

Innovation & Transformation

Investing in Artificial Intelligence

Recently, Artificial Intelligence (AI) has been generating a tremendous amount of investor attention. AI is the most encompassing term for any technology that enables computers to simulate human intelligence and problem-solving capabilities. It essentially allows computers to perform tasks that would ordinarily require human intervention or intelligence. Today, the most common applications of AI are voice-controlled assistants, content summarization, content creation (both text and image), and data analysis. These are being applied across e-commerce to enhance user engagement healthcare to improve patient care and diagnostics, education to drive personalized platforms, robotics to perform autonomous tasks, social media to optimize content, and application software for both programming automation and providing guided user interfaces. Today's AI models can write essays, draft emails, handle routine customer interactions, drive autonomous vehicles, do analysis, and even create works of art. Surprising specific applications range from writing fortune cookies, processing Wendy's drive-thru orders, and picking apples!

There is good reason for investors to be interested in AI. According to the International Data Corporation, worldwide spending on AI including software, hardware, and services for AI-centric systems was \$154 billion in 2023 and should grow to surpass \$300 billion in 2026. Further, PwC estimates that AI could contribute up to \$15.7 trillion to the global economy in 2030: \$6.6 trillion from increased productivity and \$9.1 trillion in consumption side effects. From an investment perspective, the implications of AI are spreading beyond the Information Technology sector and driving returns and valuations in many other sectors including the Industrial, Energy, and Utility sectors. Let's take a closer look at each of these sectors and how Crawford's equity strategies participate through investments in high-quality companies.

Information Technology

In the Information Technology sector, AI spending is still concentrated on "picks and shovels," predominantly driven by the race between Microsoft, Amazon, Google, Meta, and Oracle, to build the requisite data center, networking, and computing infrastructure to support AI workloads. According to JPMorgan estimates, cloud data center capital expenditures for the top four cloud service providers are expected to expand by \$40 billion in 2024 to reach approximately \$150 billion. This dynamic is resulting in an investor preference for companies that produce platforms, semiconductors, and hardware, while those that provide software and services remain out of favor. Currently, enterprises have slowed the pace of general IT spending as they grapple with the requirements of effectively deploying AI. We do, however, expect software and services companies to eventually participate in the benefits of AI. Below are a few examples of some of our investments in the Information Technology sector that are benefiting from AI.

Microsoft Corporation (MSFT): Microsoft's Azure cloud platform is a leading destination for major enterprises seeking the software, security, data management, and computing infrastructure necessary to deploy AI applications. Currently,

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more than 65% of the Fortune 500 use Azure OpenAI Service. In its recently completed fiscal third quarter, Azure revenue grew 31% with a 7-point contribution from AI services.

Oracle Corporation (ORCL): Oracle's infrastructure offering, Oracle Cloud Infrastructure (OCI), is rapidly gaining scale due to its unique architectural approach to data center orchestration. In its recently completed fiscal fourth quarter, Oracle signed over thirty AI contracts for over \$12 billion, reaching nearly \$17 billion for the full year. OCI revenues grew 44% in the quarter with an annualized revenue run rate of \$7.4 billion.

Broadcom, Inc. (AVGO): Broadcom is a leading provider of custom semiconductors used in AI computing and in the provision of high-speed networking chips which support computing connections inside of and among data centers. In its most recent quarter, Broadcom reported AI-associated revenue of \$3.1 billion, an increase of 280% over last year.

Marvell Technology, Inc. (MRVL): Similar to Broadcom, Marvell provides custom compute and networking semiconductors with particular strength in optical-interconnects which are required to link computing infrastructure with low latency. In Marvell's recently completed fiscal first quarter, it reported data center-related revenue growth of 87% year-over-year driven by strong demand from cloud AI applications for their electro-optics portfolio as well as data center interconnect products.

