



The Australian Finance Podcast Episode Transcript

Episode: ETF Review: BetaShares Global Cybersecurity ETF (ASX: HACK)

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Speakers: Kate Campbell & Owen Rask

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Episode transcript:

Owen :

Kate Campbell, welcome to this episode of the Australian Finance Podcast.

Kate Campbell:

It is good to be back on this beautiful sunny day in Melbourne.

Owen :

Yes, it is indeed, a very sunny day. Our regular listeners will know that this is a deep dive episode where we spend about 20 to 30 minutes, we'll say, providing an overview of an ETF or a share. Keep in mind that if you do like these types of episodes, we know they've proven to be very popular from a listener perspective, please write into us. Tell us which company or ETF you want us to cover.

Owen :

You can email us podcast@rask.com.au, but honestly the best place to do it would probably be in the Facebook community or on Twitter or something like that because we do run a poll. If you're in the Facebook group, check out the poll for the March share idea. This is where we put out a poll of a few different companies that we might cover in the March deep dive episode and you can vote on that.

Owen :

Today's episode, we're talking about HACK, which is trading on the ASX under the ticker symbol HACK. If you ever see ASX HACK, remember the ASX means it trades on the Australian Stock Exchange and the HACK or HACK is the ticker code that identifies it. It's like the barcode for an investment. HACK is a really popular ETF in Australia, as you're about to find out. We're going to talk everything you need to know about it. Just keep in mind that we're not recommending HACK.

Owen :

Kate and I, we're going to talk about it. We're not going to say that this is a recommendation. It's definitely not that. Kate does not own or have an investment in the HACK ETF and nor do I. The date of this recording is Wednesday, the 9th of Feb. If any of information is kind of a little bit different to what you look up in Google or on the BetaShares website, just remember that we're recording it on this day, and even on this day, the numbers can change.

Owen :

Yeah, Kate, we're going to talk about a really exciting ETF. Where do we start?

Kate Campbell:

Yeah. HACK was actually chosen by our community. It was a very popular poll. There was a few thematic ETFs involved. Yeah, hopefully everyone enjoys this quick little overview. Yeah. I guess we just can jump into what is HACK? The BetaShares global cybersecurity ETF that is well and truly aptly named.

Owen :

Yeah. If you've ever thought the world is doomed because technology is taking over, maybe you are thinking, "Is China watching my Google search?" Then you've picked up your iPhone and you've put in 123456 as your security code and you think, "Hmm, maybe that's not a good idea." Or have you ever asked yourself, "Windows, is Windows hack-proof?" Chances are, you're worried about the security of your technology.

Owen :

You're thinking, "Okay. I use technology a lot. Every minute of every day I have some interaction with technology. How safe is my information? Can I be sure that the person or thing that I'm communicating with is the person or thing that I thought I was communicating with?" Basically you are in this world of cybersecurity. You want to know everything that you are doing online is secure and the information is being transmitted as it should.

Owen :

This is where we have cybersecurity companies. My dad actually asked me the other day, he said, "What type of antivirus software do you use?" I looked at him like, "What are you talking about?" Then I remembered it's been about five to 10 years that I've been using Apple devices, and you don't need antivirus software necessarily on your Apple device, where you do need it

on your windows or PC, because it's a different architecture and it's a little bit harder to crack in that whole device as it is another device.

Owen :

Basically we're in this world where people are spending more and more on cybersecurity, particularly businesses and enterprises, because we're doing more online. There is a huge kind of thematic underneath this, which I know you'll get to in a second, Kate. But the HACK ETF, basically what it does, is it bundles together global companies. It gets all of their shares and puts them into one ETF and you can buy that ETF on the ASX.

Owen :

Rather than going around and picking which individual cybersecurity company you think is a good company, you can buy the HACK ETF in your brokerage account, and you get exposure to a bunch of different companies in this field. That's the basics of the HACK ETF. Cybersecurity can be cut up a few different ways. Meaning that there are different types of cybersecurity so we're going to talk about some companies, but that's basically the bones of it.

Owen :

With HACK, you get a basket of these cybersecurity companies that are playing on this thematic, which is more digitization, more internet equals more need for security online. That's the HACK ETF in a nutshell.

