Cybersecurity's Important Role in a Geopolitical Crisis

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The market environment has been difficult for megatrend strategies, which often involve unprofitable but high growth stocks.

As expected, the market has positioned for an inflationary, rising rate regime—rotating into stocks with proven track records of passing on increasing costs to customers, benefiting from higher interest rates and returning capital to shareholders. This is a prudent, tactical shift.

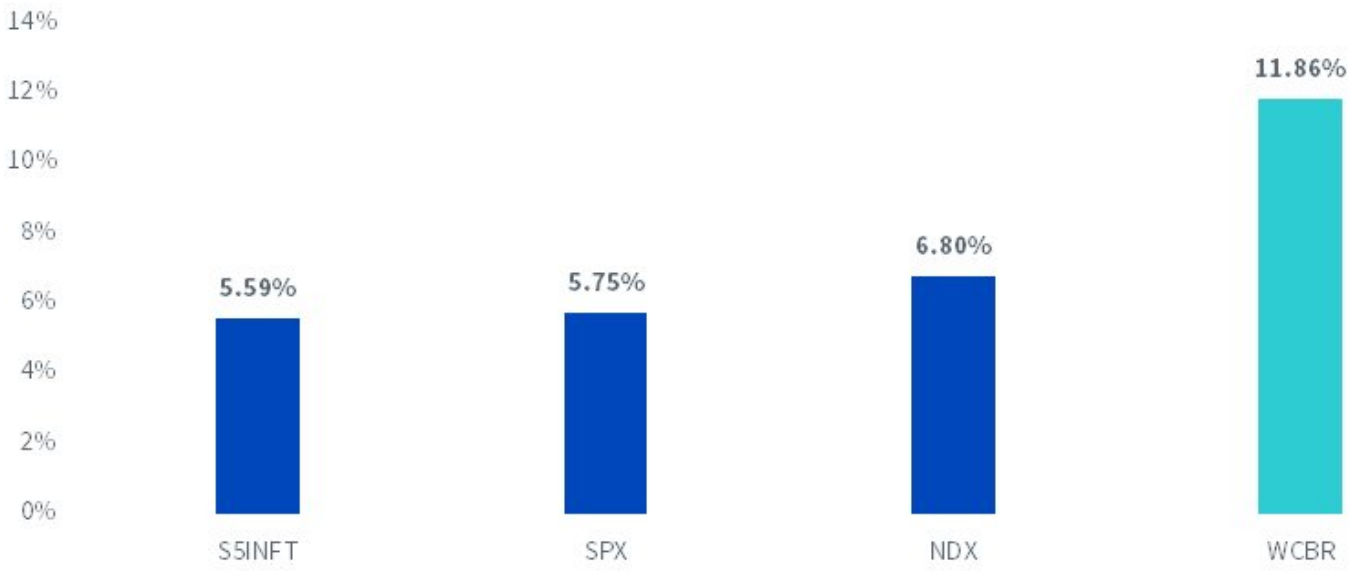
During these negative relative performance periods, it's important for megatrend investors to stay grounded in the original investment thesis, which my colleague and I wrote about earlier. We expect positive megatrend performance to be driven by emerging structural shifts, and not be reliant on shorter-term cyclical changes or technical signals. These strategies are meant to target high-conviction secular or economic trends with medium- to long-term time horizons.

Megatrend strategies are strategic allocations propelled by long-term structural changes with outcomes that are agnostic to market regime. The current geopolitical environment serves as a reminder of this.

Do rising rates, inflation or unprofitability have any impact on the fact that cybersecurity is national security? In our view, no—and we expect that the companies helping to fortify our nation's technological borders will be increasingly valuable, both literally and figuratively.

The market recognizes this as well. Cybersecurity stocks, as measured by the WisdomTree Cybersecurity Fund (WCBR), have outperformed benchmark indexes since Russia invaded Ukraine. Despite recent gains, WCBR still has ground to cover, as it is down 11% year-to-date. The S&P 500 Index is down 6% over the same period. WCBR is currently valued at 10 times price-to-sales, two turns above its historical minimum valuation of 8.1 times and three turns below its historical peak of 13.1 times.1

Performance since Invasion of Ukraine (2/23/22–3/18/22)



Source: WisdomTree. **Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.** WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EDT net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For the most recent standardized and month-end performance click here.

