

This year's top performing Canadian-listed equity ETF is a fund almost no one owns

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Even though data breaches have been making frequent news headlines – including at two major Canadian banks this week – investors in Canada have been slow to embrace the fast-growing sector of cybersecurity.

Returns suggest they may want to start paying attention: This year's top-performing equity exchange-traded fund (ETF) on the Toronto Stock Exchange focuses on that sector.

The Evolve Cyber Security Index ETF was launched last year under the symbol CYBR. With a management fee of 0.55 per cent, the fund invests primarily in equity securities of both domestic and global companies that are involved in the cybersecurity industry through hardware and software development.

Despite an impressive year-to-date return of 21.72 per cent in the fund's unhedged version (and 17.47 per cent in a hedged product), the ETF has only attracted \$12-million in assets under management since launching last September. The fund has 34 stock holdings; many are U.S.-based cybersecurity firms, with top holdings that include F5 Networks Inc., Trend Micro Inc., Fortinet Inc., Akamai Technologies Inc. and Palo Alto Networks Inc.

Top five holdings of the Evolve Cyber Security Index ETF

COMPANY	TICKER	WEIGHTING	YTD RETURN
F5 Networks Inc.	FFIV-Q	8.1%	31.9%
Palo Alto Networks Inc.	PANW-N	8.1%	43.6%
Fortinet Inc.	FTNT-Q	8.0%	40.0%
Akamai Technologies Inc.	AKAM-Q	7.9%	15.9%
Check Point Software Technologies Ltd.	CHKP-Q	7.0%	-6.0%

Bank of Montreal and Canadian Imperial Bank of Commerce this week reported data breaches where personal data were stolen from approximately 90,000 client accounts. While the news has sparked concern on how clients can protect their personal information and fuelled the discussion around the importance of cybersecurity among large corporations, there hasn't been an uptick in interest for the Canadian ETF, according to Evolve's CEO, Raj Lala.

Mr. Lala says it doesn't surprise him that he hasn't seen an influx of assets since the recent bank hacks.

"Many times people don't connect problems or negative news to investment opportunities, but as awareness grows in the sector we will see increased flow," he says.

"Investors should be looking at this sector because as connectivity increases, and the amount of data available does also, cybersecurity becomes more important. A major breach of data is every CEO or board's worst nightmare – because it will hit their share price and potentially lose customer trust forever. That's why spending on cybersecurity continues to increase – and continues to be outsourced."

Interest in the sector has been considerably higher in the U.S., which saw its first such ETF launch in 2014: the ETFMG Prime Cyber Security ETF. With a management fee of 0.6 per cent, the ETF (ticker symbol HACK) was an overnight success, attracting US\$1.4-billion in assets within its first year. The fund tracks the Prime Cyber Defense Index, which splits the industry into two types of companies: those that create cybersecurity hardware and software, and those that provide cybersecurity as a service.

The timing of the launch occurred just months before the notorious Yahoo hack where more than 500 million users had their personal data stolen.

"It is a scary world we live in and we really need to increase our knowledge level around these technologies so that we can keep our personal information safe," says Robert Hudyma, an associate professor of Information Technology Management at Ryerson University. "A lot of these new AI technological tools that are emerging today are like kitchen knives. They can be used to simplify your life but they can [also] be used to cause harm and damage."

The First Trust Nasdaq Cybersecurity ETF was the second ETF to launch in the U.S. in 2015. Under the ticker CIBR and with a management fee of 0.6 per cent, the fund has grown to just over US\$639-million in assets. The fund seeks to replicate the Nasdaq CTA Cybersecurity Index, which tracks the performance of companies engaged in the cybersecurity segment of the technology and industrials sectors.

Investor opportunities in the sector will continue to increase as two more cybersecurity ETFs in the U.S. – filed by Global X and ProShares Trust – are already sitting in the pipeline awaiting approval. As corporations continue to pour dollars into protecting proprietary data, additional funds may emerge.

In 2018 alone, cybersecurity spending worldwide is expected to reach US\$100-billion, and by 2021, cyber hacks will cost the global economy over US\$6-trillion, according to a report by research firm Cybersecurity Ventures.

For 66 per cent of Canadian executives, the risk of cyberattacks is seen as the top business threat, much higher than global average of 38 per cent, according to an EY survey released this week.

“Recent high-profile data breaches and concerns over online privacy are creating new risks for Canadian businesses,” says Zain Raheel, EY Canada fraud investigation and dispute services leader. “Ongoing cybersecurity threats point to a critical need for rigorous and focused incident response plans to detect potential breaches and help minimize the occurrence of attacks.”

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