Kate Campbell:

Yeah. The HACK ETF might interest someone who really believes cybersecurity is an important theme for the next decade, wants to invest in that industry, but doesn't want to pick the one or two companies that they think are going to be the winners, and they want to diversify across a range of them. Most of these companies are based in the U.S., so you're not going to find them through your CommSec or your Pearler account.

Kate Campbell:

You're going to have to ... Actually Pearler has U.S., so you might actually find them, but you can either buy those individual companies through a U.S. brokerage account, or you can buy an ETF like HACK or something similar like that to give you that instant exposure. It's what we call a thematic ETF. We have done a whole episode diving into thematic ETFs and how they work, but it's just a really easy way to get access to a sector.

Kate Campbell:

I know many of our listeners are always asking about different thematics and different themes that they're interested in. If you are interested in this area, I'd really recommend diving into the holdings and looking into the area of cybersecurity, cybercrime, and learning more about this before just diving straight into HACK.

Owen :

Yeah, that's it. Just to clear up that idea of thematic, thematic in investing and in particular into ETFs, just you can go back and listen to that episode, or you can just listen to this definition. When we talk about thematic, typically what we're saying is one theme, so one style of investing. In this instance, we're talking about cybersecurity.

Owen :

Whereas when we talk about other types of ETFs, like index fund ETFs, typically what we mean is like an ETF that invests in basically everything. It's not one theme. It might have healthcare in there as well. It might have mining companies. But when we talk about thematic ETFs, we're talking about a particular style of investing.

Owen :

We'll get to what that means and how you position that in a portfolio in just a second. Kate, maybe you can just run us through some of the facts about the HACK ETF as we know it today.

Kate Campbell:

Yeah. Absolutely. The HACK ETF's been around ... Their inception date, just when the fund was launched really, has been around since August in 2016. It does have quite a bit of a track record that we can look at. It's not a brand new fund that's launched in 2020/2021, which is good because it means you can actually look at the performance chart and whether it's tracked the chosen index.

Kate Campbell:

For this particular ETF, they've chosen to use the NASDAQ Consumer Technology Association Cybersecurity Index. So BetaShares then the aim of HACK is to track that index before fees and other expenses as well. You can actually google that index and learn more about it, but it's very similar. Like it will replicate the holdings. The management fees are 0.67% per year.

Kate Campbell:

If you invested \$10,000 in HACK today, over the next 12 months, they would take \$67 worth of management fees out of the unit price. They're not sending you a bill. It just magically gets taken out the unit price when you're invested in it. That makes it easier but it also means you need to pay attention because that is maybe on the higher end for a management fees for an ETF. That is quite common, the thematic ETFs, because they are quite niche and they require a bit more work.

Owen :

Yeah, that's it. 0.67% automatically taken out. Yeah. It is a little bit higher than many others. I think the average for ETFs in Australia is now around 0.5%. Pardon of me. This is 0.67, which is a little bit more than that. Typically, you find, as you said, with the thematic ETFs, they are a little bit higher. That does not necessarily the more you pay, the more you get, that's not necessarily what it means.

Owen :

It's just that it does require more work because typically the provider of the ETF in this case, BetaShares, has to pay more. Okay. There are two things like, do you get dividend/distributions from this ETF? After I buy the HACK ETF, why am I getting this letter in the mail from someone called Link Market Services? What's that all about?

Kate Campbell:

All right. They do make semi-annual distributions. Occasionally it's an annual distribution just looking at their recent tables. Sometimes you'll get one a year, sometimes you'll get two a year. It does pay to check that out. I mean, I'm probably not investing in cybersecurity for income in my bank account. If I was investing in cybersecurity, I'd be investing in this for growth. I think that's similar with a lot of thematics.

Kate Campbell:

What will happen once you buy this ETF, you're going to get a letter from Link Market Services saying, "Set up your account with us." Once you set up your account, you'll actually be able to choose, do I want to reinvest that dividend? Instead of getting it paid out in cash to my bank account, whether that's \$20 or \$40 each year, I'm going to have that reinvested back through additional units into my holding so I can slowly grow my units, so my holding in HACK over time.

