Catching the Next Phase of AI

The old saying that it is better to skate to where the puck is going can be applied to the Artificial Intelligence mega trend.

AI is changing the way we communicate, interact, and do business. Currently, we are in the physical ramp-up stage which consists of building computer systems, physical housing structures, and energy, while providing mechanisms to handle and decimate intelligence from billions of human interaction data.

We believe that we are entering the next phase which is the use and monetization of the software to run, utilize, and exploit the intelligence extracted from these massive and continually growing data sets.

To this end, we have positioned our portfolios to capture this next phase which we believe will be more enduring.

A summary of prior Mega Trend Cycles, which we believe will repeat, is as follows:

MEGA TRENDS CYCLES

- Early beneficiaries are the physical device (Hardware) manufacturers
- Next, competitors begin to compete at the design level (build a better mousetrap)
- As technology ceiling is reached, competitors compete on price
- Physical devices then become commoditized, and margins shrink
- Companies that improve product/service endure, providing greatest profits to investors
- Open-source platforms seek to upend closed platforms by enlisting brain power from all users and developers

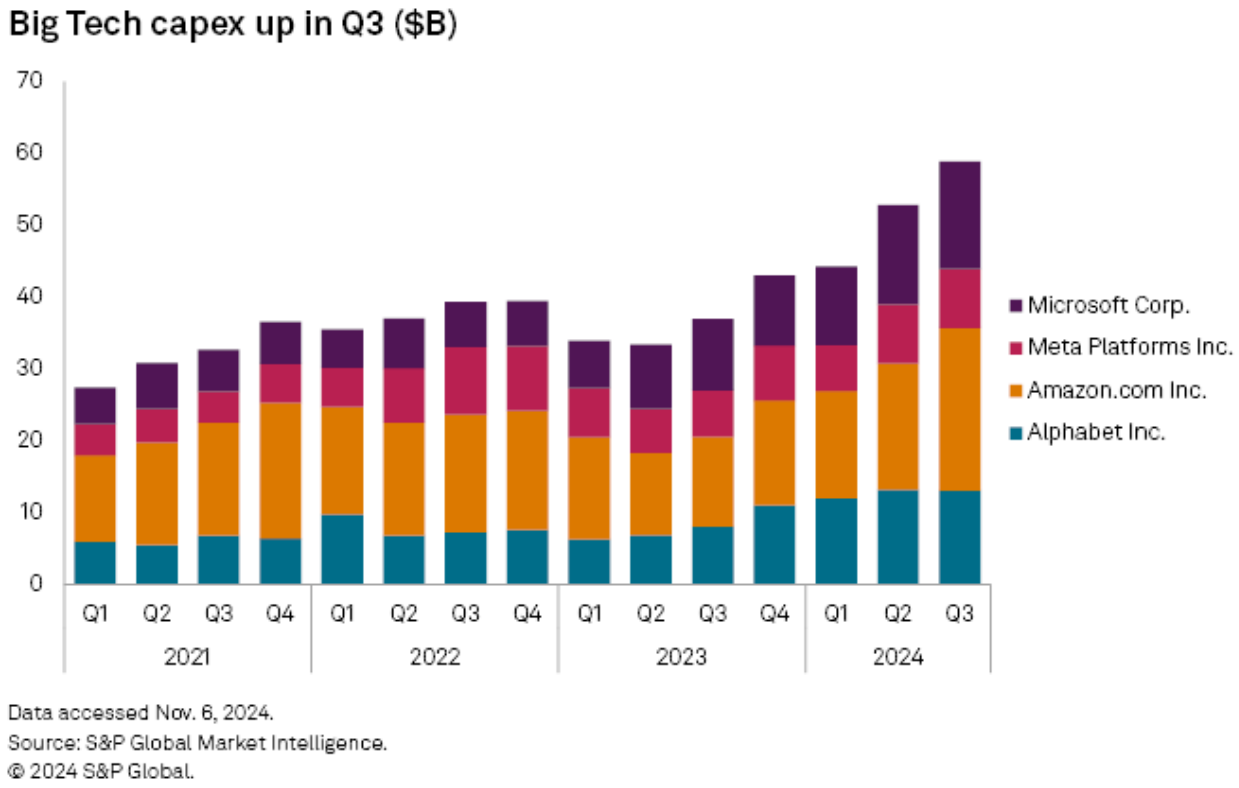
HISTORICAL EXAMPLES

Mega Trend	Early Mover	Long-Term Winner
Personal Computers	IBM	Apple, Microsoft, Dell
Mobile Phones	BlackBerry, Motorola, Nokia	Apple, Samsung, Google, Facebook
Cloud Computing	Dell (Large Servers)	Amazon, Microsoft, Google, Oracle
Cable TV	AT&T	Comcast, AT&T, Verizon
Internet	Modems - Bell	Google, Microsoft, Facebook, Amazon, Apple, AirBnB, Uber, TikTok, Netflix
E-Commerce	America Online	Amazon

RISING AI CAPEX

Big Tech companies have been increasing Capital Expenditures to record-high levels recognizing that a return on investment, though probably in the future, may be transformative for decades.

	Q3 2023	Q3 2024	Increase
Google			35%
Microsoft			34%
Meta			21%
Total	**$37 Bil.**	**$59 Bil.**	**37%**



Data accessed Nov. 6, 2024.
Source: S&P Global Market Intelligence.

WHERE THE PUCK IS HEADED

While the Hardware layer has not yet entered the commodity stage, the next layers of AI are beginning to gather investor attention and gain upward price momentum.

Hardware	Devices and components for computational power for AI tasks.	In process - big data companies ramp up super servers with Nvidia components

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Framework & Libraries	Software tools providing functions and models for AI development.	In process
Model and Algorithm	Models and algorithms for tasks such as image recognition or natural language processing.	In process
Application	AI-powered applications (Software) that serve end-users or businesses directly	Companies beginning to adopt for customer service, business efficiency, data security, medical advancement

