

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- During February, broad-based global equity indexes – experienced a 10%+ correction in the shortest time period in history, finally capitulating to the coronavirus and a significant flattening in the US yield curve. Businesses found more reasons to remain cautious and seem to have cut back further on inventory accumulation and capital spending, a trend that has been in place for roughly a year.
- While all major sectors declined during the month, Communication Services, Health Care, and Real Estate performed relatively better than Energy, Materials, and Financial Services.

Fund Highlights

- The portfolio benefited from sizeable moves in Tesla (TSLA), Nanostring Technologies (NSTG), Square (SQ), 2U (TWOU), and Zillow (Z).
- Detracting from performance were Illumina (ILMN), Proto Labs (PRLB), Editas Medicine (EDIT), Stratasys (SSYS), LendingTree (TREE).

Performance

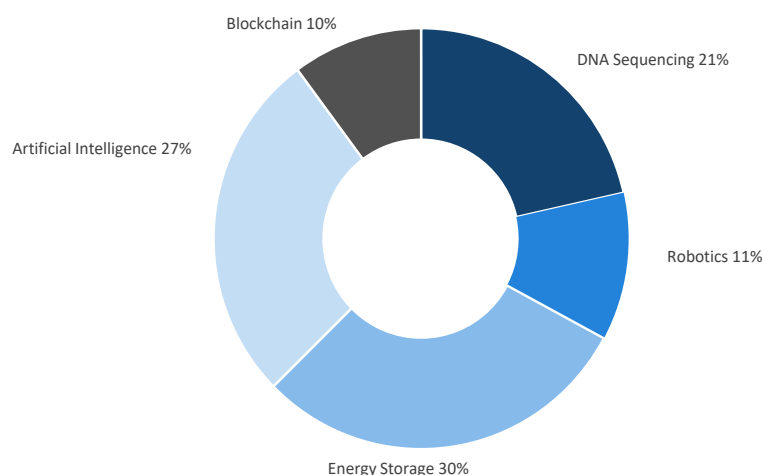
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	-0.03%	3.96%				
Benchmark ²	0.80%	2.41%				

1. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

Based on change in unit price.

2. Absolute return of 10% per annum. No fees, expenses or taxes.

Asset Allocation by Innovation Platform*



*weights based on Manager's model portfolio, which may vary from the actual portfolio and does not factor in cash positions

Investment Manager

The fund invests in the Nikko AM ARK Disruptive Innovation Fund managed by Nikko AM Americas. ARK Investment Management LLC is the Investment Adviser to Nikko AM Americas. Cathie Wood is ARK's founder and portfolio manager and is a highly experienced thematic investor.



ARK's transparent research approach is highly differentiated, seeking to capitalise on insights across multiple mediums.

The fund provides access to a global share portfolio that offers thematic exposure to disruptive innovation across a number of sectors and geographies.

Disruptive innovation is caused by the introduction of new technologically enabled products or services that permanently change an industry or economic sector by providing greater simplicity, accuracy, customisation and accessibility while driving down costs.

Objective

The fund aims to achieve an absolute return of 10% per annum over a rolling five year period before fees, expenses and taxes.

Portfolio Composition (Underlying Fund*)

	%		%
E-Commerce	10.34	Autonomous Vehicles	3.84
Gene Therapy	9.04	Robotics	3.81
3D Printing	8.85	Social Platforms	3.54
Big Data & Machine Learning	8.72	Mobile	3.15
Instrumentation	7.75	Beyond DNA	2.88
Molecular Diagnostics	7.43	Energy Storage	2.63
Cloud Computing	6.32	Targeted Therapeutics	2.61
Digital Media	5.68	Next Generation Oncology	1.39
Internet of Things	4.91	Blockchain & P2P	1.25
Bioinformatics	3.87	Development of Infrastructure	1.01
		Space Exploration	0.98

Top 10 Holdings (Underlying Fund*)

	%	Country
Tesla Motors, Inc.	7.84	US
Square, Inc. Class A	7.06	US
Invitae Corp	6.58	US
llumina, Inc.	6.42	US
Crispr Therapeutics Ag	5.27	Switzerland
Roku Inc	3.89	US
2U, Inc.	3.87	US
Nanostring Technologies Inc	3.59	US
Proto Labs, Inc.	3.11	US
Stratasys Ltd	3.08	US

