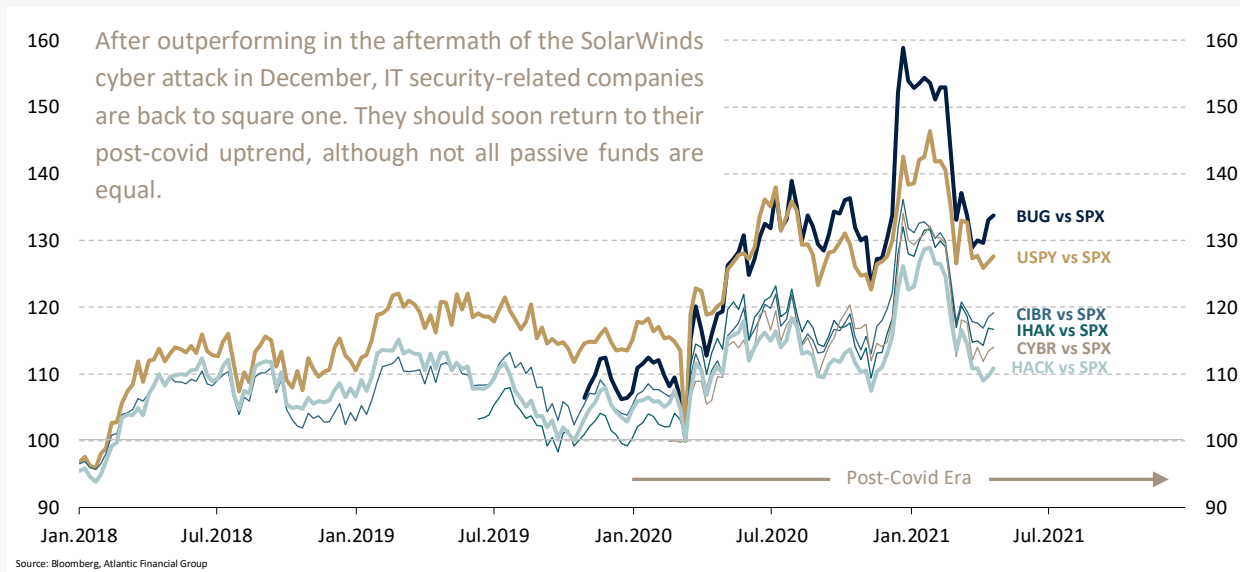




" INVESTING IN CYBERSECURITY TO REACH FOR THE CLOUD "

- ◆ In an increasingly connected world, cyber attacks are on the rise
- ◆ The use of remote working has made it essential to increase spending on cybersecurity
- ◆ Companies that offer their security services from the cloud are better positioned
- ◆ For their part, industry leaders are expected to accelerate Merger & Acquisition activity

CHART OF THE WEEK: " Looking for the best cybersecurity ETFs? "



STOCK MARKET ANALYSIS

Hackers are taking their toll. The infamous REvil hacker group has already launched attacks against several large international companies, including Tata Steel, Asteelflash and Acer. Its latest misdeed concerns Quanta Computer, the leading Taiwanese computer manufacturer. Behind it, it is the giant Apple that is being targeted. In concrete terms, the hackers penetrated the servers of Quanta, which is responsible for the assembly of MacBooks and Apple Watches. They stole blueprints and designs for Apple's flagship products. Then, as usual, REvil threatened to release the confidential data if a \$50 million



ransom was not paid by the end of April. The hacker group also stole information from other companies: Cisco, Dell, Facebook, Google, Hewlett-Packard, Microsoft, Siemens, Sony and Toshiba, all of whom work with Quanta, could therefore also be affected. In addition to this high-profile event last week, **ransomware attacks have become increasingly frequent worldwide**. According to the latest estimates, hackers earned more than \$350 million last year from ransomware, **a jump of 311% compared to 2019**. This figure may even be underestimated, as many victims do not disclose attacks or payments.

