

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)	-4.13	-0.77	-33.24	-61.39	-31.72	-3.75	-4.16
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.00	0.07	0.05
Total Fund return (net)	-4.13	-0.77	-33.24	-61.39	-31.72	-3.68	-4.11
MSCI All Countries World Index*	-3.58	-0.34	-8.21	-10.86	6.17	5.41	6.33

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:

- **Ginkgo Bioworks** traded up during a broader market rally. The Boston-based synthetic biology company has extensive expertise in developing and optimizing microbes for valuable downstream products in many industries. Ginkgo recently acquired Altar Bio and Circularis, two companies that will further improve their capabilities around adaptive laboratory evolution and gene overexpression.
- **Signify Health** traded up following news of CVS's interest in acquiring the company. News of the potential acquisition comes after Amazon's recent acquisition of One Medical, suggesting an emerging pattern of consolidation in the digital healthcare space. Signify Health seeks to activate the home as central to healthcare, enabling its members to avoid inefficient and unnecessary medical costs.
- **Robinhood** rallied following news that the Securities and Exchange Commission may stop short of a full ban on payment for order flows, which has been a meaningful revenue driver for Robinhood.
- **TuSimple** traded up on relatively little company-specific news. TuSimple is a leading autonomous trucking technology company.
- **Twitter** rallied upon rumors that Elon Musk and Twitter could settle before the October 17th court date

Key detractors from absolute performance:

- **Roku** traded down on relatively little company-specific news. ARK believes Roku is a dominant player in the connected TV space, and it continues to run the most successful independent TV OS in the U.S.
- **Unity Software** dipped after AppLovin withdrew its initial bid

to acquire the company, citing that AppLovin's path as the "independent market leader" is better for its shareholders.

- **UiPath** declined after the company cut its revenue outlook for fiscal year 2023, which resulted in a lowering of sell-side price targets and stock ratings. The change in revenue outlook was largely attributed to the impact of foreign currency exchange rates.
- **Block** depreciated as analysts downgraded the stock during the month, citing concerns around its seller and Afterpay businesses, as well as the company's growth path.
- **Teladoc Health** were pressured by a general downward movement in the broader markets. There was relatively little company-specific news.

Top 10 Holdings – Underlying Fund*

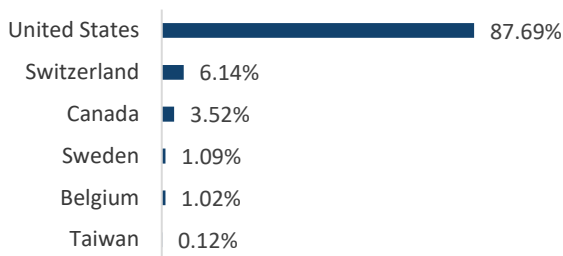
Security Name	% of Fund
Tesla	9.12
Zoom Video Communications	8.38
Roku	7.81
Crispr Therapeutics	6.14
Intellia Therapeutics	4.74
Block	4.50
UiPath	4.33
Exact Sciences Corporation	4.31
Twilio	3.99
Unity Software	3.86

*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	17.98
Digital Media	13.86
Gene Therapy	11.62
E-Commerce	7.34
Instrumentation	5.85
Big Data & Machine Learning	5.53
Beyond DNA	5.37
Internet of Things	5.35
Mobile	5.09
Blockchain & P2P	4.53
Molecular Diagnostics	4.01
Energy Storage	3.01
Autonomous Vehicles	2.67
Bioinformatics	2.45
Social Platforms	1.69
3D Printing	1.49
Development of Infrastructure	0.93
Targeted Therapeutics	0.73
Robotics	0.45
Next Generation Oncology	0.05
Stem Cells	0.00

Country Exposure – Underlying Fund*



Market Outlook

In September, broad-based global equity indices as measured by the MSCI World depreciated sharply, as investors weighed the odds of a worsening global recession in the face of hawkish central banks. 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.

Within the MSCI World Index, the Health Care, Consumer Staples, and Materials sectors outperformed in September, while the Real Estate, Technology, and Communication Services 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, buying on the selloff, and away from emerging growth opportunities centered 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 deemed Tesla 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 198 basis points, from 159 to -39 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 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 3.5%, the lowest since August 2008, suggesting that consumers do not have the means for significant real consumption growth.

In ARK’s view, long-term inflation fears have been overblown because the US economy is contracting, and inventories have piled up. The prices of gold, copper, and lumber, three commodities that led the rise in broad based inflation, have broken down, are 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 35% since the peak in March and is up only 5% year-over-year. Large retailers continue to struggle with inventory build-ups. 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. Price cuts will have to be steep to attract consumers who already feel cautious ahead of 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 8.3% on a year-over-year basis, a rate that ARK believed 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 behavior 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.

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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 60.23 million Minimum Investment AUD 10,000

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

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