Artificial Intelligence strategy

Around 90%[1] of CEOs expect a Return on Investment (ROI) of AI within 3 years

- Investors raised expectations of hyper scaler capex for the remainder of 2025 and 2026
- October was a strong month for the AI infrastructure part of the strategy
- We have reallocated capital in the month where greater monetisation of AI is evident

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What's happening?

Global equity markets continued to advance in October, with the MSCI All Country World Net Total Return Index returning 2.2%[2] in USD terms and approaching a 35% gain in USD from the early-April lows. Even the continued shutdown of the US government failed to weigh much on broad market optimism, helped by a second consecutive month of Federal Reserve interest rate cuts and positive news flow within artificial intelligence. The technology sector performed well during the month and has historically tended to perform well in rate cutting cycles.

The Artificial Intelligence strategy beat the broad equity market (MSCI All Country World) during the month. The month saw continued strength in AI infrastructure stocks as investors raised expectations of hyper scaler capex for the remainder of 2025 and 2026, supported by continued acceleration in hyper scaler cloud revenues and indicators of AI usage. Consensus expectations for 2025 year-on-year US hyper scaler capex growth now stands at around 70% compared with around 20% at the start of the year, while expectations for 2026 growth currently stand at 20 to 30%.

In Q3, Google saw cloud revenues continue to accelerate to 34%[3] YoY from 32% in Q2, Microsoft Azure revenue growth remained at a high 39%[4] YoY, while Amazon finally enjoyed a significant uptick for AWS revenue growth to 20%[5] from 17.5% in Q2. On usage, Google noted that it processed 1.3 quadrillion monthly tokens in September, up from 980 trillion in July, and 25 trillion processed in August 2024, a more than 50x increase in just over a year. It will not always remain the case, but for now exponential growth in demand for AI compute is running ahead of more linear growth in supply, and capacity is monetised as soon as it is added, as noted by Amazon CEO Andy Jassy on the company's Q3 earnings call.

The market remained choppier for AI-related stocks positioned further downstream. We noted encouraging data from a recent KPMG CEO survey which found that around 90% of CEOs expect a ROI of AI within 3 years, compared with only around

[1] Source : KPMG 2025 Global CEO Outlook
[2] Source: Bloomberg as of 31/10/2025 in USD.
[3] Source : Alphabet 3rd quarter earning result, 29/10/2025
[4] Source: Microsoft 3rd quarter earning result, 29/10/2025
[5] Source: Amazon 3rd quarter earning result, 30/10/2025

20% in 2024. Nevertheless, the landscape will be one of both opportunity and disruption as established companies within software and beyond compete with new entrants in AI.

Portfolio positioning and performance

October was a strong month for the AI infrastructure part of the strategy while the market was more mixed for the AI innovators part of the strategy.

The biggest positive contributors to the strategy's performance during the month were Advantest, SK Hynix and Credo Technology. As the leader in AI semiconductor testing, Advantest is benefiting from strong demand for GPU testing and a potential acceleration in demand for ASIC testing, which management has communicated could generate sales for the company on a par with GPU testing in the years ahead. SK Hynix is the leader in high bandwidth memory required for AI computing and was very strong during the month as AI continues to drive demand for more memory set against, for now, constrained capacity. Credo benefitted from strong demand for its well positioned product portfolio in datacenter connectivity.

The biggest detractors during the month were Varonis, AppLovin and Roblox. Varonis suffered a significant decline on reporting some customer pushback on pricing as it transitions existing customers from on-premise to cloud based software. We believe the negative market reaction is far too strong as Varonis is likely to be able to solve this friction point relatively quickly, and the cloud platform will ultimately deliver very high value customers through harnessing AI. Applovin, was weak during the month owing to a report that the SEC was looking into the results of a short seller report earlier in the year. Whilst no new substantive allegations were made, the stock pulled back sharply on the day before somewhat recovering. Roblox pulled back following its Q3 earnings results, having had a strong run since April, and we remain confident in its standing as the best positioned company for AI and growth in gaming.

During October we bought AMD, Amazon and Varonis and sold RELX. We view AMD's deal with OpenAI announced during the month as transformative in giving it the scale required to significantly compete in AI processors alongside Nvidia and hyper scaler custom chips. The deal is for AMD to supply Open AI with 6GW of compute capacity starting in late 2026 and could be worth over $100bn of cumulative revenue to AMD over the next few years. Amazon's Q3 results delivered a much hoped for acceleration in AWS cloud revenues, as noted above, and demonstrated strength across the overall business and we believe the business is in a strong position to execute from here. Varonis is a cybersecurity company we believe is well positioned for agentic AI by enabling companies to secure and manage access to enterprise data and files. While RELX is integrating AI into its products across the legal, scientific and risk industries, we have not seen enough ongoing evidence of progression in terms of monetisation of these capabilities and have reallocated capital where greater monetisation is evident.

Outlook

As at the time of writing, on 4th November, the Q3 earnings season has so far progressed well with companies generally reporting strong fundamentals and management pointing to a likely good end to the year. Resilient US economic growth and rate cuts despite somewhat sticky inflation, provides a supportive environment. That said, given the strong stock market returns of the past six months, we acknowledge potential for market volatility. We would view this as an opportunity to purchase well positioned companies in AI at lower valuations.

Our strategy of investing in companies across AI infrastructure and innovators provides a pure and diversified approach to capturing the gains of AI. We believe AI is a once-in-a-generation general purpose technology presenting opportunities across the whole economy. We are focused on investing in companies that can deliver superior stock returns by unlocking these opportunities and possessing strong barriers to competition.

We believe the accelerating use of AI in the economy so far this year underlines the strong potential of the investment strategy. At the same time, whilst most – if not all – companies will use AI in the coming years, not all will win. Indeed, many will be disrupted by its emergence, as we believe is beginning to be reflected in the stock market. As such, we believe an active and dynamic investment approach to AI is essential, as we implement in this strategy.

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