

ARK Global Disruptive Innovation Fund

Rating issued on 28 Nov 2024 | APIR: NIK1854AU

Investment objective

To deliver absolute returns of 10% p.a. to 15% p.a. (before fees) over rolling five-year periods.

Manager	ARK Investment Management LLC
Distributor	Yarra Capital Management Group
Sector	International Shares Global (Unhedged)
Investment Style	Growth
RI Classification	Aware
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	MSCI World Ex Aust \$A
Min Investment Amount	\$10,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Oct 2024)	\$43.03M
Management Cost	1.35% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.20% / 0.20%
Inception Date	30 Aug 2018

Fund facts

- Typically holds 40 to 65 stocks
- Portfolio turnover is expected to average 70% p.a. over a market cycle

Viewpoint

The Fund, managed by Florida-based ARK Investment Management LLC (ARK) and distributed by Yarra Capital Management (Yarra), offers investors a benchmark-unaware, currency-unhedged and growth-orientated global equities exposure. Whilst Zenith believes that the Fund is a highly differentiated offering, our conviction is moderated by ARK's risk management approach, which we believe remains an area for improvement. In addition, we note that the investment team has experienced relatively high levels of team turnover in recent years which we consider disruptive for the team and stock research coverage. As such, we believe it is important the investment team experience a period of consolidation.

ARK is an international equities funds management boutique founded by Catherine Wood in 2014. The Fund is distributed by Yarra, a Melbourne-based boutique fund manager. Zenith has a favourable view of this arrangement.

ARK's investment team is led by Wood and is predominantly based in Florida, having relocated from New York City in 2021. Wood is supported in the management of the Fund by Brett Winton. Zenith believes both Wood and Winton are experienced and capable investors. In addition, we believe they have formed a solid long-term partnership, with both exhibiting complementary skill sets and areas of focus.

Wood and Winton are further supported by 16 investment resources. Collectively, the supporting team has an average of 5 years of investment experience. Although, Zenith believes that ARK's investment team has less industry experience relative to their peers, we acknowledge that many of the analysts possess industry experience relating to their stock coverage, which we view favourably and believe to be a competitive advantage for the Fund.

ARK believes disruptive innovation is key to growth and typically involves the introduction of a technologically enabled product or service that evolves an industry by creating simplicity and accessibility. ARK aims to invest in disruptive innovation thematic such as robotics, big data, machine learning, blockchain technology, cloud computing, energy storage and DNA sequencing. Given ARK's differentiated investment philosophy and approach, Zenith cautions that the Fund's performance may diverge substantially from the benchmark and peers.

Rather than utilising formal screens for idea generation, the investment team conducts broad top-down research aimed at identifying, anticipating and quantifying investment themes. Once a theme has been determined, bottom-up research is applied to identify the most attractive companies with each theme. The investment team's research process is collaborative, with discussion and debate encouraged throughout the process. Zenith considers ARK's stock selection process to be intuitive and differentiated.

Wood has ultimate decision making authority for the Fund, constructing it in a benchmark-unaware manner. ARK aims to hold a portfolio of stocks that are aligned to its identified disruptive themes with favourable fundamentals. Whilst Zenith believes ARK's investment process allows for the construction of a distinctive portfolio that contains the investment team's best ideas, we note that it typically exhibits strong biases towards certain countries or sectors.



Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	40 to 60 (Typically)
Concentration	Amalgamated total of positions greater than a 5% weight cannot exceed 40% of the Fund

Investment objective and philosophy

ARK's investment objective is to achieve an absolute return of 10% p.a. to 15% p.a. (before fees) over rolling five-year periods.

ARK believes the full magnitude of disruptive innovation, and the associated investment opportunities it creates, are often unrecognised or misunderstood by traditional investors. Through a fundamentally-driven process, blending both top-down and bottom-up research, ARK seeks to construct a benchmark-unaware, growth-orientated portfolio of global companies with a long-term investment horizon.

ARK believes disruptive innovation is key to growth and typically involves the introduction of a technologically enabled product or service that evolves an industry landscape by creating simplicity and accessibility. ARK aims to invest in disruptive innovation themes, such as:

- Robotics
- Big data
- Machine learning
- Blockchain technology
- Cloud computing
- Energy storage
- DNA sequencing

Given ARK's differentiated investment philosophy and approach, Zenith cautions that the Fund's performance may diverge substantially from the benchmark and peers.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility, particularly with international equities when currency movements are considered. International equities provide investors with a broad exposure to industries and countries. With this broad universe, it is expected that managers can deliver superior returns to more conservative asset classes. Therefore, we recommend investors adopt a longer time frame when investing in international equities. It is also recommended that investments in international equities are blended with domestic equities and other asset classes to improve portfolio diversification.