The number of connected devices in the world is growing exponentially (see figure 2). Since 2020 and the covid pandemic, **the use of remote working has intensified. It has made companies, and also public organisations, more vulnerable to cyber attacks.**

Fig. 2 - Number of connected devices (bn)

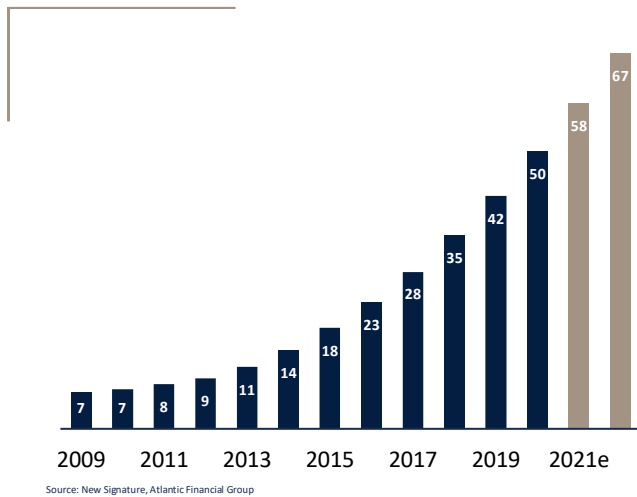
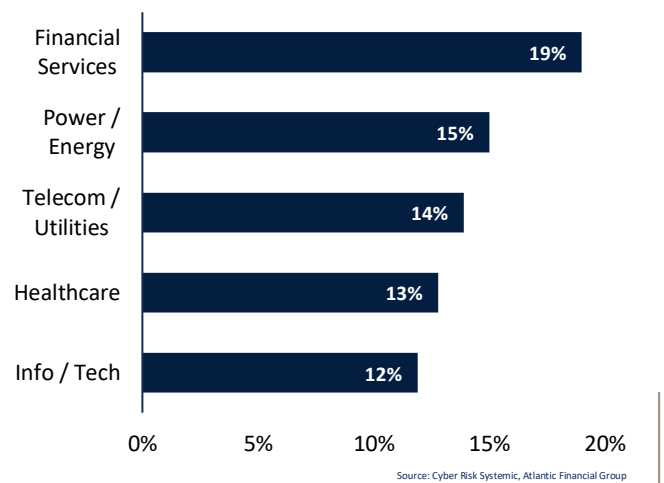


Fig. 3 - Industries most affected by attacks



Cybercrime is now the most prevalent economic crime in the world. It is ahead of asset misappropriation and consumer fraud. Cybersecurity is becoming a central issue for businesses, from the smallest to the Majors. Some sectors are more affected than others (see Figure 3), but none is immune. Companies are therefore spending lavishly as they become aware of the strategic importance of this issue. Being a victim of a cyberattack not only means financial loss, but also damage to the company's reputation and legal proceedings due to weak protection. Governments also seek to protect themselves. As a result, annual global spending on cybersecurity will exceed \$200 billion by next year (see Figure 4).

As time goes by, cyber attacks are becoming more and more sophisticated, organised and resourceful. In the coming years, with the evolution of information systems and the advent of 5G, the entry points for viruses will multiply. Hackers will be able to get an exponential rate of traffic directed to their target. It will take less and less time to overwhelm a public organisation or private company.



Listed companies that provide solutions, whether for malware detection, data protection, or vulnerability management, will see their revenues and profits increase. **The industry leaders are well known: Akamai, Check Point, Cisco Systems, Cloudflare, CrowdStrike, CyberArk Software, Fortinet, Intel, IBM, Juniper Networks, NortonLifeLock, Palo Alto Networks, Splunk, VMware or Zscaler.** The only negative aspect is that these companies are not cheap in terms of valuation, so the risk of a temporary correction cannot be ruled out. However, this theme will remain buoyant for a long time to come and it will deliver above-average stock market performance over the next few years.

