

Factsheet 31 August 2023

NIKKO AM ARK DISRUPTIVE INNOVATION STRATEGY

Assets are held in the Nikko AM Wholesale ARK Disruptive Innovation Fund. The Nikko AM ARK Disruptive Innovation Fund (retail) and Nikko AM KiwiSaver ARK Disruptive Innovation Fund invest in units in the wholesale fund, which the commentary refers to

Market Overview

- Broad-based global equity indexes declined during the month.
- Energy and Health Care sectors performed best in August, while the Utilities and Materials sectors lagged.
- While the Fed is determined to squelch inflation by increasing interest rates, the bond market has been signalling that it could be making a major mistake. Since March 2021, the yield curve has flattened by 235 basis points inverting from +159 to -76 basis points, the worst inversion since the early 1980s when the Fed was fighting entrenched double-digit inflation. This dynamic suggests that both real growth and inflation could surprise on the low side of expectations.

Fund Highlights

- Fund performance was -8.71% for the month, slightly below its benchmark of -8.56%.
- The top three contributors include Archer Aviation (ACHR), Nvidia (NVDA), Spotify (SPOT).
- The top three detractors include Block (SQ), Roku (ROKU), Coinbase (COIN).

Performance

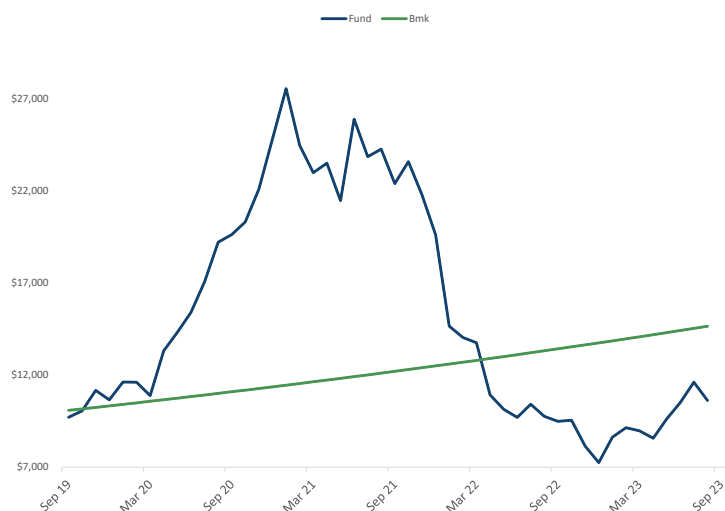
	One month	Three months	One Year	Three Years (p.a.)
Wholesale ¹	-8.71%	10.43%	12.47%	
Retail ³	-8.56%	10.25%	8.79%	-17.93%
KiwiSaver ³	-8.61%	10.31%	8.87%	
Benchmark ²	0.80%	2.41%	10.00%	10.00%

1. Returns are before tax and before the deduction of fees.

2. Absolute return of 10% per annum. No fees, expenses or taxes.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

Since Inception Cumulative Performance \$10,000 invested^{3,2}



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.

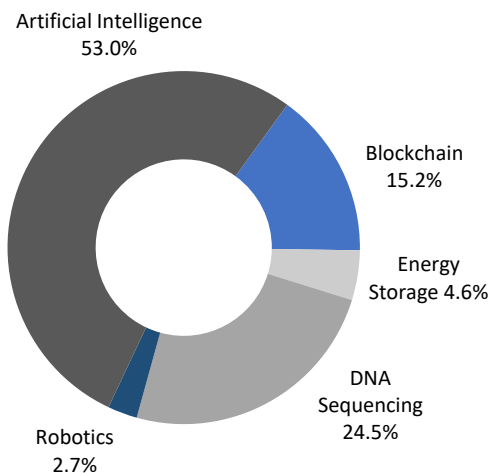
Disruptive innovation is caused by the introduction of new technologically enabled products or services that permanently change an industry or economic sector by providing greater simplicity, accuracy, customisation and accessibility while driving down costs.

Objective

The fund aims to achieve an absolute return of 10% per annum over a rolling five year period before fees, expenses and taxes.