The Fund is relatively concentrated and benchmark unaware. As such, investors should be cautioned that the Fund's returns may vary considerably from the benchmark and peers. Given ARK's growth-biased investment approach, Zenith believes a more diversified international equities exposure can be achieved by blending the Fund with other neutral or value-orientated global equity products. In addition, Zenith expects the Fund to have stronger performance relative to competitors in rising market

environments, while potentially struggling to protect capital in declining markets.

The Fund's currency exposure remains unhedged, which may suit investors seeking an international equity investment with exposure to fluctuations in the Australian dollar. For investors concerned about the short-term risks associated with fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

The Fund's portfolio turnover is expected to average approximately 70% p.a. over a market cycle, which Zenith considers to be high. ARK has indicated that approximately 80% of the expected turnover is attributed to resizing existing positions and approximately 20% is due to initiating and closing positions. The Fund utilises a feeder fund structure, whereby the domestic unit trust invests in an offshore domiciled unit trust. In general, realised gains (losses) will be realised at the offshore trust level and likely retained within the trust in the form of a unit price increase (decrease). Income distributions (net dividend and interest income) from the offshore trust will be paid to the Fund and subsequently distributed to unitholders.

The Fund is expected to only realise the capital movement in the unit price of the offshore unit trust and, therefore, investors should anticipate that the Fund will not distribute a significant portion of returns in the form of income. Zenith recommends that investors seeking advice regarding the tax implications of a feeder fund structure should see their tax specialist.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	No

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



Absolute performance

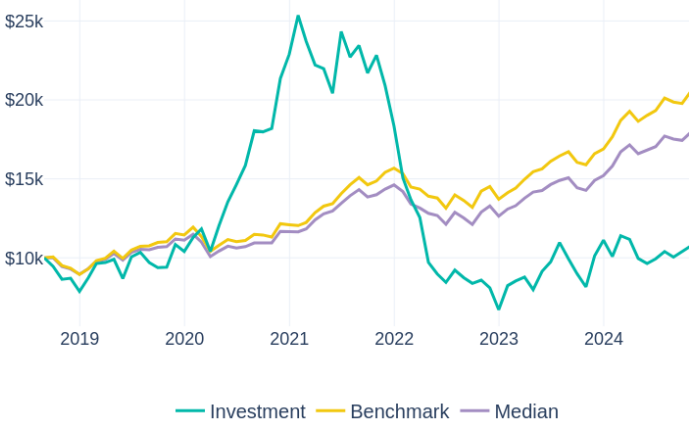
Performance as at 31 Oct 2024

Monthly performance history (% , net of fees)

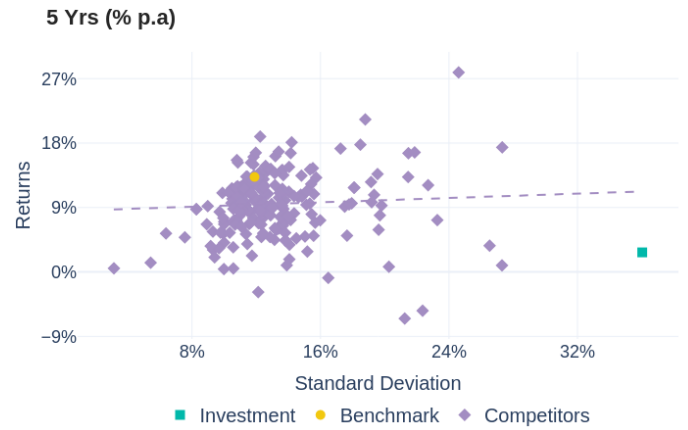
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	-9.28%	13.09%	-2.11%	-10.80%	-3.19%	3.08%	4.68%	-3.47%	3.70%	3.35%			-3.18%	21.59%
2023	22.82%	3.59%	2.87%	-9.04%	14.52%	6.54%	12.58%	-9.43%	-9.42%	-9.36%	24.12%	9.81%	65.71%	23.23%
2022	-17.91%	-9.17%	-8.21%	-22.65%	-7.58%	-5.90%	9.16%	-5.18%	-4.13%	2.47%	-5.78%	-17.11%	-63.43%	-12.52%
2021	10.76%	-6.51%	-6.30%	-1.05%	-7.10%	19.19%	-6.65%	3.22%	-7.43%	5.17%	-8.40%	-12.29%	-19.88%	29.58%
2020	8.53%	4.86%	-12.08%	15.62%	12.59%	8.12%	8.19%	13.87%	-0.37%	1.16%	17.39%	7.22%	120.10%	5.73%

