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AI & Metaverse strategy

Whilst tariffs may temporarily impact growth, the persistent strong demand for AI capabilities will likely drive innovation

- Significant step up in market volatility over the month with Trump tariff measures
- Both subthemes 'Applications' and 'Enablers' contributed to performance
- Added Netflix and Confluent ; sold Snap, Pinterest and L'Oréal

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What's happening?

Global Equity markets continued their volatile start to the year, with the MSCI All Country World Total Return Index closing the month to rise 0.9%¹ in USD terms during April.

The early part of the month saw a significant step up in volatility where the Trump administration announced baseline tariffs and reciprocal tariffs that were significantly higher than the majority of market participants expected on April 2nd, so-called 'Liberation Day' for the US. As the month progressed, the Trump Administration delayed the implementation of the reciprocal tariffs for 90 days and signalled its willingness to negotiate with trading partners to reduce the potential tariff levels, likely in response to market volatility and feedback from concerned corporations.

Portfolio positioning and performance

The AI & Metaverse strategy outperformed the MSCI All Country World Index during the month. Both subthemes 'Applications' and 'Enablers' contributed to performance, with Applications being the strongest contributor. Within 'Applications', we saw good performance from music streaming company Spotify, which we see as very well positioned to navigate a more volatile macro environment given its investments in creating superior yet very affordable entertainment platforms which consumers are less likely to turn off than other more discretionary spending. Axon, technology solutions providers for the law enforcement market, also performed well after its user conference due to its robust growth in software adoption and announced new features such as the Axon Assistant, a voice-enabled AI companion. We saw weaker returns

¹ Source : Bloomberg in USD as of 30/04/2025

from several advertising-related companies, including Meta Platforms and Pinterest, as investors expressed concerns about a potential pullback in ad spending amid the uncertain economic landscape. Despite these concerns, Meta delivered strong growth in their recent earnings report, demonstrating the resilience of their advertising business, with AI improving engagement and monetisation.

Within 'Enablers', we saw strong performance from Cadence Design Systems, a US software company focused on electronic design automation, who reported good results and highlighted that they have seen no shifts in behavior attributed to macroeconomic uncertainties. Arm Holdings, which designs microprocessor technology and architectures that power a wide range of devices, including mobile phones and embedded systems, driving energy-efficient performance and innovation in the semiconductor industry, was also resilient. This positive contribution was somewhat offset by weaker returns from Chinese ecommerce platform and cloud service provider Alibaba as well as Advantest, who provides test equipment for the semiconductor industry.

During the month, we exited our positions in digital advertising platforms Snap and Pinterest, as they both could be impacted by advertisers cutting budget in an uncertain macro environment,

We also sold consumer staples company L'Oréal as some of the company's verticals may continue to be impacted by consumer spending weakness. In both cases, we see an increased opportunity in companies with stronger direct AI exposure following recent market weakness. We sold test equipment manufacturer Teradyne as the company continues to face a challenging mobile market environment.

We added Netflix and Confluent to the portfolio. Netflix is a global streaming entertainment company that has a massive content library and user engagement data (over 200bn hours of streaming in 2024). The company is leveraging AI across multiple strategic initiatives, including its sophisticated content recommendation system, advertising technology and gaming. Confluent provides a data streaming platform that enables real-time data flow and processing. In the context of Generative AI, Confluent's platform is particularly valuable as it helps capture, transform and deliver real-time context data to large language models, enabling them to generate more accurate and contextually relevant responses.

Outlook

The AI and Metaverse landscape continues to evolve rapidly, with recent developments highlighting the breakneck pace of innovation, intense competition and global strategic significance of AI. Structurally, we believe the stock market gains from AI will broaden out over time from the companies involved in the infrastructure build-out as the deployment of downstream AI applications picks up. We view AI as a general purpose technology with applications and value creation that will be realised across most of the economy.

DeepSeek will help to accelerate this process by contributing to the rapidly falling costs and commensurate rising Returns On Investment (ROI) for AI. As Satya Nadella, Microsoft CEO, noted in the company's earnings call post-the DeepSeek shock "We have typically seen more than 2x price performance gain for every hardware generation and more than 10x for every model generation due to software optimizations"².

The Q1 earnings season has commenced and while there were some concerns earlier in the month regarding AI-related capex spend, earnings report from major technology companies show that capital spending on infrastructure continues to be higher, not lower, than expected. Meta platform raised their capex guidance for 2025 from \$60-65bn to \$64-72bn USD³, while

² Microsoft Fiscal Year 2025 Second Quarter Earnings Conference Call - 29/01/2025

³ Meta Reports First Quarter 2025 Results, 30/04/2025

Microsoft indicated CAPEX growth with a shift towards GPUs and computing infrastructure. Consequently, estimates for capex growth among US hyperscalers have increased from 31% to 38% over the last month.

President Trump's April 2025 tariffs present both challenges and opportunities for the AI sector. While semiconductors remain largely exempt, increased costs for data center hardware and networking equipment may require companies to adapt their strategies. Though these tariffs may temporarily impact growth as companies absorb costs or reconsider supply chains, the persistent strong demand for AI capabilities will likely drive innovation in sourcing and potentially accelerate domestic production capabilities. Over time, we believe this could strengthen the resilience of the AI supply chain and create new investment opportunities in onshore manufacturing.

The strategy maintains a balanced exposure to both enabling technologies and innovative applications, with a continued focus on companies demonstrating clear competitive advantages and tangible AI-driven growth opportunities. We believe this positioning allows us to capture both the infrastructure build out and the longer-term application deployment phases of the AI revolution, while navigating the evolving trade and regulatory landscape.

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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

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