NIKKO AM ARK DISRUPTIVE INNOVATION STRATEGY

Factsheet 31 May 2021

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

- During May, broad-based global equity indexes continued to appreciate as confidence increased in the V-shaped recovery.
- Energy, Financials, and Materials outperformed on balance, while Consumer Discretionary, Technology, and Utilities lagged. In our view, this rotation from growth and into cyclicals and other value-based strategies has broadened and strengthened the bull market significantly, preventing another tech and telecom bubble and setting the stage for another leg up in innovation-based strategies.
- Among the largest beneficiaries of the rotation toward cyclicals during the past six months have been the two sectors that we believe will be disrupted the most by innovation during the next five years: Energy and Financial Services. In our view, autonomous electric vehicles and digital wallets, including cryptocurrencies and decentralized financial services associated more broadly with blockchain technologies, will disrupt and disintermediate both Energy and Financial Services significantly during the next five years.

Fund Highlights

- The portfolio benefited from sizeable moves in Shopify (SHOP), UiPath (PATH), Zoom (ZM), Palantir (PLTR), and Roku (ROKU).
- The largest detractors from performance were Coinbase (COIN), Iovance (IOVA), Invitae (NVTA), Teladoc (TDOC), and Tesla (TSLA).

Performance

	One month	Three months	One Year	Three Years (p.a.)
Retail[3]	-8.67%	-12.27%	49.84%	
KiwiSaver[3]	-8.69%	-11.98%		
NASDAQ-100	-2.43%	6.00%	22.74%	
Wholesale[1]	-8.32%	-14.37%		
Benchmark[2]	0.80%	2.41%		

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.

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.

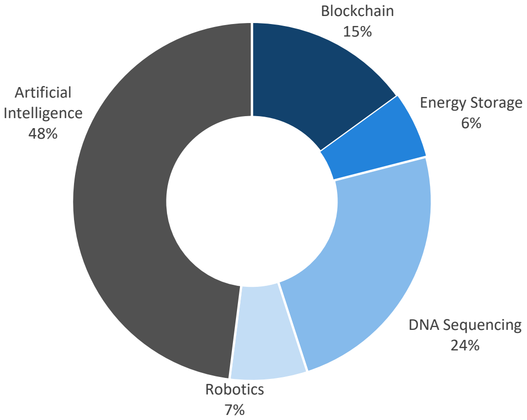
Disruptive innovation is caused by the introduction of new technologically enabled products or services that permanently change an industry or economic sector by providing greater simplicity, accuracy, customisation and accessibility while driving down costs.

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 portfolio and does not factor in cash positions



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Nikko Asset Management

Portfolio Composition (Underlying Fund*)

	%		%
Cloud Computing	12.83	Bioinformatics	3.59
Digital Media	12.17	Social Platforms	3.00
E-Commerce	11.35	Energy Storage	2.98
Mobile	6.93	Beyond DNA	2.90
Big Data & Machine Learning	6.58	Targeted Therapeutics	2.11
Gene Therapy	6.08	Robotics	1.91
Molecular Diagnostics	5.58	Autonomous Vehicles	1.54
Internet of Things	5.01	Space Exploration	1.19
Instrumentation	4.64	Development of Infrastructure	0.92
Blockchain & P2P	4.05	Next Generation Oncology	0.85
3D Printing	3.82		

Top 10 Holdings (Underlying Fund*)

	%	Country
Tesla Motors, Inc.	9.14	US
Teladoc Health, Inc.	5.75	US
Roku Inc	5.65	US
Square, Inc. Class A	4.94	US
Invitae Corp	3.64	US
Twilio, Inc. Class A	3.54	US
Zoom Inc	3.52	US
Spotify Technology Sa	3.46	Sweden
Zillow Group, Inc. Class C	3.45	US
Coinbase Global Inc	3.34	US

Market Commentary (source: ARK Investment Management LLC)

During May, broad-based global equity indexes continued to appreciate as confidence increased in the V-shaped recovery.