*MSCI World ex Aust \$A

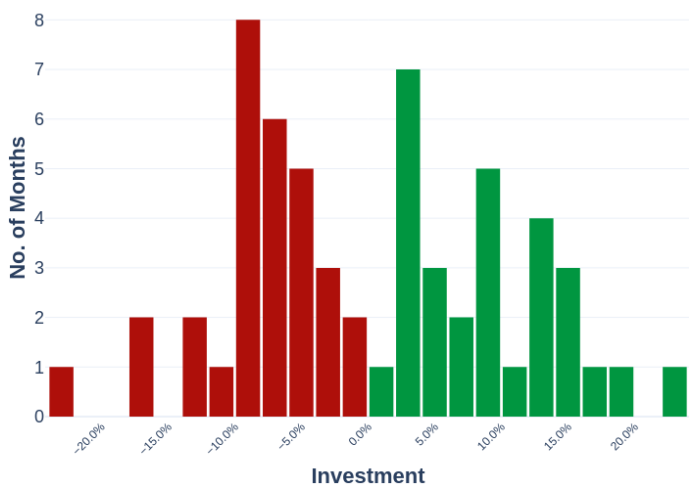
Growth of \$10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	31.96%	11.93%	-22.18%	2.74%	1.20%
Income	-0.00%	0.00%	-0.00%	0.05%	0.04%
Growth	31.96%	11.93%	-22.18%	2.69%	1.16%
Benchmark	29.31%	20.19%	11.39%	13.27%	12.38%
Median	25.84%	18.00%	8.66%	10.90%	9.96%
Cash	4.41%	4.04%	2.93%	1.86%	1.83%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	35 / 223	196 / 196	159 / 161	140 / 142
Quartile	1st	4th	4th	4th

Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	32.32%	36.80%	37.03%	36.03%	34.61%
Benchmark	8.99%	9.64%	11.79%	11.90%	11.94%
Median	8.54%	9.24%	11.23%	11.19%	11.20%
Downside Deviation (% p.a.)					
Investment	15.15%	21.25%	27.36%	22.98%	22.20%
Benchmark	3.52%	5.46%	6.95%	7.08%	7.22%
Median	3.46%	5.24%	6.91%	7.00%	7.07%

Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.85	0.21	-0.68	0.02	-0.02
Benchmark	2.77	1.68	0.72	0.96	0.88
Median	2.51	1.51	0.51	0.81	0.73
Sortino Ratio (p.a.)					
Investment	1.82	0.37	-0.92	0.04	-0.03
Benchmark	7.07	2.96	1.22	1.61	1.46
Median	6.20	2.66	0.83	1.29	1.15

For consistency purposes, Zenith benchmarks all products in the International Shares - Global (Unhedged) sector against the MSCI World ex-Australia Index \$A.

All commentary below is as at 31 October 2024.

The Fund's investment objective is to achieve an absolute return of 10% p.a. to 15% p.a. (before fees) over rolling five-year periods.

ARK has not achieved the Fund's investment objective over the most recent five-year period or since its inception.

The Fund's risk (as measured by Standard Deviation) has been significantly higher than the benchmark over all periods of assessment. Zenith notes that this is consistent with the Fund's relatively high sector and regional concentration.

The Fund's Sharpe ratio has been less than that of the benchmark over all assessed periods, which indicates that investors have been insufficiently compensated for its risk.

Investors should be aware that ARK does not target a specific level of income for the Fund, with distributions made annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.



Relative performance

Excess returns

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Excess Return	2.65%	-8.26%	-33.56%	-10.53%	-11.19%
Monthly Excess (All Mkts)	50.00%	45.83%	33.33%	45.00%	43.24%
Monthly Excess (Up Mkts)	55.56%	55.56%	50.00%	56.76%	53.19%
Monthly Excess (Down Mkts)	33.33%	16.67%	7.14%	26.09%	25.93%

Capture ratios (% p.a.)

