



ALPHINITY INVESTMENT MANAGEMENT

Hack Attack

Cybersecurity – the need to play defence and offence

Presenting to: CPAL

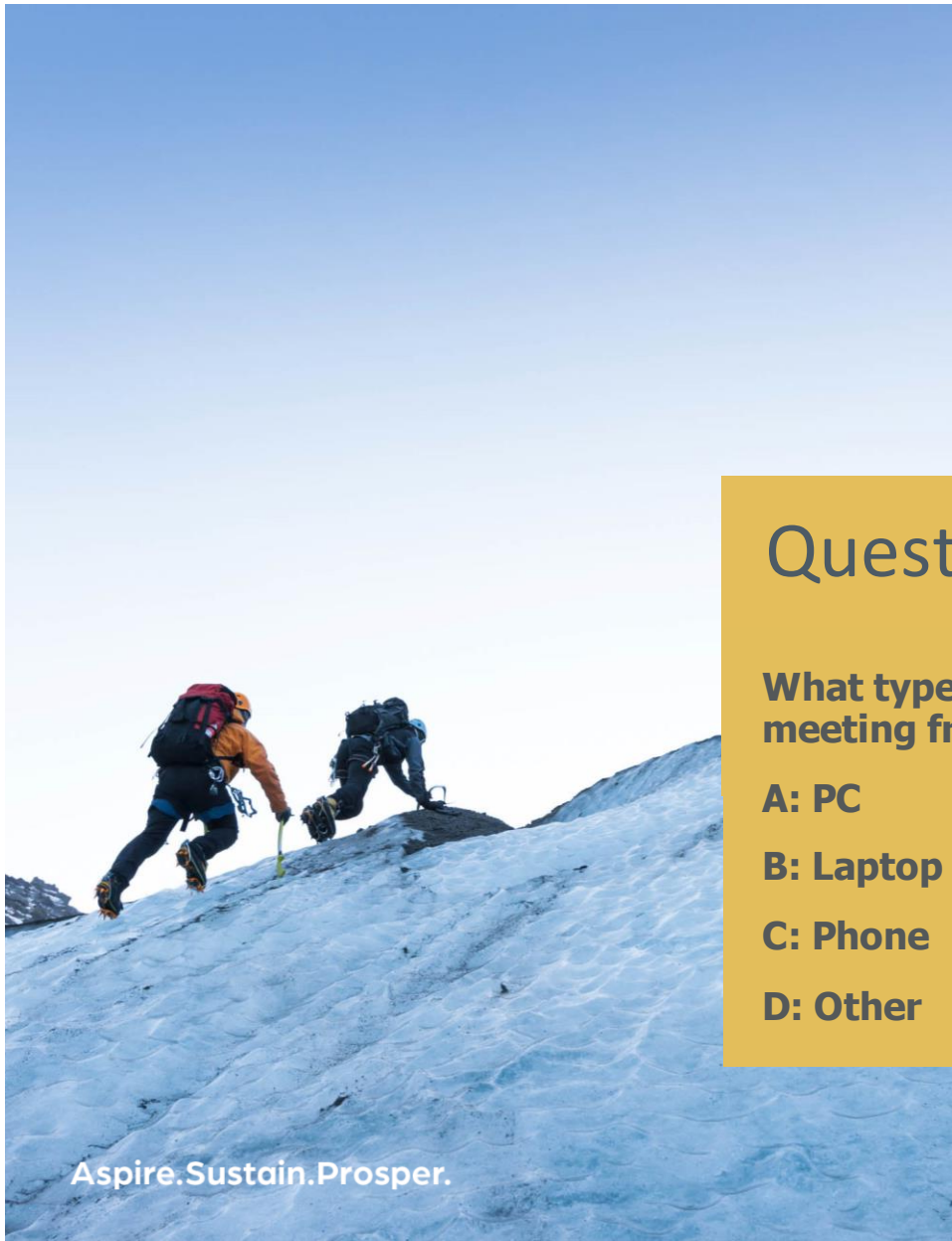
Presenter: Trent Masters

Presentation Date: May 2023



- 1. The evolution of the cybersecurity risk landscape**
- 2. Defence: The need to protect businesses**
- 3. Offence: Investment opportunities in the cyber sector**

1. The evolution of the cybersecurity risk landscape



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Question:

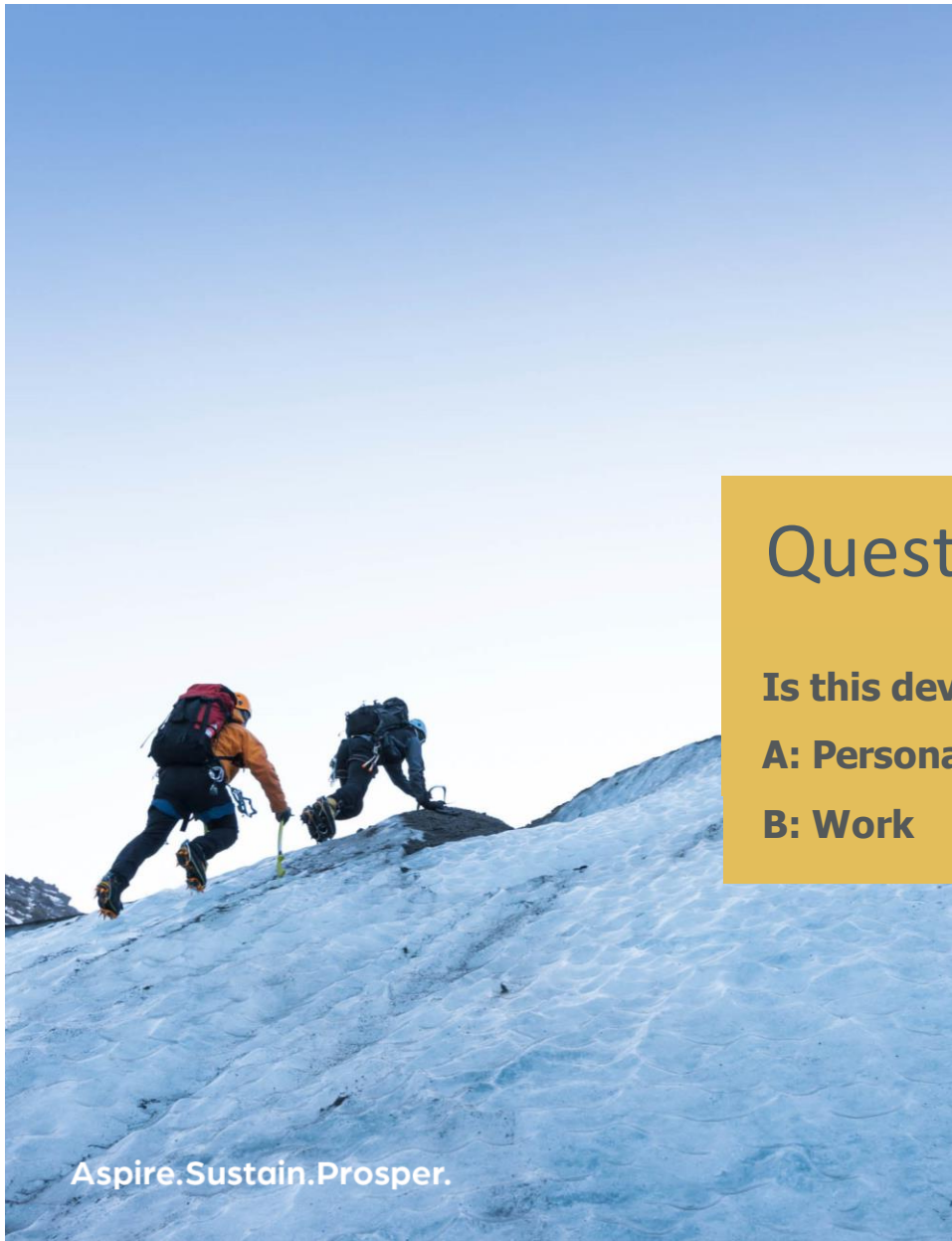
What type of device are you connecting to this meeting from?

A: PC

B: Laptop

C: Phone

D: Other



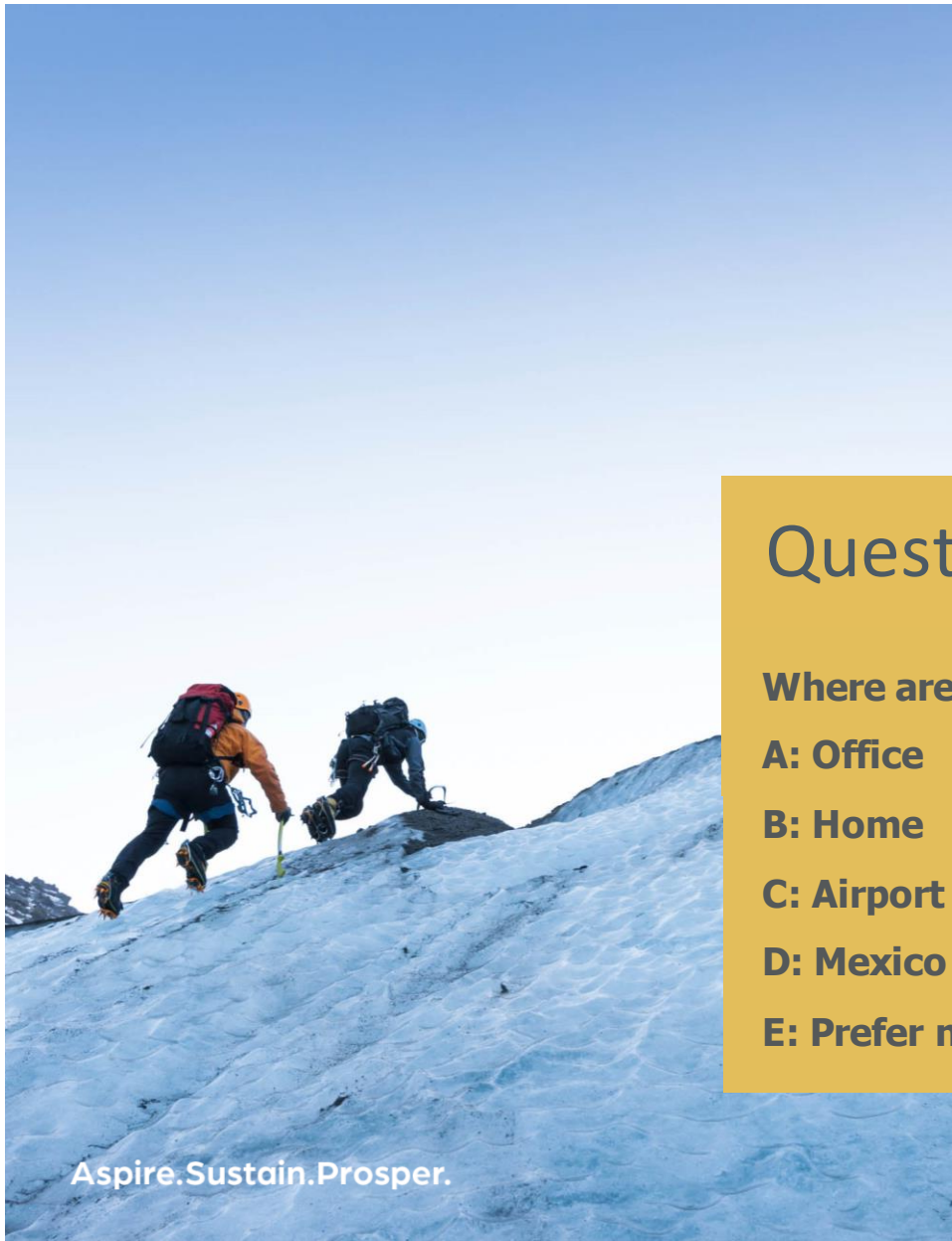
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Question:

Is this device personal or provided by work?