Accenture Plc (ACN): Accenture is a leading IT services, consulting, and system integration partner to large enterprises globally. In its fiscal second quarter Accenture reported over \$600 million in new Generative AI bookings for a total of \$1.1 billion in Generative AI sales for the first half of their fiscal year. Further, Accenture now has over 53,000 data and AI practitioners with a target of reaching an 80,000 person data and AI workforce by the end of 2026.

Hewlett Packard Enterprise Co. (HPE): HPE is a leading supplier of servers, networking gear, storage, and high-performance computing systems to enterprises and governments globally. In its fiscal second quarter, HPE AI systems revenue more than doubled sequentially to over \$900 million. Cumulative AI systems orders reached \$4.6 billion this quarter.

Industrial

Data center spending is also driving growth in select industrial and electrical components manufacturers with exposure to these end markets. Here are a few examples of some of our investments with exposure to industrial and electronic components that benefit from AI.

nVent Electric plc (NVT): nVent holds leadership positions in a number of electrical equipment markets through their differentiated product portfolio. Its Data Solutions business provides solutions within data centers including cable management, racks and cabinets, liquid cooling systems, leak detection, enclosures, and smart power distribution. nVent expects to deliver over \$500 million in Data Solutions sales in 2024.

TE Connectivity Ltd. (TEL): TE is a leading provider of connectivity solutions across transportation, industrial, and communications markets. In its second fiscal quarter, TE's Communications segment orders grew 36% year-over-year

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driven by design win momentum in Cloud & AI programs for high-speed, low-latency connectivity solutions. Based on this design win momentum, TE expects to double its AI revenue from \$200 million this year to \$400 million next year.

Energy and Utilities

The increase in data centers required for both cloud computing and AI is also driving a generational acceleration in power demand which is in turn driving investor interest in energy infrastructure. TD Cowen estimates that third-party data centers will represent 6.6% of 2028 U.S. electricity consumption vs. 1.5% in 2018. They estimate that an additional 65GW of power capacity will be required by 2030 with compute adding ~600TWh of global electricity consumption over the next six years. To meet this demand in the U.S., TD Cowen estimates this should result in an incremental 4.5-6.5Bcf/D of power plant natural gas consumption by 2028, which is a material ~1.5% per year increase in total demand. Here are a few examples of some of our investments that should benefit from increased demand for power generation.

Southern Company (SO): Southern Company is one of the largest regulated electric and gas utilities in the United States operating across Georgia, Alabama, and Mississippi. Currently, data center demand represents about 8% of their commercial sales. In fact, Atlanta is one of the fastest growing data center markets in the U.S. with 723GW under construction in 2023, up 2,011% over last year, according to real estate services firm, CBRE. From 2024 to 2027, Southern expects 6% rate base growth to support a robust electricity load growth of 6% annually from 2025 to 2028.

NextEra Energy Inc. (NEE): NextEra is a leader in renewables development generation as well as the largest regulated utility in Florida. At their recent investor day NextEra highlighted that U.S. power demand is expected to grow 38% over the next two decades compared to 9% for the 20-year period ending in 2020. This is driving the need for investment in renewables for which they are the industry leader. NextEra currently has a 300-GW pipeline of renewable and storage projects. The company expects to deliver 6-8% earnings growth from 2023 to 2027.

Williams Companies, Inc. (WMB): As one of the largest natural gas gathering and transportation companies in the United States, Williams owns two of the premier interstate gas pipelines. Stretching from New England to Texas, Williams' Transco pipeline is uniquely positioned to benefit from power demand growth and capture power generation market share. Over the next four years, the company has ~3.1Bcf/D of Transco expansion planned.

Given the pace of innovation and the rapid adoption of generative AI technologies, now is an exciting time to be an investor in companies with AI exposure. At Crawford, we can take advantage of these opportunities by identifying individual companies that both meet our quality requirements AND participate in these secular growth markets. While we are not thematic investors, it is part of our investment process to identify businesses that can benefit from secular trends in the economy and grow profits and dividends over time. We are also aware of the potential of investor expectations to run ahead of reality, and we believe high-quality, large cap companies are the safest way to gain exposure to this trend.

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