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Downside Capture	222.31%	307.36%	337.33%	213.89%	208.80%
Upside Capture	127.63%	138.49%	86.01%	118.24%	114.58%

Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	28.72%	32.34%	31.62%	31.20%	29.21%
Median	1.16%	1.49%	1.69%	1.77%	1.70%

Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	0.09	-0.26	-1.06	-0.34	-0.38
Median	-2.97	-1.47	-1.62	-1.34	-1.43

Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Beta	1.86	2.16	1.84	1.65	1.71
R-Squared	0.27	0.32	0.34	0.30	0.35
Correlation	0.52	0.57	0.58	0.54	0.59

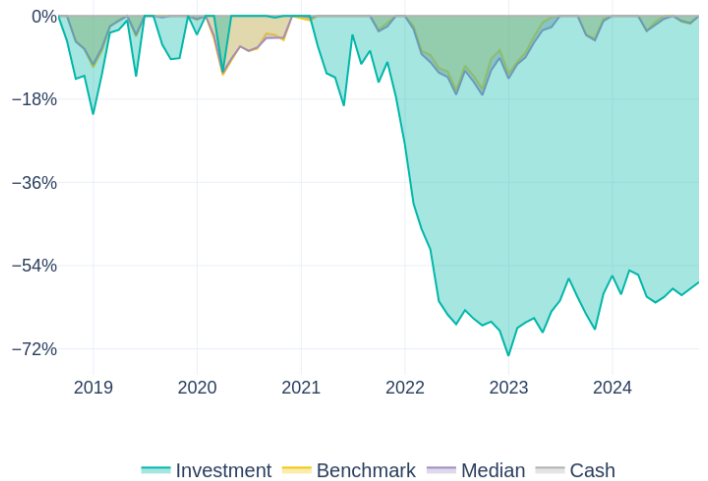
All commentary below is as at 31 October 2024.

Zenith seeks to identify products that can outperform their index in greater than 50% of months in all market conditions as we believe this represents a persistence of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature. The Fund has not achieve either outcome since its inception.

The Fund has generated stronger outperformance consistency in rising markets relative to declining markets. Zenith notes that this is expected, given ARK's growth-biased investment approach.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is as at 31 October 2024.

The Fund has typically experienced drawdowns more pronounced than Zenith's assigned benchmark.

