

## Long-Term Secular Growth Drivers

### Technology Advancements

Scout Investments' Small Cap Strategy Team believes that long-term, secular technology advancements play a vital role in driving strong investment returns. These trends develop over time and help us identify opportunities in the markets that others may miss. Colossal advances in technology since the turn of the millennium are overwhelmingly impressive, whether it is the omnipresent smartphone, successful sequencing of the entire human genome, or the advent of large-scale 3-D printing. These innovations define our lives and society in many ways and have helped propel technology to become the largest sector weight in most major equity indices. In this paper, we will discuss several of the technology advancements that are most pertinent today and how the Scout Small Cap Investment Team seeks to take advantage of these trends in its portfolio.

#### Artificial Intelligence and Machine Learning

The term Artificial Intelligence (AI) was first introduced during the early days of the computer (1955) with the idea that if you could program a machine to mimic the human brain, you could introduce artificial intelligence. Today, every industry has introduced AI into its operations, from autonomous car driving, to personal assistants like Siri and Alexa, to medical diagnostics. It is involved in every aspect of a company's business from marketing and finance to producing widgets. As a society we are seeing enormous amounts of data generated, which reinforces the importance of AI's ability to analyze and help solve complex problems. As a result of public interest, AI software is expected to grow globally at a compound annual growth rate (CAGR) of more than 40% through 2025.<sup>1</sup>

Machine Learning (ML) is a subset of AI whereby a computer analyzes information and learns from experience. ML studies datasets and through algorithms makes predictions based on historical relationships. When new evidence arises, the algorithm adjusts the datasets and determines any changes in pattern. ML continues to grow rapidly as we find ever more uses for the predictive technology, from simple vehicle maintenance to more robust outcomes such as fraud detection and algorithmic trading. Due to the myriad applications and more complex global problems society faces, industry experts expect ML to increase 10-fold worldwide over the next seven years.

AI/ML is the most recent addition to Scout Small Cap's secular growth trends and one that we believe will continue to play a more important role as the industries evolve.

<sup>1</sup>Source: July 24, 2020 news release announcing report, "Global Artificial Intelligence (AI) Software Market, Forecast to 2025" from ResearchAndMarkets.com. Accessed on 2/28/23 at [www.globenewswire.com/news-release/2020/07/24/2067275/0/en/Artificial-Intelligence-AI-Software-Industry-Outlook-2020-2025-Market-Revenues-to-Grow-at-a-CAGR-of-41-6-Between-2019-and-2025.html](http://www.globenewswire.com/news-release/2020/07/24/2067275/0/en/Artificial-Intelligence-AI-Software-Industry-Outlook-2020-2025-Market-Revenues-to-Grow-at-a-CAGR-of-41-6-Between-2019-and-2025.html)

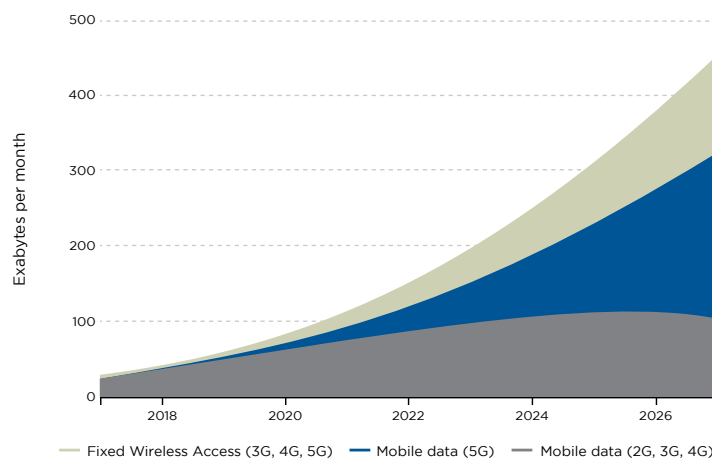
#### Bandwidth Expansion

Global internet bandwidth and mobile network traffic has seen explosive growth over the past several years as a more interconnected global society continues to take root. This expansion became even more stark during the COVID-19 pandemic as more people worldwide began working from home and spent more time online to stay connected with friends, family, and colleagues. While the work from home phenomenon has rolled back in some instances the genie is out of the lamp and not likely to return to its former state anytime soon.

Specifically, mobile web traffic has really taken off as of late and according to a Swedish global leader in 5G wireless capabilities, total global mobile data traffic – excluding traffic generated by Fixed Wireless Access (FWA) – was expected to reach around 90 exabytes (EB, a measure equal to 1 billion gigabytes) per month by the end of 2022 and is projected to grow by a factor of nearly four to reach 325 EB per month in 2028. At that time, all growth in mobile data usage will derive from 5G and is forecast to reach nearly 70%, up from around 17% today.

