

# Nikko AM ARK Disruptive Innovation Strategy

Monthly Update 31 January 2024

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 appreciated during the month.
- Relative to the MSCI World Index, the Communication Services, Technology and Health Care sectors outperformed on balance in January, while the Materials, Real Estate, and Utilities sectors lagged.
- The US economy seems to have been in a rolling recession, depressing sectors like housing, autos and commercial real estate, while inventories continue to build.

## Fund Highlights

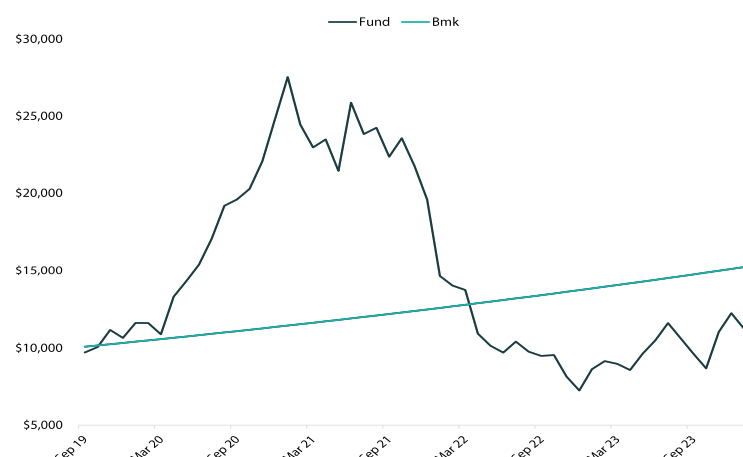
- The strategy returned -9.24% for the month, behind its benchmark return of 0.80%.
- The top contributors include DraftKings (DKNG), Meta Platforms (META), Nvidia (NVDA).
- The top detractors include Coinbase (COIN), Tesla (TSLA), Block (SQ).

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)
<b>Wholesale<sup>1</sup></b>	-9.24%	22.21%	22.97%	-25.21%	
<b>Benchmark<sup>2</sup></b>	0.80%	2.41%	10.00%	10.00%	
<b>Retail<sup>3</sup></b>	-8.29%	29.45%	30.27%	-25.83%	
<b>KiwiSaver<sup>3</sup></b>	-8.35%	29.69%	30.55%	-25.82%	
<b>NASDAQ<sup>4</sup></b>	5.25%	12.84%	49.76%	16.41%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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

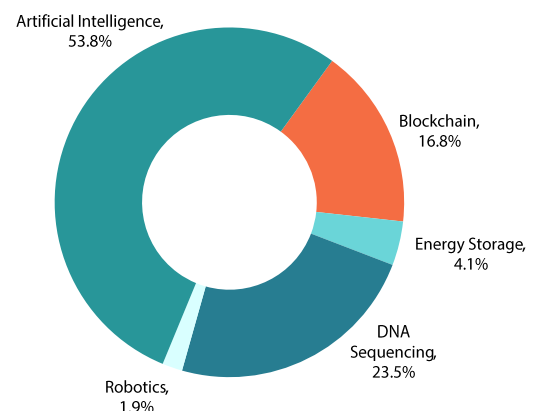
The fund provides access to a global share portfolio that offers thematic exposure to disruptive innovation across a number of sectors and geographies. Disruptive innovation is caused by the introduction of new technologically enabled products or services that permanently change an industry or economic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

	(%)		(%)
Digital Media	15.2	Social Platforms	3.7
Cloud Computing	15.1	Next Generation Oncology	2.9
E-Commerce	9.0	Energy Storage	2.5
Big Data & Machine Learning	8.2	Targeted Therapeutics	2.1
Blockchain & P2P	7.7	Molecular Diagnostics	1.9
Mobile	6.1	Bioinformatics	1.7
Gene Therapy	6.0	Robotics	1.5
Instrumentation	5.8	Autonomous Vehicles	0.8
Internet of Things	4.7	Development of Infrastructure	0.8
Beyond DNA	4.0	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	6.15	United States
Uipath	4.08	United States
Roblox	4.00	United States
Unity Software	3.96	United States
Twilio	3.87	United States
DraftKings	3.16	United States

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

Broad-based global equity indexes appreciated during the month. Now that consensus expectations have veered toward a soft landing, ARK continues to expect that a loss of pricing power will force corporations into employment cutbacks that will cause a harder-than-expected landing. Indeed, the US economy seems to have been in a rolling recession, depressing sectors like housing, autos and commercial real estate, while inventories continue to build.

Relative to the MSCI World Index, the Communication Services, Technology and Health Care sectors outperformed on balance in January, while the Materials, Real Estate, and Utilities sectors lagged.

Rolling recessions suggest that the Fed should end its rate hiking program and weigh the merits of a pivot in policy. Unfortunately, the Fed still is focused on lagging indicators like employment and headline inflation.

The Federal Funds Target Rate surged 22-fold in 17 months, a record-breaking pace that caused significant strains in regional banking and commercial real estate. According to Milton Friedman, monetary policy works with “long and variable lags”; this suggests that the full impact of the Fed’s unprecedented tightening has yet to be felt.

## Fund Commentary

The top contributors for the month include DraftKings (DKNG), Meta Platforms (META), Nvidia (NVDA).

DraftKings was a contributor to the fund this month, benefitting from the launch of its sportsbook in Vermont in early January. DraftKings is now active in more than half of all US states. In addition to its expansion in Vermont, it is now finalizing a deal with Barstool Sports for a marketing partnership. Meta Platforms was a contributor to the fund this month as it maintains leadership in the open-source AI race. CEO Mark Zuckerberg disclosed that Meta has been spending billions of dollars on Nvidia’s AI chips and is training LLaMa 3, the next iteration of its flagship large language model. Nvidia was a contributor to the fund this month as semiconductor stocks continued to rally. Nvidia also introduced their RTX 40-series Super Series of consumer GPUs this month, offering improved performance at a price point more competitive with that of rival AMD. Towards the end of the month, early reports circulated that Nvidia is beginning to accept pre-orders for their H20 GPU, which was designed to comply with the most recent restrictions on chip exports to China.

The top detractors for the month include Coinbase (COIN), Tesla (TSLA), Block (SQ).

Coinbase was a detractor to the fund this month amid a broader selloff of crypto-related stocks. Bitcoin approached \$47,000 in early January and began its decline with the launch of spot bitcoin ETFs in the US on January 10th. Shares of Tesla detracted from performance during the month in line with wider market concerns over diminishing demand for EVs and on the back of several pieces of company-specific news. Some notable news pieces include the company’s full-year earnings, which highlighted vehicle deliveries of 1.81 million, beating consensus estimates, and a forecast slowdown in volume growth in 2024 as the company prepares for the launch of its next-gen platform. Separately, at the end of the month, the company released FSD v12, its AI end-to-end autonomous software, to a select few customers. Block was a detractor to the fund this month after Block’s share price appreciated from its lows in October 2023, we believe investors locked in profits in January amid uncertainty around the state of consumer discretionary spending in the US.

## 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>	\$66.3m
<b>KiwiSaver:</b>	1.25%, refer to PDS for more details.				
<b>Hedging:</b>	Any foreign currency exposure is unhedged.				

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