

Factsheet 31 October 2020

NIKKO AM ARK DISRUPTIVE INNOVATION FUND

Market Overview

- Despite continued V-shaped recovery surprises in many economic indicators around the world, broad-based global equity indexes continued to correct during October.
- Growth stocks - particularly those associated with companies solving problems created by the pandemic, continue to outperform value stocks significantly. This divergence could be a function of fears of a relapse into recession and the “creative destruction” that innovation is having 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 and as significant capital spending declines in energy and other disrupted industries curb supply and support prices.

Fund Highlights

- The fund continues to outperform - benefitting from sizeable moves in Pinterest (PINS), Roku (ROKU), CRISPR (CRSP), Intellia (NTLA) and 2U (TWOU).
- Detracting from performance were Tesla (TSLA), Invitae (NVTA), Zillow (Z), Teladoc (TDOC) and Compugen (CGEN). Tesla's stock corrected near the end of October as the market dipped leading up to the US Election and as coronavirus cases in the US continued to climb.

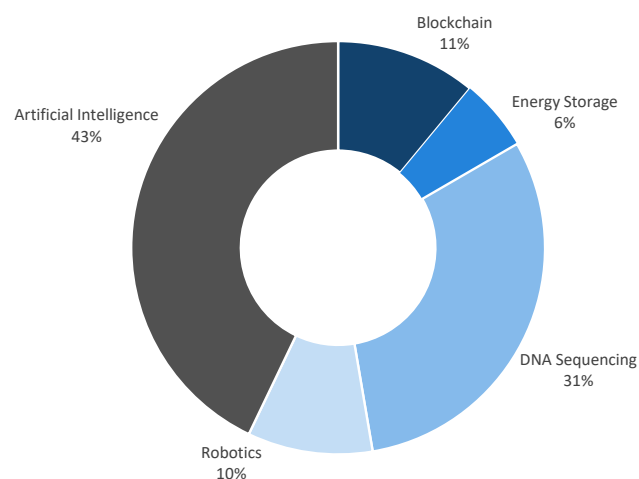
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	3.50%	19.01%	101.86%			
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*



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.

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

Portfolio Composition (Underlying Fund*)

	%		%
Cloud Computing	13.13	Targeted Therapeutics	2.82
E-Commerce	9.76	Energy Storage	2.80
Gene Therapy	8.83	Instrumentation	2.34
Molecular Diagnostics	8.29	Social Platforms	2.32
Big Data & Machine Learning	7.78	Robotics	2.07
Digital Media	7.40	Autonomous Vehicles	1.96
3D Printing	6.82	Next Generation Oncology	1.71
Mobile	5.46	Blockchain & P2P	1.24
Internet of Things	4.70	Space Exploration	0.89
Beyond DNA	4.61	Development of Infrastructure	0.86
Bioinformatics	4.21		

Top 10 Holdings (Underlying Fund*)

	%	Country
Tesla Motors, Inc.	8.65	US
Invitae Corp	6.99	US
Square, Inc. Class A	6.20	US
Roku Inc	5.68	US
Crispr Therapeutics Ag	5.36	Switzerland
2U, Inc.	3.64	US
Zillow Group, Inc. Class C	3.09	US
Teladoc Health, Inc.	2.99	US
Proto Labs, Inc.	2.96	US
Pure Storage Inc	2.96	US

Market Commentary (source: ARK Investment Management LLC)

During October, despite continued V-shaped recovery surprises in many economic indicators around the world, broad-based global equity indexes continued to correct. While global monetary policies remained supportive, political gridlock in the US hindered the next phase of stimulus while the number of European coronavirus cases and fatalities surged, calling into question the sustainability of global economic growth. Despite increased uncertainty during October, the US Treasury yield curve steepened, suggesting that bond investors are anticipating stronger real GDP growth, higher inflation, or both. The 10-year Treasury bond yield increased more than 25%, or 19bp, while the 90-day Treasury bill rate slipped slightly. 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 and as significant capital spending declines in energy and other disrupted industries curb supply and support prices. The consumer saving rate in the US dropped from a record high 34% in April but still is 14%, 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 US inventories during the second quarter and continued liquidation in the third, businesses seem to have been caught off guard and are scrambling, pointing to a continued V-shaped recovery in the US and Asia during the next year. At the same time, companies like Exxon are writing down fixed assets and cutting capital spending, pointing to a resurgence of oil prices if the V-shaped recovery continues apace. As COVID-19 strengthened its grip on the globe this year, we have been gratified that government policymakers were laser-focused on cushioning the blow and on 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, cost-effective, faster, and/or creative. As a result, innovation takes root and typically gains significant market share during and after tumultuous times.

Fund Commentary

The fund benefited from sizeable moves in Pinterest (PINS), Roku (ROKU), CRISPR (CRSP), Intellia (NTLA) and 2U (TWOU). Pinterest (PINS) was the top contributor after reporting better than expected revenue growth of 58% on a year-over-year basis - its strongest quarter since the second quarter of 2019. We believe Pinterest benefits from a significant shift in the ad market from linear TV to social media platforms. Pinterest also noted that it would continue to invest in building out e-commerce functionality, which we believe could be a long-term revenue driver for the company. CRISPR appreciated after reporting encouraging top-line results for a Phase 1 trial (n=11) of CTX-110, an off-the-shelf (allogeneic) CAR-T cell therapy targeting certain liquid tumors. CTX-110 achieved several dose-dependent complete responses in patients with dose levels higher than two out of a maximum dose level of four. Intellia shares surged upwards near the end of October after it received regulatory approval to begin a Phase 1 trial of NTLA-2001, a potential one-dose cure for transthyretin amyloidosis (ATTR).

Detracting from performance were Tesla (TSLA), Invitae (NVTA), Zillow (Z), Teladoc (TDOC) and Compugen (CGEN). Tesla's stock corrected near the end of October as the market dipped leading up to the US Election and as COVID-19 cases in the US continued to climb. Consumer Reports ranked GM's Super Cruise technology above Tesla's Autopilot in its assessment of driver assistance technologies, mainly because it favoured GM's eye tracking technology to ensure the driver has his or her eyes on the road. Autopilot received the highest rating for capability and performance out of all systems that were tested. Invitae underperformed in October possibly because investors took profits after Invitae's shares reached their all-time-high (\$53) towards the beginning of the month. Zillow (Z) traded down alongside the broader market sell off. Meanwhile median home sale prices rose 16% in the middle of the month relative to last year. We believe the company is the de-facto real estate search engine for buying, selling and/or perusing homes.

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	\$30.3m
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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