A: Personal

B: Work



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Question:

Where are you connecting to this meeting from?

A: Office

B: Home

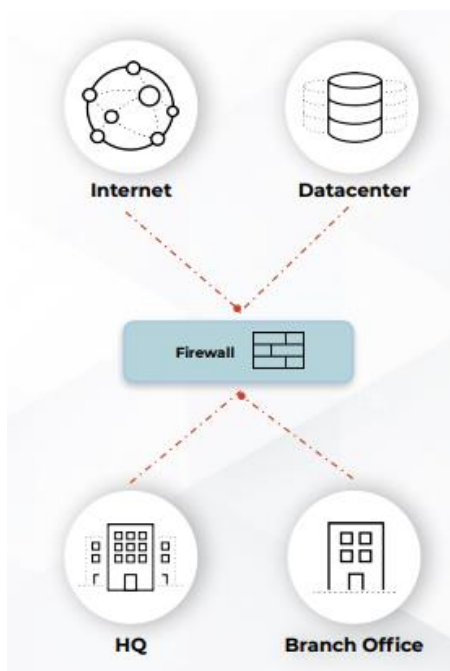
C: Airport / Hotel

D: Mexico

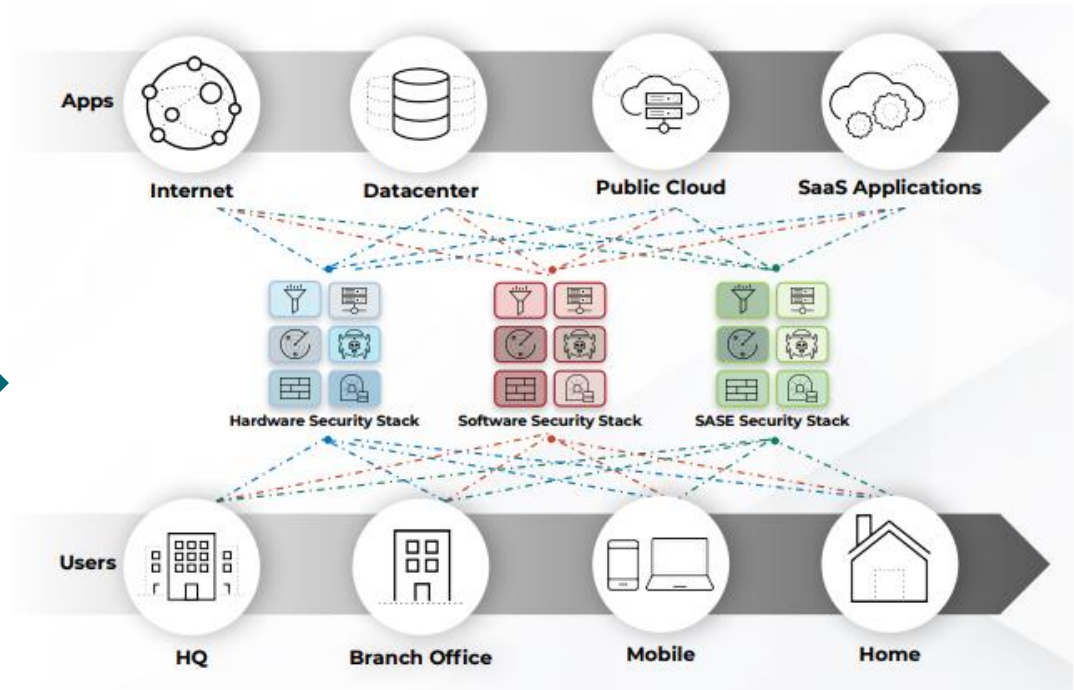
E: Prefer not to say

Change in Connectivity Creates Risks

From This....



....To This

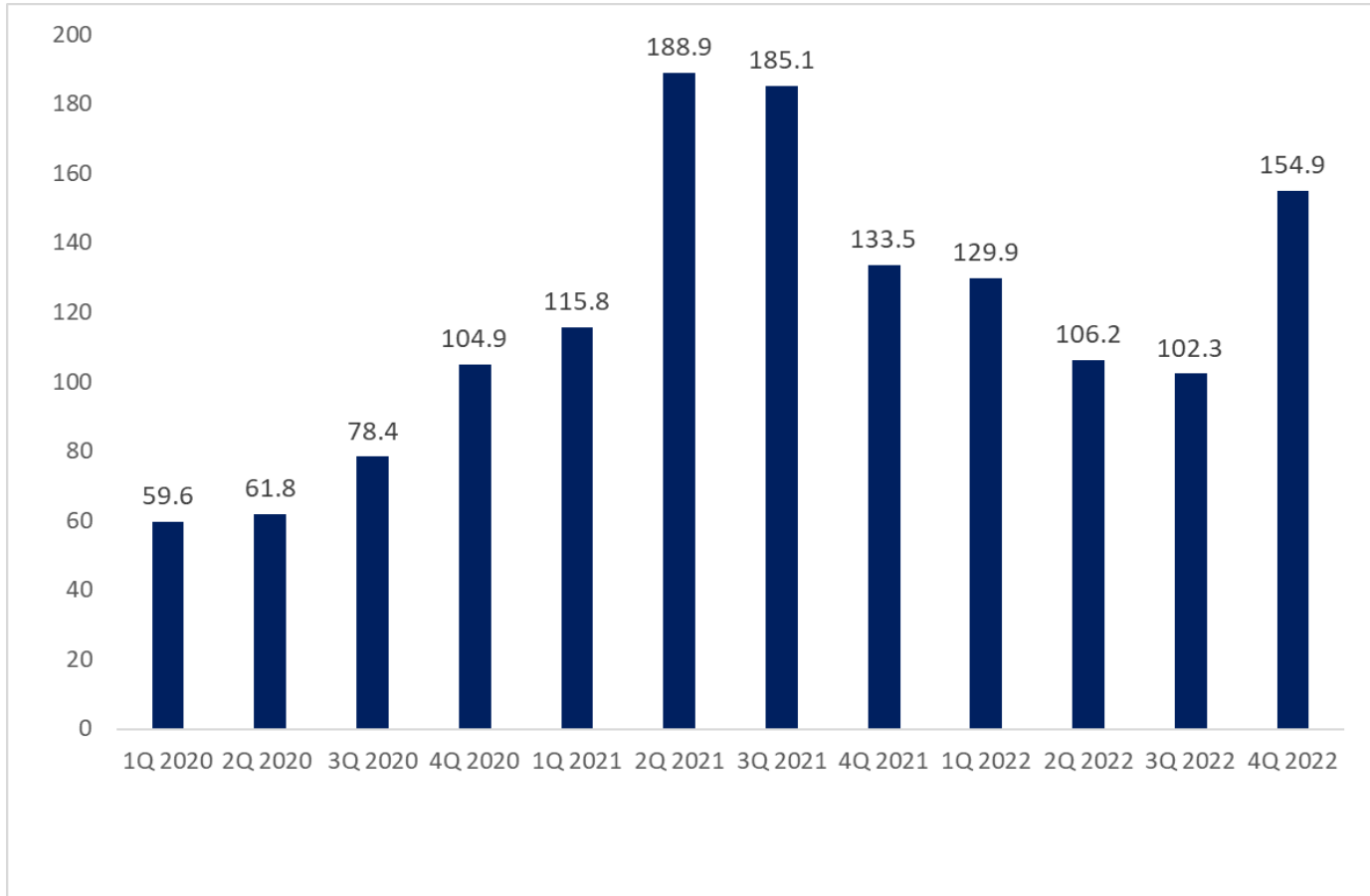


Source: Palo Alto StrategyDay

More Vulnerabilities at a Time of Increased Threats

493,300,000 ransomware attacks in 2022

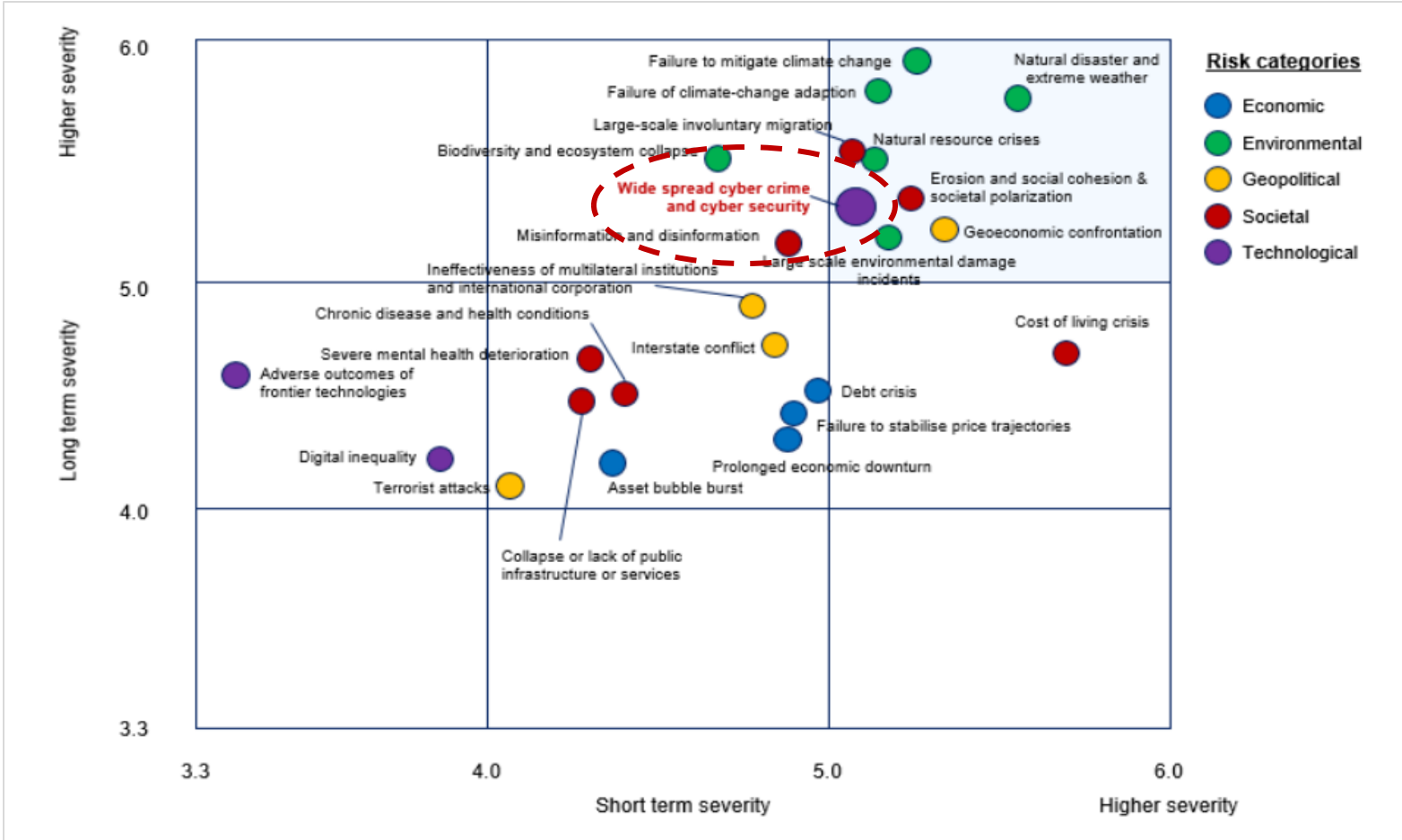
Global Ransomware by Quarter (\$m)



