



# News

## AI: Evolution or Revolution

How should AI affect investment strategies? Where are the less-obvious opportunities? What are the alternatives?

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Artificial intelligence has been around for a long time but the launch of ChatGPT3 in December 2022 took the world by storm. Where will it end? According to Elon Musk, speaking to Rishi Sunak at the UK's AI Summit at the iconic Bletchley Park, AI will do everything. Mere humans won't need to work, not unless we want to.

That's one view. At an alternative event, sponsored by J O Hambro and Regnan, speakers were somewhat more circumspect, and possibly a little more realistic. Here's what they had to say.

### **Chris Lees – senior fund manager, JOHCM Global Select** **Where is AI impacting our asset allocation & stock picking?**

- AI's impact on the global landscape is shaped by three key megatrends: deglobalisation, decarbonisation, and digitisation.
- Within the realm of digitisation, AI selectively affects sectors, favouring companies that use the new technology to cut costs and boost profitability.
- Despite its transformative potential, AI has not yet altered fundamental earnings, resulting in slightly underwhelming technology sector performance.
- The healthcare sector stands to benefit significantly from AI, particularly in the pursuit of breakthrough cures.
- Geopolitical risks loom as AI's deflationary influence disrupts markets, with the US likely to sustain leadership.

### **Mark Costar – senior fund manager, JOHCM UK Growth** **UK AI: The Quiet Revolution**

- The UK holds a prominent position in global AI, ranking third behind the US and China, with a wealth of AI-related companies.
- London's appeal to tech giants like Google and OpenAI underscores the credibility of the UK's technology ecosystem.
- The FTSE's limited representation of technology companies reflects the UK's scale-up and capital markets

challenges.

- UK tech assets are often undervalued systematically, potentially contributing to the acquisition of over 150 tech firms in the past 20 years.
- Unique companies such as Kooth, with 20 years of digital health success, and Gooch & House, which specialise in high-speed cable networks, demonstrate the UK's tech prowess.

## **Mark Costar and Chris Lees in discussion with marketing consultant Abbie Knight and Andy Churchill, head of OEM at KX Systems**

### **Panel Discussion**

- Financial regulations for AI-driven finance: Mark emphasizes the need for adequate regulation to oversee the AI-driven financial industry, ensuring stability and transparency.
- Productivity in content generation: Abbie's focus on tools like Adobe highlights the importance of improving productivity to stay competitive in content creation.
- Fastest-growing sector: According to Andy, the healthcare sector is experiencing rapid growth. He sees AI defence, manufacturing, using the technology for predictive applications in real-life scenarios.
- AI's biggest threat: Conflicts in AI systems and information biases pose significant challenges, requiring data tuning and addressing copyright issues to prevent creative stagnation.
- Business differentiation with AI: Strategies for how companies can set themselves apart with AI are still evolving, presenting ongoing opportunities and challenges.
- AI principles and regulation: The international conference at Bletchley Park involved global tech giants and leaders, highlighting the complex task of establishing a regulatory framework for AI, with China's involvement being crucial.
- Framework for AI regulation: The need for a comprehensive framework for AI regulation remains unresolved as industry stakeholders continue to grapple with the complexities of AI governance.

### **Real World Protection**

#### **Saurabh Sharma, fund manager, Regnan Sustainable Water and Waste**

- Waste companies and utilities will experience limited revenue potential and cost savings from AI applications, such as leak detection.
- Market concentration in water and waste exceeds the 2000 dot-com bubble, impacting earnings stability and cashflow visibility, but the sector offers consistent returns.
- Key drivers for the water and waste sector include urbanisation, consumption, infrastructure pressure (particularly in emerging markets), regulations, and resource scarcity.
- Private investors are recognising the value in water-related investments, as demonstrated by removing two public companies from the market at high multiples (15x) of NET:EBITDA. This sector offers diversification opportunities outside of tech and financials, with a focus on utilities and materials.

### **What to invest in when you are not investing in AI**

#### **Robert Lancaster, senior fund manager, JOHCM Global Opportunities**

- The emergence of a fifth Industrial Revolution is underway, with parallels to the early days of the internet, but significant infrastructure development is still required.
- Assessing the adoption curve for AI is challenging, and geopolitical risks have increased, making it harder to pick winners in this evolving landscape.
- AI's energy demands and the need for significant Western investment create opportunities beyond traditional AI-related companies, enhancing prospects for various industries.
- The forgotten middle offers growth opportunities in areas such as non-thematic, non-technology growth, ESG champions, inflation beneficiaries, in companies like GXO and Cameco, complementing a successful investment strategy.

## Feeding the AI Beast

Tim Crockford, senior fund manager, Regnan Global Equity Impact Solutions

- AI's role in our fund underscores our unique approach in the impact space, seeking change through innovation while addressing unintended consequences such as the voracious energy consumption required of models like ChatGPT.
- Selectivity is paramount in identifying long-term winners for growth, as equity markets often overlook less obvious investment opportunities.
- We acknowledge that AI is a work in progress; training ChatGPT4 is expected to require the equivalent energy of 120,000 households, making sustainability a critical concern.
- Our focus remains on refining our AI strategies to mitigate environmental impact and continue delivering innovative solutions for investors seeking sustainable growth.

Source: JOHCM/Bloomberg

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