

Factsheet 30 June 2020

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- During June, broad-based global equity indexes - as measured by the MSCI World – edged higher, though unevenly. Because fiscal and monetary policy makers have responded with record-breaking measures to “flatten the curve” and slow the spread of COVID-19, fears of an extended global recession have dissipated, but during June a resurgence of “hot spots” in China and the US boosted volatility in the equity markets.
- Relative to the MSCI World Index, Technology, Consumer Discretionary, and Materials outperformed, while Healthcare, Utilities, and Energy lagged.

Fund Highlights

- The portfolio benefited from sizeable moves in Invitae (NVTA), Tesla (TSLA), Square (SQ), CRISPR Therapeutics (CRSP), and Teradyne (TER)
- Detracting from performance were Proto Labs (PRLB), Stratasys (SSYS), Materialise (MTLS), Iovance (IOVA), and Seres Therapeutics (MCRB)

Performance

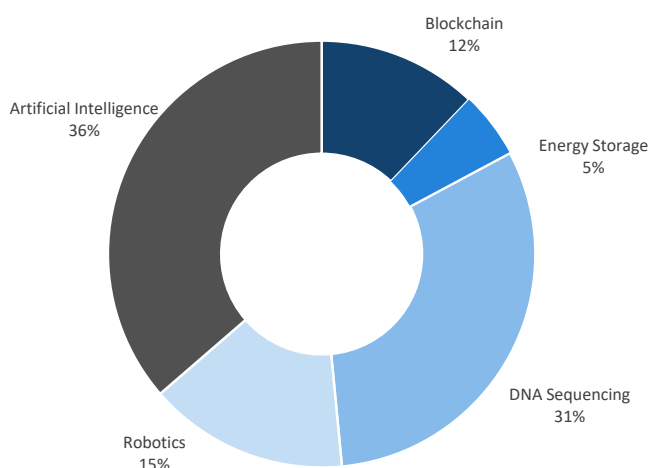
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	7.52%	41.53%				
Benchmark ²	0.80%	2.41%				

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	11.85	Tesla Motors, Inc.	US
Cloud Computing	10.04	Square, Inc. Class A	US
Gene Therapy	9.42	Invitae Corp	US
Big Data & Machine Learning	8.14	Crispr Therapeutics Ag	Switzerland
Molecular Diagnostics	8.06	Roku Inc	US
3D Printing	7.85	2U, Inc.	US
Robotics	5.97	Lendingtree Inc	US
Internet of Things	5.02	Zillow Group, Inc. Class C	US
Digital Media	4.89	Illumina, Inc.	US
Instrumentation	4.55	Proto Labs, Inc.	US
Mobile	3.82		

Market Commentary (source: ARK Investment Management LLC)

During June, broad-based global equity indexes - as measured by the MSCI World – edged higher, though unevenly. Because fiscal and monetary policy makers have responded with record-breaking measures to “flatten the curve” and slow the spread of COVID-19, fears of an extended global recession have dissipated, but during June a resurgence of “hot spots” in China and the US boosted volatility in the equity markets, as measured by the CBOE VIX. Meanwhile, the US Treasury yield curve steepened slightly, with the 10-year yield stabilizing in the 65-66 basis point (bp) range and the 90-day rate edging lower to 14bp. Relative to the MSCI World Index, Technology, Consumer Discretionary, and Materials outperformed, while Healthcare, Utilities, and Energy lagged.

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. The resurgence of the virus hot spots in both China and the US has reinforced the importance of these precautionary measures. That said, the consumer saving rate in the US has continued at record breaking levels – 32% in April and 23% in May, likely mirroring high rates in the rest of the world, suggesting that pent-up consumer demand will support the recovery now under way. Indeed, given the significant drawdown in retail inventories in April and May, businesses seem to have been caught off guard and are now 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.

Fund Commentary

The fund benefited from sizeable moves in Invitae (NVTA), Tesla (TSLA), Square (SQ), CRISPR Therapeutics (CRSP), and Teradyne (TER). Invitae’s (NVTA) strong performance primarily came from the company’s acquisition of ArcherDx, a molecular oncology-focused firm with strong liquid biopsy IP. We believe that the combined entity now spans the entirety of the cancer care continuum from hereditary cancer predisposition to therapy guidance to minimal residual disease monitoring. Tesla’s stock rose as the stock price held over the \$1,000 share mark boosted by positive analyst sentiment ahead of deliveries and early discussions around Tesla’s potential Terafactory for Cybertruck production in Austin, Texas. Square (SQ) traded up as retail sales in the US soared and three sell-side analysts upgraded it based on positive Cash App outlooks. Teradyne appreciated with the semiconductor industry as a whole and likely benefited from its exposure to China with its 5G infrastructure offerings. ARK believes the shutdowns from COVID-19 will lead to quicker adoption of Teradyne’s collaborative robots, though sales could be hit in the short term from the weakness in the auto industry.

Detracting from performance were Proto Labs (PRLB), Stratasys (SSYS), Materialise (MTLS), Iovance (IOVA), and Seres Therapeutics (MCRB). Proto Lab’s stock price came back a bit in June following its rise in May. During the month of June, Proto Labs added cobalt chrome, a material useful for aerospace applications, to its 3D printing materials portfolio. Stratasys announced it would cut its global workforce by 10% as management aims for a leaner operating model. Following the announcement, JP Morgan upgraded Stratasys from Neutral to Overweight as promising new product introductions will not be affected by the restructuring efforts. Iovance Biotherapeutics (IOVA) underperformed potentially because of the swift departure of its Chief Financial Officer, Timothy Morris. Additionally, Seattle Genetics (SGEN) announced a 24% response rate in late stage cervical cancer patients, which may have worried investors that SGEN would get approved quicker and capture market share. We believe IOVA has an edge with a high response rate of 44% and a potentially longer duration. Seres Therapeutics (MCRB) underperformed because of recruitment delays due to COVID-19.

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	\$14.1m
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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