

Factsheet 31 March 2020

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- During March, broad-based global equity indexes experienced their worst month since 2008 as indiscriminate selling based on fears about the impact of the coronavirus (COVID-19) on economic activity beyond Asia. As nations responded with extreme measures to “flatten the curve” and slow the spread of COVID-19, fears of a global recession, if not depression, mounted.
- According to the CBOE VIX, the volatility of the equity markets spiked to closing levels above those hit during the global financial crisis in 2008. U.S. Treasury yields plunged to record lows, with the 10-year yield dropping well below 1%. That said, the Fed eased so aggressively that yield curves steepened suddenly and significantly.

Fund Highlights

- The portfolio benefited from sizeable moves in Illumina (ILMN), Materialise (MTLS), Zscaler (ZS), Stratasys (SSYS), and Seres Therapeutics (MCRB).
- Detracting from performance were Square (SQ), Invitae (NVTA), Tesla (TSLA), Nanostring Technologies (NSTG), and LendingTree (TREE).

Performance

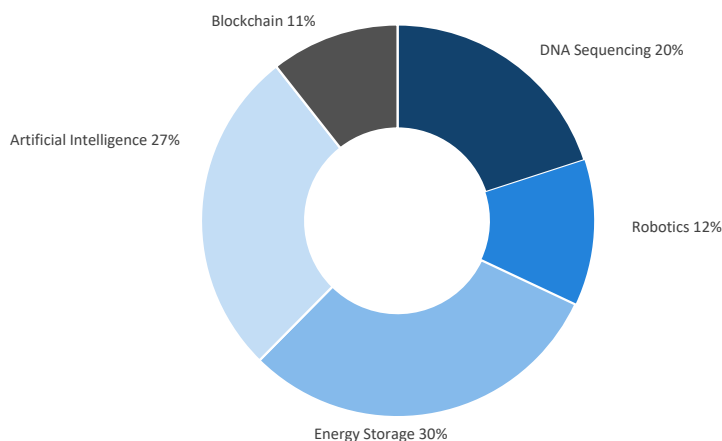
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	-6.31%	2.13%				
Benchmark ²	0.80%	2.41%				

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.	9.24	US
Illumina, Inc.	7.93	US
Square, Inc. Class A	7.21	US
Invitae Corp	5.52	US
Crispr Therapeutics Ag	4.84	Switzerland
Roku Inc	4.81	US
ZU, Inc.	4.30	US
Proto Labs, Inc.	3.67	US
Stratasys Ltd	3.56	US
Zillow Group, Inc. Class C	3.50	US

Market Commentary (source: ARK Investment Management LLC)

During March, broad-based global equity indexes experienced their worst month since 2008 as indiscriminate selling based on fears about the impact of the coronavirus (COVID-19) on economic activity beyond Asia. As nations responded with extreme measures to “flatten the curve” and slow the spread of COVID-19, fears of a global recession, if not depression, mounted. According to the CBOE VIX (the Chicago Board Option Exchange Volatility Index), the volatility of the equity markets spiked to closing levels above those hit during the global financial crisis in 2008. U.S. Treasury yields plunged to record lows, with the 10-year yield dropping well below 1%. That said, the Fed eased so aggressively that yield curves steepened suddenly and significantly. Relative to the MSCI World Index, Health Care, Consumer Staples and Information Technology outperformed, while Energy, Financial Services, and Real Estate lagged.

While the panic seems to have peaked, the equity market could remain choppy in a so-called bottoming process. In our view, the markets have discounted a significant amount of bad news and may have overdone it. If anything, the stock rout highlighted the seriousness of COVID-19, not only galvanizing the government policymakers around the world into sweeping moves to mitigate and reverse its impact on the global economy but also impressing upon individuals and businesses the importance of contributing to the solution with social distancing and stepping up hygiene. Meanwhile, while terrible for oil producers, the drop in oil prices ultimately will result in a significant increase in purchasing power for most consumers and businesses, as was the case in early 2016.

As the coronavirus (COVID-19) strengthens its grip on the globe, we are gratified that government policymakers are laser-focused on cushioning the blow and partnering with companies offering innovative solutions to the problems the disease is causing. During times of fear, uncertainty, and doubt, businesses and consumers are more willing to change their behavior and seek innovative products and services that are more productive, cheaper, faster, and/or more creative. As a result, innovation takes root and typically gains significant market share during tumultuous times. This pandemic is one of those times.

Fund Commentary

The fund benefited from sizeable moves in Illumina (ILMN), Materialise (MTLS), Zscaler (ZS), Stratasys (SSYS), and Seres Therapeutics (MCRB). Illumina (ILMN) outperformed perhaps because its sequencing platforms were critical to sequencing COVID-19 in just two days and will remain so in monitoring for mutations. Materialise (MTLS) could benefit as the software provider behind 3D printed medical parts that are in short supply for coronavirus-related equipment like ventilators and face mask shields. Stratasys (SSYS) outperformed based on publicity that it is 3D printing face shields for medical workers on the front lines fighting the coronavirus pandemic and is partnering with Massachusetts General Hospital for “Covent-19”, a competition to design a ventilator using Stratasys GrabCAD technology. The adoption of 3D printing could accelerate now that more manufacturers are looking for solutions to coronavirus-related parts shortages and supply chains solutions closer to home.

Detracting from performance were Square (SQ), Invitae (NVTA), Tesla (TSLA), Nanostring Technologies (NSTG), and LendingTree (TREE). Square (SQ) traded down based on fears that the government’s response to COVID-19 would hurt small businesses disproportionately. It cut first quarter guidance, pulled full year guidance and, to support its merchant base, launched several products and services, including curb side pickup and a gift card platform. To assist consumers, Square used social media to “distribute” funds on a first come/first serve basis, resulting in its most successful customer acquisition week on record. Invitae’s (NVTA’s) high cash burn and relatively low cash buffer made it a target for algorithmic trading. Invitae is lowering operating expenses and it just raised \$160 million in an upsized equity offering, giving it a much bigger cash cushion to navigate the COVID-19 pandemic. LendingTree (TREE) reacted to fears of a severe drop in financing activity. In our view, the government stimulus packages will cushion the blow to LendingTree’s revenues. Indeed, refinancing requests already have soared 417% and 406% year over year in San Francisco and Raleigh, NC, respectively, thanks to the collapse in interest rates.

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	\$0.279m
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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