

CLOUD EXPOSURE: LOOKING BEYOND THE BENCHMARKS

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Cloud stocks are rolling into benchmark indexes.

Four of the pure-play cloud computing companies in the [WisdomTree Cloud Computing Fund \(WCLD\)](#) have been added to the [S&P 500](#) and [Nasdaq 100 indexes](#) in the last year.

Last week, Nasdaq added DocuSign, the cloud-based electronic signature platform, to the Nasdaq 100 Index in place of United Airlines.¹

United Airlines was dropped from the index because its market-cap weight fell below the required threshold to remain included. DocuSign was selected as a replacement because it was the largest eligible company not held in the index. As of this writing, DocuSign has returned 125% year-to-date while United Airlines has fallen 59%.

Swapping an airline for a cloud company seems like an inevitable corollary to the pandemic-induced lockdowns and transitions to remote work that we are experiencing. This was not the first cloud-based company added to, or first airline dropped from, the Nasdaq 100 Index this year.

Zoom Video Communications was added to the index in April in place of Willis Towers Watson, likely due to the latter's pending acquisition by Aon.² A week prior, American Airlines was replaced by medical device company DexCom.³

We have seen similar cloud company additions take place in the S&P 500 Index. ServiceNow and Paycom, which provide cloud-based technology and human resources solutions for enterprises, were both recently added to the benchmark index after former constituents were removed through acquisitions.^{4,5}

Benchmarks Indexes Still Have <5% Pure-Play Cloud Exposure

Despite Software & Services being the largest industry group within both the Nasdaq 100 and S&P 500 indexes, both benchmarks provide limited exposure to the cloud computing industry.

These benchmarks indexes currently have less than 5% overlap with WCLD.

The Nasdaq 100 currently holds only five companies in common with WCLD (Workday, Adobe, Zoom, PayPal and, recently, DocuSign), which together only amount to approximately 4% of the index's total weight. Dominant weights held in Apple, Microsoft, Alphabet and Facebook constitute about half of the index's total weight. These mega-cap names are not held in WCLD because they do not meet WCLD's selection criteria, which we detail below.

Approximately 3% of the S&P 500 Index's weight is in five companies that are held in common with WCLD (Adobe, Paycom, ServiceNow, PayPal and Salesforce). The [Information Technology](#) and [Growth](#) versions of this index hold slightly larger weights of these companies, but their total exposures remain below 10%.

In our view, investors who want cloud exposure need to look beyond these broad equity, tech and growth indexes.

WCLD, through a collaboration with Nasdaq, leverages the expertise of Bessemer Venture Partners (BVP), a leading venture capital investor in the cloud computing industry, to provide exposure to pure-play cloud computing stocks with rapid growth characteristics.

WCLD seeks to track the price and yield performance, before fees and expenses, of the [BVP Nasdaq Emerging Cloud Index \(EMCLOUD\)](#). BVP, working with Nasdaq, constructed the index to only include:

1. "pure-play" cloud companies deriving the majority of revenue from cloud computing
2. companies with annual revenue growth of at least 15% in the last two years for new additions, or at least 7% in one of the last two years for current constituents

These selection criteria help identify current and emerging cloud leaders with the potential to disrupt their competitors as well as the future composition of benchmark indexes.

WCLD's Unique and Targeted Cloud Exposure Has Significantly Outperformed in 2020

As of this writing, WCLD has returned 52.0% year-to-date and is a top performing fund in Morningstar's U.S. Technology category—outperforming its peer average by 3,609 [basis points \(bps\)](#).⁶

Relative to its benchmarks, WCLD has outperformed by at least 3,455 bps year-to-date. By comparison, the S&P 500 is down 2.1%, the Nasdaq 100 Index up 17.5%, the S&P 500 Information Technology Index up 15.0% and the S&P 500 Growth Index up 8.9%.⁷

Given the significant weight the Nasdaq 100 and S&P 500 indexes hold in the Software & Services industry group, investors may be unaware of their limited cloud industry exposure. WCLD may be a fitting solution for adding unique cloud exposure to fill the gap.

Unless otherwise stated, data source is FactSet, as of June 23, 2020.

As of June 23, 2020, WCLD held 2.7% of its weight in DocuSign, 3.6% of its weight in Zoom, 1.7% of its weight in ServiceNow, 0% of its weight in DexCom and 1.6% of its weight in Paycom.

1 "DocuSign, Inc. to Join the NASDAQ-100 Index Beginning June 22, 2020," Nasdaq, 6/12/20.

2 "Zoom Video Communications, Inc. to Join the NASDAQ-100 Index Beginning April 30, 2020," Nasdaq, 4/23/20.

3 "DexCom, Inc. to Join the NASDAQ-100 Index Beginning April 20, 2020" Nasdaq, 4/10/20.

4 "Thermo Fisher Scientific Set to Join S&P 100; ServiceNow to Join S&P 500," S&P Global, 11/19/19.

5 "Paycom Software Set to Join S&P 500S&P Global," 1/22/20.

6 Source: Morningstar, for the period 12/31/19–6/23/20. The U.S. Technology category includes 234 funds.

7 Sources: WisdomTree, Bloomberg, for the period 12/31/19–6/23/20.

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DEFINITIONS

Nasdaq 100 Index : Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.

MSCI Germany Information Technology Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Information Technology sector in Germany.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

BVP Nasdaq Emerging Cloud Index : designed to track the performance of emerging public companies primarily involved in providing cloud software to their customers.

Basis point : 1/100th of 1 percent.