

---

# WHY WE'RE BULLISH ON CLOUD COMPUTING

Kara Marciscano – Associate, Research  
09/06/2019

The Information Technology industry has grown to become the largest exposure in the [S&P 500 Index](#) over the last two decades.<sup>1</sup> When combined with the Communications Services sector, companies in these two sectors comprise nearly one-third of the total market.<sup>2</sup>

For investors seeking to generate [excess returns](#), this can create a challenging mix of slower-growing, mature businesses with faster-growing, emerging ones.

For growth-oriented investors, we believe cloud computing represents a compelling alternative to broad tech-sector strategies.

To capitalize on this trend, we are excited to announce the launch of the [WisdomTree Cloud Computing Fund \(WCLD\)](#), which provides pure-play exposure to fast-growing [cloud-based businesses](#).

## Demystifying the Cloud

[Cloud computing](#) has become ingrained in nearly every aspect of our lives by fundamentally altering how we consume, process, and share information.

But what exactly is this technology that has transformed our everyday lives?

- [Technical Definition](#): The “cloud” refers to the aggregation of information online that can be accessed from anywhere, on any device. Cloud companies provide on-demand access to a centralized pool of information technology (IT) resources via a network connection.
- [Real-world Application](#): Cloud computing allows us to access the same e-mail inbox that we have at our desktop computers from our mobile phones. Our e-mails are stored in the cloud, and not remotely on our computers, allowing access from any location via internet connection.

Although cloud computing already has a significant impact on our daily lives, we believe the industry will eventually overtake the traditional software market.

In the near term, cloud growth is poised to accelerate for two key reasons: 1) cloud computing is powering technological advancements in areas like [artificial intelligence](#) and the [internet of things](#) 2) many enterprises and organizations (including the U.S.

government) are shifting to a cloud-based workflow.

## The Cloud Software Advantage

Cloud computing is transforming the software industry. Over the last decade, cloud [Software-as-a-Service \(SaaS\)](#) businesses have eclipsed traditional software companies as the new industry standard for deploying and updating software.<sup>3</sup> Cloud-based SaaS companies provide software applications and services via a network connection from a remote location, whereas traditional software is delivered and supported on-premise. This key difference in distribution leads to several distinct fundamental advantages for cloud versus traditional software:

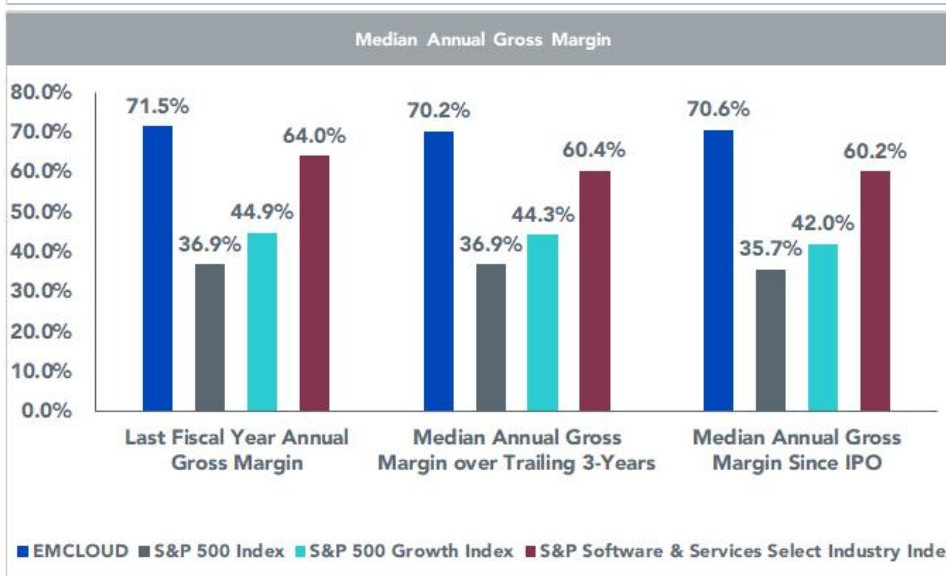
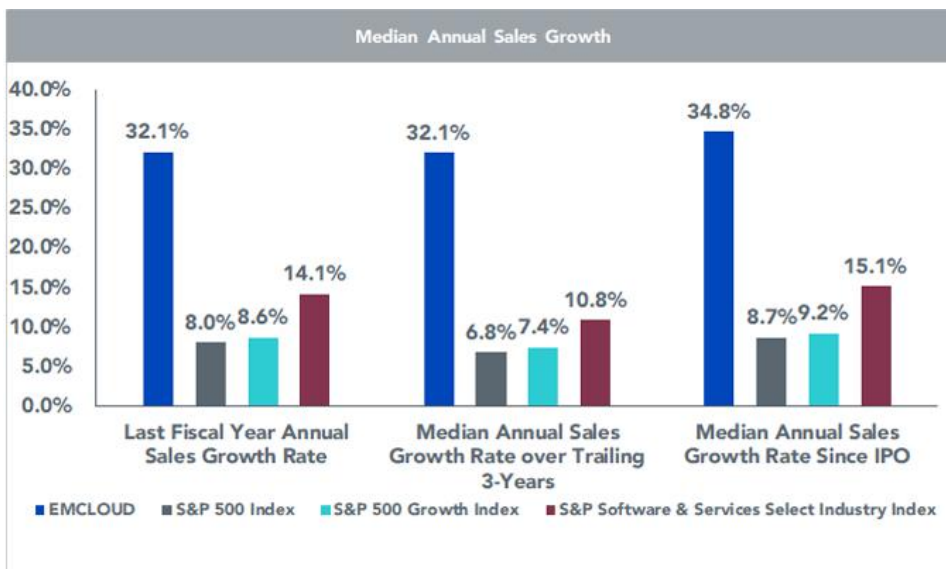
### Product Advantages<sup>4</sup>

