



FOREWORD

For non London readers, it may be of interest to observe that the city has started to resemble life pre Covid. Let us make a tenuous link from this to the general market environment. Post summer financial markets have doubled down on its economic assessment of life post Covid. We have an ever louder discussion on inflation and interest rates as debates about the “shortage economy” ensues. This could be attributable to the post pandemic recovery but maybe this is too simplistic.

As governments look forward, we are seeing a return of domestic politics and international brinkmanship - US debt ceiling, Poxxit, China/Taiwan for examples; could this be back to normal or evidence of a rise in protectionism? Climate change efforts have also taken central stage, with sustainability credentials becoming a point of differentiation amongst companies and countries. We look forward to seeing the output and actions from the 26th United Nations ‘Conference of the Parties’, an annual climate change conference taking place in Glasgow 2021 (COP 26) in November.

For long term investors, the uncertainties may be contextualised and we remain positive in our outlook. As my colleagues outline, in the short term we are experiencing an “air pocket” of turbulence which is rarely comfortable but should pass.

We are delighted to have achieved the three year milestone for GBP multi-asset with strong performance. Alongside this our equity coverage from our Investment Bank is on track to exceed 1,200 companies worldwide and we continue to see fascinating ideas for our advisory business.

With, maybe, normal service resuming post-pandemic, we are looking forward to seeing many of you in person. Certainly London is more welcoming.

Richard Brass

Head of Wealth & Asset Management, UK

ADVISORY

IN A NUTSHELL

- Inflationary concerns leading to increasing market volatility.
- Portfolio companies continue to deliver strong organic growth but margin pressure is increasing.
- Increased weighting towards technology sector after de-rating in the sector with a Cybersecurity ETF and remote assistance software company pick.

Overview

The quarter started pretty much as it ended, with fears that growth was slowing and inflation accelerating. The fear for growth though was sparked by jitters over Covid-19 outbreaks, whereas the quarter ended with global supply shortages, ‘brown-outs’ in China and labour shortages. Concerns for higher inflation and what it may mean for monetary policy stalked markets throughout the quarter and remained as we entered October.

Of particular concern is how rapidly the US central bank will slow asset purchases (referred to as ‘tapering’) and whether this accelerates the first and subsequent interest rate increases. Our economists currently expect the first rate hike in the US in H2 2022.

Such movements have been a headwind to growth-oriented stocks, while value tilted stocks prospered. This gave rise to a buying opportunity of stocks which lend itself to this style while retaining attractive fundamental financial metrics and a resilient business model. We therefore bought a position in **TeamViewer** over the quarter.

TeamViewer's innovation enables sustainable market expansion with a total addressable market that will expand to EUR40bn by 2023. This may be driven by an expanding number of use cases for its software, alongside the trend towards location independence and remote work. Further, TeamViewer's billings should achieve above-market growth for three key reasons: 1) TeamViewer is widening its customer segment coverage and has entered strategic partnerships with Google and SAP; 2) it is expanding its sales and marketing efforts in new geographies such as Asia-Pacific; and 3) its sales force now has the resources to focus on up- and/or cross-selling. We think TeamViewer's high margins and strong growth should enable it to rapidly



deleverage, which we think introduces attractive M&A optionality into the investment case.

We also bought a position in **WisdomTree ICAV Cybersecurity ETF**. As discussed in more depth within the Thematics section of this quarterly, we believe the cybersecurity market to grow significantly over the next 5 years. The International Data Corporation (IDC) forecast European IT security spending to grow at a five-year (2020-2025) CAGR of 8.2% (IDC, 2021). Consequently by buying a position in this ETF it provides a compelling opportunity to gain exposure to the sector while giving rise to potentially gaining from the strength of performance from competitive players in the fund at a reasonable price.

As we approach the last quarter of the year, much attention is being paid to COP26, which is due to take place in November (2021) in Glasgow. The Summit marks the first time in which Parties will update members on the status of their commitments and potentially enhance them. As a result we will monitor the outcomes of the event closely and act accordingly to best position portfolios that aim to get exposure to the New Energy and Resource Management theme.

THEMATICS

As indicated in our initial Quarterly Review, every quarter we discuss a key topic within one of the four core themes¹ to raise the awareness of them and display how these trends feed into our stock selection. For this quarter we delve into the theme of Innovative and disruptive technologies, namely the trend of cybersecurity.