Energy, Financials, and Materials outperformed on balance, while Consumer Discretionary, Technology, and Utilities lagged. In our view, this rotation from growth and into cyclicals and other value-based strategies has broadened and strengthened the bull market significantly, preventing another tech and telecom bubble and setting the stage for another leg up in innovation-based strategies. Had the equity market continued to narrow toward innovation, the odds of a bust similar to the one after the tech and telecom bubble would have increased. Instead, valuations have reset, particularly in “stay-at-home” stocks, many of which have been cut by more than half since last summer. In our view, COVID transformed the world significantly and permanently, suggesting that stay-at-home and other innovation-driven stocks will regain momentum. Among the largest beneficiaries of the rotation toward cyclicals during the past six months have been the two sectors that we believe will be disrupted the most by innovation during the next five years: Energy and Financial Services. In our view, autonomous electric vehicles and digital wallets, including cryptocurrencies and decentralized financial services associated more broadly with blockchain technologies, will disrupt and disintermediate both Energy and Financial Services significantly during the next five years. Fear of rising inflation is another driver behind the market rotation. Given the massive monetary and fiscal stimulus in the global economy, most economists and strategists are weighing the odds of inflation. Still, we remain focused on the risks of deflation. In our view, the collapse in many prices during the coronavirus crisis last spring created a so-called “base effect” that, along with supply chain disruptions, will push consumer price inflation into the 3-5% range on a year-over-year basis, a rate that three deflationary forces – good, bad, and cyclical – are likely to unwind during the next year. Innovation is the source of good deflation, as learning curves cut costs and increase productivity. Conversely, we believe many companies have catered to short-term oriented, risk-averse shareholders who have demanded profits/dividends “now.” As a result, many have leveraged their balance sheets to buy back stock, bolster earnings, and increase dividends. In so doing, many have curtailed investments in innovation and could be facing disintermediation and disruption. With aging products and services, they could be forced to cut prices to clear inventories and service their bloated debts, resulting in bad deflation. During the pandemic, consumption shifted from services to goods as people were quarantined. As businesses have scrambled to catch up with demand, we are concerned that there has been double- and triple-ordering of goods, which could result in a significant inventory overhang. As the world reopens, incremental consumption should shift back to services which could end supply chain issues abruptly. In response to the excess supply, commodity prices could unwind as sharply as they have increased, resulting in cyclical deflation. If we are correct in our assessment that the risk to the outlook is deflation, not inflation, then nominal GDP growth is likely to be much lower than expected, suggesting that scarce double-digit growth opportunities will be rewarded accordingly. Growth stocks in general and, specifically, innovation-driven stocks should be the prime beneficiaries.

Fund Commentary

In May, the fund benefited from sizeable moves in Shopify (SHOP), UiPath (PATH), Zoom (ZM), Palantir (PLTR), and Roku (ROKU). Shopify shares came under heavy selling pressure in early May amid a broader tech selloff. Shopify’s social commerce capability continues to excite the ARK team. PATH was a positive contributor to performance as shares rallied on the news. UiPath is well-positioned to capitalize on secular trends in process automation across industries. The largest detractors from performance were Coinbase (COIN), Iovance (IOVA), Invitae (NVTA), Teladoc (TDOC), and Tesla (TSLA). In a thread of tweets, Elon Musk expressed concerns around bitcoin’s energy usage. This resulted in the price of bitcoin, and cryptocurrency in general, falling sharply. COIN is closely correlated to the broad cryptocurrency market and, as a result was also sold off. Tesla shares came under heavy selling pressure amid a broader tech and cryptocurrency selloff and pressure from China, which caused the stock to be a detractor. Vehicles sales in China disappointed, and the Chinese government increased scrutiny of Tesla’s autonomous driving data gathering. Elon Musk announced Tesla would no along accept Bitcoin as a means of payment, citing energy usage concerns. ARK believes Tesla continues to improve from a long-term standpoint. Vehicles export from China to Europe are improving. The Berlin Gigafactory landed early approvals to install machines. Finally, removing radar from the autonomous driving system signals that Tesla has an immense amount of reliable visual data.

Key Fund Facts

Distributions: Generally does not distribute

Hedging: Any foreign currency exposure is unhedged.

Estimated annual fund charges (Incl. GST)	Strategy Launch	Strategy size
Retail: 1.30%, refer PDS for more details KiwiSaver: 1.25% refer to PDS for more details	4 September 2019	$90.9m

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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