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)	2.47	-6.84	-11.56	-62.38	-31.28	-3.04	-3.51
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.05
Total Fund return (net)	**2.47**	**-6.84**	**-11.56**	**-62.38**	**-31.28**	**-2.97**	**-3.46**
MSCI All Countries World Index*	6.61	0.78	0.67	-5.98	9.85	7.48	7.84

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:

- **Zoom Video Communications** shares rallied on relatively little company-specific news.
- **Shopify** rallied following a third quarter earnings beat. The company also provided strong guidance through the end of the year. Shopify is a leading provider of software that makes it easy for any business to list their inventory online and seamlessly sell through their own site, Amazon, Instagram, eBay, and other channels.
- **Roblox Corp** traded up after the company posted its strongest usage stats (e.g., bookings, hours engaged, daily active users) in nearly a year. Roblox develops and operates an online entertainment platform for customers worldwide.
- **Teladoc Health** rallied following a third quarter earnings beat on both top and bottom lines. The company posted a YoY increase in revenue and growth in its paid membership.
- **Pacific Biosciences of California** rallied following the launch of Revio, a more affordable gene-sequencing system that will enable customers to scale the use of the company's HiFi sequencing technology. PacBio also announced Onso, their new short read instrument, which boasts many on-instrument features for faster, more accurate, and higher coverage short read sequencing runs.

Key detractors from absolute performance:

- **Tesla** traded down after third quarter deliveries were lower than expected and Tesla noted that future deliveries could be impacted due to supply chain and logistical issues. Musk announced that Tesla is developing a vehicle that will sell at roughly half the price of the Model 3 and Model Y, which ARK believes could be its purpose-built robotaxi
- **CRISPR Therapeutics** dipped down amid a broader selloff impacting gene editing growth names.
- **TuSimple Holdings** depreciated after the company announced that it fired CEO Xiaodi Hou and reports that the self-driving truck company is facing a series of federal probes linked to its ties with China-backed Hydron Inc.
- **Ginkgo Bioworks Holdings** declined, the company announced the completion of two company buyouts, a software aimed to make it possible for scientists to detect engineered DNA at scale, and a collaboration with Merck that includes an upfront research and development fee and eligibility for success-based research, and development milestone payments
- **Intellia Therapeutics** detracted from performance as part of a broader selloff impacting gene editing growth names

Top 10 Holdings – Underlying Fund*

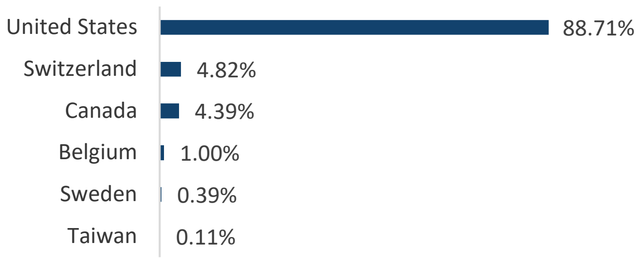
Security Name	% of Fund
Zoom Video Communications	9.27
Tesla	8.42
Roku	7.54
CRISPR Therapeutics	4.82
Block	4.81
Exact Sciences Corporation	4.52
Teladoc Health	4.40
Shopify	4.39
Uipath	4.28
Intellia Therapeutics	4.21

*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	19.50
Digital Media	13.06
Gene Therapy	9.78
E-Commerce	8.65
Instrumentation	6.26
Mobile	5.61
Big Data & Machine Learning	5.56
Internet of Things	4.98
Beyond DNA	4.79
Blockchain & P2P	4.73
Molecular Diagnostics	4.28
Bioinformatics	2.78
Energy Storage	2.75
Social Platforms	2.12
Autonomous Vehicles	1.67
3D Printing	1.47
Development of Infrastructure	0.84
Targeted Therapeutics	0.69
Robotics	0.44
Next Generation Oncology	0.05
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

In October, broad-based global equity indexes rallied (as measured by the MSCI World), as investors weighed a worsening global recession and a potential Fed pivot. 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 Energy, Industrials, and Financial Services sectors outperformed in October, while the Communication Services, Real Estate, and Consumer Discretionary 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 like the next Amazon, Apple, or Tesla, companies that invested aggressively at the expense of short-term profits. For years, as many investors assumed that it would go bankrupt, Amazon invested with the aim to disrupt legacy brick-and-mortar businesses and capture 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, Motorola, and Blackberry. Recently, it also denigrated bitcoin and other crypto-assets as Ponzi schemes. In another example of truly disruptive innovation, traditional auto analysts deemed Tesla as doomed to failure: they did not understand that Tesla was a robotics, energy storage, and artificial intelligence company, not an auto company. 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 200 basis points, from 159 to -41 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 October 2022, measured by the University of Michigan) has 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 and inflation and interest rates hit double digits. Meanwhile, the consumer savings rate has dropped to 3.1%, the lowest since April 2008, 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, are at or below their respective 2021 lows, and are down on a year-over-year basis. The price of oil remains an outlier, but its price has fallen 30% since the peak in March and is up only 3.5% year-over-year. Walmart and Target continue to struggle with inventory build-ups that surfaced in the April quarter, while Nike reported a 44% year-over-year inventory increase as revenue growth hobbled along at a 3.6% rate in the August quarter (Data from company earnings calls). 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 now is diminishing. To attract cautious consumers and clear bloated inventories, retailers could have to slash prices during the holiday season. 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 8.2% on a year-over-year basis, a rate that ARK believes deflationary forces––good, bad, and cyclical––are beginning to unwind. Elon Musk and Jeff Gundlach have recently echoed similar thoughts about the risk of deflation.

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.

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 61.46 million

Minimum Investment
AUD 10,000

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

Contact Us

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Important Information