

Jumping to the Cloud

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As we write these words, the world is dealing with a major pandemic that is having far reaching impacts on how many people live their day-to-day lives. Routine activities, such as flying on aeroplanes, eating in restaurants and even shaking hands are being reconsidered. It's possible that life will be impacted for weeks, if not months, as opposed to days. Due to a cultural phenomenon known as "social distancing" the value of doing business and communicating virtually as opposed to physically just massively went up.

It's fortunate that many cloud-based businesses have developed and been providing software that helps with exactly this type of activity for some time.

BVP Nasdaq Emerging Cloud Index

The helpful thing about indices is that they allow individuals to look at groups of companies that have a common thread or theme binding them together. The BVP Nasdaq Emerging Cloud Index is designed to represent companies that purely operate cloud-based businesses. These are typically newer companies that in many cases have only recently undergone their initial public offering (IPO). While these firms would certainly have sensitivity to movements of the broader equity market—and would exhibit some volatility as such—we think it's also important to take a step back to recognise some of the functions on which they focus.

- Enhancing the capability to do virtual meetings, whether through video calling, screen-sharing or other means.
- Improving the ability for teams and firms to keep in contact during events that require activation of business continuity plans and disaster recovery.
- Providing more convenient access to file sharing for any employee that needs it from any location, making collaborative work more effective.
- Securing networks and computers to mitigate the risk of cyber-attacks.

While these are only a few of the many functions that the companies within the BVP Nasdaq Emerging Cloud Index provide as services, it's certainly illustrative of some of the types of things that will be demanded if large swaths of populations begin telecommuting.

Drilling Down—Performance of Cloud Companies vs. ‘Tech’ Market

While the functions that cloud companies provide are interesting and notable, we’d be remiss to not see how these concepts were converted back into equity performance. Fortunately:

- There is an array of indices that focus on cloud computing, and we included the aforementioned BVP Nasdaq Emerging Cloud Index along with the ISE Cloud Computing Index and the Solactive Cloud Technology Index in our analysis.
- Many view the Nasdaq 100 Index as an important bellwether for the performance of the ‘Tech’ market, so we included that as well to provide market context.

Figure 1a: Comparison of Cumulative Returns (2 October 2018 to 13 March 2020)



Figure 1b: Summary Table

Source: Bloomberg, with start date of 2 October 2018 corresponding to the beginning of live calculation for the BVP Nasdaq Emerging Cloud Index. “From Market High” refers to the current, record high level of the S&P 500 Index based on market close, which would be 19 February 2020.

You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Within Figures 1a and 1b, we observed:

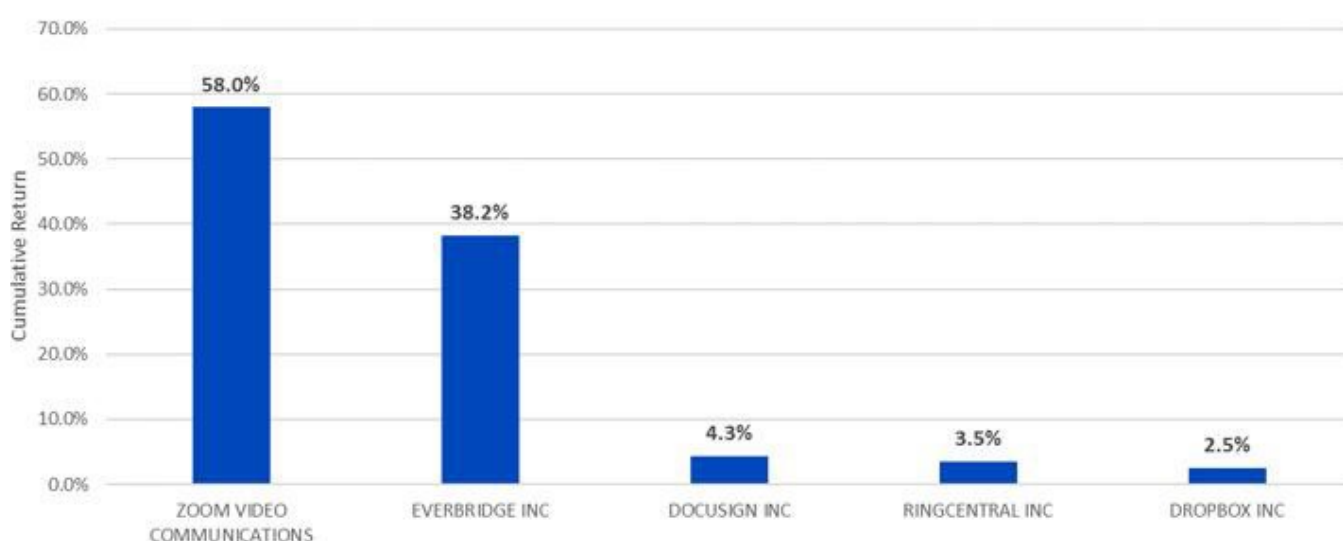
- The different cloud-focused indices exhibited rather different performances over this period of time. The BVP Nasdaq Emerging Cloud Index was on the higher end of the spectrum, whereas the ISE Cloud Computing Index was on the lower end. The Nasdaq 100 Index was positive throughout the full period of analysis.
- More recently, markets have undertaken a sharp downward correction. As we mentioned previously, the BVP Nasdaq Emerging Cloud Index does tend to gain exposure to a large proportion of mid cap and small cap companies that have only recently undertaken their IPO's.

Drilling Down Further—Key Companies Driving these Results

Within any index, it's always instructive to understand which companies are most responsible for contributing to returns. Thinking of the year-to-date period in 2020, it's clear that the results have been dominated by fears and issues coming from the Coronavirus. However, we can still pose the question as to which companies are contributing the most to returns from the positive side, thereby finding potential bright spots amidst a very volatile period. Figure 2 indicated:

- Of the top five contributors to the returns of the BVP Nasdaq Emerging Cloud Index on the positive side, it was clear that Zoom Video Communications and Everbridge Inc. were in a different place than the others. During the Coronavirus-related downturn, video communications and business continuity protocols are both services that have been put at a premium.
- Other companies like Docusign Inc, Ringcentral Inc. and Dropbox are also based on helping people to accomplish important business tasks and share information from different places without the need for physical presence.

Figure 2: Top 5 Positive Contributors to Returns of BVP Nasdaq Emerging Cloud Index (31 December 2019 to 13 March 2020)



Disruptions & Dislocations may lead More Companies to Jump to the Cloud

There is no doubt that the Coronavirus will have a massive impact on our global society, with consequences that reverberate for years to come. Once businesses act initially to keep their employees and customers safe, they may then reassess different functions that can be moved from a physically-centric infrastructure to a cloud-based infrastructure based around Software-as-a-Service (SaaS) solutions. If people get used to doing more meetings virtually, that could have an impact on how business is done for years to come.

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