

As the saying goes, the only thing constant in life is change. This adage has been particularly true in 2020 as the world was forced to adapt to the COVID-19 global pandemic. In all corners of the globe, people changed the way they worked, bought groceries, exercised and communicated with family and friends. As a result of these changes, we observed new trends in spending at the company, individual and government levels.

At Aristotle Atlantic, we seek to identify global changes that are occurring, categorized as secular themes, product cycles, or cyclical trends. First, we identify secular themes through deep, company-specific fundamental analysis. We look for defined shifts in spending, either by consumers, governments or corporations, with an expected multi-year horizon. In our experience, we believe many of these trends are driven by technological advancement and are underestimated in the early stages. The second fundamental component we look at is product cycles. Our sector-specific research analysts use industry knowledge and market research to identify companies with what we believe to be unique competitive advantages in the midst of a strong new product cycle. Specifically, we seek to identify companies with what we see as strong intellectual property and the ability to gain meaningful market share. Finally, through a cyclical trend lens, we seek to identify strong end markets and select companies with capable management teams that can take advantage of cyclical tailwinds to fuel company and stock performance.

Although our philosophy at Aristotle Atlantic is built on the three fundamental components outlined above, we believe that secular themes should drive a significant portion of our investment allocation. Several of the secular themes we have identified have led us to believe that we are in the midst of a Technological Revolution, with a changing landscape similar to that of the Industrial Revolution of the 18th century. The recent global pandemic has accelerated the Technological Revolution as people around the world required faster internet speeds to meet work-from-home demands, purchase basic necessities online and connect virtually with family and friends.

Cloud computing has been one of the secular themes to benefit from the changing technological landscape. Nearly 15 years ago, many large information technology companies began talking about cloud computing as a separate business line and division. Amazon was first to market, launching its cloud computing product, Amazon Web

Services, in August 2006. Google launched its Google Docs service in 2006 as well, allowing users to create, edit and share documents via free, web-based software. Microsoft created and launched its business division specific to the cloud, Azure, shortly after in February 2010. These new business lines initially put cloud computing on our radar. Since then, the cloud computing secular theme has evolved as technology has advanced and consumer demands across individuals and businesses have grown. Today, add-on cloud applications are available through Software-as-a-Service (SaaS), Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS), covering most personal and business verticals.

During the volatile market earlier this year as a result of the COVID-19 pandemic, cloud computing companies performed well relative to the broader equity market as companies, individuals and governments continued to spend money on cloud computing services, which is a trend we believe will continue. The BVP Nasdaq Emerging Cloud Index (EMCLOUD), an index designed to track the performance of emerging public companies primarily involved in providing cloud software to their customers,¹ has outperformed the S&P 500 by 55% over the year-to-date period, returning 57.7% compared to the S&P 500's return of 2.7% as of September 17, 2020.²

Looking ahead to the future of the cloud, the ability to easily migrate and integrate between on-site and cloud offerings may also increase adoption. We expect more functions to migrate to the cloud as people grow more accepting and as security and functionality continue to improve. According to a recent study by Gartner (July 2020), cloud computing will be an estimated \$364 billion market in 2022, up 50% from \$242 billion in 2019. The same study also forecasts that worldwide public cloud revenue will grow 6.3% in 2020, with Desktop-as-a-Service (DaaS) driving most of the growth.³ DaaS is an inexpensive option that allows companies to support an increasing number of remote workers and the need to access applications across multiple devices and locations.

In addition to cloud computing, we believe the COVID-19 pandemic has accelerated several other secular themes, including cashless payments, e-commerce, and personalized medicine. Over the next several months, the market environment will likely continue to support improving cyclical trends but will also reaffirm the benefits of secular trends and strong product cycles.

¹<https://www.bvp.com/bvp-nasdaq-emerging-cloud-index>

²<https://www.bvp.com/bvp-nasdaq-emerging-cloud-index>

³<https://www.gartner.com/en/newsroom/press-releases/2020-07-23-gartner-forecasts-worldwide-public-cloud-revenue-to-grow-6point3-percent-in-2020>

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The BVP Nasdaq Emerging Cloud Index is designed to track the performance of emerging public companies primarily involved in providing cloud software and services to their customers. The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

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