Fig. 4 - Global spending on cybersecurity

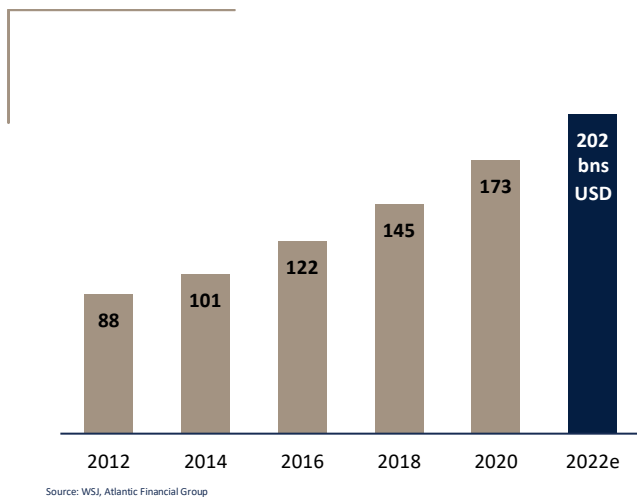
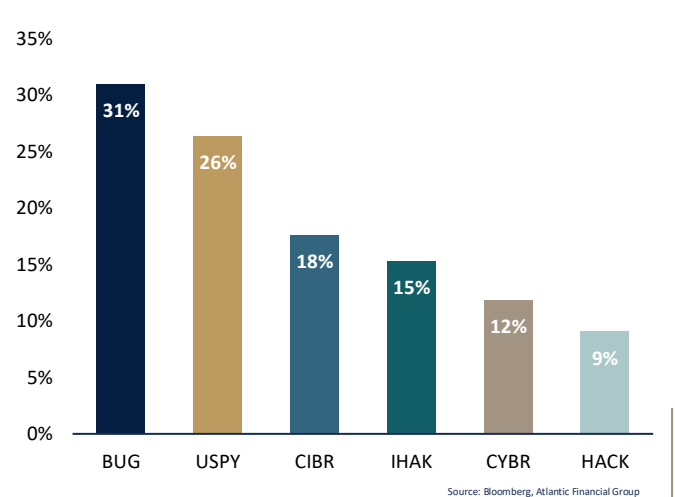


Fig. 5 - ETF performance since 03/13/2020



Many asset managers are now offering passive funds (ETFs) to gain low-cost exposure to this segment. The latest to emerge are the trackers offered by Global X and Vanguard, which are just over a year old. However, in this innovative sector more than in other more mature segments, **the stock picking process has a clear influence on performance.** In concrete terms, not all ETFs are equal (see Chart of the Week & Figure 5). Those offered by Global X (BUG US) or Legal & General (USPY LN) are more volatile and therefore riskier in the short term. On the other hand, they manage to do better in the medium term than those constructed by First Trust (CIBR US), iShares (IHAK US), Vanguard (CYBR LN) or ETF MG (HACK US).

When analysing the composition of these ETFs, no particular bias in terms of allocation appears to justify the outperformance of one or the other. Neither the number of stocks in the portfolios, nor the concentration of the top 10 positions (see Figure 6), nor the geographical weights (see Figure 7) are determining factors.

At first glance, the sector composition does not seem to make a difference either (see Figure 8). However, on closer inspection, it can be estimated that **the internet component tends to be higher in the best performing ETFs,** at the expense of the software component. However, since the covid-19



pandemic and the increase in remote working, the increase in cybersecurity spending has been mainly due to cloud security.