- **Speed, Ease and Low Cost of Implementation** – cloud software is installed via a network connection; it doesn't require the higher cost of on-premise infrastructure setup and installation.
- **Efficient Updates** – upgrades and support are deployed via a network connection, which shifts the burden of software maintenance from the client to the software provider.
- **Easily Scalable** – deploying via a network connection allows cloud SaaS businesses to grow as their clients grow, with the ability to expand services to more users or add product enhancements with ease. Client acquisition can happen 24/7; cloud SaaS companies have much lower barriers to entry into foreign markets.

### Business Model Advantages

- **High Recurring Revenue** – cloud SaaS companies employ a subscription-based revenue model with smaller and more frequent transactions, while traditional software businesses rely on a single, large, upfront transaction. This model can result in more predictable, [annuity](#)-like revenue streams for cloud software providers.
- **High Client Retention with Longer Revenue Periods** – cloud software becomes embedded in client workflow, typically resulting in higher [switching costs](#) and client retention. Importantly, many clients prefer the pay-as-you-go transaction model, which can lead to longer periods of recurring revenue, as upselling product enhancements does not require an additional sales cycle.
- **Lower Expenses** – cloud SaaS companies can have lower research and development costs because they don't need to support multiple types of networking infrastructure at each client location.

In our view, the product and business model advantages of cloud SaaS companies have historically led to better margins, growth, free cash flow and efficiency characteristics as compared to non-cloud software companies.



Sources: WisdomTree, Bessemer Venture Partners, FactSet, S&P Global, as of 7/31/19. Median growth rates and gross margins are calculated as the median fiscal year metrics for the last fiscal year, the trailing three full fiscal years and all trailing fiscal years since a company's IPO. Past performance is not indicative of future results. Subject to change. You cannot invest directly in an index.

### Understanding Our Approach

The wisdomTree Cloud Computing Fund (WCLD) leverages the expertise of Bessemer Venture Partners (BVP), a leading venture capital firm with over 10 years of investment success in the cloud industry.

WCLD seeks to track the price and yield performance—before fees and expenses—of the BVP Nasdaq Emerging Cloud Index (EMCLOUD), an equally weighted Index jointly created by Nasdaq and BVP. EMCLOUD is comprised of cloud companies that are selected by BVP based on a transparent, rules-based methodology that is suited to the rapid growth of emerging cloud companies.

Importantly, EMCLOUD has delivered an annualized return of +34% since its inception, significantly outpacing the returns of the [S&P 500 Software & Services Index](#) (+19%), the

[S&P 500 Information Technology Index](#) (+10%) and the [Nasdaq 100 Index](#) (+5%), as well as broader benchmarks like the [S&P 500 Growth Index](#) and the S&P 500 Index (both +4%).<sup>5</sup>

#### *EM Cloud Examples*

### Adopting Cloud in Your Portfolio

Cloud adoption is taking place across the broader economy, and we believe investors may want to make the “shift to cloud” in their portfolios. The WisdomTree Cloud Computing Fund (WCLD) seeks to provide exposure to a basket of high-growth, emerging cloud software companies with industry-leading [operating leverage](#).

<sup>1</sup>Sources: WisdomTree, FactSet, 1/31/1990–8/30/2019.

<sup>2</sup>Sources: WisdomTree, FactSet as of 8/30/2019

<sup>3</sup>Sources: Bessemer Venture Partners, WisdomTree, FactSet, 1/31/1990–8/30/2019.

<sup>4</sup>Please note the discussion regarding the growth potential of cloud computing is our opinion and there is no guarantee future high growth of the sector will continue or translate to positive fund performance. Factors inhibiting the growth of the cloud computing sector may include changes in business cycles, world economic growth, technological progress, and government regulation.