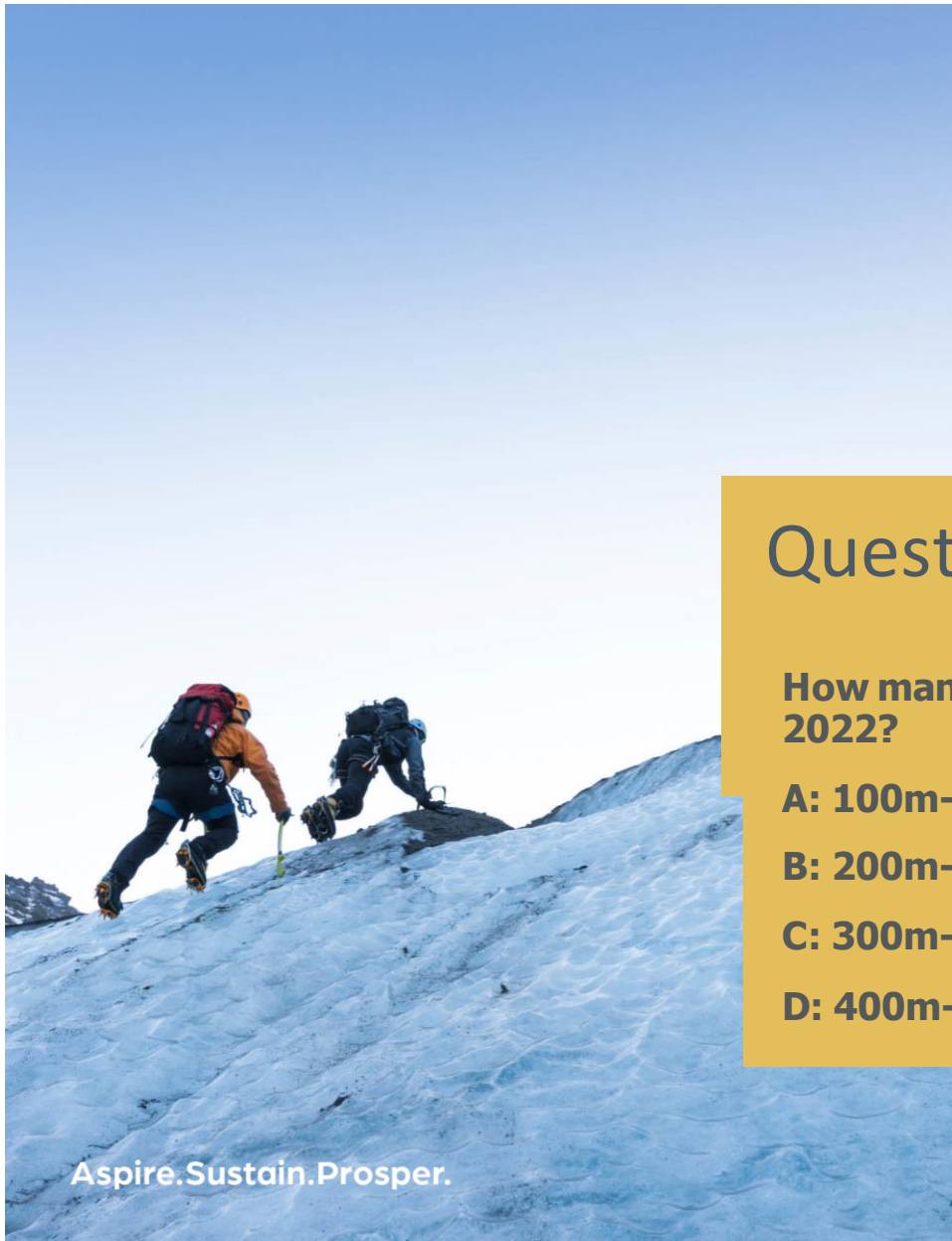
Source: Citi Research, SonicWall

Cyber Security is a Key Societal Risk

Global Risks ranked by severity over a 2 and 10 year period



Source: Citi Research, World Economic Forum Global Risks Perception Survey, 2022-23



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Question:

How many ransomware attacks were there in 2022?

A: 100m-200m

B: 200m-300m

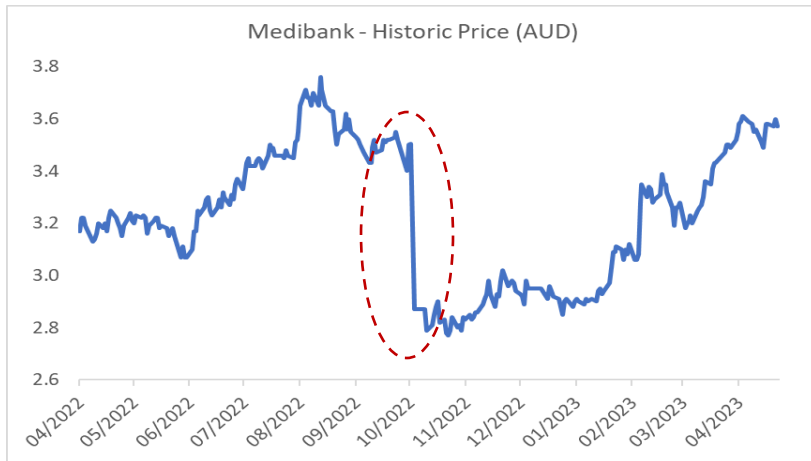
C: 300m-400m

D: 400m-500m

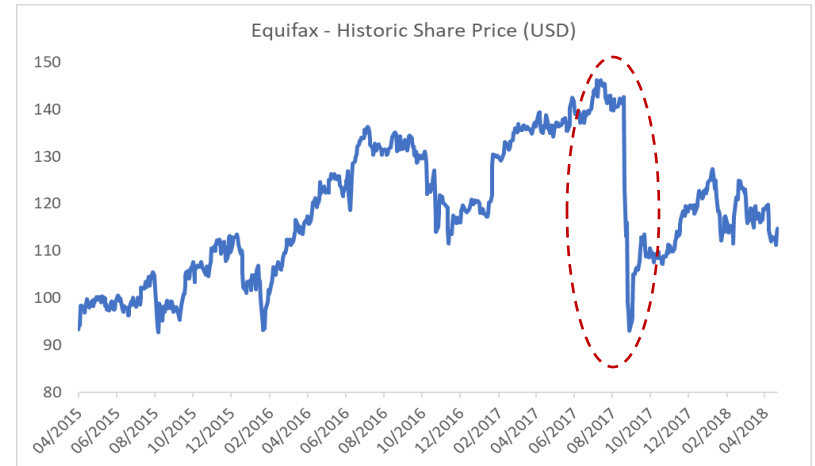
2. Defence: The need to protect businesses