Fig. 6 - Top ten ETF holdings

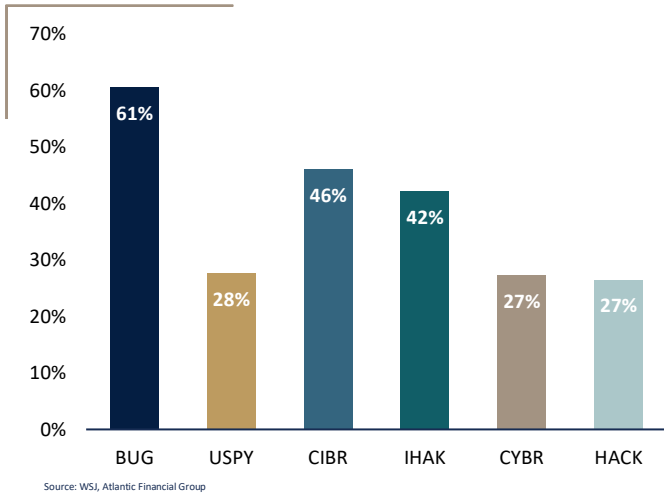
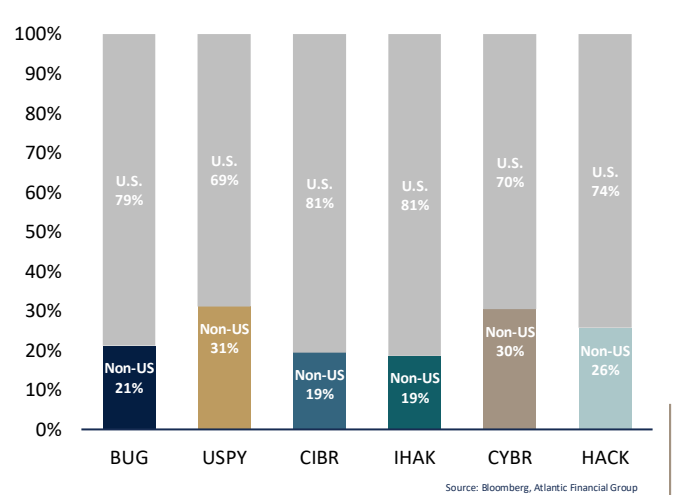


Fig. 7 - Geographic allocation of ETFs



Cloud computing is already established in enterprise resource planning, databases, systems software and customer relationship management. **In the next few years, the fastest growing segments will be network and endpoint security.** Companies such as Cloudflare, CrowdStrike or Zscaler could grow three to four times faster than the market as a whole. Not surprisingly, they are performing well above their peers (see Figure 9).

Fig. 8 - Sector allocation of ETFs

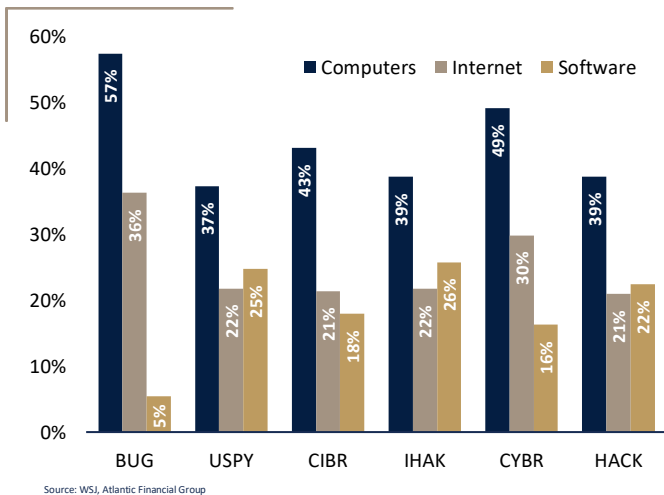
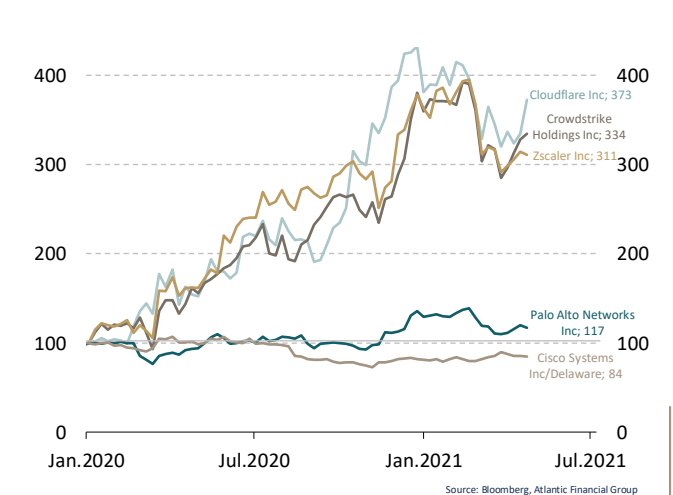