Market Commentary (source: ARK Investment Management LLC)

During February, broad-based global equity indexes experienced a 10% plus correction in the shortest time period in history, finally capitulating to the coronavirus and a significant flattening in the US yield curve. Businesses found more reasons to remain cautious and seem to have cut back further on inventory accumulation and capital spending, a trend that has been in place for roughly a year. Until recently, consumption had been buoyant both in the US and China, creating the potential for a V-shaped recovery as businesses would have been forced to ramp production to catch up with demand. For the first six weeks of the year, markets were looking past the short-term economic shock associated with the coronavirus and discounting a cyclical rebound once supply chain disruptions normalised. During the second half of February, however, all such bets seemed to be off as the correction intensified. While all major sectors declined during the month, Communication Services, Health Care, and Real Estate performed relatively better than Energy, Materials, and Financial Services.

We believe that the coronavirus, COVID-19, represents a short-term shock to the global economic system that global policy measures and warm weather will alleviate during the second half of the year. Because the number of new coronavirus cases in China peaked in early February, economic signals are beginning to indicate that the worst is behind it. As the global economy reaccelerates during the second half of the year, productivity gains should offset the impact of accelerated wage gains in the developed world and China, limiting inflation, while the combination of tax reform and deregulation in the US continues to boost returns on invested capital. Meanwhile, monetary easing moves combined with income tax and tariff cuts should breathe new life not only into China and the Asia Pacific region but also into Europe and North America. As a result, after their shock-related short-term drop to record lows, interest rates should turn back up, the increase in long rates probably lagging that in short rates as inflation continues to surprise on the low side of expectations, sustaining a flatter if not inverted yield curve over time.

Fund Commentary

The Portfolio benefited from sizeable moves in Tesla (TSLA), Nanostring Technologies (NSTG), Square (SQ), 2U (TWOU), and Zillow (Z). Tesla confirmed it had a battery supply deal with CATL and then appreciated more than 20% when Panasonic reported that its battery JV with Tesla had turned profitable. Musk also hinted that Tesla is considering building a Gigafactory in Texas. Square (SQ) appreciated in response to strong fourth quarter earnings based on rapid growth in both the merchant and consumer sides of the business. Cash App’s monthly active users (MAUs) increased 60% year-over-year, with daily active users (DAUs) growing even faster at 80%. Cash App revenues were up 96% year-over-year, validating Square’s ability to monetize the Cash App while sustaining double- to triple-digit growth rates. Zillow (Z) appreciated in response to strong fourth quarter earnings thanks to a 57% sequential increase in revenues from Zillow Homes. Zillow’s core product continues to lead in the US as the default website and app for viewing real-estate listings. With 173 million average monthly unique visitors, it serves as an organic acquisition channel for Zillow’s other business lines like Zillow Homes.

Detracting from performance were Illumina (ILMN), Proto Labs (PRLB), Editas Medicine (EDIT), Stratasys (SSYS), LendingTree (TREE). LendingTree (TREE) depreciated after missing earnings estimates for the fourth quarter. While its mortgage business was strong, credit cards and personal loans were weaker than expected as several of its partners pulled back on advertising in December. With 14.3 million sign-ups, My LendingTree, its mobile app, continues to cross-sell all of LendingTree’s products. Illumina (ILMN) underperformed primarily because of fears MGI in China will pressure pricing once it commercializes sequencing instruments in the US later this year. While MGI’s T7 instrument seems to have operational advantages over the NovaSeq and may force Illumina to lower reagent prices for high-throughput customers, the overall market is likely to expand significantly in response, benefiting Illumina disproportionately. Editas (EDIT) depreciated after fourth quarter earnings disappointed expectations. ARK remains confident that Editas is a leading gene editing company with significant intellectual property (IP) around the CRISPR Cas/9 and the CRISPR/Cas12a platforms.

Key Fund Facts

Distributions: Generally does not distribute	Estimated annual fund charges (Incl. GST)	Strategy Launch	Strategy size
Hedging: Any foreign currency exposure is unhedged.	Retail: 1.33%, refer PDS for more details	4 September 2019	\$0.318m
Investment Manager *The fund invests in the Nikko AM ARK Disruptive Innovation Fund (the Underlying Fund), a sub-fund of the Nikko AM Global Umbrella Fund - an open-ended investment company established under Luxembourg law as a société d'investissement à capital variable (SICAV).			

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