

NAPLES GLOBAL ADVISORS

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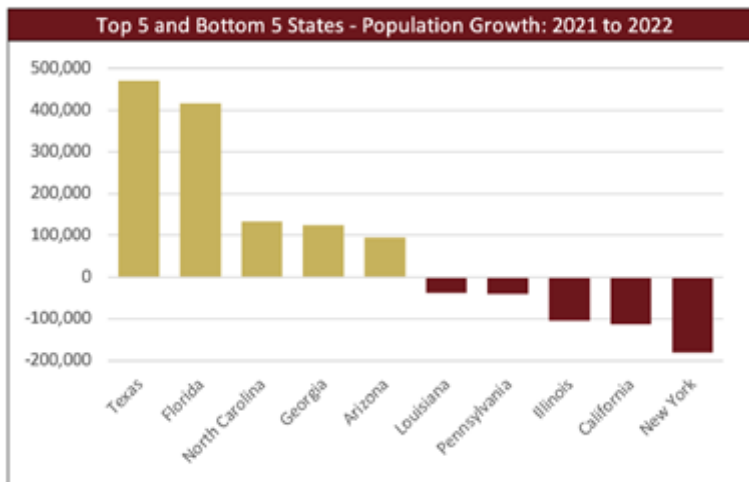


Location, Location, Location

We've all heard that before. The purpose of repeating the word three times is to stress that **location** is the single most important factor in the future appreciation of a property. Surprisingly, the opposite has been true in some areas of the country, where **location** has become a deterrent. New York City is digesting a glut of empty offices with some developers reportedly dumping their projects onto the market at steep discounts. The posterchild though has been San Francisco, where commercial property owners of all types (office, hotel, retail) are simply throwing in the towel. With unprecedented vacancy rates and no demand recovery in sight, some owners would prefer to default on their debt and hand over the properties to their lenders rather than service the debt. The math must be ugly.

These recurring headlines across a few select metropolises have some market prognosticators calling for a commercial property crisis. Time will tell whether a broader wildfire will spark, but there has been a clear dichotomy of winners and losers driven by public and private policies in response to the pandemic and subsequent population migrations.

The real estate markets in lower-tax Southern and Western states have undoubtedly been benefactors of migrations. Texas was the largest-gaining state, adding roughly 470,000 people in the last year, while our home state of Florida was the fastest growing state with an annual population increase of 1.9%.¹



Source: U.S. Census Bureau

This rapid growth has translated to strong commercial and residential property markets. For those of you with homes in Southwest Florida, I am sure you can attest to the increase in value of your own personal property AND in traffic!

We pay attention to macro themes (e.g. population shifts, business friendliness) and take note of where they are favorable. The odds of success are more in your favor if your companies are enjoying these tailwinds rather than fighting headwinds. While **location** is vital to Real Estate, it is also an important determining factor for other sectors that are geography-centric such as Utilities, Community Banks, and HVAC Distribution. We generally want to own

companies that operate in states where populations are growing and are supported by public policy. Sounds like a simple idea—sometimes those are the best.

Those criteria also apply to the broader globe. We pay attention to which countries have dynamic demographics and rank well in capitalism and business friendliness. That is why we are planning a trip to Southeast Asia later this year with Singapore and Indonesia on the agenda. For those of you who don't follow demographics closely, it may come as a surprise that Indonesia is the fourth largest country by population, just behind the U.S. with nearly 275 million people. More importantly, the country is expected to continue growing at ~5% as it has done since the turn of the century. Singapore is tiny in comparison, but it ranks as the second most business-friendly country in the world.² It houses Investor Relations teams of many of the top companies from Southeast Asia. We can't wait to get our boots on the ground!

Colocation, Colocation, Colocation

Despite the isolated troubles in Banking and Real Estate, market sentiment has completed a 180 from a year ago as investors have found something (kind of) new to get excited about: Artificial Intelligence (AI). A basket of equities that investment manager, Global X, deemed to benefit from the utilization of AI technology is up over 30% to start the year. (We would be remiss if we didn't mention it was down 37% last year.) The wave of optimism has driven the broader U.S. equity market to rise above 10%. (It pays to stay invested!)