As observed since the outbreak of COVID-19, the rate of digitalisation has accelerated, and with it comes the increased risk of cyber-attacks.

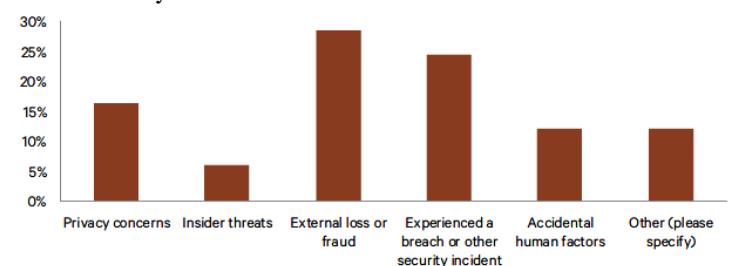
While cybercrime predated the pandemic, the uptake of online activity has resulted in increased frequency, severity, scale and complexity of cybercrimes. With such trends it begs the question, why is more not being done to protect against such attacks?

In part, they are often poorly understood and therefore has not spurred a sufficient uptake of protection or insurances or defence against such attacks. The human component tends to be the weakest link in the chain of online security particularly with issues that are preventable such as phishing email attacks.

On a corporate level however the damage can be significant. According to Berenberg Capital Market's 2021 Survey, when looking at the large enterprise respondents, 100% said that a security breach either had a large impact or minimal impact, none had said that breaches had no impact at all. 62% of the respondents noted that such breaches had an impact on pre-planned budgets and would prompt them to spend more than initially planned.

When looking at the key drivers of security risks, according to the survey, external loss/fraud were the biggest concern for respondents.

Main security risks

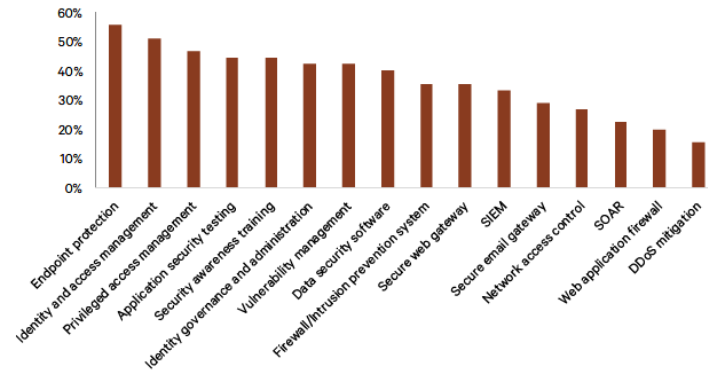


Source: Berenberg Capital Markets Survey

¹ (i) Demographic change (ii) Innovative and disruptive technologies (iii) New energy and resource management (iv) Future health and wellness



% Respondents intend to increase spend in the next 12 months



Source: Berenberg Capital Markets Survey

From this result it can be seen that endpoint protection and identity and access management are two key areas respondents aim to increase spending in, alongside privileged access management and application security testing.

Another interesting finding is that with the rise of remote working, many enterprises are beginning to migrate functions to cloud and SaaS applications which may provide a tailwind for overall security spend.

As this is a highly fragmented market, it is difficult to reliably identify companies that will hold the largest market share going forward. The **WisdomTree ICAV Cybersecurity ETF** aims to take advantage of this theme by tracking the performance of cyber-security oriented public market products which are researched and selected by experts in the cybersecurity space².

While one may question the use of an ETF sufficiently participating in the theme, the top ten holdings comprise of over 50% of the portfolio therefore providing conviction within the stocks that hold credibility within their respective fields.

² The full details of the opportunities and risks of this selection can be found in the ETF factsheet and website here: <https://www.wisdomtree.eu/en-gb/>

</media/eu-media-files/key-documents/factsheet/wt/lse-eng-wcbr-ls-wisdomtree-cybersecurity-ucits-etf--usd-acc.pdf>



AUTHORS

Matthias Lehleiter, CFA

Head of Investment Advisory UK,
Wealth & Asset Management UK

Christelle Perera

Associate,
Wealth & Asset Management UK

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