Perspective from Cybersecurity Experts Team8

Based on the seven themes driving the future of cybersecurity, as detailed by Team8 in its 2022 Cybersecurity Themes Report, the huge acceleration in use of the cloud, as well as the sheer volume and extent of threats accelerated by the pandemic and changing work environments, means that cyber not only has to get better, it also has to get smarter.

A driving force will be the use of smarter security technologies such as security automation and artificial intelligence (AI), which are likely to be game changers. Resilience & recovery is also key, as organizations must ensure there are sufficient backups and ransomware resilience measures to reduce the impact of attack and the likelihood of business-wide interruptions, while speeding up recovery time.

In the midst of the current Russia/Ukraine conflict, we expect all of our themes to continue playing a critical role in global cybersecurity dynamics; however, there may be a heightened focus on ransomware resilience as well as on the security of things, specifically industrial control systems and critical infrastructure security. These common attack vectors can be exploited in nation-state-related attacks to maximize control of the target, and potentially even inflict damage or harm. Furthermore, given the nature of cyber warfare, such attacks could spill over beyond government and critical infrastructure to local corporations or civilians, and even beyond the borders of the conflict to other countries.

WCBR Semiannual Rebalance

WCBR just completed its semiannual March rebalance, with two net additions (three additions, one removal).

Additions

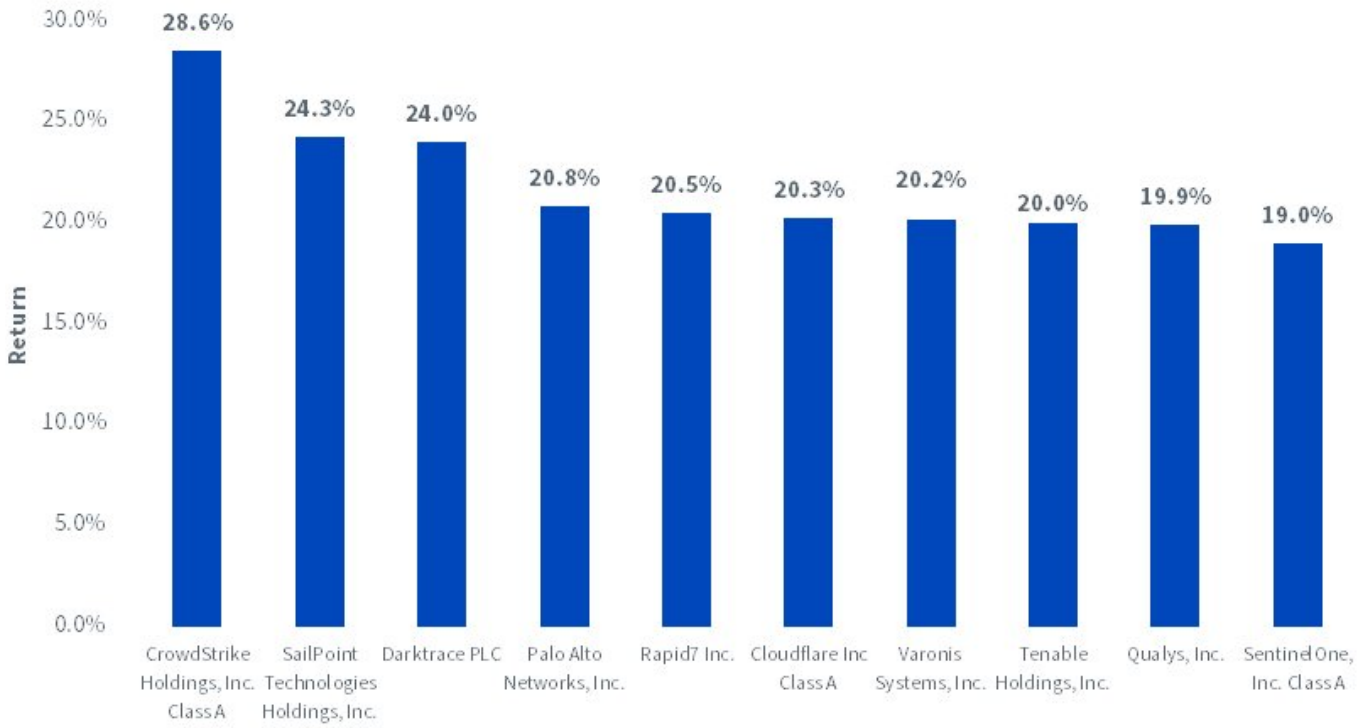
Company	Fund Weight	Trailing 12-Month Revenue Growth	Focus Area	
HashiCorp, Inc.	3.60%	51.20%	Cloud Security	Infrastructure automation for multi-cloud environments. Its software products include Vault for security, Terraform, Consul and Vagrant for infrastructure, Consul for networking and Nomad for applications.
ForgeRock, Inc.	2.70%	41.70%	Identity & Access Management	Open platform of identity management solutions. Its platform includes common services, access management, user-managed access, identity management, identity gateway and directory services. The firm serves digital health, financial services, omnichannel retail, communications and media, and government industries.
Ahnlab, Inc.	2.70%	16.30%	Network & Endpoint Security	Engages in the development and provision of security solutions. It offers products such as advanced threat defense, endpoint security, network security and services such as managed security service and IT security consulting service, and forensic service.