Security Breaches Have Significant Share Price Implications

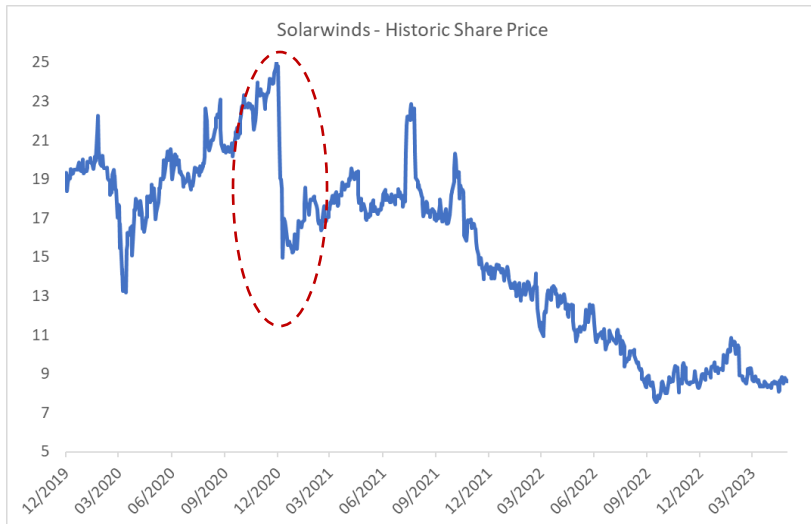
Medibank – March 2022



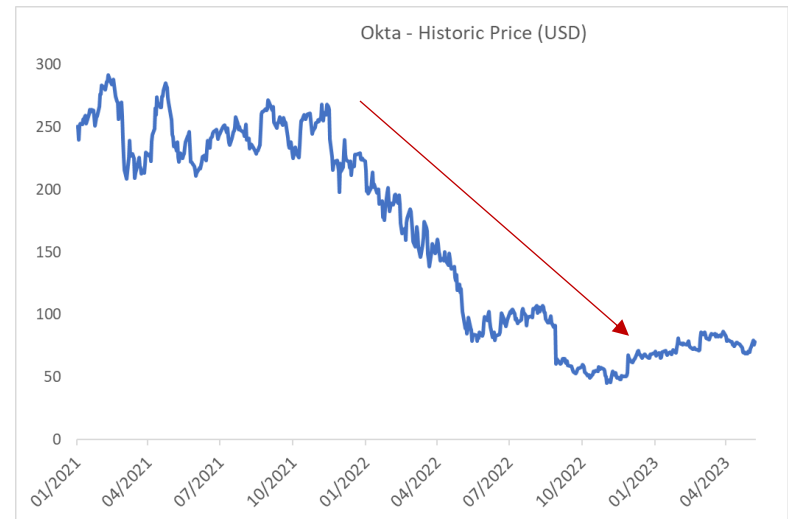
Equifax – September 2017



Solarwinds Corp – December 2020



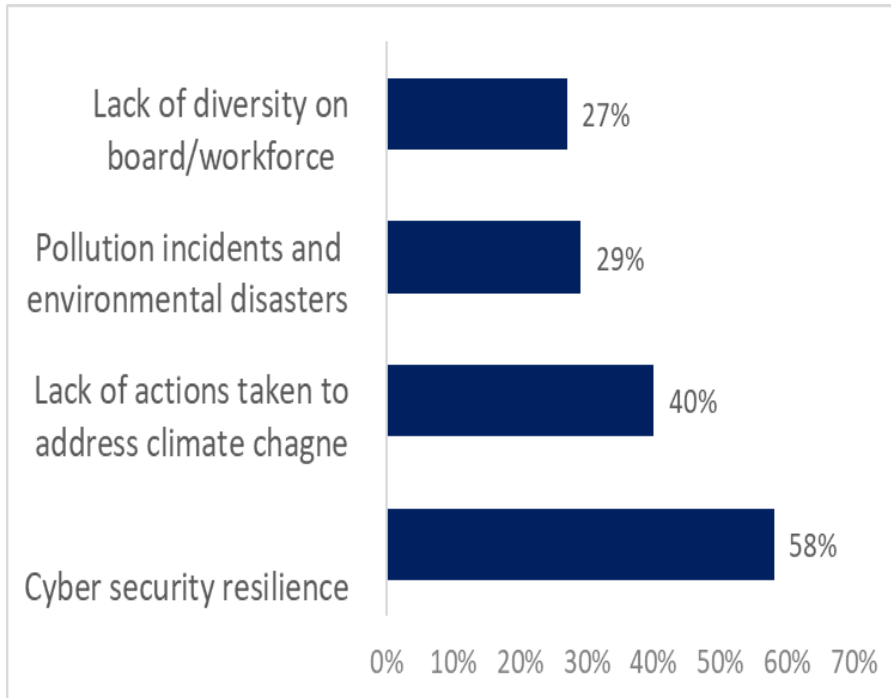
Okta – January 2022



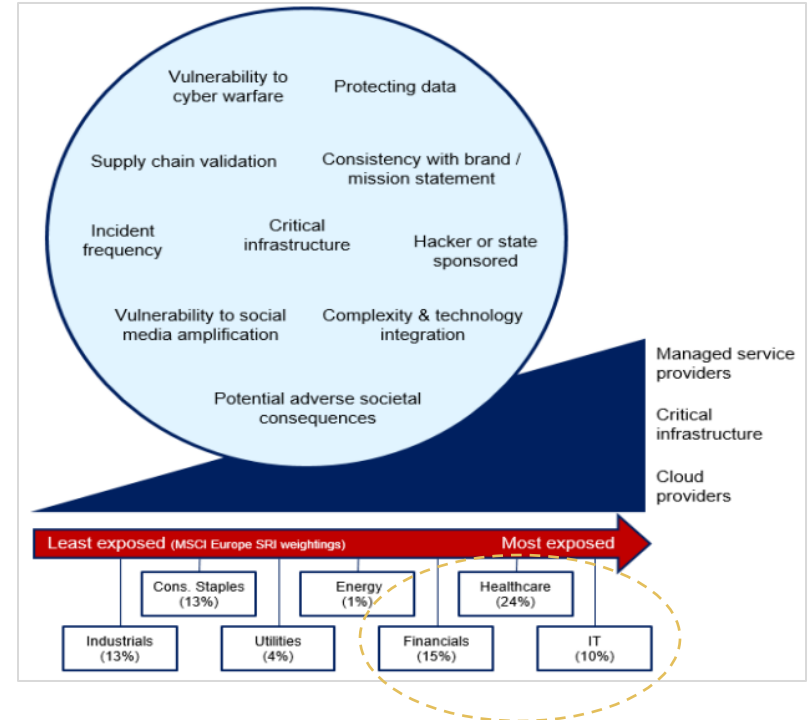
Source: Bloomberg 11 May 2023

Cyber Security as a Key Focus for Company Engagement

Which ESG concerns are of most risk to your company?



Considerations for sector vulnerabilities to cyber attacks



Source: Citi Research, Allianz Risk Barometer, 2022

Company Cyber Risk Analysis

Focus areas for company analysis

- Where does the risk mainly lie?
- What does the governance structure look like?
- Any external system certifications? (eg ISO27001, SSAE16)
- What is the focus on staff training and awareness?
- Does the company have cyber insurance coverage?
- What is the level of preparedness if a breach occurs?
- How can the company improve transparency?

Sector examples

Key risk for Financials:

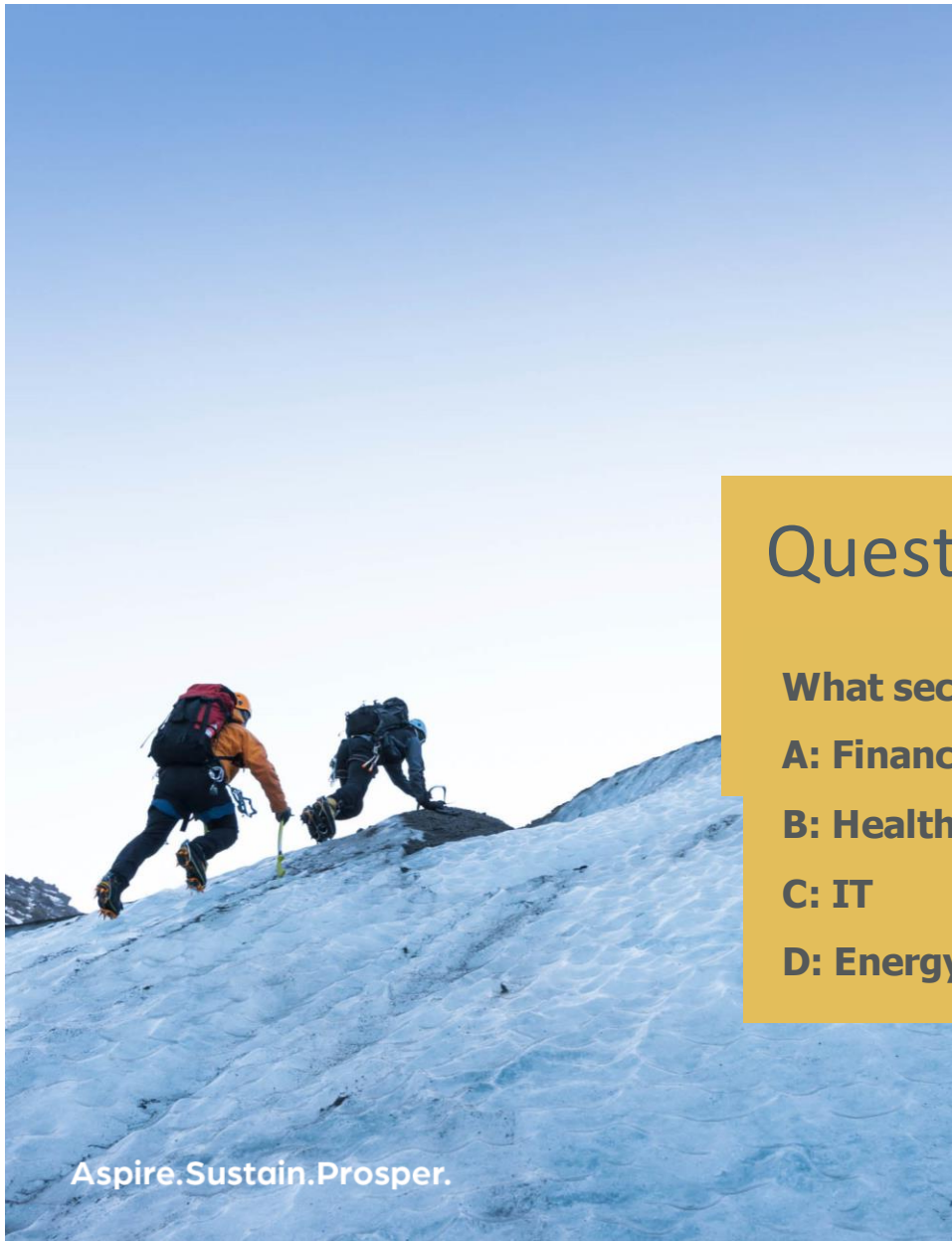
- Data breaches leading to financial fraud
- System architecture attacks

Key risk for Healthcare:

- Medical identity theft including electronic health records
- Healthcare IoT vulnerabilities

Key risks for IT:

- Systems and network vulnerabilities
- Remote work security



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Question:

What sector is most exposed to cyberattacks?

A: Financials

B: Healthcare

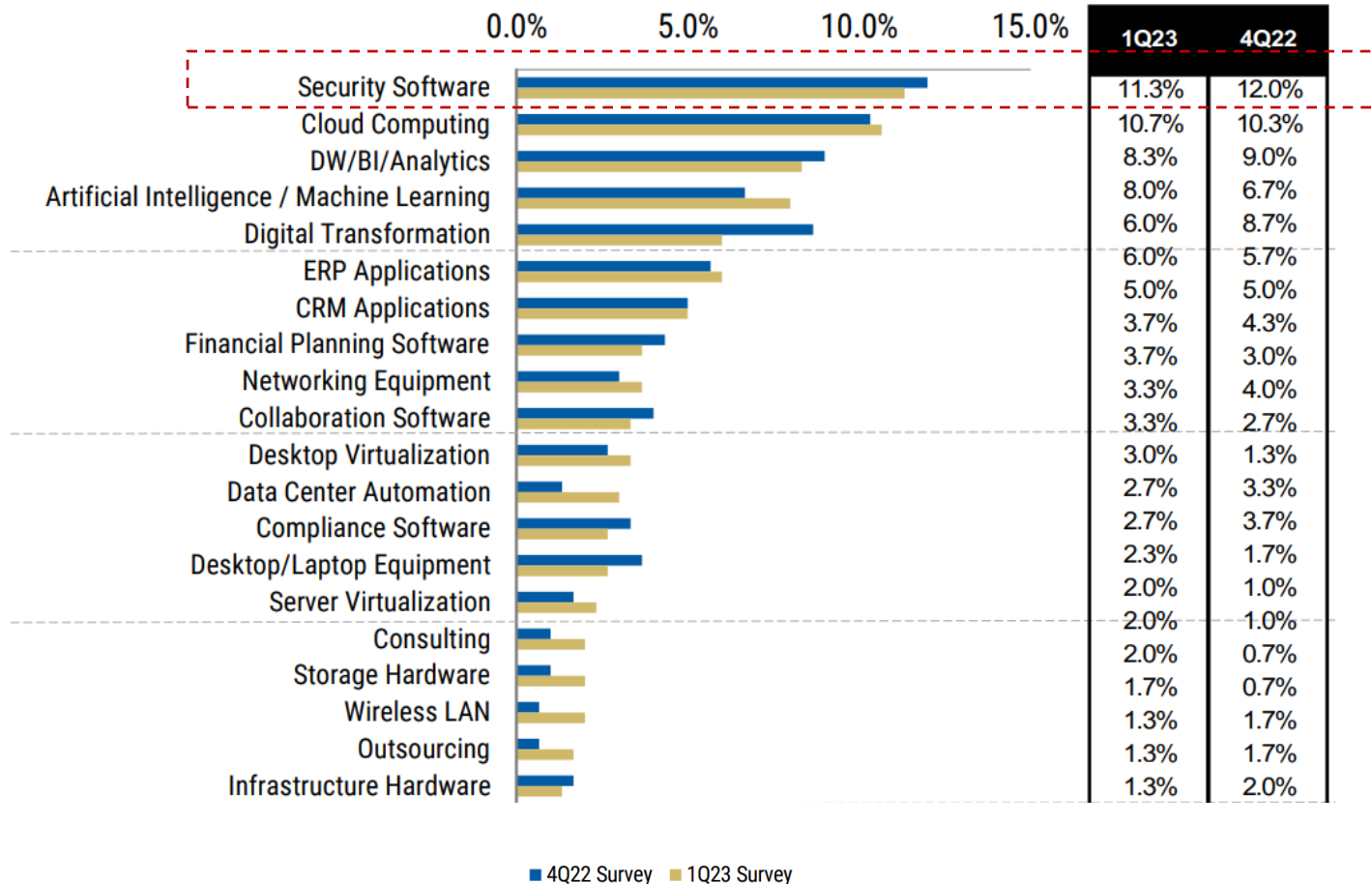
C: IT

D: Energy

3. Offence: Investment opportunities in the cyber sector

Cyber is a Key Opportunity for Investment in Good Times.....