With history as our guide, the Application stage in which companies use AI to benefit our daily lives, businesses, healthcare, etc., will be the most profitable long-term.

To this end, investors that identify these companies early before the crowd will profit exponentially. And while it is clear that Google (Alphabet), Amazon, Facebook (Meta), Microsoft, etc., will be substantial beneficiaries, we believe the following:

- Doubling your investment in the "Magnificent Seven" companies going forward becomes difficult due to the law of large numbers
- Smaller, lesser-known tech companies that have been enmeshed in utilizing AI to enhance services will grow exponentially
- Identifying these companies early in the cycle will be difficult
- It will not be necessary to bat 1,000 in identifying these companies as the long-term returns for the winner will be sufficient to achieve exceptional returns.
- Two examples from our Blend Portfolio are as follows:

CAE, Inc. (CAE)

- Market cap of $6.9B; Well-known for its advanced flight simulators and training devices used by military and commercial aviation sectors. The company designs and manufactures full-flight simulators (FFS), training devices, and virtual reality-based systems that replicate real-world conditions.

- Role of AI: For defense and military training, CAE's AI is used to create highly sophisticated, real-time mission rehearsal environments. AI-driven systems simulate adversaries and operational scenarios that react to the actions of trainees, creating a more dynamic and immersive training environment. These AI systems can simulate complex combat scenarios, including tactical decision-making, threat assessment, and response to evolving situations.

- Customers: U.S. Airforce, Navy, Army, and Marine Corps, DoD, FBI, Lockheed Martin, Raytheon, Lufthansa, Emirates Airlines, Delta, United Airlines, American Airlines, Singapore Airlines

Jabil, Inc. (JBL)

- Market cap of $14.7B; Jabil offers end-to-end solutions for complex manufacturing, including product design, assembly, testing, and supply chain management. It leverages robotics, automation, and artificial intelligence (AI) to improve manufacturing efficiency, reduce human error, and enhance production scalability.

- Role of AI: Jabil uses AI-powered cobots (collaborative robots) on the production floor to work alongside human workers. These cobots are capable of learning new tasks through interaction with humans and adapting to changes in the production process. AI enables these robots to become more efficient and responsive over time, reducing reliance on manual labor while improving overall production efficiency.

- Customers: Apple, Microsoft, Tesla, Amazon, Google, Cisco, Dell, Samsung, LG Electronics, Siemens, Nike, Johnson & Johnson, Caterpillar, Roche, Ford, GM.

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