

ARK GLOBAL DISRUPTIVE INNOVATION FUND

Net returns as at 31 December 2023

	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception* p.a.
Fund growth return	9.81	23.53	14.08	65.71	-22.16	-21.40	7.10	2.06
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.04
Total Fund return [‡]	9.81	23.53	14.08	65.71	-22.16	-21.40	7.15	2.10
MSCI All Countries World Index [^]	1.84	5.02	4.63	21.45	3.10	10.17	12.41	9.50

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

** Inception date of the ARK Global Disruptive Innovation Fund: August 2018.*

‡ Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance.

^ Reference Index shown for illustrative purposes only: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged).

Portfolio review

The Fund outperformed broad based global equities during the month (net).

Key contributors to absolute performance:

- **Coinbase**, a company that operates a cryptocurrency exchange platform, continued its strong rally from last month, largely driven by cryptocurrency prices and positive sentiment around the approval of spot bitcoin ETFs in the United States. Furthermore, Coinbase expanded its presence in Europe by securing a crypto license in France and introduced a new feature that allows token transfers via links sent on messaging platforms.
- **Block**, a financial technology company, benefited 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**, an American video game software development company, continued its strong performance which began when the company announced a management shakeup and planned business consolidation in November.
- Shares in **UiPath**, a global software company that makes robotic process automation software, continued to climb following the release of their strong third-quarter results at the end of November. Total revenue growth accelerated to 24% year-over-

year, and net new annual recurring revenue reaccelerated to nearly 5% year-over-year growth. Management highlighted the success of their next-generation Intelligent Document Processing tools in reducing model training time by up to 80%.

- **Robinhood Markets**, a financial services company, traded higher largely driven by cryptocurrency price appreciation. The company also noted that the platform experienced an additional \$1.1 billion in account transfers since October 2023. This increase in transfers was attributed to Robinhood offering a 1% match on transferred brokerage accounts. Most of the transfers, including those exceeding \$1 million, came from Schwab, Fidelity, and ETRADE.

Key detractors from absolute performance:

- Shares in **Roku**, a streaming platform and devices business, traded down following an analyst downgrade.
- **Palantir Technologies**, a company that specializes in big data analytics, was weaker 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 centered on data collection, "fundamentally misunderstands how the Federated Data Platform will operate and is totally incorrect in both matters of law and fact." Some investors were also concerned that the NHS contract would be smaller than initially anticipated.

- Shares in **DraftKings**, a fantasy sports contest and sports betting company, were down on no company-specific news.
- **CRISPR Therapeutics**, a leading gene editing company, experienced a decline, possibly attributed to the resignation of the company's Chief Medical Officer, Phuong Khanh Morrow, as well as a downgrade from an analyst.
- Shares of **Beam Therapeutics**, a biotechnology company conducting research in the field of gene therapies and genome editing, fell on relatively little company-specific news.

Market outlook

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 Great 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.

While the Fed is determined to squelch inflation by increasing interest rates, the bond market has been signaling that it could be making a major mistake. From March 2021 to July 2023, the yield curve flattened by 267 basis points, inverting from +159 to -108 basis points, the worst inversion since the early 1980s when the Fed was fighting entrenched double-digit inflation. Since July 2023, the yield curve has entered a bear steepening, with long term rates increasing relative to short term rates, lowering the inversion to -37 basis points. 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.

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.

If Ark are correct in their assessment that growth, inflation, or both will surprise on the low side of expectations, scarce double-digit growth opportunities should be rewarded accordingly. The adoption of new technologies typically accelerates during tumultuous times as concerned businesses and consumers change their behaviour much more rapidly than otherwise would be the case.

In Ark's view, 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.

Top 10 holdings (underlying Fund*)

Security Name	% of Fund
Coinbase Global Inc	9.6
Roku Inc	7.2
Tesla Inc	6.9
Zoom Video Communications Inc	6.7
Block Inc	6.5
ROBLOX Corp	4.2
UiPath Inc	4.2
Unity Software Inc	4.2
Twilio Inc	4.1
DraftKings Inc	3.4

* The Fund invests in the Nikko AM ARK Disruptive Innovation Fund (Underlying Fund), a sub-fund of the Nikko AM Global Umbrella Fund. The Underlying Fund is an open-ended investment company (Company) established under Luxembourg law as a 'société d'investissement à capital variable' (SICAV).

Sector exposure (underlying Fund*)

Element	Exposure (%)
Information Technology	29.3
Health Care	22.6
Financials	19.1
Communication Services	15.7
Consumer Discretionary	10.6
Materials	1.8
Industrials	0.9

Portfolio composition (underlying Fund*)

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

Features

Investment objective	The Fund aims to achieve a target average total return (before fees, expenses and taxes) of 10% to 15% per annum over a rolling five year period.	
Recommended investment time frame	7+ years	
Fund inception	August 2018	
Fund size	A\$63.5 mn as at 31 December 2023	
APIR code	NIK1854AU	
Estimated management cost	1.35% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard BT Panarama Hub24 Macquarie Wrap Mason Stevens Netwealth	OneVue Praemium uXchange Wealth02

Applications and contacts

Investment into the ARK Global Disruptive Innovation Fund can be made by Australian resident investors only.

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