

Factsheet 30 September 2020

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- During September, after a very strong upward move in August and despite continued upside surprises in many economic indicators around the world, broad-based global equity indexes corrected. Much like other policymakers around the world, to prevent a relapse into recession, the US Federal Reserve (Fed) reinforced that it will continue to err on the side of ease with an asymmetric response to inflation.
- Relative to the MSCI World Index, the sectors that outperformed over September were Utilities, Industrials and Materials, while Energy, Financial Services, and Communication Services lagged. Since the bottom of the market during the coronavirus crisis, growth stocks - particularly those associated with companies solving problems created by the pandemic have outperformed value stocks significantly.

Fund Highlights

- The fund outperformed over the month - benefitting from sizeable moves in Invitae (NVTA), Zillow (Z), Roku (ROKU), Pacific Biosciences (PACB), and Seres Therapeutics (MCRB).
- Detracting from performance were Tesla (TSLA), 2U (TWOU), Editas (EDIT), CRISPR Therapeutics (CRSP), and Proto Labs (PRLB).

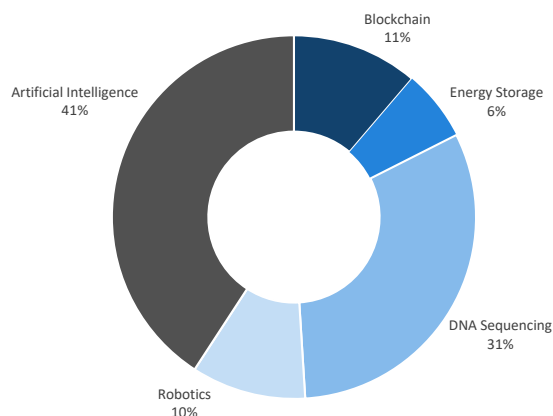
Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Retail ¹ | 2.12% | 27.38% | 102.03% | | | |
| Benchmark ² | 0.80% | 2.41% | 10.00% | | | |

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*)

| | % | | % |
|-----------------------------|-------|-------------------------------|------|
| Cloud Computing | 10.81 | Instrumentation | 3.78 |
| E-Commerce | 10.21 | Energy Storage | 3.17 |
| Molecular Diagnostics | 8.27 | Targeted Therapeutics | 2.66 |
| Gene Therapy | 7.80 | Social Platforms | 2.21 |
| Big Data & Machine Learning | 7.67 | Autonomous Vehicles | 2.16 |
| 3D Printing | 7.22 | Robotics | 2.10 |
| Digital Media | 7.19 | Next Generation Oncology | 1.70 |
| Internet of Things | 5.44 | Blockchain & P2P | 1.02 |
| Mobile | 5.22 | Development of Infrastructure | 0.98 |
| Beyond DNA | 4.99 | Space Exploration | 0.85 |
| Bioinformatics | 4.53 | | |

| | % | Country |
|----------------------------|------|-------------|
| Tesla Motors, Inc. | 9.80 | US |
| Invitae Corp | 7.64 | US |
| Square, Inc. Class A | 6.43 | US |
| Roku Inc | 5.92 | US |
| Crispr Therapeutics Ag | 4.84 | Switzerland |
| Zillow Group, Inc. Class C | 3.49 | US |
| 2U, Inc. | 3.36 | US |
| Proto Labs, Inc. | 3.19 | US |
| Teladoc Health, Inc. | 3.15 | US |
| Pure Storage Inc | 2.78 | US |

Market Commentary (source: ARK Investment Management LLC)

During September, after a very strong upward move in August and despite continued upside surprises in many economic indicators around the world, broad-based global equity indexes corrected. Much like other policymakers around the world, to prevent a relapse into recession, the US Federal Reserve (Fed) reinforced that it will continue to err on the side of ease with an asymmetric response to inflation. Specifically, given the long period of time that inflation has hovered below its 2% target, the Fed will not react immediately to readings above 2%; yet, if inflation were to rise and then drop back below the 2% target, the Fed would respond quickly. On the fiscal policy front, Congress remained deadlocked on the next round of fiscal policy measures to support the economy, leaving incremental stimulus measures to the Fed.

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, giving way to early concerns about “how much is too much”. US policymakers had been particularly active in this election year, but now those in other countries are reinforcing their recoveries with more fiscal and monetary stimulus, thus stabilising the dollar. Despite all of the policy measures, risk free fixed income markets were fairly static while quality spreads widened perhaps in response to the “creative destruction” taking place in many traditional industries. Both 10-year Treasury bond yields and 90-Treasury bill rates slipped slightly, flattening the yield by less than 1 basis point (bp). Relative to the MSCI World Index, Utilities, Industrials, and Materials outperformed, while Energy, Financial Services, and Communication Services lagged. Since the bottom of the market during the coronavirus crisis, growth stocks - particularly those associated with companies solving problems created by the pandemic - have outperformed value stocks significantly. This divergence could be a function of fears of a relapse into recession and the “creative destruction” that innovation is fomenting in traditional value sectors like financial services, energy, and industrials. That said, cyclical sectors should benefit as producers continue to catch up with consumer demand. The consumer saving rate in the US dropped from a record high 34% in April but is still nearly twice as high as the 8% recorded in March, likely mirroring high rates in the rest of the world and suggesting that pent-up demand will support the recovery now underway. Indeed, given the record-breaking drawdown in inventories during the second quarter and into the third quarter, businesses seem to have been caught off guard and are scrambling, pointing to a much stronger than expected V-shaped recovery during the next year.

Fund Commentary

The portfolio benefited from sizeable moves in Invitae (NVTA), Zillow (Z), Roku (ROKU), Pacific Biosciences (PACB), and Seres Therapeutics (MCRB). Invitae (NVTA) rose steadily likely because investors gained confidence in their competitive strength within the oncology market. We believe its combination with ArcherDx, a decentralized molecular diagnostic company with three FDA breakthrough designations, grants Invitae world-class somatic testing technology. Zillow (Z) appreciated as demand for homes remained strong, fuelled by all-time low mortgage interest rates. We see Zillow as the de-facto real estate search engine for buying, selling, or perusing homes. Roku (ROKU) traded up in September after news broke that it will now carry Comcast’s Peacock streaming service. Previously, Roku and Comcast had been disputing over specifics surrounding the deal, and Peacock had not been available on Roku since launching in April. Detracting from performance were Tesla (TSLA), 2U (TWOU), Editas (EDIT), CRISPR Therapeutics (CRSP), and Proto Labs (PRLB). Tesla's stock came down from its run-up in August as analysts seem to have wanted a more immediate timeline for the breakthroughs announced at Battery Day. Tesla announced that it would drive battery costs down by over 50% over the next 3 years while increasing range over 50% and bringing capital investment costs down nearly 70%. These advancements will enable Tesla to release a new vehicle priced under \$25,000. ARK believes that Tesla's plans show remarkable progress in managing costs while improving chemistry and manufacturing and that industry analysts likely have missed the big picture with such a short-sighted view of the future. Lastly, Elon also announced that the rewrite for Autopilot, which will enable Tesla to label 3D video, may be released in private beta within a month. The new neural net should allow Tesla an improvement in efficiency and performance of 3 orders of magnitude. Shares of Editas Medicine (EDIT) were flat or slightly down, albeit comparable to the broader markets. Proto Labs (PRLB) traded lower after the stock had more than doubled in a run-up since April. As a quick-turn low volume part producer, Proto Labs could enjoy some increased volumes from part shortages as manufacturing comes back online from pandemic-related pauses.

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 | \$28.5m |
| 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). | | | |

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

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