Weightings are as of 3/18/22 and subject to change. Trailing 12-Month Revenue Growth: refers to the past 12 consecutive months of a company's performance data used for reporting financial figures.

Approximately 17.2% of the Fund's weight was turned over with no single security experiencing an overly significant weight adjustment. Despite relatively small changes in individual positions, WCBR has had several constituents experience significant positive performance since the invasion of Ukraine.

Darktrace PLC, which uses machine learning and AI algorithms to neutralize cyber threats across diverse digital estates, has gained 36% and raised its full-year 2022 revenue and margin guidance to reflect the ongoing strength and profitability of its business.2

Top 10 Performance (2/23/22–3/18/22)



Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. WCBR currently holding the above securities in the following weights: CrowdStrike Holdings, Inc. Class A (4.2%), SailPoint Technologies Holdings, Inc. (4.6%), Darktrace PLC (4.0%), Palo Alto Networks, Inc. (7.3%), Rapid7 Inc. (5.4%), Cloudflare Inc Class A (4.9%), Varonis Systems, Inc. (2.1%), Tenable Holdings, Inc. (5.6%), Qualys, Inc. (3.9%), SentinelOne, Inc. Class A (2.7%).

The weighting mechanism behind WCBR 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 38.6% from 35.9%. Importantly, the Fund now generates a higher average growth rate at a lower valuation of 9.8 times price-to-sales.

	# of Companies	TTM Growth Rate	Price-to-Sales Ratio	Wgt. Avg. Market Cap	Median Market Cap	Avg. Market Cap	Large Cap	Mid Cap	Small Cap
Before Rebalance	27	35.90%	10.1x	$15bn	$6bn	$19bn	43%	47%	11%
After Rebalance	29	38.60%	9.8x	$13bn	$5bn	$16bn	37%	41%	22%

Source: WisdomTree, FactSet as of 3/18/2022.

Cybersecurity's Growing Importance

On the day of this writing, three WCBR constituents, Cloudflare, CrowdStrike and Ping Identity, announced the Critical Infrastructure Defense Project to "provide free cybersecurity services to particularly vulnerable industries during this time of heightened risk."3

In our view, the growing importance of the cybersecurity industry cannot be understated.

We recommend considering WCBR as the solution for investors seeking targeted exposure to the companies we view as having the highest exposure to critical cybersecurity trends and the greatest potential for future growth.

1 Sources: WisdomTree, FactSet, as of 3/18/22. Performance at NAV.
2 Sources: Bloomberg, Darktrace PLC S1 2022 Earnings Conference Call Transcript. Performance for the period 2/23/22–3/4/22. Past performance is not indicative of future results.
3 Source: Cloudflare, CrowdStrike, and Ping Identity Join Forces to Strengthen U.S. Cybersecurity in Light Of Increased Cyber Threats. As of 3/7/22, WCBR held 4.9%, 4.2%, and 2.7% of its weight in Cloudflare, CrowdStrike and Ping Identity, respectively.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. The Fund invests in cybersecurity companies, which generate a meaningful part of their revenue from security protocols that prevent intrusion and attacks to systems, networks, applications, computers and mobile devices. Cybersecurity companies are particularly vulnerable to rapid changes in technology, rapid obsolescence of products and services, the loss of patent, copyright and trademark protections, government regulation and competition, both domestically and internationally. Cybersecurity company stocks, especially those which are internet related, have experienced extreme price and volume fluctuations in the past that have often been unrelated to their operating performance. These companies may also be smaller and less experienced companies, with limited product or service lines, markets or financial resources and fewer experienced management or marketing personnel. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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