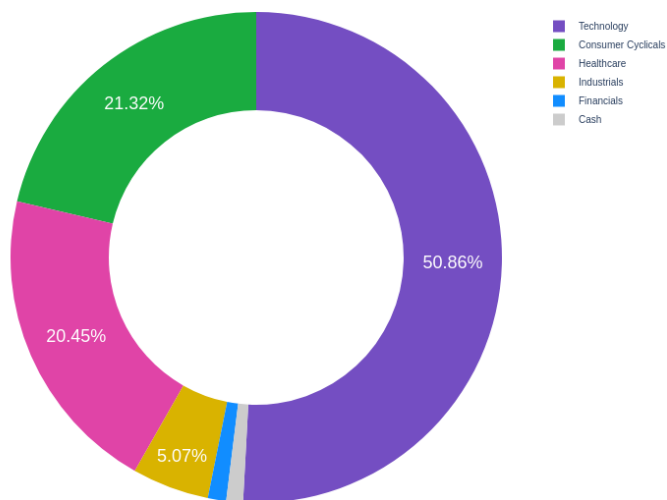


Product Exposures

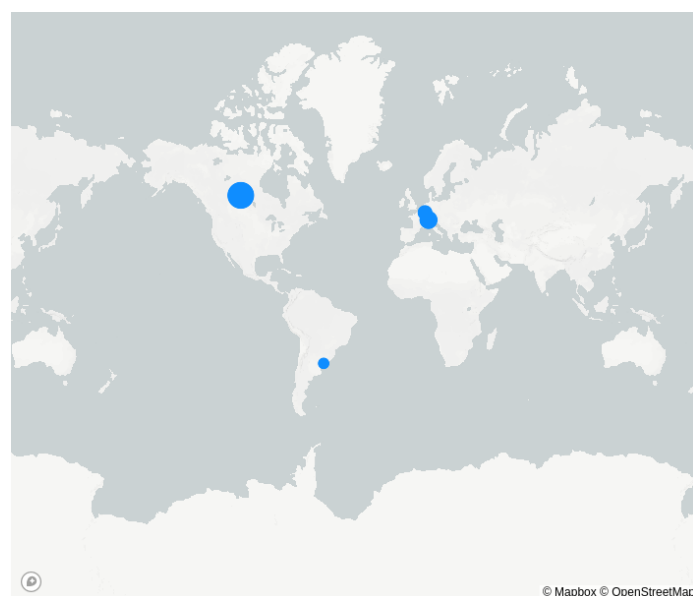
Holdings as at 30 Sep 2024

Stock	Weight	Country	Sector	Active Exposure
TESLA INCO.	9.63%	United States	Consumer Cyclical	8.54%
ROKU INCORPORATED	7.46%	United States	Consumer Cyclical	7.44%
ROBLOX CORP.	6.24%	United States	Technology	6.21%
PALANTIR TECHS.INCO.	6.20%	United States	Technology	6.09%
COINBASE GLOBAL INCO.	6.02%	United States	Technology	5.97%
ROBINHOOD MARKETS INCO.	4.81%	United States	Technology	4.79%
SHOPIFY INCO.	4.81%	Canada	Technology	4.67%
BLOCK INCO.	4.61%	United States	Industrials	4.56%
META PLATFORMS INCO.	4.21%	United States	Technology	2.38%
DRAFTKINGS INCO.	3.18%	United States	Consumer Cyclical	3.15%
Total	57.17%			

Equity sector exposure



Equity country exposure





Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: As with most boutique fund managers, ARK is subject to a level of key person risk. Zenith would consider the departure of Catherine Wood or Brett Winton a material loss for the Fund, warranting an immediate review of its rating. Notwithstanding this, we believe their equity ownership in the business mitigates the risk of their departures over the medium term and aligns them to the ongoing success of the Fund and the broader business.

Longevity risk: Managed funds that fail to grow funds under management (FUM) to a scalable level run the risk of being unviable to maintain over the longer term and could be wound up. The risks associated with a fund winding up are principally that of timing, forcing a crystallisation of tax consequences to investors that may be unsuitable. As at 31 October 2024, FUM in the Fund was approximately \$A 43 million. Zenith will continue to monitor the Fund's level of retail traction.

Focus risk: In addition to the Fund, ARK's investment team is responsible for a variety of other public and private asset strategies. As such, Zenith believes that the team's research focus may be diluted. However, we note that there is a degree of overlap between the strategies, which somewhat mitigates our concern.

Relative performance risk: Zenith notes that the Fund is relatively concentrated. Zenith believes that concentrated portfolios have greater exposure to stock-specific risk than more diversified strategies and, as such, investors should be cognisant that the Fund may experience capital volatility in excess of a more diversified strategy. In addition, given ARK's differentiated and benchmark-unaware investment approach, the Fund's performance is expected to diverge substantially from the benchmark and peers.

Capacity risk: Excessive levels of FUM can inhibit a manager's ability to trade portfolio positions effectively, limiting outperformance potential. ARK has not conducted a comprehensive capacity study for the strategy, which Zenith believes is highly disappointing and inconsistent with industry best practices. Given the significant growth in strategy FUM in recent years, Zenith believes a capacity assessment should be conducted as a matter of urgency.

As at 31 October 2024, ARK managed approximately \$US 12 billion in its Global Disruption strategy. Whilst Zenith does not believe the Fund is currently impeded by capacity limitations, we will continue to monitor ARK's liquidity, to ensure increasing levels of FUM do not begin to impede performance.

Structure risk: The Fund feeds into an Australian dollar unhedged share class of the Luxembourg-domiciled Nikko AM ARK Disruptive Innovation Fund. While the master/feeder fund structure is widely used as a means of accessing offshore fund capabilities in the Australian market, this does introduce an additional layer of risk. The Australian-domiciled vehicle will invest the majority of its assets in the master fund and thus will be affected by the performance of this fund and ultimately its ability to access this investment.

Security/asset selection

The Fund's investment universe comprises all equity securities listed on any global exchange.

Rather than utilising formal screens for idea generation, the investment team conducts broad top-down research aimed at identifying, anticipating and quantifying investment themes. Once a theme has been determined, bottom-up research is applied to identify the most attractive companies with each theme.

