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Artificial Intelligence strategy

AI investments accelerate in US and China as market rewards AI revenues and punishes potential losers

- High-profile AI infrastructure deals in US & rapid progress in China drive markets higher
- Strong performance by the strategy, driven by both the AI Infrastructure and AI Innovators
- We initiated positions in SK Hynix, Tesla and Zeta Global and exited AMD in the month

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What's happening?

Global equity markets were strong in September, the MSCI All Country World Net Total Return Index returning 3.6%¹ in USD terms. The Artificial Intelligence strategy significantly beats the broader equity market during the month.

The US Federal Reserve cut interest rates for the first time this year and market expectations for further cuts rose during the month to two more 25 basis point reductions before the end of the year. This easing of financial conditions supported the stock market by providing insurance against the possibility that the mixed macroeconomic picture deteriorates. The technology sector performed well during the month and has historically tended to perform well in rate cutting cycles.

Within AI, the month saw particular strength in AI infrastructure stocks as investors focused on the growing likelihood of strong medium-term AI infrastructure spend. Several significant strategic announcements were made including Oracle's 359% year on year increase in bookings to \$455 billion driven by recent long-term AI cloud infrastructure deals, particularly its deal with Open AI, Nvidia's investments in Intel and Open AI and new methods of consumer monetisation by Open AI beyond its current subscription model.

Expectations also strengthened in China, with long term guidance by cloud computing leader Alibaba to grow its AI compute capacity by 10x between over the next three years. China's ChatGPT moment, in the form of the release of DeepSeek's open source and highly capable reasoning models, may have come a bit later than the West, but Chinese AI is now making up for lost time.

The effects of AI on stocks further downstream remain more mixed, with opportunities emerging but also the unmistakable signs of disruption. For example, while Open AI's announcement of Instant Checkout, which will allow users to discover merchants, browse and purchase within ChatGPT significantly boosted the share prices of e-commerce partners Shopify

¹ Source: Bloomberg as of 30/09/2025 in USD.

(held in the strategy) and Etsy's, another OpenAI announcement on internal software development sent shares tumbling for business software vendors such as HubSpot and DocuSign.

Portfolio positioning and performance

We believe active investment management is essential in investing in AI, and the Next Gen AI strategy captures opportunities in both AI infrastructure – companies enabling the use of AI – and AI innovators – companies using AI. During September, both sub-themes contributed positively to the strategy's return with AI infrastructure the stronger of the two, contributing a little over two-thirds of the strategy's return.

Within AI infrastructure, the biggest positive contributors were Alibaba, Advantest and Oracle. Alibaba shares have been strong as China's AI industry has begun to grow rapidly this year since the arrival of DeepSeek's highly capable open-source reasoning models. At its Apsara Conference in September, CEO Eddie Wu announced the release of new well-performing AI models and custom AI chips and substantial cloud infrastructure growth plans, positioning the company as the potential overall leader in Chinese AI. Advantest continues to be strong due to its leadership in GPU testing and continued strong demand growth and Oracle continues to go from strength to strength as it scales its cloud infrastructure business for AI, capitalising on its role in Stargate and broader partnership with OpenAI.

The biggest detractors in AI infrastructure were Snowflake, JFrog and AMD. Snowflake and JFrog were somewhat weak due to softness in infrastructure software stocks, having risen strongly in August, but both continue to execute well. AMD suffered some weakness following Nvidia's announced product partnership with Intel, which may improve Nvidia's offering in AI servers with x86-based CPUs.

Within AI innovators, the biggest positive contributors were Applovin', Robinhood and Palantir. Applovin' has enjoyed increased optimism from investors following very strong results in August and the disposal of its gaming business. It is well positioned using AI to generate a powerful two-sided advertising business, optimising for both rapidly expanding advertiser and app developer bases and has rapidly become an attractive alternative platform to the likes of Meta, Google and TikTok for advertisers, and is operating with exceptional efficiency due to its use of AI.

Modern retail investing platform Robinhood surged to all-time highs following its S&P 500 index inclusion and strong momentum in its new prediction markets business. Palantir was strong during the month having sold off somewhat in August. We remain impressed in particular by its recent acceleration in US commercial up to 93% growth year-on-year, reflecting we believe the coming strength in enterprise AI usage and Palantir's leading position in helping companies deploy AI.

The biggest detractors in AI innovators were Synopsys, Upstart and Procept Biorobotics. Synopsys fell significantly following its quarterly results in which it revealed weakness in its design IP business related to challenges at Intel, export restrictions to China and internal product development. Upstart, an AI-based personal loan origination platform was weak due to an industry-wide slowing in personal loan originations in August. Procept continued to be weak in midst of its CEO transition and broader market weakness within medical technology stocks. However, we are positive on the new CEO's appointment and optimistic on the opportunity for their robotic solution for prostate surgery.

During September we initiated positions in SK Hynix, based on its leadership in high bandwidth memory crucial for AI compute and our increased conviction in the outlook for memory demand versus capacity and resultant pricing in 2026; Tesla, where we regained required confidence in crucial CEO Elon Musk's incentives for long-term commitment to and focus on the company and its substantial opportunity set in AI following the board's proposed new long-term incentive plans and operational milestones; and Zeta Global, a marketing technology company that we believe is strategically well positioned to offer AI marketing tools to enterprises, with the largest consumer dataset outside of Google and Meta and currently with

40% of the Fortune 500 companies within its client base. We sold AMD, following a period of good contribution to the strategy's return, and a slightly more challenging competitive outlook following Nvidia and Intel's recently announced partnership.

Outlook

The US economic outlook remains a key question for investors, given the continued momentum in economic growth on the one hand but the potential for impacts from tariffs and the government shutdown on the other. Against this backdrop, the resumption of the US Fed's rate cutting cycle and the capacity for substantial easing provides welcome insurance for the stock market.

The AI infrastructure build is increasingly underpinned by AI usage, not model training alone. This is a much healthier situation than during the first two years of the AI investment cycle in 2023 and 2024 and reflects positively on the key question of the return on investment for AI. OpenAI's ChatGPT reached around 700 million weekly active users as at the end of July, up from around 400 million in February this year, while Google processed 980 trillion AI inference tokens in July, double the rate of 480 trillion in May and almost 100x the rate of around 10 trillion in early 2024.

The market will remain dependent on the continued growth in evidence of AI-driven value creation and revenues and continued commitment to invest in AI supply capacity. While the journey will continue to be volatile at times, we are confident in the power of AI as a general-purpose-technology with enormous value creation potential.

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