

MARKET COMMENTARY

Cybersecurity

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Guy joined Jupiter in 1995 and is currently a fund manager in the Global team. Guy is the manager of the Jupiter Financial Innovation fund (SICAV).

In 2001, Guy joined New Star (which was subsequently taken over by Henderson) where he managed global financial equities. He returned to Jupiter in January 2010, initially in an advisory capacity, before again assuming fund management responsibilities in June 2010.

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The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups. „The Jupiter Global Fund SICAV“ (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

A promising market

The incidence and severity of cyberattacks has been accelerating with the average cost of cybercrime to businesses soaring over 60% in the last five years. Against this backdrop, cybersecurity is a promising growth market; companies most likely to succeed in this sector are those able to adapt to the ever-evolving threat cybercrime poses. Banking software, data protection and payments protection are three important areas where we see opportunities.

The global financial sector is undergoing an accelerating and irreversible trend towards financial innovation. Banks are already investing heavily in new technology to keep up with the fast-paced digital revolution taking place across the globe. Digitalisation has already proved extremely beneficial to banks and their customers, enabling everything from big data, AI and blockchain, to contactless payments and mobile finance. However, this comes with a significant downside: the rapid growth in cybercrime.

It's therefore important to recognise cybersecurity as a fundamental part of the financial innovation theme; without it, the development in electronic money, big data and cashless payment systems cannot occur. As the world becomes ever-more digitalised, the financial services sector must keep ahead of the evolution of cybercrime, or risk facing serious consequences.

Financial services most heavily targeted

Unsurprisingly, the financial services sector is one of the biggest targets of cybercrime. The vast amount of customer data and financial assets held by banks in particular makes them the most obvious targets to cybercriminals. In fact, according to research from WebSense, financial services companies are reportedly hit by security incidents 300% more frequently than firms in other industries.(1)

Cyberattacks are also much costlier to financial services firms. The average cost of cybercrime for companies in the sector increased from \$12.97m per firm in 2014 to \$18.28m in 2017, significantly higher than the average cost of \$11.7m per firm across all industries (source: Accenture and Ponemon Institute 2018).(2) The financial burden of these crimes is only expected to grow further as incidents become more prevalent and cybercriminals become more sophisticated with their attacks, as they look to exploit vulnerabilities in greater connectivity.

The impact of cyberattacks goes far beyond just financial costs though. Over recent years, several high-profile cases have caused significant reputational damage to companies across the globe. The true number of incidents is likely to be significantly underestimated as businesses are reluctant to disclose attacks, but as tighter regulations demand greater disclosure following hacks and data breaches, it will become harder for companies to hide these incidents.

Cybersecurity is a growing industry

Companies have been investing heavily in IT security for some time, but the increasing frequency and severity of cyberattacks means that security spending is only likely to grow. Research from Business Insider Intelligence estimates that as much as \$665bn will be spent on cybersecurity initiatives to protect PCs, mobile devices and Internet of Things (IoT) devices by 2020.(3) The cybersecurity market could grow by five times overall technology spending by 2020 (4), and the costs of these crimes are expected to continue to rise, with the average cost having already increased by around 62.5% since 2013. (5)

The rising size of cybersecurity venture capital deals also highlights the growth in the sector. More than \$5.3 billion was invested in companies focused on protecting networks, systems and data globally last year, a 20% increase from 2017, and almost double that spent in 2016. (6)



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Turning threats into investment opportunities

As the threat of cybercrime grows substantially, so does the number of fintech companies entering the cybersecurity space. The increase in threats has also created a new 'cyberinsurance' subsector within the insurance industry. As bottom-up stock pickers, it is important for us to navigate the oversaturated market to seek out the most compelling investment opportunities. We conduct detailed analysis on companies across the sector to find those businesses that we believe can keep up with the evolving threats of cybercrime, and which we think have the greatest potential for growth.

We have identified investment propositions across three key areas within the cybersecurity space: banking software, data protection and transaction protection. Our investments include Rapid7, whose 'Insight' cloud gives its clients full visibility, analytics and automation, which can help them to monitor for malicious behaviour, more easily manage vulnerabilities and shut down attacks. Elsewhere, Palo Alto Networks offers a wide range of enterprise security services including its next-generation firewall and a cloud-based service that allows customers to use their own data for data analytics and machine learning. We also have a position in CyberArk, which provides security to over half of the Fortune 500 companies.

We invest in the cybersecurity subsector as part of our wider Financial Innovation strategy, which also encompasses digitalisation, data analytics and payments spaces. We continue to focus on fintech companies that are at the forefront of innovation, which look to either drive or enable major structural trends in the global financial universe.

Sources:

1. <http://www.websense.com/assets/reports/report-2015-industry-drill-down-finance-en.pdf>
2. Cost of Cyber Crime Study, Accenture and Ponemon Institute 2018
3. <https://business.nasdaq.com/marketinsite/2018/GIS/Cybersecurity-Industry-Report-Investment-Case.html>
4. <http://www.morganstanley.com/ideas/cybersecurity-needs-new-paradigm>
5. <https://www.accenture.com/gb-en/insight-cost-of-cybercrime-2017>
6. <https://cybersecurityventures.com/cybersecurity-market-report/>

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