Fig. 9 – Perf. of Cloudflare, CrowdStrike & Zscaler

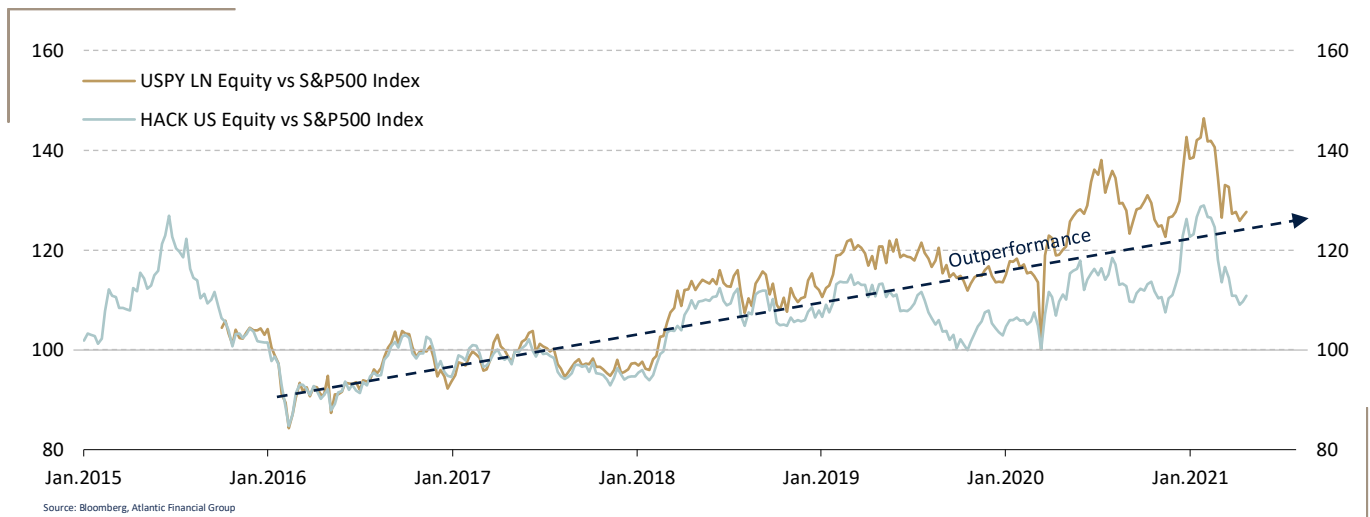


On the **other hand, large network security companies**, such as Palo Alto Networks, Check Point or Fortinet, **will not be left behind.** Given the strength of their balance sheets and the need to move to cloud-



based products and services, they are expected to carry out mergers and acquisitions. This strategy will lead to industry consolidation. With the exception of Cisco, which is not a pure player, it is interesting to note that no IT security company currently has annual revenues in excess of \$5 billion. This is in stark contrast to the leaders in other segments of the Info Tech sector. Amazon, Microsoft and Google all have revenues in excess of \$150 billion.

Fig. 10 - Performance of the two oldest cybersecurity ETFs



Since 2016, cybersecurity companies have moved in successive waves, but have structurally outperformed S&P 500 stocks (see Figure 10). In December 2020, following the cyberattack on SolarWinds, a US company that develops computer software, the sector made abnormal gains. Using one of SolarWinds' platforms, called Orion, the hackers reached the systems of end customers, including powerful US government agencies, among whom were the Departments of Treasury, Homeland Security, Energy and Commerce, as well as 450 of the world's 500 largest private companies. This was enough to propel the cybersecurity industry to new heights. This excess of performance has finally subsided. Since the beginning of the year, the sector has underperformed the S&P 500 by a "healthy" margin. Cybersecurity companies are **currently in a consolidation phase, ready to bounce back on their strong fundamentals**. The secular trend is not broken: it will continue over the next few years.

Conclusion:

As the world becomes increasingly dependent on information technology to store, organise and transmit data, cyber attacks are on the rise. Security spending will continue to grow exponentially. Governments and businesses must fend off increasingly sophisticated assaults to avoid risks to their reputation and business. Investing in cybersecurity companies offers the potential for long-term structural outperformance, especially after the sharp correction at the beginning of the year. Since selectivity makes the difference, it is best to focus on cloud security or to favour companies selected through active management.





