

# BATTLE IN THE SKY

## ETF investors turn their attention to the cloud to find returns

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The substantial drop in Apple's expected iPhone sales was enough to rattle global markets at the start of 2019, with fears over its dependence on selling products still very much at the forefront of investors' minds.

Apple itself faces some specific challenges when it comes to changing investor perceptions about its business, with many very much still viewing it as a retailer rather than a technology giant taking a leading role in the growing cloud space.

Nonetheless, this is where attention should now be focused as more and more capital is deployed by technology giants in the cloud above all else.

In 2018, spending on cloud computing was the single largest component of all IT spending globally. Within that money spent on cloud infrastructure, services was up 45% from 2017. In the third quarter of 2018 alone, spending rose \$21 billion (£16.3 billion) in real terms.

### Why the cloud matters

The cloud has become the key battleground for the world's largest technology providers because of its increasingly widespread use.

Thanks to the explosion in interconnected devices, businesses which themselves are worth billions of dollars have been allowed to flourish. This includes Uber, Netflix and Airbnb, to name a few. However, without cloud-based technology to support them, these businesses simply would not exist.

As the cloud becomes more reliable and secure, most businesses are also recognising that it is both cost effective and the safest way to transition data storage and work environments.

Email led the move to the cloud over the last four years, but now more and more services are being transitioned over, with the solution offering companies lower costs and increased speed versus in-house platforms.

As a result, more and more individuals and businesses now rely on the cloud, and whichever platform becomes dominant in this space will likely translate to the most valuable company in 2019.

Interestingly, amid a hefty sell-off across the board for the tech superstars in the last quarter, it is the giants of cloud technology holding up the best, with Microsoft currently sitting at the top of the pile at the start of the year on a market cap basis.

### Who is winning?

Amazon and Microsoft, and to a lesser extent Alphabet, have all been increasing spending on cloud technology in recent years, and there is unlikely to be any let up this year.

For some businesses, the revenue growth has been eye-catching, with Microsoft nearly doubling its revenues in this space since 2015.

Comparing revenues from the cloud gives an insight into just how fierce this competition is becoming. In the third quarter, Microsoft saw \$7.9 billion of revenue from its intelligent cloud business, versus \$6.7 billion for Amazon's AWS (Amazon Web Services) division.

Meanwhile, Apple has lagged behind its main rivals when it comes to cloud-generated revenues. However, it is spending more and looking to play a prominent role in cloud services for consumers and businesses.

As the figures show (see left), revenues from this source are reaching record levels and do not appear to be slowing down as the cloud becomes increasingly important.

However, there are a number of other players outside the top three also capitalising on the cloud phenomenon.

Among them, Cisco, Verizon and Adobe are all increasingly tapping into this market, while IBM recently paid an eye-watering £34 billion to buy cloud specialist Redhat late last year, which summarises just how vital this space is.

The price paid by IBM was a 60% premium to its share price, with analysts noting how important this sector has become to some of the world's biggest companies.

Tech specialists said the deal was necessary for IBM to stay relevant, having trailed the big players for years previously. Quite simply, if such companies don't have a cloud strategy, they know their days could be numbered.

### How to play it

As the IBM/Redhat deal shows, as well as focusing on the biggest names in the world, investors can turn their attention to some of the smaller players in the cloud space whose innovation is nonetheless turning the right heads.

There are a number of exchange-traded funds (ETFs) offering exposure to this trend and the Solactive Cloud Technology index is made up of leading companies in the cloud-based software and services sector.

It is clear the ETF industry is beginning to respond to this dynamic market. Innovative solutions are available to wealth managers, with the cloud being one theme that will be with us for some time to come. ●

### ESTIMATED 2018 ENTERPRISE CLOUD REVENUE RANKINGS:

1.	Microsoft	\$28.3 billion
2.	Amazon	\$26.1 billion
3.	IBM	\$20.1 billion
4.	Salesforce	\$12.2 billion
5.	Oracle	\$6.4 billion
6.	SAP	\$5.9 billion
7.	Google	\$4.5 billion
8.	ServiceNow	\$2.8 billion
9.	Workday	\$2.7 billion
10.	VMware	\$2.0 billion

Source: Statista