



Insight: Artificial Intelligence Questions investors are asking about AI.

Adrian Lu takes a look at the unfolding developments of Artificial Intelligence and answers a few questions that are on investors' mind's regarding this exciting technology.

1. What has driven the excitement in Artificial Intelligence investing in calendar 2023? Is this another bubble or a genuine investment theme?

The catalyst was the public release of ChatGPT towards the end of 2022. It demonstrated an enormous leap forward in the conversational ability, knowledge breadth, and skills of an AI chatbot beyond anything we had encountered. Seeing this sharp acceleration of progress has created much excitement for the growth opportunities in AI for companies and investors. It is a genuine investment theme in my view, but that does not rule out the potential for overexuberance in certain companies or pockets of the market.

2. What companies have benefited so far from the attention investors have paid to AI?

The beneficiaries have been those I would characterise as the AI enablers. Large language models like GPT-4 are super impressive, but many technologies had to come together to make them possible, from semiconductors to software to hyperscale data centres. Some of the leading companies in these enabling technologies have been among the greatest beneficiaries of the acceleration in AI spending so far, including Microsoft in enterprise cloud, Nvidia in AI accelerator chips, ASML in chipmaking equipment, and TSMC in leading-edge manufacturing.

3. How would you define AI for investors?

I like to describe AI as computers capable of thinking and understanding the world around them. We have yet not achieved this pinnacle of AI, which is likely far away, but we have been getting better at building models that can mimic human perception, behaviour, and abilities. In many cases these models can already perform certain tasks better and faster than we can, and herein lies the promise of vast productivity gains that can be unlocked by AI.

4. Are there more ways of investing in the AI theme? How are companies in your portfolio positioned for AI?

The companies I highlighted earlier stand to benefit from AI, but so do many of their peers and participants along the value chain, including in areas such as networking, memory, connectors, sensors, consumer devices, security, industrial automation, and automotive. The AI opportunity is already pricing into stocks but there are still opportunities to be found. Meanwhile, the disruptive potential of AI will create opportunities and threats in sectors beyond technology. Our portfolio is positioned to benefit from AI growth trends through our exposure to the leading cloud and AI vendors across Microsoft, Alphabet, and Amazon. ASML is well-positioned as a monopoly provider of leading-edge manufacturing equipment, while enterprise software vendors like SAP also stand to benefit.

5. What are the potential dangers / risks that AI poses to businesses?

The disruptive potential of AI raises social, political, and regulatory risks that will touch companies in different ways, and not just to the AI enablers. Among these considerations are intellectual property ownership, misinformation, and data privacy. It is a driving factor behind the EU's AI Act, which will try to regulate how AI technology can be deployed. Companies with the governance structures in place to proactively manage these risks will be best placed for the road ahead. Managing these risks is important for us to reap the benefits of AI as a society but also as investors trying to navigate these changes.

6. What would your advice be to investors in Australia who want to gain exposure to AI? What investment options should they consider?

Firstly, investors can gain exposure to AI without necessarily seeking out investments into companies with very niche or complex specialisations in AI technologies. Companies like Microsoft have well-established and high quality businesses with stable cash flows, yet are also at the forefront of AI where they will benefit greatly from its adoption. Secondly, AI will be adopted across many sectors, and investors are not limited to the technology sector for exposure. Whether it is in healthcare or CPG, many companies will have the opportunity to leverage AI to strengthen their competitive position or enter new markets.



Thirdly, many companies will attempt to reposition themselves to investors as being AI-driven. Be wary of companies with a great AI story but a lack of any fundamentals or cohesive strategy.

By Adrian Lu, Investment Analyst

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