RETURNS ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2021 Year-to-Date (%)	2020 (%)	2019 (%)
Equities							
World (MSCI)	703.7	67.17	-0.1%	5.5%	9.5%	16.9%	27.3%
USA (S&P 500)	4 180	65.32	-0.1%	7.0%	11.8%	18.4%	31.5%
USA (Dow Jones)	34 043	62.92	-0.4%	5.1%	11.9%	9.7%	25.3%
USA (Nasdaq)	14 017	59.43	-0.3%	6.0%	9.0%	35.1%	36.7%
Euro Area (DJ EuroStoxx)	442.4	64.48	-0.3%	4.7%	11.9%	0.8%	27.3%
UK (FTSE 100)	6 939	58.47	-1.1%	3.9%	8.7%	-11.4%	17.2%
Switzerland (SMI)	11 201	56.24	0.1%	2.3%	7.3%	4.3%	30.2%
Japan (Nikkei)	29 021	44.82	-2.2%	0.6%	6.4%	18.3%	20.7%
Emerging (MSCI)	1 353	56.21	0.4%	2.4%	5.2%	18.8%	18.8%
Brasil (IBOVESPA)	120 530	60.62	-0.5%	6.4%	1.3%	2.9%	31.6%
Russia (MOEX)	3 597	60.46	0.0%	3.8%	9.5%	14.8%	38.4%
India (SENSEX)	47 878	40.61	-2.0%	-4.3%	0.4%	17.2%	15.7%
China (CSI)	5 135	54.13	3.5%	2.6%	-1.4%	29.9%	39.2%
Energy (MSCI World)	165.1	42.58	-1.9%	-0.9%	15.6%	-27.7%	13.9%
Com. Serv. (MSCI World)	111.98	58.99	-0.4%	2.8%	11.7%	24.2%	25.1%
Materials (MSCI World)	368.9	70.38	0.2%	3.8%	13.5%	21.6%	20.8%
Info. Tech. (MSCI World)	494.0	62.39	-0.3%	3.0%	9.0%	46.2%	47.5%
Utilities (MSCI World)	157.0	68.48	-0.3%	4.7%	4.3%	4.8%	22.3%
Financials (MSCI World)	140.8	59.48	-0.4%	3.8%	14.7%	-3.1%	24.1%
Cons. Staples (MSCI World)	272.4	68.86	0.2%	4.0%	2.6%	8.8%	22.4%
Health Care (MSCI World)	336.3	78.37	1.6%	6.8%	6.4%	15.4%	23.3%
Cons. Discret. (MSCI World)	405.5	59.94	-1.0%	4.7%	7.2%	37.0%	28.2%
Industrials (MSCI World)	320.4	66.50	-0.1%	6.1%	11.2%	11.8%	27.2%
Bonds (FTSE)							
USA (7-10 Yr)	1.56%	55.06	0.1%	0.8%	-4.6%	9.3%	7.4%
Euro Area (7-10 Yr)	0.01%	41.91	-0.1%	-0.8%	-2.1%	4.5%	6.7%
Germany (7-10 Yr)	-0.26%	42.39	0.0%	-0.5%	-2.7%	3.0%	3.0%
UK (7-10 Yr)	0.74%	51.88	0.2%	0.2%	-4.1%	5.4%	4.8%
Switzerland (7-10 Yr)	-0.25%	48.65	0.1%	-0.2%	-1.2%	0.4%	2.0%
Japan (5-10 Yr)	0.07%	63.04	0.1%	0.2%	-0.1%	-0.1%	0.0%
Emerging (5-10 Yr)	4.42%	64.51	-0.1%	2.0%	-3.3%	5.2%	13.3%
USA (IG Corp.)	2.16%	59.07	0.4%	1.6%	-3.3%	9.9%	14.5%
Euro Area (IG Corp.)	0.33%	50.35	0.1%	0.1%	-0.5%	2.8%	6.2%
Emerging (IG Corp.)	3.80%	68.54	0.1%	0.8%	-0.4%	8.1%	13.1%
USA (HY Corp.)	4.04%	69.17	0.0%	1.2%	1.7%	7.1%	14.3%
Euro Area (HY Corp.)	2.93%	67.62	-0.1%	0.6%	2.1%	2.3%	11.3%
Emerging (HY Corp.)	6.16%	70.46	0.1%	2.3%	-0.7%	4.3%	11.5%
World (Convertibles)	448.9	58.37	0.4%	3.3%	4.8%	38.8%	17.3%
USA (Convertibles)	606.3	56.18	0.4%	3.5%	5.4%	54.5%	22.8%
Euro Area (Convertibles)	4 141	64.58	-0.1%	2.6%	0.6%	6.1%	7.6%
Switzerland (Convertibles)	186.6	55.30	0.0%	0.0%	-0.1%	0.5%	2.4%
Japan (Convertibles)	199.5	41.28	-1.1%	-0.7%	2.6%	2.8%	2.6%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	690.6	66.21	n.a.	0.7%	2.9%	2.5%	9.3%
Distressed	912.9	72.58	n.a.	2.3%	6.2%	1.5%	1.4%
Event Driven	764.7	73.84	n.a.	1.6%	6.3%	3.1%	8.2%
Fixed Income	381.9	74.41	n.a.	0.4%	2.1%	2.2%	6.1%
Global Macro	1 129.7	73.40	n.a.	1.5%	2.8%	2.0%	10.4%
Long/Short	876.3	68.78	n.a.	0.7%	2.4%	3.6%	12.2%
