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AI & Metaverse strategy

AI adoption is broadening beyond just the initial infrastructure build-out phase

- Global equity markets ended the month on a positive note
- Both subthemes 'Applications' and 'Enablers' contributed to performance
- We continued to refine the portfolio toward companies with more direct AI exposure

Pauline Llandric, James Dowey
co-Portfolio Manager, AI & Metaverse Strategy

What's happening?

Global equity markets were volatile throughout May but ended the month on a positive note, with the MSCI All Country World Total Return Index rising by 5.8%¹ in USD terms. The month began with optimism due to agreements between the US and China aimed at reducing trade tensions, which resulted in significant tariff cuts. However, this positive momentum was disrupted later in May when President Trump announced a proposed tariff on European goods set to take effect on June 1st, which was later postponed to July 9th following negotiations with the European Commission.

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 Enablers being the strongest contributor.

Within key contributors, Nvidia, the leading AI chip designer, performed strongly following exceptional quarterly results that demonstrated its dominant position in AI infrastructure. The company reported revenue growth of 69%² year-over-year, significantly beating expectations despite losing \$2.5bn revenue from China export restrictions. Management highlighted that without the China headwinds, they would have exceeded guidance by over \$3billion, showing the underlying strength of AI demand. Particularly encouraging was the strong ramp of their next-generation Blackwell chips, which are now contributing nearly 70% of data center revenues and represents the fastest GPU ramp in company history. The results also showed that inference demand (AI applications actually being deployed rather than just trained) is accelerating rapidly, supporting our thesis that AI adoption is broadening beyond just the initial infrastructure build-out phase.

¹ Source: Bloomberg as of 30/05/2024 in USD

² Source: NVIDIA earning call, 28/05/2025

Roblox, the user-generated gaming platform, also delivered strong results showing the resilience of its engagement driven model. The company reported over 30%³ booking growth with the largest ever quarterly addition of 12.5 million new users, while engagement accelerated across all regions. The platform continued to attract and retain older users. The company's creator economy keeps on strengthening, with over 100 developers now earning more than \$1million annually on the platform.

Axon, which provides technology solutions for law enforcement, continued to demonstrate strong momentum in AI product adoption. The company posted over 30%⁴ revenue growth for the fifth consecutive quarter, driven by continued strength in both hardware and software solutions. Particularly notable was the accelerating adoption of AI features, with almost 30,000 users now using Draft One (their AI report writing assistant) and AI products being included in 2 of their top 10 deals during the quarter.

Within detractors to performance over the month, Penumbra, a medical device company specialising in neurovascular treatments and stroke technologies, was weak over the period as investor sentiment was dampened by concerns about the pace of market adoption for newer technologies and competitive dynamics in the neurovascular space.

Cadence, a provider of software tools used to design computer chips, faced headwinds following new export restriction sales to China. The company's Electronic Design Automation (EDA) software is critical for designing the increasingly complex semiconductors that power AI applications, but new restrictions created near-term uncertainty. We view the company's exposure to increasingly complex chip designs as a long term structural growth driver as AI semiconductors require ever more sophisticated design tools. The industry's move towards advanced packaging and specialised AI chips should continue to drive demand for Cadence's solutions over time.

Finally Take-Two, the video game publisher behind Grand Theft Auto (GTA) and other major franchises was weak over the month. While the company confirmed the highly anticipated GTA VI release for May 2026, management issued a conservative guidance for the current fiscal year due to the macroeconomic environment.

During the month, we continued to refine the portfolio toward companies with more direct AI exposure. We exited positions in game development platform Unity, digital payment company Block and creative software provider Adobe, as we see an increased opportunity in companies with stronger direct AI exposure following recent market weakness. We added three new positions that strengthen our AI infrastructure and applications exposure: ServiceNow, which is a cloud-based enterprise software company that is transforming business workflows by embedding generative AI capabilities across its platform, enabling organisations to automate complex processes through AI agents that can understand and act autonomously. Arista Networks, which is a networking infrastructure company that provides high-speed switching and routing solutions essential for AI and cloud data centers. The company supplies specialised networking equipment for large AI training and inference operations, with major cloud providers relying on their technology to build massive AI infrastructure. Finally RELX, which is a global information and analytics company that has deeply embedded AI capabilities across its business segments, with over 90% of its Risk division revenue coming from machine-to-machine interactions. The company is actively integrating generative AI into its product suite, including its Lexis Plus AI platform for legal research and the recent launch of Protégé, its next-generation generative AI legal assistant.

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

³ Roblox Q1 2025 Earnings Conference Call, 01/05/2025.

⁴ Axon earning results, 07/05/2025

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"⁵.

The Q1 earning season has almost ended and while there were some concerns 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 USD⁶, while 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.

⁵ Microsoft Fiscal Year 2025 Second Quarter Earnings Conference Call - 29/01/2025

⁶ Meta Reports First Quarter 2025 Results, 30/04/2025

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