ARK employs an open research ecosystem, which relies on the experience and networks of the team, with theme and stock ideas cultivated from a variety of sources, including:

- Theme developers (external experts)
- Social media interactions
- Crowd-sourced insights in response to ARK's public research

While Zenith generally prefers the use of formal screens, to narrow the Fund's large investment universe, we acknowledge that traditional quantitative measures are unlikely to be beneficial given ARK's investment approach. Furthermore, we believe that the team has the appropriate networks for idea generation and gathering research insight.

ARK aims to identify investment opportunities that are poised to earn a premium over the market within a time frame of at least three to five years. Fundamental analysis is conducted to understand the attractiveness of a company within its theme and broader operating environment. Collaboration is a key element of ARK's research pipeline, with analysts seeking guidance from Wood and Winton throughout the research process. The investment team conducts meetings with company management, attends conferences and analyses material from multiple sources, including sell-side research and industry publications to supplement its research effort.

The responsible analyst is tasked with developing an investment thesis based on the following metrics:

- Company, people and culture
- Execution of objectives
- Moat or barriers to entry
- Product and service leadership
- Thesis risk
- Valuation



The final step in the fundamental analysis process is determining a company's valuation. Analysts construct a base, downside and best-case scenario analysis that is modelled over a five-year period. The base case is the analyst's view of the probable trajectory of the business, the downside case incorporates the identified thesis risks playing out and the best case is the possible outcome if events exceed base case assumptions. Investments that are projected to meet the minimum hurdle rate of return of 15% p.a. are considered for investment. Zenith has observed ARK's scenario and valuation framework and believes the outcomes are biased towards the upside, with limited consideration for downside risks of investments.

The investment team meets multiple times a week, with each team member required to summarise and present a concise thesis on any new opportunities, and changes to existing positions and to evaluate original thematic research.

Zenith believes ARK's security selection process is heavily reliant on the oversight and direction of Wood and Winton.

Responsible investment approach

ARK has an established Responsible Investment Policy, last updated in October 2024, that guides its investment decisions.

Although the Fund has no specific environmental, social and governance (ESG) exclusions, ARK takes an active approach to ESG issues. ESG is evaluated as part of the team's fundamental analysis process with any concerns discussed by the team. Where ESG issues are deemed to be significant and have a meaningful impact on the assessed thesis risk, they can preclude a company as a potential investment. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regard to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with ARK's approach to ESG.

Portfolio construction

Wood has ultimate decision making authority for the Fund, constructing it in a benchmark-unaware manner.

ARK aims to hold a portfolio of stocks that are aligned to its identified disruptive themes with favourable fundamentals. ARK generally holds its highest-conviction investment ideas at the highest weights. However, adjustments are made with consideration for overall theme diversification, mandate constraints, and an assessment of liquidity and risk factors. Zenith notes that ARK's portfolio construction approach leads to the material sector tilts away from traditional global equity benchmarks.

Although there are no hard limits, position sizes have historically ranged between 0% and 15%. Consistent with ARK's relatively high-conviction approach, the portfolio has no sector or geographic portfolio constraints. However, ARK seeks to avoid excessive concentration in the portfolio by diversifying across its identified investment themes. The Fund typically holds between 40 and 65 positions. Whilst Zenith views ARK's position sizing approach to be broadly appropriate, we believe stronger consideration of stock liquidity would enhance the risk characteristics and scalability of the strategy.

Cash is limited to a maximum exposure of 10% and are a function of the prevailing market environment rather than an asset allocation decision. Zenith believes actively managed funds should be fully invested and that allocations to cash should be maintained at a minimum.

ARK typically exits or reduces positions under the following circumstances.

- A violation or deterioration of the investment thesis occurs
- The share price appreciates, significantly reducing its upside potential
- The market is pricing in expectations that ARK considers to be unreasonable
- Availability of superior investments

ARK typically avoids exiting positions on valuation grounds, seeking to capitalise on strong share price appreciation.

Although Zenith would prefer a greater focus on valuation, we note that ARK's sell discipline is consistent with its growth-biased philosophy and has been a strong driver of returns.

The Fund's portfolio turnover is expected to average 70% p.a. over a market cycle, which Zenith considers to be high.

Whilst Zenith believes ARK's investment process allows for the construction of a distinctive portfolio that contains the investment team's best ideas, we note that it typically exhibits strong biases towards certain countries or sectors.

Risk management

The Fund is managed in a broadly unconstrained approach, which provides ARK with the flexibility to add value by capturing investment themes. As a result, there are very few formal risk constraints applied to the Fund.

