

Factsheet 31 May 2020

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- During May, broad-based global equity indexes - as measured by the MSCI World – continued to rebound from the coronavirus crisis. Because fiscal and monetary policymakers have responded with record-breaking measures to “flatten the curve” and slow the spread of COVID-19, fears of an extended global recession are dissipating and volatility in the equity markets, as measured by the CBOE VIX, continues to diminish. Meanwhile, the US Treasury yield curve has continued to flatten slightly, with the 10-year yield stabilizing in the 65 basis point (bp) range and the 90-day rate edging higher.
- Because the panic has peaked and most countries have “bent the curve”, curbing the spread of COVID-19, equity markets skipped past the so-called bottoming process and recovered more than half of this year’s loss.

Fund Highlights

- The portfolio benefited from sizeable moves in 2U (TWOU), Square (SQ), CRISPR Therapeutics (CRSP), Zillow (Z), and Proto Labs (PRLB).
- Detracting from performance were Roku (ROKU), LendingClub (LC), Veracyte (VCYT), NanoString Technologies (NSTG), and Pinterest (PINS).

Performance

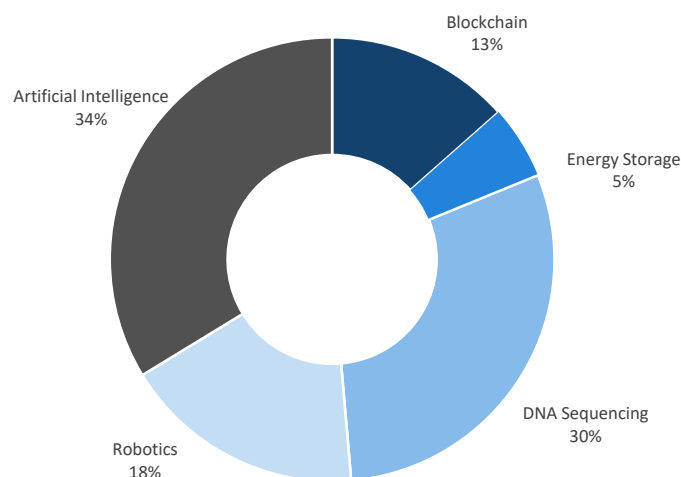
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	7.53%	23.32%				
Benchmark ²	0.80%	2.41%				

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*)

Top 10 Holdings (Underlying Fund*)

Portfolio Composition (Underlying Fund*)		Top 10 Holdings (Underlying Fund*)				
	%	%	%	Country		
E-Commerce	12.96	Mobile	3.59	Tesla Motors, Inc.	7.87	US
3D Printing	10.26	Beyond DNA	2.88	Square, Inc. Class A	7.44	US
Gene Therapy	9.19	Targeted Therapeutics	2.80	2U, Inc.	5.43	US
Cloud Computing	8.63	Energy Storage	2.56	Crispr Therapeutics Ag	5.40	Switzerland
Big Data & Machine Learning	8.28	Social Platforms	2.26	Zillow Group, Inc. Class C	4.82	US
Robotics	6.35	Autonomous Vehicles	1.98	Invitae Corp	4.75	US
Instrumentation	5.78	Next Generation Oncology	1.59	llumina, Inc.	4.69	US
Molecular Diagnostics	5.46	Space Exploration	1.04	Roku Inc	4.58	US
Internet of Things	4.77	Development of Infrastructure	0.81	Proto Labs, Inc.	4.26	US
Bioinformatics	4.24	Blockchain & P2P	0.51	Lendingtree Inc	3.54	US
Digital Media	4.08	Stem Cells	0.01			

Market Commentary (source: ARK Investment Management LLC)

During May, broad-based global equity indexes - as measured by the MSCI World – continued to rebound from the coronavirus crisis. Because fiscal and monetary policymakers have responded with record-breaking measures to “flatten the curve” and slow the spread of COVID-19, fears of an extended global recession are dissipating and volatility in the equity markets, as measured by the CBOE VIX, continues to diminish. Meanwhile, the US Treasury yield curve has continued to flatten slightly, with the 10-year yield stabilising in the 65 basis point (bp) range and the 90-day rate edging higher.

Because the panic has peaked and most countries have “bent the curve”, curbing the spread of COVID-19, the equity market as measured by the MSCI World skipped past the so-called bottoming process and recovered more than half of this year’s loss. In our view, the markets discounted a significant amount of bad news and overdid it in March. In turn, the stock rout highlighted the seriousness of COVID-19, not only galvanizing government policymakers 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 better hygiene. Meanwhile, while terrible for oil producers, the drop in oil prices has contributed to higher purchasing power for most consumers and businesses, as was the case in early 2016. In addition, now that the consumer saving rate in the US has soared to a record-breaking 33%, likely mirroring rates in the rest of the world, pent-up consumer demand should support the recovery, potentially catching businesses with depleted inventories off guard and scrambling to catch up.

As the coronavirus (COVID-19) strengthened its grip on the globe, we are gratified that government policymakers were 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. The pandemic was one of those times. Now, in most regions of the world, it’s time to get back to work.

Fund Commentary

The fund benefited from sizeable moves in 2U (TWOU), Square (SQ), CRISPR Therapeutics (CRSP), Zillow (Z), and Proto Labs (PRLB). Square (SQ) traded up after its first-quarter earnings showed strong growth for Cash App and a rebound in seller-related business activity in April. Square was quick to offer its merchants technology to sell their products online and subsequently saw e-commerce volumes grow five-fold relative to pre-COVID-19 levels. In April, Cash App achieved record monthly totals for net-new transacting active customers, peer-to-peer volumes, Cash Card spend, Cash Card orders, direct deposit transacting active customers, bitcoin volumes, stock brokerage volumes, and stored funds. Zillow (Z) appreciated after releasing better than expected first-quarter revenues that increased 148% year-over-year. CEO Rich Barton stated, “We’re seeing a lot of green light signals that were red only two months ago moving through yellow and beginning to flash green”. Zillow also restarted its home buying and selling unit in nine markets and hired former US Surgeon General Dr. Regina Benjamin as its senior health advisor. CRISPR Therapeutics’ (CRSP) announced that the FDA granted CTX001, its lead asset for sickle cell disease and beta-thalassemia, a regenerative medicine advanced therapy (RMAT) designation for drugs that treat, modify, reverse or cure a serious or life-threatening disease. Detracting from performance were Roku (ROKU), LendingClub (LC), Veracyte (VCYT), NanoString Technologies (NSTG), and Pinterest (PINS). LendingClub (LC) traded down after guiding to a worse than expected ~90% decline in loan originations in the second quarter. In our view, management has taken appropriate steps to conserve cash as it works to attract investors to its loans, increasing the likelihood that the FDIC will approve its acquisition of Radius Bank. We also believe that LendingClub could create a compelling digital wallet, diversifying its sources of revenue. Along with other social media companies, Pinterest (PINS) traded flat on concerns about the global advertising market despite striking an e-commerce partnership with Shopify. Veracyte’s genomic tests require tumor tissue, a challenge during compulsory shelter-in-place orders and delays in medical care.

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	\$0.587m
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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