Asset Allocation by Innovation Platform*

*Weights based on Manager's model portfolio, which may vary from the actual portf



Portfolio Composition (Underlying Fund*)

	%		%
Cloud Computing	16.1	Molecular Diagnostics	2.8
Digital Media	15.5	Energy Storage	2.7
E-Commerce	8.5	Social Platforms	2.6
Big Data & Machine Learning	7.1	Robotics	2.2
Gene Therapy	6.8	Bioinformatics	1.9
Blockchain & P2P	6.7	Next Generation Oncology	1.9
Instrumentation	6.3	Autonomous Vehicles	1.1
Mobile	5.7	Development of Infrastructure	0.8
Beyond DNA	5.1	Targeted Therapeutics	0.7
Internet of Things	5.0	3D Printing	0.6

Top 10 Holdings (Underlying Fund*)

	%	Country
Roku	8.19	United States
Tesla Motors	7.82	United States
Zoom Video	7.04	United States
Coinbase	6.19	United States
Square	5.17	United States
Draftkings	4.31	United States
Twilio	3.73	United States
Uipath	3.72	United States
Unity Software	3.72	United States
Shopify	3.57	Canada

Market Commentary (source: ARK Investment Management LLC)

Broad-based global equity indexes declined during the month. Relative to the MSCI World Index, the Energy and Health Care sectors performed best in August, while the Utilities and Materials sectors lagged. Recent economic data and comments from the US Federal Reserve (Fed) appear to have tempered investors' previous expectations of interest rate declines. Now, interest rate futures are pricing in a slowdown or recession and potentially one more rate hike before interest rates start to decline. Should an economic slowdown evolve into a hard landing, the slope of interest rate declines could steepen.

The Federal Funds Target Rate has surged 22-fold in the last year, a faster pace than all previous tightening cycles—including the one in 1980-1981 that crushed inflation—creating significant strains at regional banking and in commercial real estate. Bank deposits have dropped 4.0% year-over-year, the largest decline since 1948. We believe additional rate hikes will exacerbate this fragile situation.

For the first time since 2009, the Real Federal Funds Policy Rate has exceeded the Natural Rate of Interest, indicating a shift toward restrictive monetary policy. Given that monetary policy effects manifest with long and variable delays, this suggests an intensifying downward pressure on lending and borrowing.

While the Fed is determined to squelch inflation by increasing interest rates, the bond market has been signalling that it could be making a major mistake. Since March 2021, the yield curve has flattened by 235 basis points, inverting from +159 to -76 basis points, the worst inversion since the early 1980s when the Fed was fighting entrenched double-digit inflation. This dynamic suggests that both real growth and inflation could surprise on the low side of expectations.

In ARK's view, the Fed is making decisions based on lagging indicators, employment and headline inflation, and ignoring leading indicators that are telegraphing recession and/or price deflation. The wall of worry bodes well for equities in the innovation space. The strongest bull markets climb walls of worry, a fact that those making comparisons to the tech and telecom bubble seem to forget. No wall of worry existed or tested the equity market in 1999. This time around, the wall of worry has scaled to enormous heights.

Fund Commentary

The **top contributors** include **Archer Aviation (ACHR)**, **Nvidia (NVDA)** and **Spotify (SPOT)**. Archer Aviation is an aerospace company aiming to revolutionize mobility with its eVTOL products and services. Shares soared after the company reported its second quarter earnings, still on track for commercialization in 2025. Archer also shored up its balance sheet with an aggregate \$215 million investment from key partners like Stellantis, Boeing, and United, which ARK was able to participate in. Nvidia delivered on stronger than expected second quarter results and guidance. Later in the month, Google announced that its A3 supercomputer virtual machines powered by Nvidia's H100 Tensor Core GPUs should be available next month. Spotify shares appreciated on little company-specific news. ARK believes Spotify will continue to grow its share in the music stream space, in addition to building out its podcasting capabilities.

The **top detractors** include **Block (SQ)**, **Roku (ROKU)** and **Coinbase (COIN)**. Shares of Block declined on relatively little company specific news. ARK believes Block is uniquely positioned to combine its Seller and consumer ecosystems in the future, unlocking potential value unobtainable by other fintech firms. Shares of Roku declined after an investment firm downgraded the stock from "Buy" to "Neutral", stating that any coming reacceleration in revenue in 2024 was "priced in". Roku is a connected television (CTV) operating system and hardware provider that distributes various streaming platforms to millions of households globally. Shares of Coinbase traded down following the announcement of the company's third-quarter results, which included a smaller loss than expected and stronger than expected revenue.

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: 1.30% refer PDS for more details	4 September 2019	\$67.6m
	KiwiSaver: 1.25% refer to PDS for more details		

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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