Kate Campbell:

You'll have that choice and you can do that through Link Market Services, which is the ETF registry for HACK.

Owen :

Yep. Cool. Yep. Just to rehash that, if you want to set up a dividend reinvestment plan, go to Link Market Services for the HACK ETF. In fact, I think all BetaShares ETFs, if you're invested in a BetaShares ETF, I think you can manage all of them through Link. I think Link does all of their share registry stuff. Go and check that out. Kate, how much money is invested in the HACK ETF? How much of all of the investors from all around Australia put in to the ETF and how much is inside of it now?

Kate Campbell:

Yeah. When I looked this morning, and BetaShares last updated this a couple of days ago on the 7th of February 2022, they have around \$723 million in the HACK ETF.

Owen :

That's a big ETF.

Kate Campbell:

Yeah.

Owen :

For a thematic ETF, I was actually blown away by this because normally what happens ... Because we're still so early in the ETF industry, what I typically see is that the vanilla kind of

normal ETFs get more of the money and the thematic ETFs get less just because when you put them in a portfolio, which we'll talk about in a bit, an ETF like HACK, I would put that into kind of a smaller position in my portfolio, let's say.

Owen :

It would be less than maybe you say 5%, because what the ETF does is quite unique and you don't want a lot of your money in one of these really unique ETFs, just in case the uniqueness of that ETF ends up being the wrong call to make. Typically, what you find is that the thematic ETFs are a bit smaller than this, the \$723 million that Kate references by the way it's not saying that this is a good ETF or that it's a really expensive ETF.

Owen :

What we're saying here is this is the amount of money that is invested in it currently. This is the size of it. Some websites list this as market cap, but it's really what we call funds under management. Meaning that this is what is managed by the ETF. Kate, now that we've been through the nuts and bolts, did you want me to go through why the cybersecurity industry is popular and then you can describe basically a bit more about like BetaShares and all that?

Kate Campbell:

Yeah. Absolutely. I know you've been quite interested in the cybersecurity industry over the last few years. I think anyone that has investments, has bank accounts, has cryptocurrency should be interested in cybersecurity and how they can better protect themselves just from an individual perspective. But I know you want to talk about the wider perspective.

Owen :

Yeah, that's it. I just got some numbers from Statista yesterday when I was looking at this. It's estimated that the market just for cybersecurity ... So imagine when you pay for your antivirus or you get some sort of company that's paying for IT services to protect their servers and that sort of stuff, this market is estimated to hit \$345 billion in annual like revenue for companies that operate in this industry by 2026.

Owen :

This is a massive, massive market and it's growing fast. Some of the most important areas of this, I guess, industry are just standard IT services. Spending on people going out and doing things, people managing equipment and infrastructure. The other thing is infrastructure protection. This is like where you get ... Let's say you have cloud computing or you have on-premise servers and technology, getting protection for that.

Owen :

It could be monitoring software. It could be really anything that comes around that space and how you need to protect that physical infrastructure. The other thing that is really interesting these days is identity protection and identity management. This is something that I'll talk about in just a moment when we talk about one of the companies, but basically oftentimes the weakest point in a technology system is the point where humans interact with it.

Owen :

What I mean by that is when you put your password in, that's typically where most of the vulnerability is. It's not necessarily in the system itself. We can blame the system. We can blame it for being hacked or whatever, but typically intruders get into a system by something silly that the human did, like having a weak password for example. There's a fantastic YouTube channel called Computerphile.

Owen :

One of the videos in there has many, many millions of views. The professor from the UK explains in very simple terms, how he could basically crack all of the ... crack is another word for hack, which is another word for break in basically. He could crack passwords of basically everyone in the university that had a password of like say six characters or less in like milliseconds, just by running a very, very simple algorithm.

Owen :

The point is to use numbers, letters, capitalised. Make them unique. But we all know that if we're logging into Google, we're logging into Apple, we're logging into Slack, Notion, whatever we use for work, Zoom. We don't want to have a different password for everything. We end up using the same password or a very similar combination and that makes it even easier again, so-

Kate Campbell:

Yeah. You know what terrifies me? Because Apple in your passwords and security section, they now tell you how many times you've used that identical password on different sites on the web. When you're seeing like, oh, you've used this password 52 times, you're like, "Oh, shit, that's not good."