<sup>5</sup>For the period 10/2/2018–07/31/2019. *Past performance is not indicative of future results. You cannot invest directly in an index.* The inception date of the EMCLOUD Index is 10/2/2018. Double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. Performance, especially for very short time periods, should not be the sole factor in making your investment decisions.

#### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund invests in cloud computing companies, which are heavily dependent on the Internet and utilize a distributed network of servers over the Internet. Cloud computing companies may have limited product lines, markets, financial resources or personnel and are subject to the risks of changes in business cycles, world economic growth, technological progress and government regulation. These companies typically face intense competition and potentially rapid product obsolescence. Additionally, many cloud computing companies store sensitive consumer information and could be the target of cybersecurity attacks and other types of theft, which could have a negative impact on these companies and the Fund. Securities of cloud computing companies tend to be more volatile than securities of companies that rely less heavily on technology and, specifically, on the Internet. Cloud computing companies can typically engage in significant amounts of spending on research and development, and rapid changes to the field could have a material adverse effect on a company's operating results. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's

risk profile.

Nasdaq® and BVP Nasdaq Emerging Cloud Index? are registered trademarks and service marks of Nasdaq, Inc. (which, with its affiliates, is referred to as the “Corporations”), and are licensed for use by WisdomTree. The Fund has not been passed on by the Corporations as to its legality or suitability. The Fund is not issued, endorsed, sold or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

THE INFORMATION SET FORTH IN THE BVP NASDAQ EMERGING CLOUD INDEX IS NOT INTENDED TO BE, AND SHALL NOT BE REGARDED OR CONSTRUED AS, A RECOMMENDATION FOR A TRANSACTION OR INVESTMENT OR FINANCIAL, TAX, INVESTMENT OR OTHER ADVICE OF ANY KIND BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS DOES NOT PROVIDE INVESTMENT ADVICE TO WISDOMTREE OR THE FUND, IS NOT AN INVESTMENT ADVISER TO THE FUND AND IS NOT RESPONSIBLE FOR THE PERFORMANCE OF THE FUND. THE FUND IS NOT ISSUED, SPONSORED, ENDORSED OR PROMOTED BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS MAKES NO WARRANTY OR REPRESENTATION REGARDING THE QUALITY, ACCURACY OR COMPLETENESS OF THE BVP NASDAQ EMERGING CLOUD INDEX, INDEX VALUES OR ANY INDEX-RELATED DATA INCLUDED HEREIN, PROVIDED HERewith OR DERIVED THEREFROM AND ASSUMES NO LIABILITY IN CONNECTION WITH ITS USE. BESSEMER VENTURE PARTNERS AND/OR POOLED INVESTMENT VEHICLES WHICH IT MANAGES, AND INDIVIDUALS AND ENTITIES AFFILIATED WITH SUCH VEHICLES, MAY PURCHASE, SELL OR HOLD SECURITIES OF ISSUERS THAT ARE CONSTITUENTS OF THE BVP NASDAQ EMERGING CLOUD INDEX FROM TIME TO TIME AND AT ANY TIME, INCLUDING IN ADVANCE OF OR FOLLOWING AN ISSUER BEING ADDED TO OR REMOVED FROM THE BVP NASDAQ EMERGING CLOUD INDEX.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

**IMPORTANT INFORMATION**

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

## DEFINITIONS

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Excess Returns**: refers to investment returns on a securities above that of a benchmark or index exhibiting similar risk characteristics.

**Cloud-based businesses**: companies that provide cloud software and services to their customers.

**Cloud computing**: computing capabilities deployed via internet connection in form of applications, platform services, or infrastructure.

**Artificial intelligence**: machine analysis and decision-making.

**Internet of things**: network of objects that communicate internally and externally via network connection.

**Software-as-a-Service (SaaS)**: Software applications provided over a network connectio.

**Fixed Indexed Annuity**: An annuity structured with a minimum floor return coupled with equity market upside. Equity index options are purchased with the proceeds and income from the annuity's fixed income portfolio to provide the equity market upside.

**Switching costs**: the costs incurred, both monetary and non-monetary, that a consumer incurs when switching from an incumbent to an alternative product or service.

**S&P 500 Software & Services**: a market capitalization weighted index that is designed to measure the performance of the Software & Services industry, as defined by the Global Industry Classification Standard.

**S&P 500 Information Technology Index**: a market capitalization weighted index that is designed to measure the performance of the Information Technology sector, as defined by the Global Industry Classification Standard.

**Nasdaq 100 Index**: Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.

**S&P 500 Growth Index**: A market capitalization-weighted benchmark designed to measure the growth segment of the S&P 500 Index.

**Operating Leverage**: A measure of the change in operating income relative to the change in revenue.