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AI & Metaverse strategy

Our reshaped strategy aims to capture one of the most important themes of our generation

- Global equity capped a positive first half of 2023
- We saw another strong month from semiconductor firm
- We continued to trim our holding in Nvidia which has continued to perform well

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What's happening?

Global equity markets continued to grind higher in June, with the MSCI All Country World returning 2.2%¹, capping a positive first half of 2024 (+11.6%¹).

The S&P 500 and Nasdaq indices reached new all-time highs over the month. Growing optimism that the Federal Reserve will begin cutting interest rates later this year supported the equity market. While inflation showed further signs of cooling, labour market and consumer spending data were more mixed, suggesting the economic outlook remains uncertain. Geopolitical tensions stayed elevated, with rising political risk in Europe following the decision by French President Emmanuel Macron to call a snap election. This led to a sharp selloff in French bonds and underperformance of European markets relative to the US. Meanwhile, the Japanese Yen fell to its lowest level against the US dollar since 1986, prompting speculation around potential intervention by the Bank of Japan.

Portfolio positioning and performance

The AI & Metaverse strategy outperformed the broad equity index (MSCI All Country World) during the month. The Technology sector outperformed the broader market, led once again by the semiconductor sector.

¹ Source: Bloomberg in USD as of 28/06/2024

Going forward and following the reshaping of our strategy to Artificial Intelligence & Metaverse – officially renamed on 02/07/2024 – we will comment performance using two distinct themes of AI Enablers (what Artificial Intelligence is built upon) and AI Applications (what Artificial Intelligence is used for).

Within AI Enablers, we saw another strong month from semiconductor firm Nvidia, briefly becoming the world's most valuable company and surpassing the \$3tn market capitalisation milestone. Nvidia's AI accelerator chips have continued to be in high demand and the company's announcement to update these chips yearly highlights its confident outlook for the future of AI-related hardware.

We also saw strong returns from TSMC, the world's largest independent semiconductor foundry, due to strong demand for its advanced packaging technology, CoWoS (Chip-on-Wafer-on-Substrate) which is extensively used in AI accelerator chips, and the potential for price increases for its cutting edge capacity.

This strength was partially offset by weakness from semiconductor company Advanced Micro Devices. The stock has been underperforming the broader semiconductor index due to investor concerns related to its competitive positioning in AI-compute, PC and server markets. However we believe that AMD remains well-positioned to benefit from several growth drivers, including increased AI infrastructure investment, continued market share gains in CPU and the potential for an AI-driven PC refresh cycle.

Within AI Applications, we saw strong returns from Adobe, provider of software solutions for digital content creation, after reporting quarterly results above expectations due to robust demand for its AI-powered tools across its Creative Cloud, Document Cloud and Experience Cloud offerings. The integration of generative AI capabilities, powered by Adobe's Firefly models, into flagship products such as Photoshop, Illustrator, Express and Acrobat is driving increased user adoption, higher retention of existing users and migration of users to higher-value subscription plans. This strong performance was offset by holdings within Healthcare (no specific news but Medtech underperformed the Healthcare index over the month) and Consumer holdings (softening consumer trends, particularly in China).

From a portfolio movement, after trimming our position in dating App Match Group during May, we exited the position in June as the company is seeing prolonged headwinds in user growth. Following a period of weakness and meeting with management, we took the opportunity to top up our position in semiconductor company Advanced Micro Devices. We continued to trim our holding in Nvidia which has continued to perform exceptionally well and has become an increasingly large part of the portfolio.

Outlook

The strategy has been reshaped to encompass both Artificial Intelligence (AI) and the Metaverse, which is enabling us to capture even more interesting growth opportunities. By seizing one of the most important themes of our generation, the fund can adapt to investors seeking to capture exposure to this fast-moving sector, and its growing set of credible long-term growth opportunities.

Over the past few months, we have witnessed a remarkable convergence between the Metaverse and Artificial Intelligence. As we progressed into this change, it became increasingly clear that AI was not just a parallel development, but a powerful accelerator for the Metaverse itself. Many of the pioneering companies in our portfolio have been at the cutting edge of AI innovations and we strongly believe that the synergies between these technologies are offering unprecedented opportunities.

At present, a significant part of our strategy remains focused on the critical infrastructure underpinning both AI and the Metaverse - areas like semiconductors and equipment which are the foundational building blocks powering the next generation of intelligent technologies. As the demand for more powerful and efficient computing resources continues to rise, driven by the increasing complexity of AI models, we believe that companies at the forefront of chip design and manufacturing

will be well-positioned to continue to benefit from this secular trend. As the AI ecosystem matures, we could see a wide range of applications and services embedded in various industries, driving efficiency, innovation and growth and we anticipate significant investment opportunities.

While recent market gains have been driven primarily by mega-cap companies, the anticipated shift towards a new interest rate cycle should create a favourable environment for equities across all market capitalisations. Our focus on key trends and disciplined investment approach targeting well positioned companies and themes aims to capitalise on the AI and Metaverse's ongoing evolution across a broad range of market segments in various market conditions.

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No assurance can be given that the AI & Metaverse strategy will be successful. Investors can lose some or all of their capital invested. The Metaverse is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG; Investment through the Stock Connect program.

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