Owen :

Then you think about having to change all of that. That's just like a pain in the ... Yeah. Okay. Kate, that's basically setting the scene, cyber securities here. We'll talk about some companies in just a minute. BetaShares is the issuer of this ETF, right? They manage it?

Kate Campbell:

Yeah. Many people in our community might be familiar with BetaShares through A200, which is their ASX top 200 shares ETF that many people use because it is quite low-cost. BetaShares is the overall umbrella manager. They have over 50 different ETFs in Australia. They've just been going from strength to strength really. They've been growing very rapidly. I feel like every second week I'm seeing a press release in my inbox with a new ETF they've launched.

Kate Campbell:

They are growing quite rapidly. They do have a lot of ETFs. BetaShares sit there. They create all these products. They manage them day to day. They're helping create the units for you to buy and redeeming units when you want to sell. Then they create all these different products

and then you can go and buy one of these BetaShares ETFs like HACK through your CommSec, Pearler, Stake account, whatever account you want, your brokerage account.

Owen :

Cool. What is HACK investing? Just as a high level, what are they invested in?

Kate Campbell:

Yeah. One of the first things that if I'm interested in looking at investing in an ETF, I'm going to just google the name, the code and then ETF or ASX, and then the code, find their webpage on the ETF issuer, make sure you're on the right page, because it will hopefully be the utmost up-to-date information. Then I usually go and have a look at the sector allocation. Just looking at what different things this ETF is invested in.

Kate Campbell:

It has over half of the ETF is invested in companies that fall within the software definition and then there's 14% falling in communications equipment. You can have a look through and just get a general idea of those overall categories. Then you can go even a step further and they'll actually break down all the holdings. I think most people just look at the top 10.

Kate Campbell:

I'll just mention some names from the top 10 today, but you can look at all of them and just download a document that has all of them. There might be over a hundred different companies, but some of them have a very small weighting. They might only be 1% of the ETF. If you invested a hundred dollars in the ETF, only \$1 of your money might be allocated to this small company, which is why we usually look at the top 10 first because in this case, nearly 7% of the ETF is allocated to a company called Cisco Systems.

Kate Campbell:

Therefore, if you had a hundred dollars invested in this ETF, around 6 or \$7 would be in Cisco.

Owen :

Like some other names that people would know here include Cisco, which obviously started as like a switching and network infrastructure company, for those of you that know it. Accenture, which does IT consultancy. Palo Alto Networks, CrowdStrike, which I'll get it to in just a minute. Cloudflare which does kind of like edge computing and CDNs. It's a bit geeky, but I love it by the way. Check Point Software, VMware, Juniper, Tenable, and Leidos.

Owen :

These are the companies that round up the top 10. It looks like just eyeballing it, we've got about 30 to 40% of the portfolio, the HACK portfolio is invested in just these 10 companies. I don't have the numbers off the top of my head. I think there were about 65 holdings the last time I checked. I'll just quickly get this up. Yeah. Yeah. There's quite a few holdings.

Owen :

The smallest holding within the ETF is a company by the name of Ribbon Communications. Just to put it in perspective, this has 0.1% of the portfolio invested in it. This is where Kate was saying that it's best to look at the top 10 to see how much the top 10 make up and go from there. Kate-

Kate Campbell:

Yeah. When I'm ... Oh, sorry.

Owen :

No. You-

Kate Campbell:

I was just saying, when I'm looking at thematic ETF, I will usually do a bit of research on the top 10 holdings, the overall thematic, but I won't go through all 65. I'll have a glance through, but I'm not going to be researching in much detail the 0.1% allocation holdings at the very bottom of that list. Because some of the ETFs can have hundreds or thousands of holdings within.

Kate Campbell:

You have to use your time wisely. You only have so many hours in the day. You have to pick what is going to be the highest return of my time. I'm going to actually spend some time looking at the top 10 and the overall thematic. I mean, everyone has their own process looking at thematic ETFs.

