CYBR

Evolve Cyber Security Index ETF

IN THE MODERN world, data is constantly sent and received throughout the day. The volume of personal and business-related information on the move raises the risk for cyberattacks and data breaches, a trend that's only going to grow as artificial intelligence increases the pace of automation. As more aspects of our lives become connected, cybersecurity will only become more important.

That's something Raj Lala, president and CEO of Evolve ETFs, observed when he decided to launch the company's Cyber Security Index ETF (CYBR), the first of its kind in Canada and only the fifth in the world, in December 2017. "Technology is so important," Lala says. "I looked at other parts of the world and specifically HACK, a cybersecurity ETF in the US, to see if it was portable to the Canadian market. I felt strongly that it could work in Canada."

An analysis published by CIBC in 2017 revealed that cybercrime costs the global economy $3 trillion annually, a number that's expected to rise to $6 trillion by 2021. Lala identified the area as a long-term trend, not just a fad, and saw the need for a product in the space.

"We wanted to make sure the product had a solid investment thesis behind it," he says. "Cybercrime is going to continue, so spending to prevent it will have continue. Even if companies have challenges, they will say they are reducing headcount, closing branches or deferring projects, but will never reduce their cybersecurity spend."

That makes CYBR a good option for investors even if an expected recession hits, Lala points out. "It is in the same category as technology, but it's not something that creates a shopping experience or product like a phone or watch," he says. "The products provided by the companies in CYBR are services that governments and major companies worldwide will continue to spend on."

Indeed, when tech stocks declined in the fall, CYBR was able to remain consistent. Lala says he's working on spreading the message that CYBR represents a different kind of technology and can help advisors diversify their portfolios.

"A lot of advisors were really too heavy in tech through large companies in the sector like the FAANG stocks," he says. "But why not allocate towards cyber? It is a different kind of technology that can potentially generate alpha."

A passive index-based ETF, CYBR uses the Solactive Global Cyber Security Index to select its holdings, focusing on companies with a minimum of $100 million in market cap and a minimum of $2 million daily trading volume. There are 37 holding in the fund, primarily in the US, but Lala notes that even the smallest company in the fund has a market cap of $500 million. While there are other ETFs that have a cyber component to them, CYBR remains the only ETF in Canada that is fully devoted to cybersecurity companies.

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So far, the fund has found tremendous success. It was Canada's top-performing equity ETF in 2018 and was also the best-performing cybersecurity ETF worldwide. It outperformed FAANG in 2018 with far less volatility. And its success helped Evolve become Canada's fastest-growing ETF provider; the firm had approximately $400 million in AUM as of December 2018. Looking forward, Lala says he has no reason to believe this momentum will shift.

"[CYBR] provides an opportunity for alpha generation, diversifies portfolios, and there is a long-term growth prospect within the sector," he says. "The most important question that we get asked is, 'Have I missed it?' But when you look at what drives CYBR, cybercrime and spending on cybersecurity indicates more growth, and it could still perform well in a recession environment."