ARK believes its key risk management measure is its stock selection approach, which aims to ensure stocks are thoroughly researched and understood before inclusion in the Fund. Zenith has observed ARK's stock valuation framework and believes the outcomes are biased towards the upside, with limited consideration for downside risks of investments.

ARK has not conducted a comprehensive capacity study for the strategy, which Zenith believes is highly disappointing and inconsistent with industry best practices. Given the significant growth in strategy FUM in recent years, Zenith believes a capacity assessment should be conducted as a matter of urgency.

Trading for the Fund is undertaken by Nikko Asset Management Australia (NAMA), based on a model portfolio provided by ARK. NAMA has a fiduciary duty to seek best execution for its clients, however, it is the responsibility of ARK to ensure compliance with all relevant Fund constraints. Although Zenith understands that this arrangement offers efficiency, with respect to ARK's resourcing capacity, we would prefer to see a dedicated team of traders that will be able to exercise greater control over trading activities. In addition, we believe that the information flow that is gained through the dealing desk can be advantageous.

Overall, Zenith believes ARK's risk management approach and process remains areas for improvement. In addition, investors should be aware there is significant reliance on Wood's judgement and skill.



Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.35% p.a.	0.92% p.a.
Management Fees and Costs	1.35% p.a.	0.81% p.a.
Transaction Costs	0.00% p.a.	0.03% p.a.
Performance fees as at 30 Jun 2024	0.00%	0.10%
Performance fees description	N/A	
Management Cost	1.35% p.a.	0.83% p.a.
Buy / Sell spread	0.20% / 0.20%	0.15% / 0.14%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost is based on the average management cost of all flagship International Shares - Global (Unhedged) funds surveyed by Zenith.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. However, we believe that investors have been insufficiently compensated by way of risk-adjusted performance given the fees paid over the past three years (ending 30 June 2024).

The fees mentioned above are reflective of the flagship version only and may differ when the product is accessed through an alternate investment vehicle such as a platform.

About the fund manager

Organisation

Based in Florida, ARK Investment Management LLC (ARK) is an international equities funds management boutique founded by Catherine Wood in 2014. ARK is currently majority owned by Wood, with minority ownership held by employees, Resolute Investment Managers, Inc. (RIM) and Nikko Asset Management (NAM).

In October 2020, Resolute Investment Managers, Inc. (RIM) notified ARK of its intention to exercise an option that would grant it a controlling stake in the business. Subsequently, RIM and ARK renegotiated the terms of this agreement and finalised the sale of RIM's ownership stake back to ARK and ARK employees. The transaction was closed upon final agreement and signing in August 2021. RIM continues to distribute ARK's products and solutions to US investors. Zenith believes there was a high degree of business uncertainty risk involved with the original agreement and, as such, we view the result of the renegotiation positively.

The Fund is distributed by Yarra Capital Management (Yarra), a Melbourne-based boutique fund manager offering a broad range of active strategies spanning Australian equities and fixed income.

Yarra was established in 2017 following the management buyout of Goldman Sachs Asset Management's Australian focused investment capabilities and operating platform, backed by TA Associates, a global growth private equity firm with a long history of investing in funds management companies.

In April 2021, Yarra completed the acquisition of Nikko Asset Management's (NAM) Australian business, with NAM retaining a 20% stake in the enlarged group. As a result of this partnership, Yarra assumed responsibility for the distribution of NAM's global suite of products in the Australian market. Zenith views the support from Yarra positively as it allows the investment team to predominantly focus on investment-related activities.

As at 31 October 2024, ARK managed approximately \$US 27 billion firmwide.

As at the same date, ARK managed approximately \$US 12 billion in the strategy, including approximately \$A 43 million in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Catherine Wood	CEO, CIO, Portfolio Manager	47	10	St. Petersburg, USA
Brett Winton	Chief Futurist and Portfolio Manager	17	10	Los Angeles, USA

ARK's investment team is led by Catherine Wood and is predominantly based in Florida, having relocated from New York City in 2021. Prior to establishing ARK in 2014, Wood was Chief Investment Officer of global thematic strategies at AllianceBernstein. In addition, Wood also co-founded Tupelo Capital Management in 2000 and previously held various roles at Jennison Associates LLC and The Capital Group.

Wood is supported in the management of the Fund by Brett Winton. Based in Los Angeles, Winton previously worked alongside Wood at AllianceBernstein. Zenith believes both Wood and Winton to be experienced and capable investors. In addition, we believe they have formed a solid long-term partnership, with both exhibiting complementary skill sets and areas of focus.