Mobile web traffic is forecast to continue to expand apace as global regions like sub-Saharan Africa and Latin America truly take off in response to growing demand and availability. And in more mature markets like North America, 5G subscription penetration will close in on 100% by 2028, which will drive anticipated global monthly average usage per smartphone from 19 gigabytes (GB) in 2023 to 46 GB by the end of 2028.<sup>2</sup>

**Global mobile network data traffic outlook**



Source: Ericsson Mobility Report, p. 22, November 2022, accessed 3/3/23 at [ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/mobile-traffic-forecast](http://ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/mobile-traffic-forecast)

<sup>2</sup> Source: Ericsson Mobility Report, p. 1, accessed 3/3/2023 at [ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/mobile-traffic-forecast](http://ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/mobile-traffic-forecast)

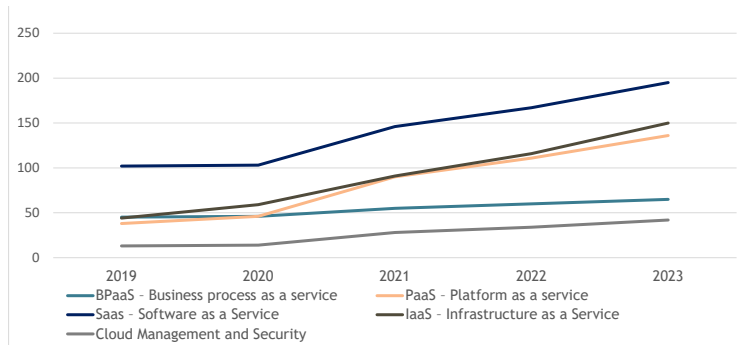
## Growth in Cloud Services

The market for cloud computing has evolved and expanded in a major way over the last decade. Cloud services allow customers to consume everything from software to IT infrastructure in a more flexible manner and permit companies to recognize the cost of those services as a regular expense, rather than as a large capital expenditure.

The evolution of the Software as a Service (SaaS) model has produced benefits for customers and created new business models for companies. Keeping most customers on the same version of a software program allows companies to invest more of their engineering dollars on incremental improvements rather than supporting multiple legacy versions of a program. Companies are also becoming more sophisticated in how they use cloud services, with many adopting some form of hybrid cloud infrastructure, combining the company's private cloud deployment with services from public cloud providers. This evolution has created more demand for all types of related software including security, monitoring and analysis.

While this trend is well established, we believe there is plenty of room for more growth. Indeed, cloud services and cloud migration together ranked as one of the top three priorities, cited by 65% of respondents, when Flexera, an SaaS-based IT management solutions firm, polled more than 500 technology executives in 2022.<sup>3</sup> Gartner, a leading research firm, has forecast that worldwide spending on public cloud services will grow nearly 21% in 2023 to a total of \$591.8 billion, up from \$490.3 billion in

Worldwide Public Cloud Services End-User Spending Forecast  
(Billions \$)



Source: Gartner Inc. news releases, as of 3/30/23 (accessed 3/30/23)

For 2019 estimated spending: [www.gartner.com/en/newsroom/press-releases/2020-11-17-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-grow-18-percent-in-2021](http://www.gartner.com/en/newsroom/press-releases/2020-11-17-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-grow-18-percent-in-2021)

For 2020 estimated spending: [www.gartner.com/en/newsroom/press-releases/2021-04-21-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-grow-23-percent-in-2021](http://www.gartner.com/en/newsroom/press-releases/2021-04-21-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-grow-23-percent-in-2021)

For 2021, 2022, and 2023 estimated spending: [www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023](http://www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023)

2022.<sup>4</sup> Demand for cloud services and the services to run a hybrid cloud strategy should continue to grow at a robust pace for the foreseeable future and create opportunities for a wide variety of companies – opportunities that Scout's Small Cap team will endeavor to unearth.

<sup>3</sup> Source: [www.flexera.com/blog/technology-value-optimization/2022-tech-spend-pulse-it-spending-benchmarks-and-trends/](http://www.flexera.com/blog/technology-value-optimization/2022-tech-spend-pulse-it-spending-benchmarks-and-trends/)

<sup>4</sup> Source, Gartner news release, accessed 3/7/23 at: [www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023](http://www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023)

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### Definitions

Secular stocks are characterized by having consistent earnings over the long term constant regardless of other trends in the market. Secular companies often have a primary business related to consumer staples most households consistently use whether the larger economy is good or bad.

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming that profits were reinvested at the end of each year over the span of the investment.

Contact us for more investing insights: 1.800.521.1195  
Investing public, contact your financial professional.

