Polar Capital Global Technology Fund

Are we underestimating the impact of AI?

Q: GC: Nick, starting with AI and why it's such a significant theme for investors right now. You talk about it being a rare and important example of discontinuous technology change. What do you mean by that term?

A: NE: We mean rare and major change, a new technology that requires a complete retooling and is a step change in functionality in terms of what it can do. To that point, we'll be completely underestimated by people. So while some people are saying there's been a lot of hype around AI, we think it's just getting started. We see Generative AI as the next big compute architecture. It requires a complete retooling. The pace of innovation has been incredible. ChatGPT was launched only 18 months ago and initially it was just text and then it was text and images and then it's text, images and video. Go and have a look at some of the videos. The OpenAI video examples are mind-blowing. The day they came out, Adobe's share price fell six or seven percent and it's broadly continued to underperform the market since then. Prior to that, Adobe was considered a potential beneficiary of AI.

So it just highlights how quickly things can change. Look at the AI robotics' OpenAI video on YouTube too. It's mind-blowing. Robots used to have to be programmed and now they can be trained by watching video and learn to understand by themselves. This has only been possible in the past 18 months and this is before the new hardware that we're excited about, and the new models that are much bigger and more powerful that are starting to come into the market. So very early stages of a very big new cycle.

Q: GC: Turn to your Artificial Intelligence Fund, why did you launch it? What's the overlap with the core technology funds? How does it differentiate itself from its newer AI fund peers?

A: NE: We launched it over six years ago and when we did, we were one of the very first to launch an AI fund. We did it because we saw a huge opportunity ahead that would go way beyond the boundaries of what a tech fund can capture. At the end of the day, a tech fund is about capturing the spend on technology and the peripheral markets that open up because of it, like e-commerce and online advertising. We can invest in those sorts of area, but this is going to be much broader and much more disruptive and we think it will be the main theme for investors to get right over not just the next, I'd say, decade, but I think over the next three or four years. So, understanding which companies will win from it and who loses from it, that tech is not mean reverting, and lots of other industries will start to adopt that characteristic – for example, identifying that Publicis is fully embracing Generative AI that may give it an edge on its traditional media peers.

Understanding who loses in that space and who's not looking like they're successfully embracing it is very interesting. What we're seeing is that more and more companies are starting to see a tailwind from Generative AI on the data side of their businesses, and so the pipeline for ideas in that part of the portfolio is growing. It was launched to capture the big opportunity beyond technology and there are some very big numbers thrown around there. Gartner was talking about $5trn of spend, up 8% year-over-year. McKinsey's talking about 60% of occupations applicable to AI with the potential to save 30- 50% of time or apply it to 30-50% of tasks. That's how you get these really big numbers because you're applying it to the wage bill and to opex.

That's the first part. Why did we launch it? How did it overlap with our core Tech products? Right now, because we're in phase one, the infrastructure build-out phase, it is as close as it will get to our core Tech products. It has a global equity benchmark. It's in the global equity peer group and so we're capped at 50% technology. Even if we want to go higher, we wouldn't, but we don't want to because we've got our core tech funds – if you just want that part, buy the tech product. But that initial phase is very strong now and that's why 50% of names and 60% of assets are overlapping. We envisage over the next two years that they'll start to diverge very significantly as the beneficiaries part of the other fund starts to grow. That's not to say that the infrastructure part and the tech part will run out of steam, but it's about capturing that bigger longer-term opportunity.

And then how does it differ from the other funds that are out there? There are a number of other AI funds now, most of them have been launched fairly recently, so one point would be they don't have the track record that we've got. In addition to that, most of them are largely technology funds. If you look at the stocks they're holding, they're tech funds and they never had a tech fund so they've launched an AI fund to try and capture some of that tech pot, so they're competitors to our tech product and I'd put them in with us. Most of them are actually in my peer group. A very small number are taking the approach that we're taking of the bigger longer-term opportunity and the disruption and the new markets that are going to open up and trying to capture that and trying to steer people through what's going to be a very difficult period for investors, like finding the companies that win and the ones that lose.

I don't think we've got many very direct competitors for that fund at the moment. There will be a whole load of new AI funds launched if we're right about how powerful the trend is, but we've got a good head start and we've built some valuable knowledge during that period and made a few mistakes as well along the way, but you learn from those. So I think we're in a pretty good position.

Nick Evans, Partner, Polar Capital Global Technology Team

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- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
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