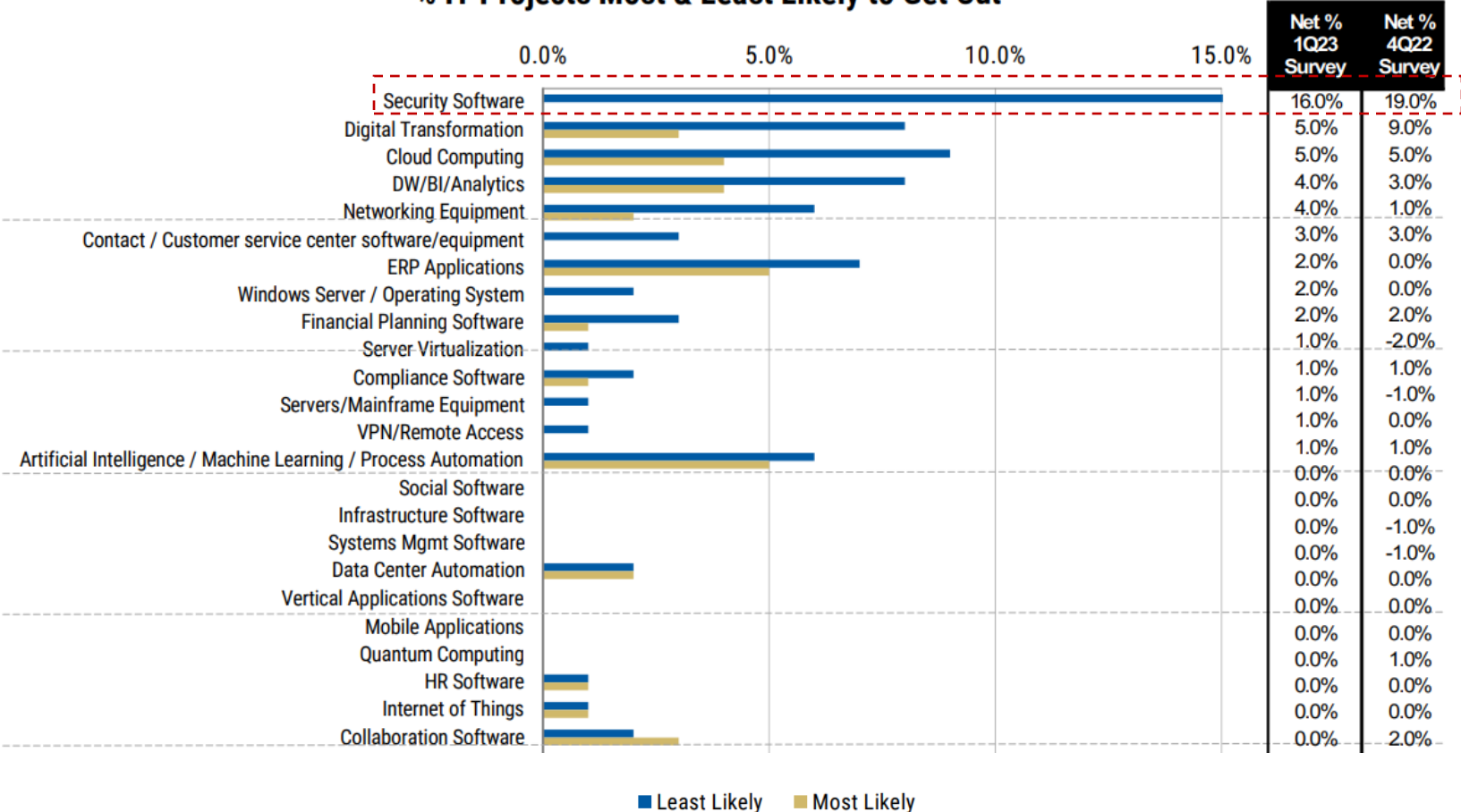
Projects with Largest Spend Increase in 2023 (% Total Responses)



Morgan Stanley CIO Survey – 1Q23

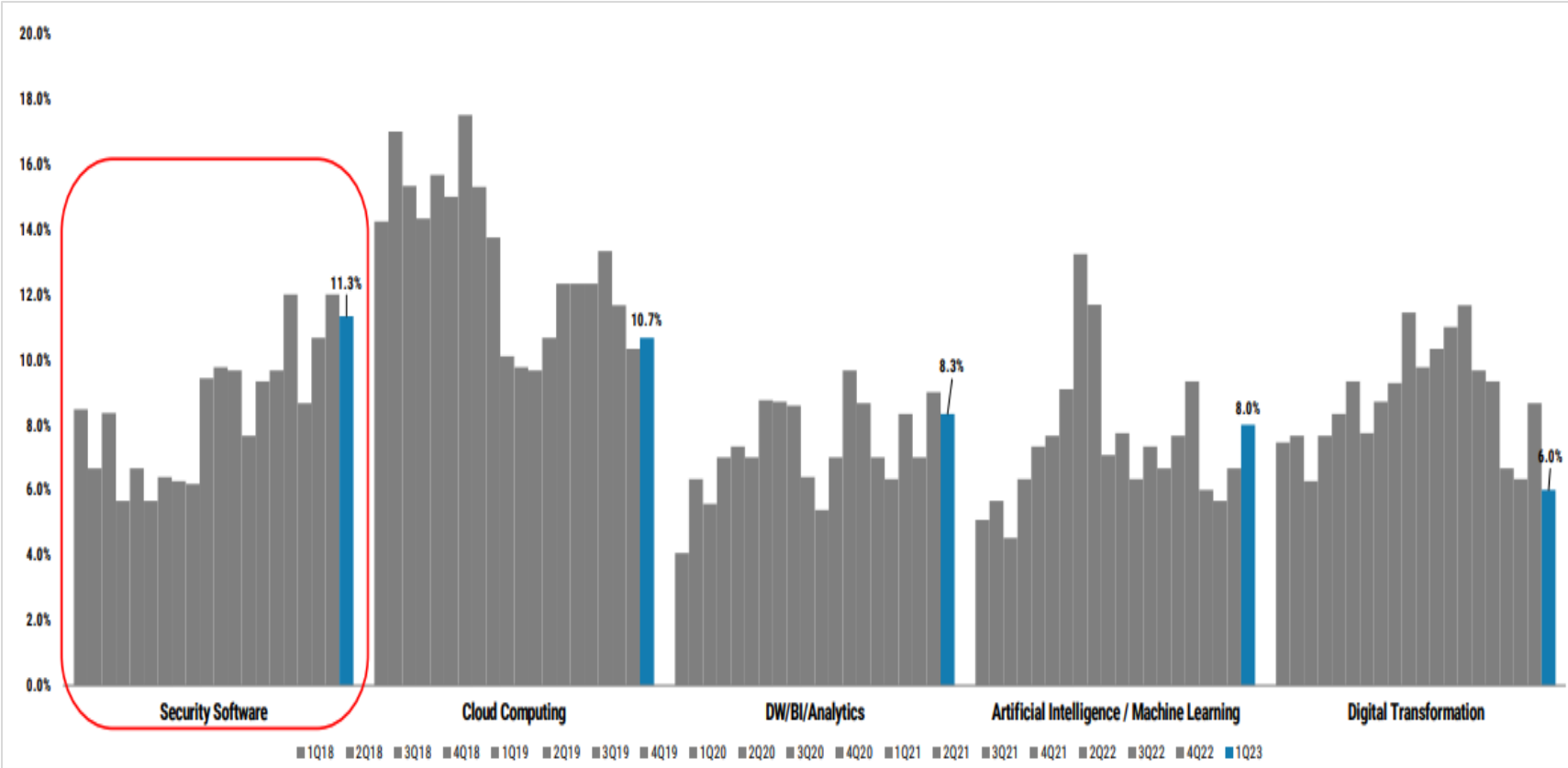
And in bad.....

% IT Projects Most & Least Likely to Get Cut



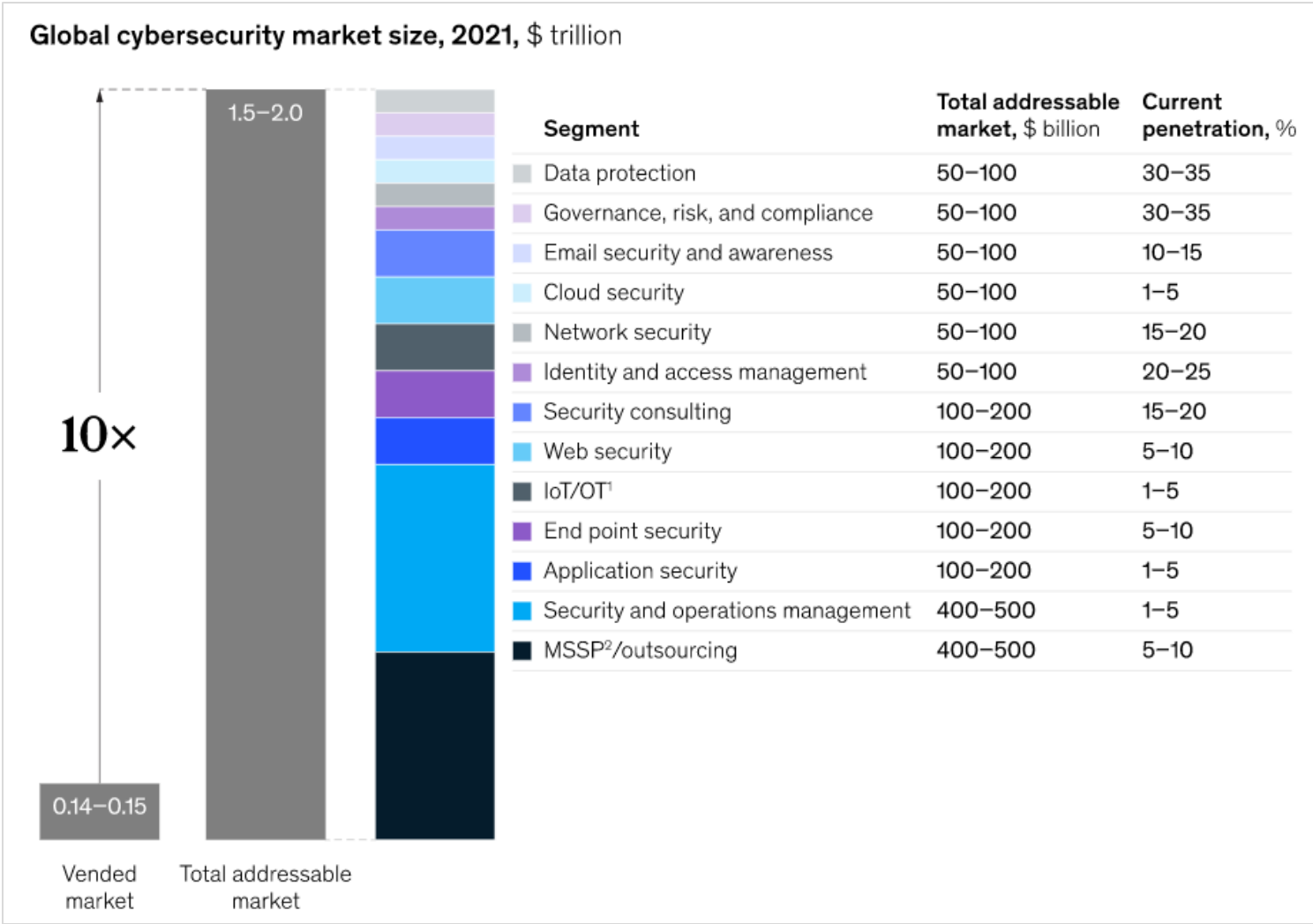
Source: Morgan Stanley CIO Survey – 1Q23

