

Cybersecurity is national security

Published 20 October 2021

WisdomTree

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Cyber risk is one of the few tangible threats that we experience on an individual, national and global level all at once. WisdomTree takes an approach that provides investors with targeted exposure to the businesses at the forefront of fortifying our networks and systems, based on the WisdomTree Team8 Cybersecurity Index. The strategy just completed its September 2021 rebalance (done semiannually) with six additions at this rebalance cycle, and an average year-over-year revenue growth rate of 43%.¹

Commenting on the growth in cyber security and the importance of being able to differentiate between solutions, Admiral Michael Rogers, Operating Partner, Team8, explains: "Cyber security has been catapulted to the top of mind for the executive suite in recent years, accelerated by the pandemic. The cost of security for organizations contrasts with the relative low costs for cyber attackers. As such, firms that are prioritizing cybersecurity solutions that provide smart, cost-effective ways to reduce, mitigate, or even prevent cyber attacks is key. Inevitably, as we move to an increasingly digital world, these options are game-changers in safeguarding our society and digital future."

The changes made to the index reflect the latest trends in cybersecurity, including the continued focus and evolution in the Security of Things, greater attention to injecting security throughout the development lifecycle and growth in ransomware protection.

The strategy had six additions at this rebalance cycle, with an average year-over-year growth rate of 43%. This subset of companies is internationally listed (across the United States, Canada and the United Kingdom) with focuses on data protection and management or network and endpoint security.

Figure 1: Summary of Constituent Additions to the WisdomTree Team8 Cybersecurity Index

Company	Business Description	Weight	TTM Revenue Growth
Darktrace Plc	A provider of AI for the enterprise, with the first at-scale deployment of AI in cybersecurity. It specializes in self-learning AI and is at the forefront of autonomous response technology. Darktrace's platform uses machine learning and AI algorithms to neutralize cyberthreats across diverse digital estates, including the cloud and networks, IoT and industrial control systems.	5.1%	17.8%
SentinelOne, Inc.	Engages in the provision of endpoint security software that detects, models and predicts threat behaviour to block attacks on any computing device. Its services include vigilance, support and training.	3.8%	142.1%
Sumo Logic, Inc.	Engages in the provision and development of continuous intelligence software platforms. Its product enables organizations to automate the collection, ingestion and analysis of application, infrastructure, security and Internet of Things (IoT) data to derive insights.	3.8%	23.5%
Elastic NV	Engages in the provision of open-source search and analytics engine services. It offers Elastic Stack, a set of software products that ingest and store data from various sources and formats, as well as perform search, analysis and visualization. It also provides software solutions on the Elastic Stack that address cases, including app search, site search, enterprise search, logging, metrics, application performance management, business analytics and security analytics.	3.8%	44.1%
Datto Holding Corp.	Engages in the provision of cloud-based software and technology services. Its cloud-based offerings include unified continuity, networking and business management software solutions.	2.9%	14.9%
Absolute Software Corp.	Engages in the provision of cloud-based services that support the management and security of computing devices, applications and data for a variety of organizations. Its solutions include education, financial services, General Data Protection Regulation (GDPR) compliance, government, health care, professional services and technology solutions such as Absolute for Android and Absolute for Chromebook.	0.9%	15.4%

Sources: WisdomTree, FactSet, as of 31/08/21. TTM is an abbreviation for "trailing 12 months."

You cannot invest in an index. Past performance is not indicative of future returns.

The strategy had three removals, including Proofpoint, McAfee and FireEye. Proofpoint was acquired by private equity firm Thoma Bravo at a 34% acquisition premium.² Meanwhile, McAfee and FireEye were removed after their trailing revenue growth fell below the necessary threshold for current constituents of 5%.

Approximately 25% of the Fund's weight was turned over with no single current constituent experiencing a weight change significantly above 2%.

These changes brought the constituent count of the Fund up to 28 companies from 25. The weighting mechanism within the strategy assigns over-weight exposure to companies that are exhibiting both fast revenue growth and involvement in an array of cybersecurity themes, which helped drive an increase in the weighted average trailing-12-month growth rate to 32.4% from 28.1%.

Figure 2: Selected Fundamental Metrics for the WisdomTree Team8 Cybersecurity Index, Before and After the Rebalance

Cybersecurity as a Government Priority

Cybersecurity is an escalating and complex challenge requiring an equally robust and coordinated defense, which is why cybersecurity is one of the US administration's highest priorities. President Biden

recently held a cybersecurity summit with a range of private sector companies as a call-to-action to establish a public-private partnership to protect against malicious cyber activity.

Representatives from technology, insurance, education and critical infrastructure were present at the summit, including some of the nation's largest companies like Google, Amazon, Apple, Microsoft, IBM, ADP, JP Morgan, Bank of America and Travelers.

The meeting covered a range of topics focused on fortifying our critical infrastructure, driving better cybersecurity practices and increasing the cybersecurity workforce. The key outcome from the meeting was the announcement of substantial commitments and initiatives aimed at bolstering the nation's cybersecurity, a few of which we highlight below:

- Microsoft committed to invest \$20bn over 5 years to accelerate efforts to integrate cybersecurity in product design. The company made \$150mn immediately available in technical services to help federal, state, and local governments upgrade their security protection, and is expanding partnerships with community colleges and non-profits for cybersecurity training.
- Google is investing \$10bn over 5 years to expand zero-trust programs, help secure the software supply chain, and enhance open-source security. The company will also help 100,000 Americans earn industry-recognized digital skills certificates.
- Apple is establishing a new program to drive continuous security improvements throughout the technology supply chain. The program will help drive the mass adoption of multi-factor authentication, security training, vulnerability remediation, event logging, and incident response.
- IBM will train 150,000 people in cybersecurity skills over the next three years, and will partner with more than 20 Historically Black Colleges & Universities to establish Cybersecurity Leadership Centers to grow a more diverse cyber workforce.
- Amazon will make available to the public at no charge the security awareness training it offers its employees. Amazon will also make available to all Amazon Web Services account holders at no additional cost, a multi-factor authentication device to protect against cybersecurity threats like phishing and password theft.

A Historic Opportunity for the Cybersecurity Industry

“Cybersecurity is a national security and economic security imperative for the Biden Administration and we are prioritizing and elevating cybersecurity like never before.”⁴

This statement from the White House and the commitments from the private sector signify the important role that the cybersecurity industry will play in both the public and private sectors going forward.

1 WisdomTree, FactSet, as of 31/08/21

2 <https://www.proofpoint.com/us/newsroom/press-releases/proofpoint-enters-definitive-agreement-be-acquired-thoma-bravo-123-billion>

3 <https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/25/fact-sheet-biden-administration-and-private-sector-leaders-announce-ambitious-initiatives-to-bolster-the-nations-cybersecurity/>

4 <https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/25/fact-sheet-biden-administration-and-private-sector-leaders-announce-ambitious-initiatives-to-bolster-the-nations-cybersecurity/>

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