Owen :

They do. I might share now, Kate, in the interest of getting this down to 20 minutes, I might just quickly run through two of the companies that I know from this list and just explain what they do because that will help people to put it in perspective for people. Is that okay?

Kate Campbell:

Yeah. That'd be awesome.

Owen :

Cool. The first company is a company called Okta, O-K-T-A, is the name. Okta is run by a guy named Todd out of the U.S.. What Okta does is basically it's created probably what is the world's most advanced SSO, and that means single sign-on.

Owen :

If you've ever gone to a website and you've seen something now that says single sign-on, so you could say put in your password and your username, or you could do single sign-on, what this basically means is that you only have to put in your password once and it automatically logs you into a bunch of different stuff. What I mean by this is, the best example of SSO or single sign-on technology is Google.

Owen :

When you go to Gmail and you log into your Gmail and then you go across to YouTube, you will notice that if you're in the same web browser, you're already logged into YouTube if you've logged into Google on the previous page. The reason is that they use the same kind of login infrastructure. You log in at Gmail, which is a Google product, and then you visit YouTube, also Google product, or Google Maps, also a Google product, you're automatically logged in.

Owen :

Okta does the same thing with the single sign-on technology, but it does it for workplaces and enterprises. It makes money by charging a subscription to companies to use that software. It's broken down into two parts of their business. They've got identity management, which is verifying people when they log in and they've got workforce management. The future of Okta is a really exciting one. I own shares in Okta.

Owen :

The future of Okta is basically you sign on once and it logs you into every single app you ever need for your business. The average enterprise in America has a hundred different software applications that they use for their day to day. The second company that I want to talk to is a company called CrowdStrike, Kate. I believe this is a company you own shares in. I do not own shares in.

Kate Campbell:

Yes.

Owen :

CrowdStrike trades into the ticker symbol CRWD. CrowdStrike takes the idea of what's good for you is good for me. Basically what it does is it's created this network called Falcon Fusion. Sounds like a cool name. Basically it's called unified extensible SOAR framework. That's a fancy way of saying that what CrowdStrike does is it creates a network of linked computers like my computer right now and your computer at home.

Owen :

What it does is it says, "If Owen has been hacked or it looks like he's being hacked, we'll defend Owen's computer. Then what we'll do is we'll take that information that helped us realise that Owen's being hacked and we'll apply that to Kate's computer right now so both of them are protected." It uses this kind of identify and defend idea against, I think it's trillions of different signals that it takes in every single day from across its network.

Owen :

It helps companies and individuals who are using their computers to be defended against. The fantastic thing about this CrowdStrike business and the Falcon Fusion technology is that companies typically start with one module of Falcon and then they have 21 different modules that each company can then pay for as a subscription. In the third quarter of 2021, I believe it was, CrowdStrike had 14,687 paying customers, but it added 1600 new customers in one quarter. Over 10% of increase in customers in just one three-month period.

Owen :

What was really interesting for me and these are two geeky numbers I'm going to throw at you real quick, is the number of customers that have more than four modules of Falcon grew by 68%. What that means is customers are taking up more than just the basic level of protection through CrowdStrike. That means they make more money. There's this metric that we follow in investing as analysts, we call it DBNR or dollar-based net retention.

Owen :

What this does is just to break it down in super simple terms, what are the customers from last year spending this year? What we can see is that the customers from last year spent 25% more this year. What that tells you is even if CrowdStrike doesn't get new customers, it's still going to grow its revenue because the customers from last year are still going, "Oh, gosh, CrowdStrike actually does this other thing. I'll get that as well for us." Or, "CrowdStrike does this for us."

Owen :

This is like basically free money because CrowdStrike has already created this amazing software and customers can take it up. Those are the two companies I pulled out. We've got Okta, which does single sign-on technology, and CrowdStrike, which does this artificial intelligence network to defend against intrusion. Fantastic companies.

Owen :

I own share in Okta, you own shares in CrowdStrike, both included in the HACK ETF at the time of recording. Kate, as we come to the end of this, how could HACK be used in a portfolio?