Top 5 IT Spending Priorities Over Time



Source: Morgan Stanley CIO Survey – 1Q23

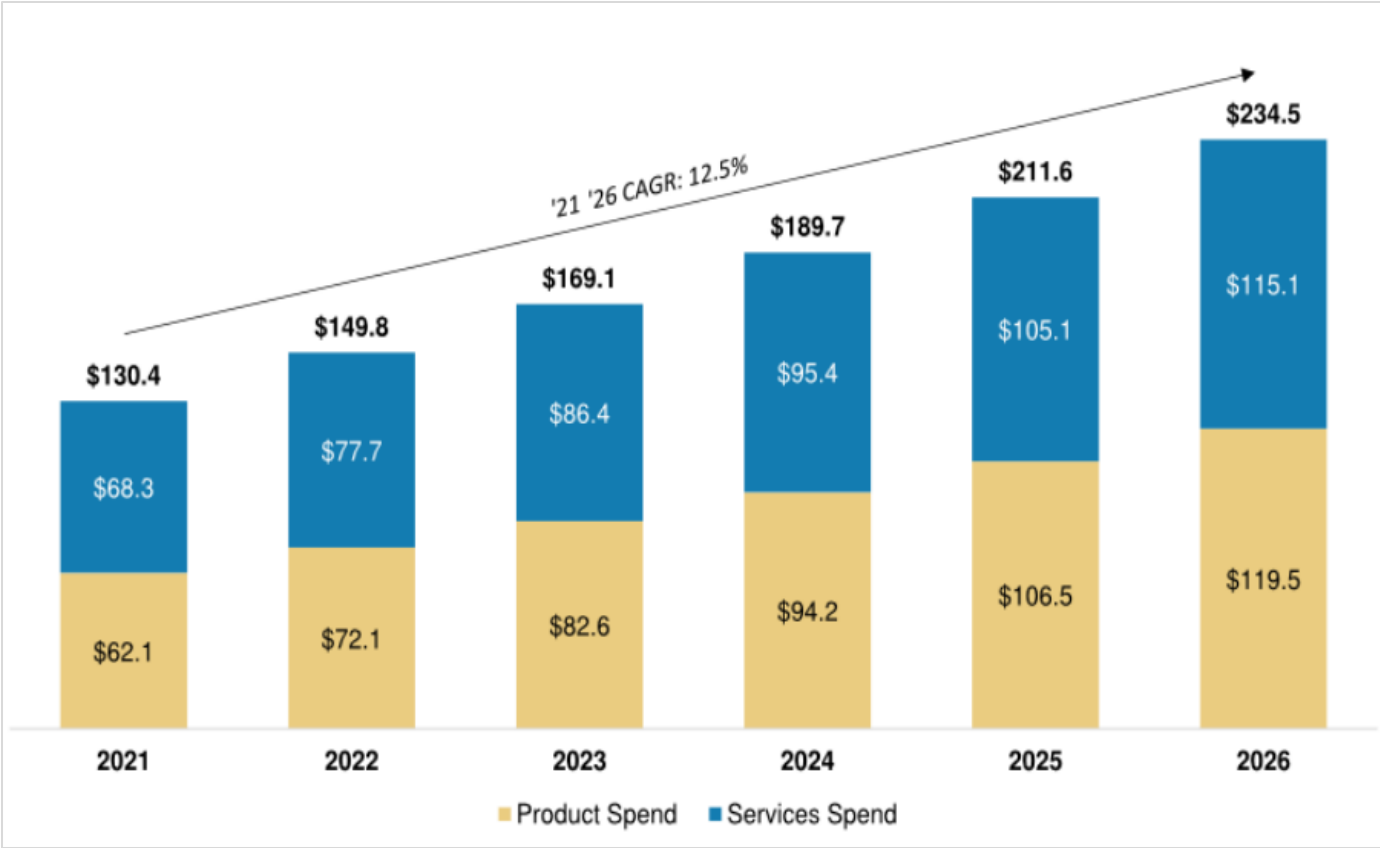
Security spend is still a fraction of the opportunity



Source: McKinsay and Co – October 2022

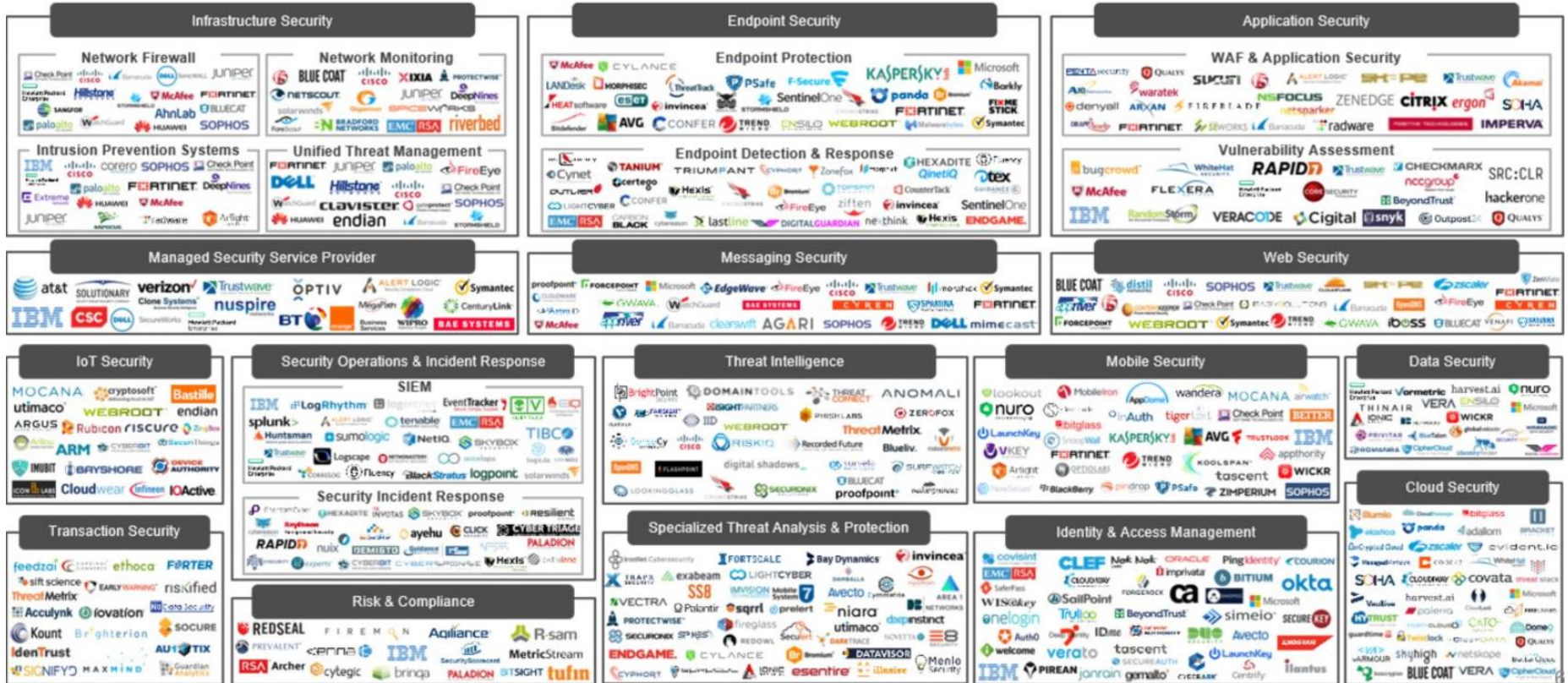
A Broad Market Opportunity

Global Security Product and Services Market Spend (US\$Bn)



Source: Morgan Stanley Research, IDC Security Products Tracker, November 2022

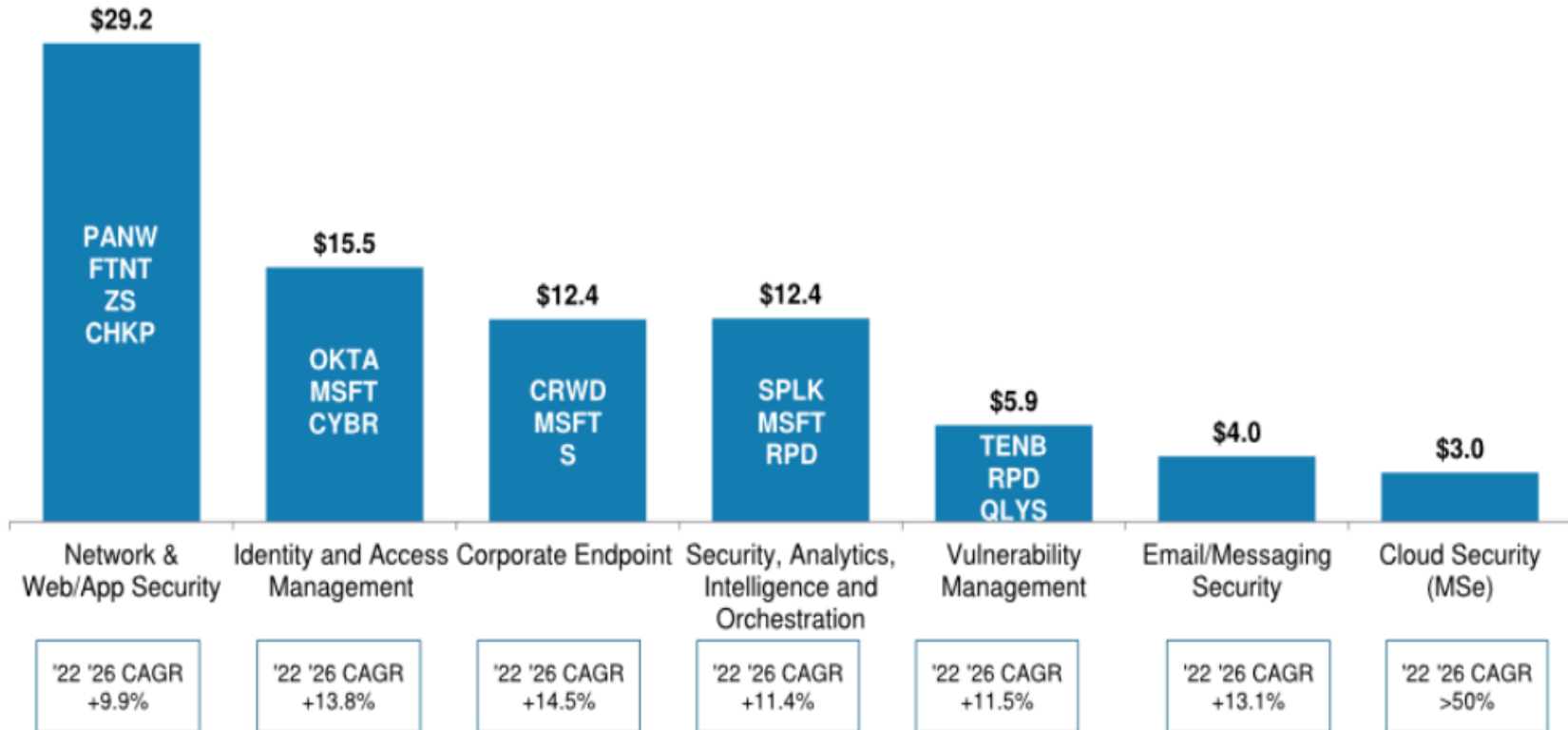
A Large and Fragmented Market



Source: Masergy

Where Are The Main Pools of Opportunity?