In 2023, ARK assigned three members of the investment team research leadership responsibility. The research leaders are tasked with coordinating and collaborating the underlying analysts across various investment themes. Given the investment team's significant growth in recent years, Zenith has a favourable view of structure as it allows Wood and Winton greater focus on the management of the Fund.

Collectively, the supporting team has an average of 5 years of investment experience. Although, Zenith believes that ARK's investment team has less industry experience relative to their peers, we acknowledge that many of the analysts possess industry experience relating to their stock coverage, which we view favourably and believe to be a competitive advantage for the Fund. In addition, we note that the investment team has experienced relatively high levels of team turnover in recent years which we consider disruptive for the team and stock research coverage. As such, we believe it is important the investment team experience a period of consolidation.



Research responsibilities are allocated by ARK's disruptive innovation themes rather than via traditional sectors or geographies. ARK believes this approach allows each analyst to assess competing ideas across sectors, industries and markets. Zenith believes ARK's stock coverage approach is relatively unique and allows for the cross-pollination of ideas.

Remuneration for the investment team consists of a salary and discretionary bonus determined based on a number of quantitative and qualitative criteria, inclusive of a discretionary assessment from Wood. Zenith notes that Wood has a majority equity stake in the business and the majority of staff hold some equity, which serves to enhance alignment with investors. However, we believe the remuneration structure would be more aligned with investors through the vesting of bonus proceeds in the underlying strategy.

Although we continue to build confidence in the broader team and their growing contribution to analytical initiatives, our conviction is underpinned by Wood and Winton's involvement, which we believe is crucial for the ongoing success of the business and Fund.

About the sector

Sector characteristics

International equities offer Australian investors the ability to access a broader opportunity set, with the potential to invest in segments not well represented in the Australian equity market. Given that international markets are not perfectly correlated with the Australian equity market, funds that invest internationally can provide diversification benefits to a portfolio.

The Zenith 'International Shares - Global (Unhedged)' sector consists of long-only products that invest in global equity markets. The sector incorporates both benchmark-aware and benchmark-unaware strategies that focus predominantly on larger capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors.

Zenith benchmarks all products in this sector against the MSCI World ex-Australia Index (Index), which corresponds with the benchmark employed by most funds in the sector. The Index is market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings. Zenith expects rated international equity funds to outperform the Index over the long term.

The Index consists of approximately 1,352 securities listed in 22 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States). As at 31 October 2024, the United States, Japan and United Kingdom represented a significant portion of the MSCI World ex-Australia Index, with each country accounting for 74%, 6% and 4% respectively. In addition, the top 10 stocks represented approximately 24% of the Index. Although the Index excludes emerging and frontier markets, many products retain mandate flexibility to invest in these markets.

Products in this sub-asset class are currency unhedged, resulting in their returns being affected by fluctuations in the Australian Dollar (AUD) relative to other global currencies.

Sector risks

Products within the 'International Shares - Global (Unhedged)' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across international equity markets is a risk to the absolute performance of products in the sub-asset class. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. Investors adhering to a fund's prescribed investment timeframe can significantly reduce this risk.

Australian dollar (AUD) currency risk: The AUD has historically experienced declines during weaker market environments, and appreciation in market upturns. A hedged global equities fund is likely to benefit relative to an unhedged fund in periods when the AUD depreciates. Conversely, an unhedged global equities fund is likely to benefit relative to hedged funds in periods where the AUD depreciates.

Zenith believes that the currency impact on performance will be minimal over the long term and therefore does not advocate retail investors making active currency decisions based on near-term currency predictions. For investors who are concerned about the short-term risks associated with taking fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations, such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in equity markets. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: International equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. Investors adhering to a fund's prescribed investment timeframe can significantly reduce this risk.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (more common in smaller companies).

Regulatory Risk: All investments risk being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention across international equity markets. Such regulation or intervention could adversely affect fund performance.

Zenith rating



Report certification

Date of issue: 28 Nov 2024

Role	Analyst	Title
Analyst	Jock Allen	Senior Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities

Association & relationship

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Rating history

As At	Rating
28 Nov 2024	Approved
29 Nov 2023	Approved
30 Nov 2022	Approved
24 Nov 2021	Approved
15 Mar 2021	Approved
25 Nov 2020	Approved
01 Oct 2019	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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