Model Y is one of the best-selling SUVs in China.

- **Coinbase** depreciated as the cryptocurrency market came under downward pressure against a backdrop of a broad risk-off session. ARK maintains conviction in Coinbase being a leader in various parts of the crypto ecosystem.
- **Roblox** traded down after the company reported 2% year-over-year revenue growth in the third quarter.
- **Zoom** depreciated as the company reported third quarter earnings. Zoom cut its annual sales forecast and posted its slowest quarterly growth. ARK maintains high conviction in Zoom and its potential to become a leading communications platform for enterprise-to-enterprise communication.

Top 10 Holdings – Underlying Fund*

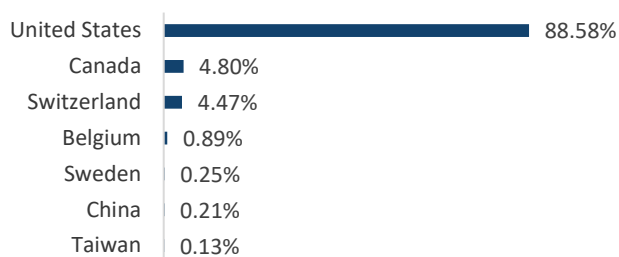
Security Name	% of Fund
Zoom Video Communications	8.64
Roku	8.46
Tesla	7.91
Exact Sciences Corporation	5.89
Block	5.49
Shopify	4.80
Unity Software	4.76
CRISPR Therapeutics	4.47
Teladoc Health	4.26
UiPath	4.24

*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	18.49
Digital Media	14.68
E-Commerce	9.46
Gene Therapy	9.12
Instrumentation	7.49
Big Data & Machine Learning	6.04
Molecular Diagnostics	5.50
Mobile	5.21
Internet of Things	4.93
Beyond DNA	4.01
Blockchain & P2P	3.94
Energy Storage	2.77
Bioinformatics	2.43
Social Platforms	1.66
3D Printing	1.41
Autonomous Vehicles	0.91
Development of Infrastructure	0.79
Robotics	0.58
Targeted Therapeutics	0.53
Next Generation Oncology	0.03
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

Broad-based global equity indexes (as measured by the MSCI World) rose in November as better-than-expected inflation data led Fed officials to note the lagging effects of monetary policy. 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 prices.

Relative to the MSCI World Index, the Materials, Industrials, and Financial Services sectors outperformed in November, while the Energy, Consumer Discretionary, and Health Care 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.

Dominating most broad-based indexes, several mega-cap stocks seem to have lured risk-averse benchmark-sensitive investors into crowded trades and away from emerging growth opportunities centred on disruptive innovation. In ARK’s view, investors in broad-based equity indexes seem to be shorting truly disruptive innovation, perhaps inadvertently and, if history is any guide, to their detriment. As a result, they could be missing investment

opportunities for companies that invested aggressively at the expense of short-term profits. While controversial and volatile in the short term, companies focused on innovation that solves problems and disrupts legacy industries have the potential to surprise on the upside with significant exponential growth trajectories. In ARK’s view, active management will play a crucial role during the next five to ten years as some disruptive companies win and others lose 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 229 basis points, from 159 to -70 basis points, suggesting that if the Federal Reserve does not pull back its rate increases, both real growth and inflation could surprise on the low side of expectations. US consumer sentiment (as of November 2022, measured by the University of Michigan) 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 and inflation and interest rates hit double digits. Meanwhile, the consumer savings rate has dropped to 2.3%, its second-lowest level since 1959 (The consumer savings rate dropped to 2.1% in July 2005), suggesting that consumers do not have the means for significant real consumption growth.

In ARK’s view, the US economy has contracted, inventories have piled up, and long-term inflation fears are overblown. The prices of gold, copper, and lumber, three commodities that led the rise in broad-based inflation, have broken down and are flat or down on a year-over-year basis. The price of oil remains an outlier, but its price has fallen from its peak in March. Large retail stores continue to struggle with inventory build-ups that surfaced in the April quarter. During the past year, in response to supply bottlenecks caused by the COVID crisis and Russia’s invasion of Ukraine, companies appear to have double and triple-ordered goods to satisfy stronger-than-expected demand growth that is now diminishing. To attract cautious consumers and clear bloated inventories, retailers could have to slash prices during the holiday season. The combination of geopolitical forces and inventory hoarding has pushed US consumer price inflation – a lagging indicator of inflation – to 7.7% on a year-over-year basis, a rate that ARK believes deflationary forces – good, bad, and cyclical – are beginning to unwind (Consumer Price Index YoY for October 2022).

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 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 58.30 million Minimum Investment AUD 10,000

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

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