



# Portfolio Watch

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## EMBRACING THE AI OPPORTUNITY WITH A BALANCED APPROACH

The proliferation of Chat GPT and other artificial intelligence (AI) tools in mainstream society has sparked both excitement and apprehension. While employees worry about the potential displacement of jobs by AI-powered “robots”, investors are eager to position themselves for what is being hailed as the next technological revolution. Yet, amidst all the anticipation, the true extent of disruption caused by AI remains a topic of ongoing debate.

Disruption, however, is no stranger to history. Over the years, we have witnessed five revolutionary waves since the late 1700s, starting with the industrial revolution of 1771, followed by the advent of the steam engine, the widespread adoption of steel, electricity, and heavy engineering, the arrival of automobiles, and most recently, the computer, information, and telecommunication age. Profiting from revolutionary change requires a long-term perspective, patience, keen observation, and insightful decision-making.

Each revolution is marked by a “big bang” event that ignites the imagination of entrepreneurs and offers compelling investment opportunities. At first glance, Chat GPT and similar AI “creativity” tools seem to fit the bill as such revolutionary events. They challenge established ways of doing things and fuel a wave of innovative business start-ups. Today, billions of dollars in investment capital are flowing towards AI opportunities, enticing even lay investors with the promise of substantial AI-related returns.

As investment managers our task is to discern the opportunities where financial hype aligns with economic reality and, more crucially, to avoid falling into valuation bubbles. Identifying companies that will thrive amidst the ongoing AI revolution demands more than just betting on large technology firms. AI is permeating society,

expanding the economic landscape, creating new employment opportunities, and boosting efficiencies and profitability across industries. Our quest for AI opportunities must, therefore, take place within the broader context of AI's far-reaching implications for businesses across sectors.

Intuitively, companies poised to reap the greatest benefits from AI are those heavily reliant on data, involved in producing the hardware enabling AI software, and involved in software development itself. In the hardware realm, semiconductor chip manufacturers like AMD, Nvidia, and LAM Research have captured our attention as attractive prospects, while in the software domain, industry giants such as Alphabet, Apple, and Microsoft continue to stand out. However, global investment managers have recognised the earnings and revenue potential tied to AI, leading to historically high valuations for companies like Nvidia.

Nvidia, for example, has surged threefold since its 2022 low, now trading at an astonishing 250 times its price-to-earnings (PE) ratio a valuation reminiscent of the dot-com bubble. Investors who have been exposed to Nvidia in recent months have done fantastically well. Going forward, however, one needs to be clear on the distinction between a good business and a good investment. We have mitigated this single stock valuation risk by gaining semiconductor exposure within our Global Equity Portfolio through a diversified sector ETF with a PE of just 23 times, which we have been invested in for the past five years.

### THE BOTTOM LINE

**There is no reason to fear the AI revolution. It will not bring about our demise, ruin society, or result in net job losses. While AI may indeed be unsettling and raise valid concerns about its impact, history has repeatedly shown that each revolution is followed by periods of extraordinary economic growth and societal improvements.**

Considering this, we therefore advocate a balanced approach to the AI theme. We have established sensible portfolio exposures to AI through semiconductor ETFs and remain strategically positioned in selected companies like Accenture, Alphabet, Amazon, and Microsoft, among others.

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