Enterprise Security Spend by Market, 2022 Estimates (\$B)



Source: Morgan Stanley Research May 2023

Who Are the Leading Players in Each Area

Areas of Security	Leading Players			
Network Security				
Identity and Access Management				
Endpoint Security				
Security Analytics				
Vulnerability Management				
Cloud Security				

Key Trends in Cybersecurity

1. Consolidation of vendors

Endpoint Vendors

Network Security Vendors

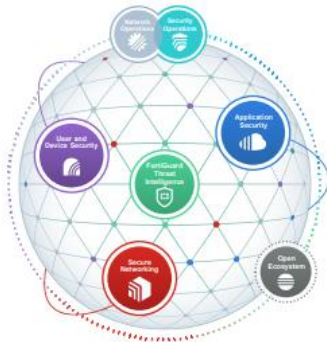


Result – Multiple Platforms



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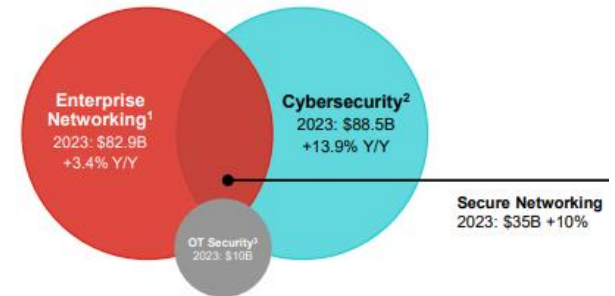
Organic Approach



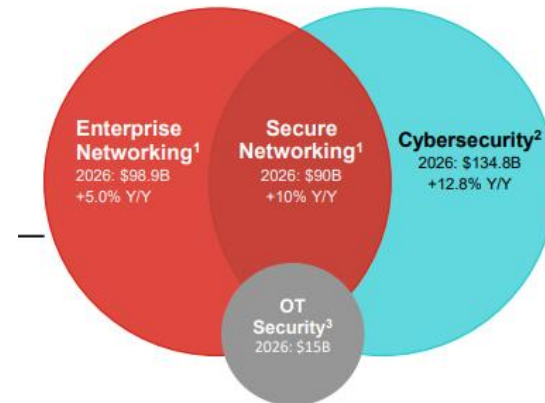
Result – One Platform

2. Convergence of networking and security

Today: ~\$180B



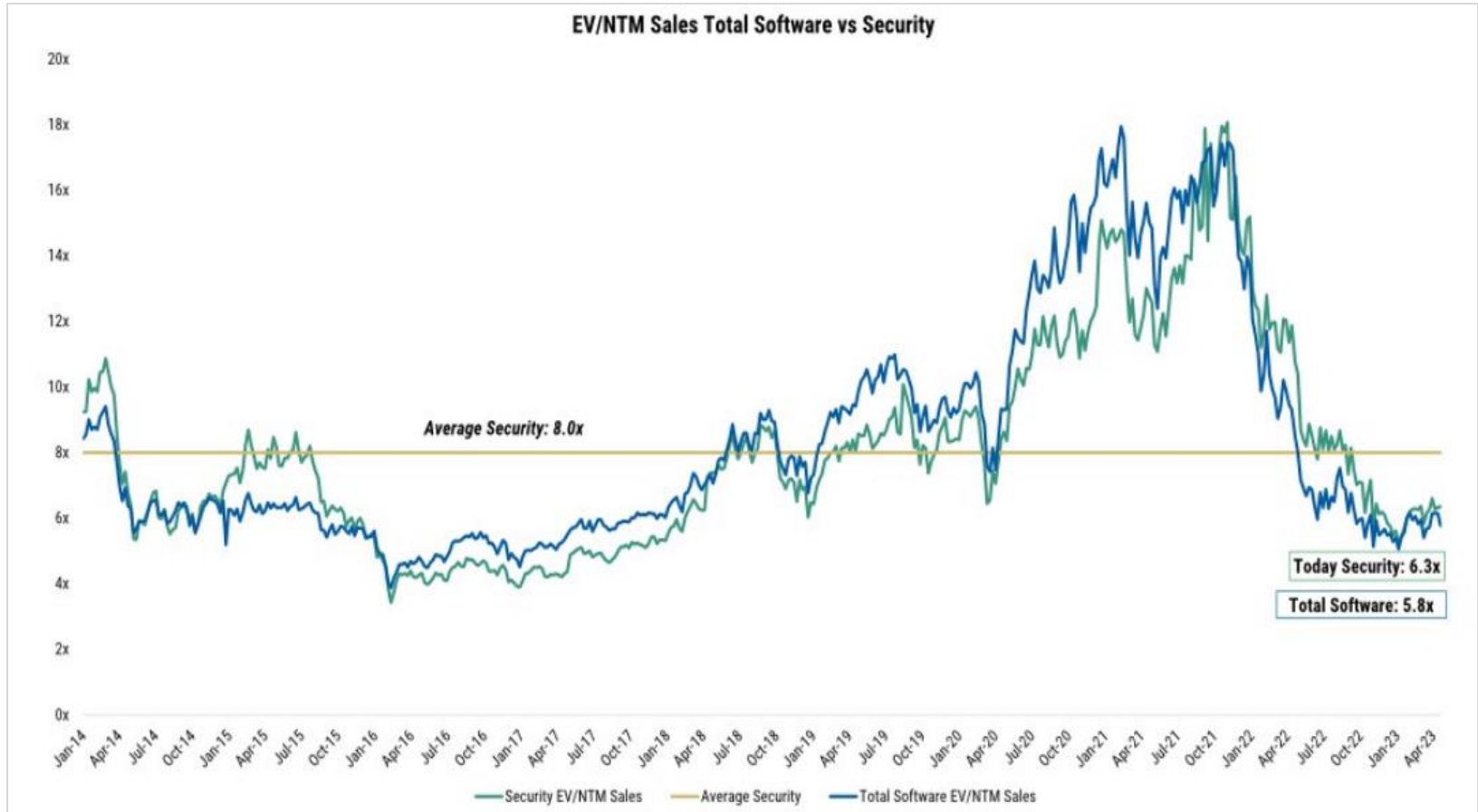
2026: ~\$280B



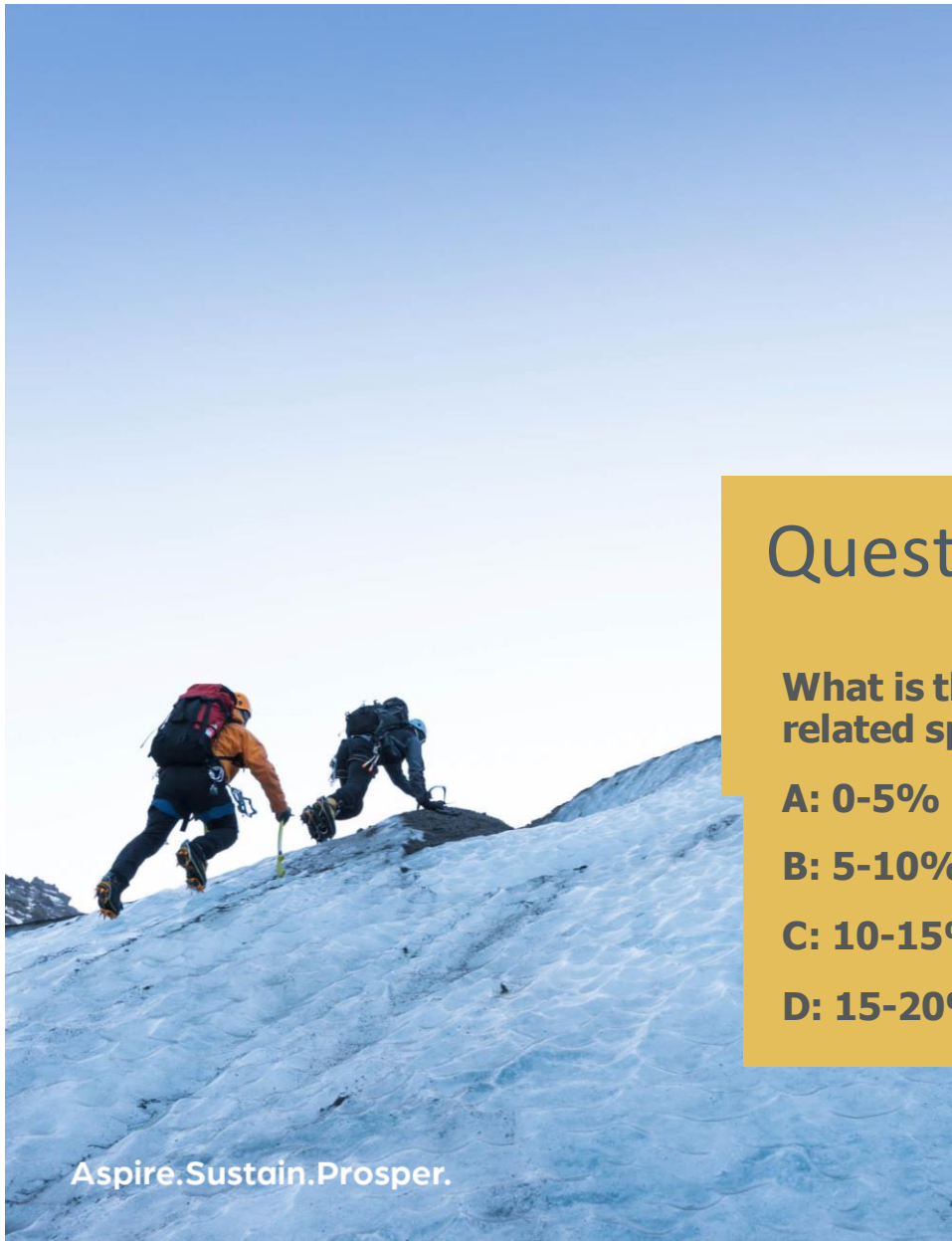
Source: Fortinet Strategy Day

Sector Valuation – More Reasonable

Sector Valuations Below Historical Average



Source: Morgan Stanley Research, May 2023



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Question:

What is the projected growth rate for security related spend out to 2026?

A: 0-5%

B: 5-10%

C: 10-15%

D: 15-20%

Alphinity Stock Selection Process

Investing in quality, undervalued companies which are in an earnings upgrade cycle

Momentum

Investing when fundamental change triggers sustained earnings upgrades. Upgrades are serially correlated

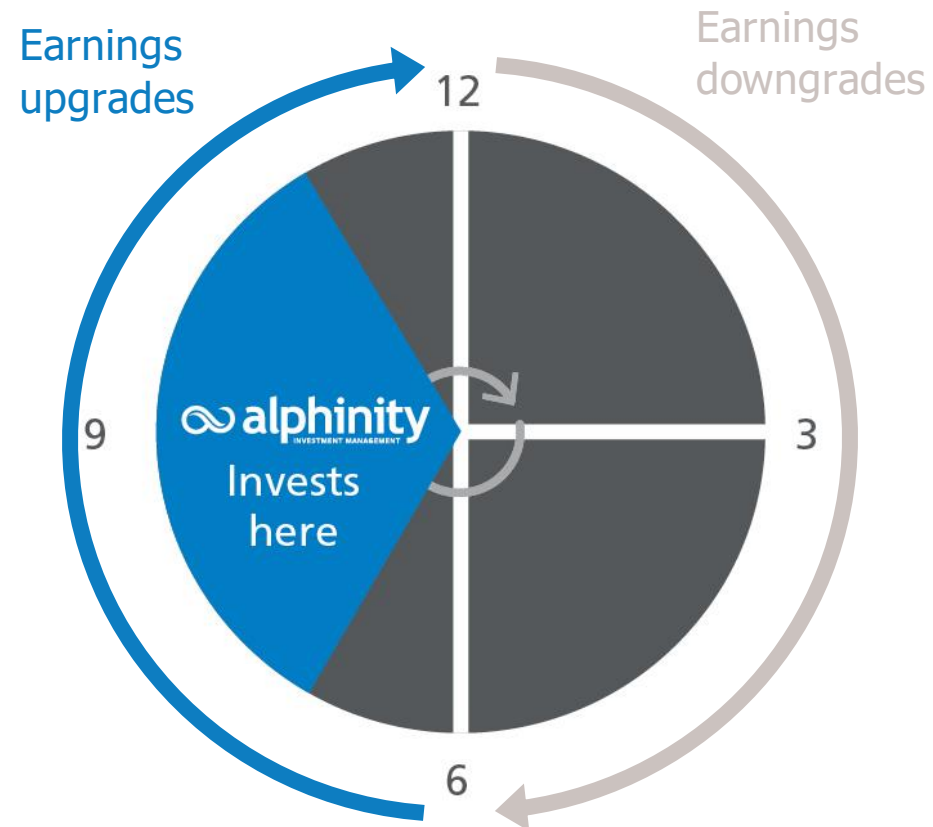
Quality

Earnings cycles are more reliable and sustainable in high quality businesses with strong cash flows

