

# Nikko AM ARK Disruptive Innovation Strategy

Monthly Update 31 December 2023

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 rallied, reflecting a follow-through from last month's anticipation of fewer rate hikes amid declining inflation.
- Relative to the MSCI World Index, the Real Estate, Industrials, and Materials sectors outperformed on balance in December, while the Energy, Consumer Staples, and Utilities sectors lagged.

## Fund Highlights

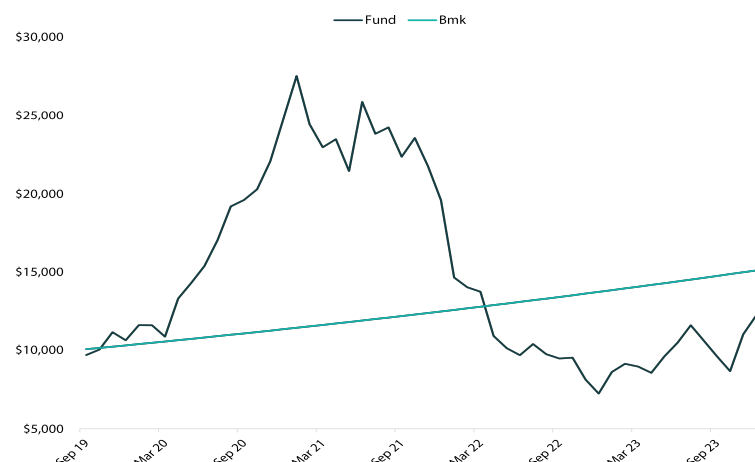
- The strategy returned 24.08% for the quarter, well ahead of its benchmark of 2.41%.
- The top contributors include Coinbase (COIN), Block (SQ), Unity (U).
- The top detractors include Roku (ROKU), Palantir Technologies (PLTR), DraftKings (DKNG).

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)
<b>Wholesale<sup>1</sup></b>	10.24%	24.08%	67.36%	-20.17%	
<b>Benchmark<sup>2</sup></b>	0.80%	2.41%	10.00%	10.00%	
<b>Retail<sup>3</sup></b>	11.02%	27.22%	69.09%	-20.95%	
<b>KiwiSaver<sup>3</sup></b>	11.10%	27.44%	69.80%	-20.90%	
<b>NASDAQ<sup>4</sup></b>	2.38%	8.38%	54.97%	14.58%	

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.
4. NASDAQ-100 Notional Net Total Return Index Unhedged in NZD.

## Since Inception Cumulative Performance, \$10,000 Invested<sup>3,2</sup>



## 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.



## Overview

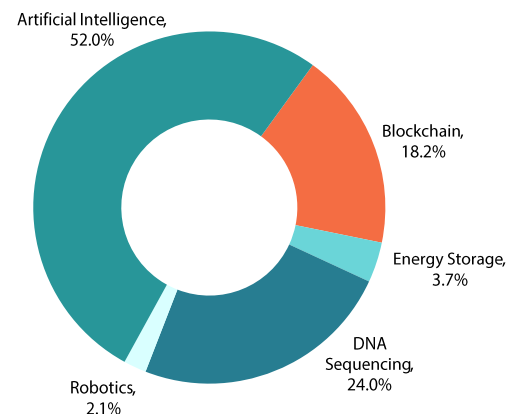
The fund provides access to a global share portfolio that offers thematic exposure to disruptive innovation across a number of sectors and geographies. Disruptive innovation is caused by the introduction of new technologically enabled products or services that permanently change an industry or economic 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.



## Portfolio Composition (Underlying Fund\*)

	(%)		(%)
Cloud Computing	15.4	Social Platforms	3.4
Digital Media	14.2	Next Generation Oncology	2.8
Blockchain & P2P	9.6	Energy Storage	2.3
E-Commerce	8.6	Molecular Diagnostics	2.0
Big Data & Machine Learning	7.9	Targeted Therapeutics	1.9
Instrumentation	6.4	Robotics	1.7
Mobile	6.1	Bioinformatics	1.6
Gene Therapy	5.9	Autonomous Vehicles	0.7
Beyond DNA	4.4	Development of Infrastructure	0.7
Internet of Things	4.2	3D Printing	0.4

## Top 10 Holdings (Underlying Fund\*)

	(%)	
Coinbase Global	8.90	United States
Roku	7.02	United States
Tesla Motors	6.58	United States
Zoom Video Communications	6.35	United States
Square Inc. Class A	6.15	United States
Uipath	4.08	United States
Roblox	4.00	United States
Unity Software	3.96	United States
Twilio Inc. Class A	3.87	United States
Draftkings	3.16	United States

## Market Commentary (source: ARK Investment Management LLC)

Broad-based global equity indexes rallied, reflecting a follow-through from last month's anticipation of fewer rate hikes amid declining inflation. Contrary to consensus expectations, ARK expects an economic landing somewhat harder than soft, though not as severe as that associated with the Global Financial Crisis. Indeed, the US economy seems to have been in rolling recession, as cyclically sensitive indicators like housing, autos, and inventories have been under recession-like pressure for nearly two years.

Relative to the MSCI World Index, the Real Estate, Industrials, and Materials sectors outperformed on balance in December, while the Energy, Consumer Staples, and Utilities sectors lagged.

Innovation is a potential source of good deflation, as learning curves can cut costs and increase productivity. Yet, we believe many companies have catered to short-term-oriented, risk-averse shareholders, satisfying their demands for profits/dividends "now". On balance, they have leveraged their balance sheets to buy back stock, bolster earnings, and increase dividends. In so doing, many have curtailed investments and could be ill-prepared for the potential disintermediation associated with disruptive innovation. Saddled with aging products and services, they could be forced to cut prices to clear unwanted inventories and service debt, causing bad deflation.

## Fund Commentary

The top contributors include Coinbase (COIN), Block (SQ), Unity (U). Coinbase was a contributor to the fund this month, largely driven by cryptocurrency prices and increasingly positive sentiment around the approval of spot bitcoin ETFs in the United States. In addition, Coinbase expanded its presence in Europe by securing a crypto license in France and also introduced a new feature that allows token transfers via links sent on messaging platforms. Block was a contributor to the fund this month, benefitting from general strength across fintech equities, cryptocurrency prices, and incrementally positive sentiment following alternative data publications. Furthermore, Block officially introduced its self-custody bitcoin wallet, Bitkey, available for pre-orders, with shipping scheduled to commence in early 2024. Unity Software was a contributor to the fund this month, continuing the price appreciation seen since the company announced a management shakeup and planned business consolidation in November.

The top detractors include Roku (ROKU), Palantir Technologies (PLTR), DraftKings (DKNG). Roku was a detractor to the fund this month following an analyst downgrade. Palantir Technologies was a detractor to the fund this month due in part to legal pushback against the company's contract with the UK's National Health Service. While certain groups expressed concern over the adoption of Palantir's Federated Data Platform by the NHS, an NHS spokesperson argued that the objection, largely centred on data collection, "fundamentally misunderstands how the Federated Data Platform will operate and is totally incorrect in both matters of law and fact." There was also some concern from investors that the NHS contract would be smaller than initially anticipated. DraftKings was a detractor to the fund this month on no company-specific news.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Distributions:</b>	Generally does not distribute.	<b>Strategy Launch:</b>	September 2019
<b>Retail:</b>	1.30% refer to PDS for more details	<b>Investment Manager:</b>	*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).	<b>Strategy size:</b>	\$72.7m
<b>KiwiSaver:</b>	1.25%, refer to PDS for more details.				
<b>Hedging:</b>	Any foreign currency exposure is unhedged.				

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