Kate Campbell:

Yeah. We've mentioned before about the core and satellite portfolio where 80% of your portfolio might be made of staple ETFs, like an ASX 200 ETF, a U.S. top 500 shares ETF, maybe some bonds, maybe some emerging markets, maybe some real estate investment trust, whatever you want in your core portfolio. Then you can be a little bit more, I don't know, risk-takerish, that is not a word. But you can take a few risk-

Owen :

It is now.

Kate Campbell:

... to have a bit more fun. I mean, sometimes I say investing shouldn't be fun, but I mean, I enjoy looking at different themes and different companies. That could form the other 20% of your portfolios. You've got the core in the middle that is going to help you build wealth over the next 40 years. Then you've got some other interesting things, maybe some individual stock positions, maybe that's where you want to have your cryptocurrencies.

Kate Campbell:

Maybe that's where you want to have a thematic ETF like HACK or something in a different theme around the outside. You might only allocate 2% of your overall portfolio to HACK. If you are thinking that cybersecurity is a theme, I've learned a lot about, I'm really interested in, and I think over the next five or 10 years, it's going to grow substantially.

Owen :

I think that's the way I would use this ETF too. I'd have it as a small position in a diversified portfolio. We have not recommended this company at Rask in our ETF portfolios. Many of our listeners are members of our subscription and our membership service where we kind of outline four portfolios for people to follow. I think of them as like recipes that people can follow and then they can put them together themselves.

Owen :

In those portfolios, we haven't recommended HACK yet. We might in the future. If we do, it would probably be in our thematic portfolio or even if it's in our Flexi portfolio, might be a saying us saying, "You could build your portfolio as a core over here using these solid ETFs, but then you might add HACK for the next three to five years for growth." Or something like that. That's not to say that it's not ... I don't think it's a good ETF but I think it's a good ETF.

Owen :

It's just, we chose to get our thematic exposure somewhere else. I would say that it's good ETF. Just be aware that it's probably going to have more ups and downs. The way the actual ETF is constructed ... I won't go into detail right now, but the way the ETF is constructed and then rebalanced inside itself can result in the ETF being a bit more volatile, having a few more ups and downs.

Owen :

That's okay because we're investing for five to 10 years, but just be aware that it's not going to be like the A200, which is a bit more stable and pays a dividend. This one might be a bit more wild. Kate, one final question, which I'll ask you is people have got the end of this. This HACK thing sounds pretty interesting. How do I actually go and buy and invest in this ETF if I want to?

Kate Campbell:

Yep. If you want to buy units of HACK, you're going to need a brokerage account and I'm going to link our two-part choosing a broker series in the podcast show notes. But just to get you started, it's that middleman that's going to help facilitate those transactions so you never have to find yourself a buyer or a seller. That all happens magically over the internet.

Kate Campbell:

Some examples that are quite popular of our community, not recommendations, includes CommSec, Stake, Pearler, SelfWealth and Sharesies. They all have different rules and different ways to get started and different initial purchases. Sometimes you can start with \$5, sometimes you need \$500, but I would recommend checking out our broker basic series to get started.

Kate Campbell:

Also, joining our Facebook community, because there's often posts of people saying, "Hey, I'm interested in this kind of thing. What broker would be helpful for me there?" Just go and join the group, search broker, and you'll find lots of different resources there.

Owen :

Yeah, for sure. We've got those podcasts and we've got the Facebook community. Fantastic. I will give one shout-out for if you're thinking, "Okay. Owen doesn't recommend this ETF to his members and to the members of Rask. What else is recommended?" You can join the Rask ETF service, which is where you'll find those portfolios and see what we've put together. It's \$49 if you use the coupon code AFP. There's a link in your podcast player now if you want to sign up.

Owen :

It's \$49 and it gives you lifetime access to these model portfolios that we've designed, and we continue to monitor. Please go ahead and do that. Jump into your podcast player, click that link. The coupon code is AFP and it gives you about 50% off. Kate, wonderful discussion about HACK. I know this will be a popular episode because it's a really interesting ETF. It's really topical right now.

Owen :

I think if you want to vote on next month's share or ETF, jump into the Facebook group, let us know and get in touch with us at podcast@rask.com.au. Kate, as always, thanks for joining me on this episode.

Kate Campbell:

Thanks for listening everyone.