Value

Investing while the earnings potential is undervalued

Company Earnings Lifecycle Clock



Attractive stock investments can be found at any point in the broader market cycle

Key Metrics – Quant Assessment

Running cyber businesses through the Alphinity quant process surfaces the businesses where deeper analysis is required



Ticker	Name	Quant Score	Value Score
PANW US	Palo Alto	100%	3%
FTNT US	Fortinet	99%	5%
VMW US	VMWare	97%	24%
MSFT US	Microsoft	93%	11%
CHKP US	Checkpoint	90%	35%
CRWD US	Crowdstrike	83%	2%
SPLK US	Splunk	77%	9%
ZS US	Zscaler	77%	3%
IBM US	IBM	53%	37%
CTSH US	COGNIZANT TECH-A	51%	58%
NET US	Cloudflare	50%	1%
OKTA US	Okta	48%	3%

Source: Alphinity

Fortinet

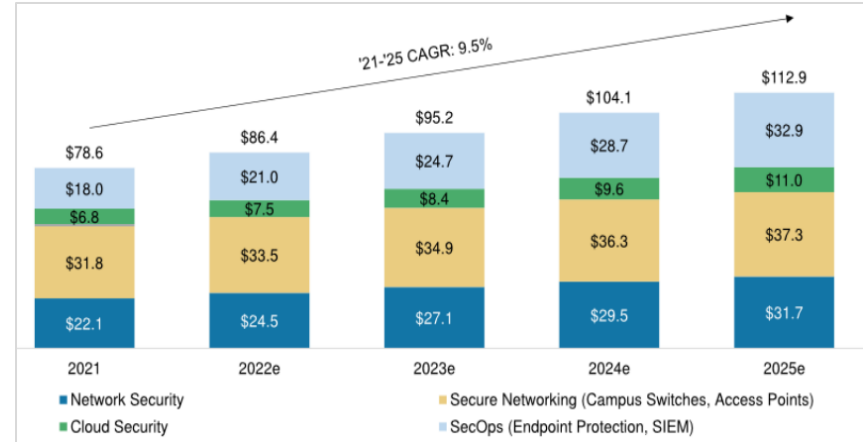
Leader in cyber security with expanding software footprint



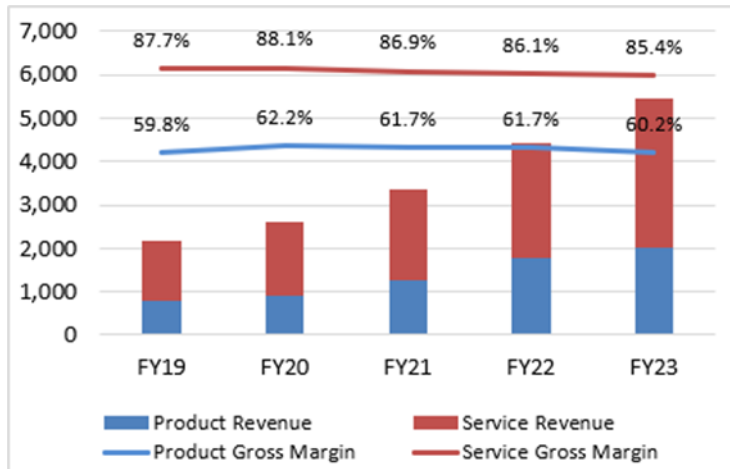
Investment case

- Expansion of connectivity points creates an ever expanding attack surface that needs protection at a time of elevated threats
- FTNT have been consistently taking share from legacy players (Cisco, Juniper, Checkpoint) in core firewall business
- Expansion of product set in a hybrid environment. SD-WAN, operational tech security, network + security convergence
- Core secular drivers + consistent share gains underpin growth of circa 20% over the medium term. Valuation 20x CY23 FCF multiple

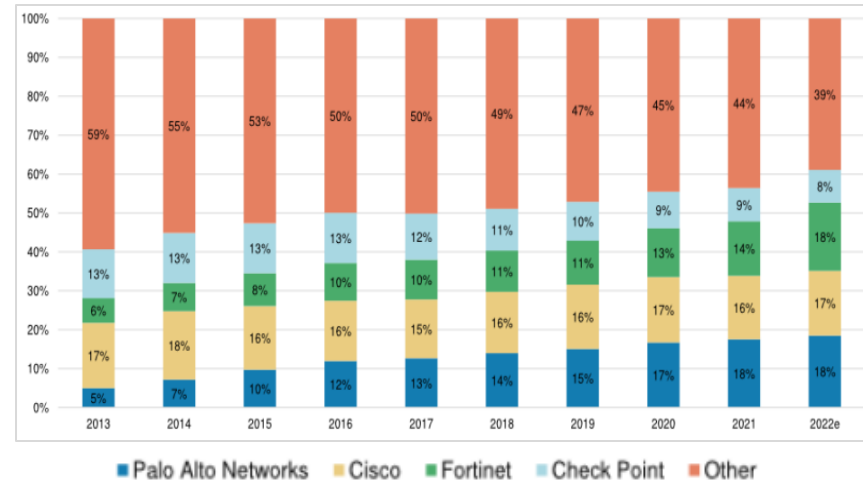
Fortinet Addressable Markets



Revenue Mix and Gross Margins



Network Security Market Share

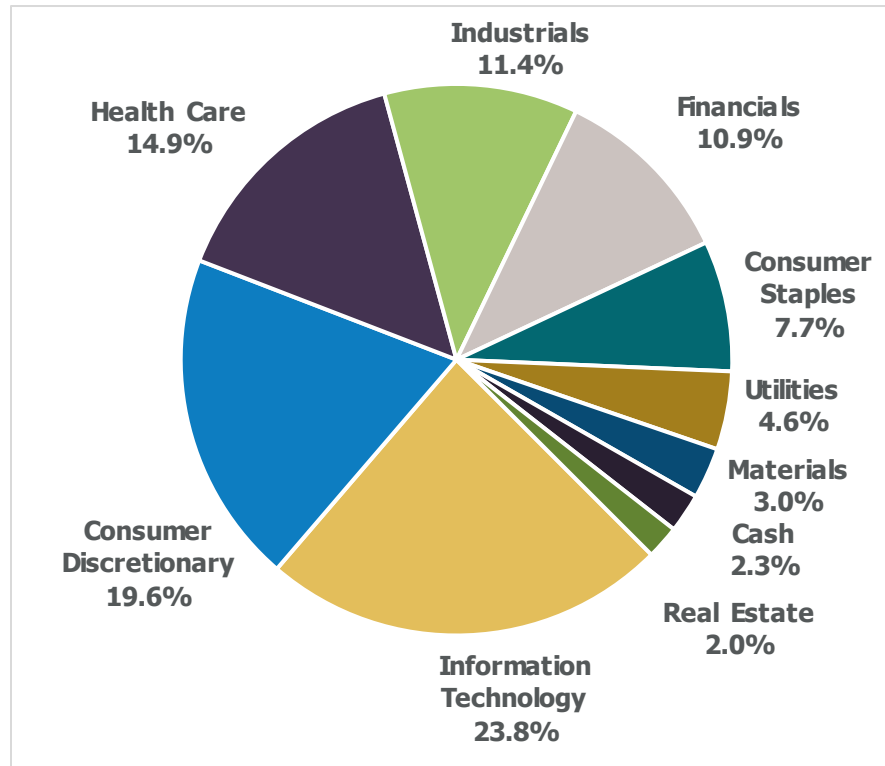


Source: IDC, Gartner, Morgan Stanley

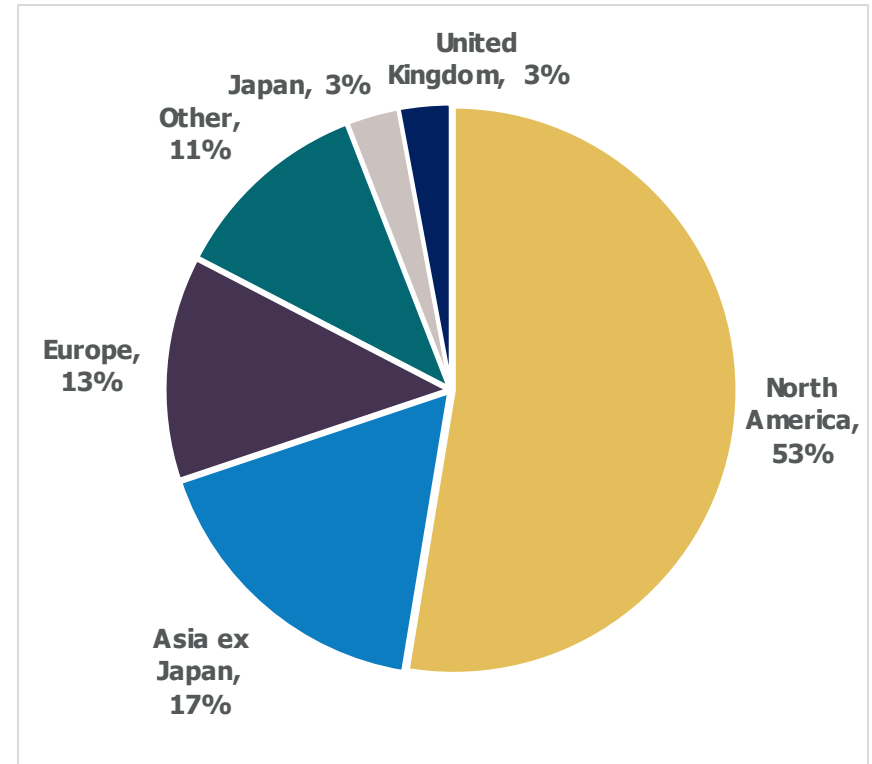
Alphinity Global Equity Fund (Managed Fund) - A Diversified Yet Concentrated Portfolio

Concentrated stock picking in a globally diversified portfolio

Sector Exposures



Geographic Exposures – Revenue










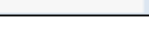


Source: Alphinity, Fidante, 31 March 2023

Alphinity Global Equity Fund (Managed Fund) - A Diversified Yet Concentrated Portfolio

Across sectors, industries and geographies

Top 10 Positions

Company	Holding	Investment Case
 Fortinet	5.2%	Leading cyber security business consistently taking share through price / cost leadership
 LVMH	5.1%	LVMH is a global leader in the luxury sector with a high quality, diversified portfolio of luxury brands. An attractively valued company with impressive pricing power and earnings leadership.
 ASML	4.9%	World's leading EUV lithography provider to chip manufacturers
 Danaher	4.6%	Leading Life Science and environmental tools company exposed to structural growth and Sustainability theme
 Nextera Energy	4.6%	Well positioned US energy utility with leading position in renewables.
 MercadoLibre	4.5%	Latin America's leading ecommerce, marketplace and payments platform growing strongly
 Waste Connections	4.3%	Solid margin & earnings outlook underpinned by pricing and M&A
 L'Oreal	4.2%	Global beauty leader leveraging digital leadership, innovation and diversified category/channel mix to drive sustained growth.
 ON Semiconductor	4.0%	Leading semiconductor and sensor company well placed for the transition in electrification and automation
 Accenture	3.8%	Leading consulting and business outsourcing company positioned to benefit from company digitisation trends
Top 10	45.3%	

Source: Alphinity, 31 March 2023



Q & A

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