The ramifications of AI are hotly debated and range from economic to philosophical. According to a survey of 119 CEOs who attended a Yale CEO Summit in June, 42% believe AI has the potential to destroy humanity within the next decade.³ That feels a bit dramatic, but it is not our job to opine on these philosophical questions. Rather, our goal is to help our clients participate and profit from a potentially seismic technological shift in a sustainable manner—sustainable being the key word.

Currently, there is a lot of speculation—a very natural occurrence in any gold rush. These are very early innings and predicting which AI languages or applications will be the ultimate winners is very difficult. A tried-and-true method of profiting in a gold rush is by owning the proverbial picks and shovels. That starts with semiconductor chips which allow for the accelerated computing power required for AI. As an example, Meta's latest supercomputer for AI had 16,000 such chips.⁴ You read that right! 16 THOUSAND! We like the chip opportunity.

Another way to profit in a gold rush is to own the proverbial toll roads. Cloud computing is essential to AI and refers to the delivery of computing services over the internet. The cloud is the infrastructure that makes it possible, and it includes servers, storage, databases, and even software. The concept of the cloud can be amorphous to us non-techies, but datacenters or server farms help us visually understand (see image right).

AI-based applications use almost 4x the amount of rack density (i.e. power) as the current average application.⁵ **Colocation** datacenters, which specifically rent equipment, space, and bandwidth to multiple companies (i.e. charge tolls for access to cloud computing) can help provide solutions to the need for scalable space to match rising capacity expectations. **Colocation** will be one solution among a full quiver if AI is truly a transformative technology. We have our eyes open for the picks, shovels, and toll roads in the rapidly evolving, complex world we live in.



Caution, Caution, an Abundance of Caution

With computers getting smarter, so too have hackers. And our clients are at risk every day. A recent eerie Tale from the Crypt...

A client received a call from someone saying they were with Charles Schwab's security team in San Francisco and that hackers were trying to access the client's Charles Schwab login. The caller told the client a password reset was necessary, and this "Charles Schwab" representative would show the client how to do it. The client shared their computer screen with the caller, where they proceeded to change the password together. (A big No-No in the world of cybersecurity!)

Fortunately, the client did the right thing by calling NGA immediately after hanging up with this unknown person. We called Charles Schwab, and they confirmed that their representatives do not call clients to make these types of requests. Fearing the client had been hacked and out of an **abundance of caution**, NGA directed Charles Schwab to lock web access to the accounts. Due to this quick action, no fraudulent transactions occurred.

Thankfully, no harm occurred, but cybercrime is on the rise. An estimated 53 million U.S. citizens were targeted by cybercrime in the first half of 2022 alone.⁶ Please exercise extreme **caution** when sharing sensitive information (verbally or electronically) and when in doubt, don't be afraid to call Naples Global Advisors. We are here to serve!

¹ Bureau, US Census. "Growth in U.S. Population Shows Early Indication of Recovery amid Covid-19 Pandemic." Census.Gov, 3 Apr. 2023, www.census.gov/newsroom/press-releases/2022/2022-population-estimates.html.

² Graphics, WSJ. "The Best and Worst Countries for Business." The Wall Street Journal, graphics.wsj.com/table/DoingBusiness. Accessed 27 June 2023.

³ Egan, Matt. "Exclusive: 42% of Ceos Say AI Could Destroy Humanity in Five to Ten Years | CNN Business." CNN, 14 June 2023, www.cnn.com/2023/06/14/business/artificial-intelligence-ceos-warning/index.html.

⁴ Hao, Karen, et al. "Mark Zuckerberg Was Early in AI. Now Meta Is Trying to Catch Up." The Wall Street Journal, 20 June 2023, www.wsj.com/articles/mark-zuckerberg-was-early-in-ai-now-meta-is-trying-to-catch-up-94a86284?mod=Searchresults_pos1&page=1.

⁵ Smith, Steven. "Building a Colocation Strategy to Take on AI." CoreSite, www.coresite.com/blog/building-a-colocation-strategy-to-take-on-ai. Accessed 27 June 2023.

⁶ Griffiths, Charles. "The Latest Cyber Crime Statistics (Updated June 2023): AAG IT Support." AAG IT Services, 9 June 2023, aag-it.com/the-latest-cyber-crime-statistics/#:~:text=Cyber%20crime%20in%20the%20United,for%2046%25%20of%20attacks%20globally.



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