CTA's	322.8	57.44	n.a.	0.4%	2.2%	-3.2%	9.0%
Market Neutral	275.7	58.50	n.a.	-0.5%	0.9%	-0.1%	1.6%
Multi-Strategy	665.1	73.91	n.a.	1.1%	2.1%	1.4%	7.3%
Volatility							
VIX	17.33	44.97	6.6%	-14.6%	-23.8%	65.1%	-45.8%
VSTOXX	18.19	50.45	12.9%	3.4%	-22.2%	67.5%	-41.5%
Commodities							
Commodities (CRB)	524.6	n.a.	1.8%	3.3%	18.2%	10.5%	-1.9%
Gold (Troy Ounce)	1 777	57.33	0.0%	2.9%	-6.4%	24.9%	18.3%
Oil (WTI, Barrel)	62.18	53.19	-1.5%	7.8%	28.2%	-20.5%	34.5%
Oil (Brent, Barrel)	65.42	53.69	-1.7%	9.5%	27.9%	-23.0%	24.9%
Currencies (vs USD)							
USD (Dollar Index)	90.859	34.89	-0.8%	-1.6%	1.0%	-6.7%	0.2%
EUR	1.2097	67.20	1.0%	2.1%	-1.0%	9.7%	-2.2%
JPY	107.84	63.44	0.9%	0.7%	-4.3%	5.3%	0.9%
GBP	1.3876	53.18	0.3%	0.9%	1.5%	2.8%	3.9%
AUD	0.7739	54.97	0.1%	1.5%	0.6%	9.5%	-0.4%
CAD	1.2476	57.41	0.3%	0.9%	2.0%	1.8%	5.0%
CHF	0.9140	64.23	0.7%	2.2%	-3.2%	9.8%	1.4%
CNY	6.4963	60.49	0.4%	0.3%	0.5%	6.7%	-1.2%
MXN	19.826	64.48	0.5%	5.2%	0.4%	-4.9%	3.8%
EM (Emerging Index)	1 717.5	63.14	0.4%	0.5%	-0.1%	3.3%	3.1%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



DISCLAIMER

This document is issued by Atlantic Financial Group (hereinafter "Atlantic"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a document.

This document is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe to, purchase, sell or hold any security or financial instrument. It contains the opinions of Atlantic, as at the date of issue. These opinions and the information herein contained do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal recommendation to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Atlantic does not provide tax advice. Therefore, you must verify the above and all other information provided in the document or otherwise review it with your external tax advisors.

Investment are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The information and analysis contained herein are based on sources considered to be reliable. However, Atlantic does not guarantee the timeliness, accuracy, or completeness of the information contained in this document, nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice. Past performance is no guarantee of current or future returns, and the investor may receive back less than he invested. The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to and bear their associated risks. On request, Atlantic will be pleased to provide investors with more detailed information concerning risks associated with given instruments.

The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. These rates may fluctuate and adversely affect the value of the investment when it is realized and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. If opinions from financial analysts are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Atlantic may hold positions in securities as referred to in this document for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Atlantic