



# Alphinity Investment Management

## THE EVOLUTION OF GLOBAL AI INVESTING IN 2024

**Presentation to:** Elfreda Jonker, Client Portfolio Manager & Investment Specialist

**Presentation Date:** May 2024



# Introducing Alphinity Investment Management

Alphinity is a well-resourced investment boutique with A\$30bn of funds under management, managing five distinct equity strategies and backed by ASX-listed Challenger Group.

## Proven track record



- Established in 2010 by Australian team
- Global equities team joined in 2015 leveraging the same process and culture

## Experienced team



- Experience team with strong culture
- Global team of 5 portfolio managers with 22 years of experience on average

## Strong alignment



- Australian Business managed by its founders and majority owned by its staff.
- Global business majority owned by staff

## Agile, proven investment process



- Same investment philosophy and process since 2004
- Earnings leadership
- Style agnostic

As at 30 April 2024

Our distribution and equity partner:



Experts in traditional  
and alternative asset classes



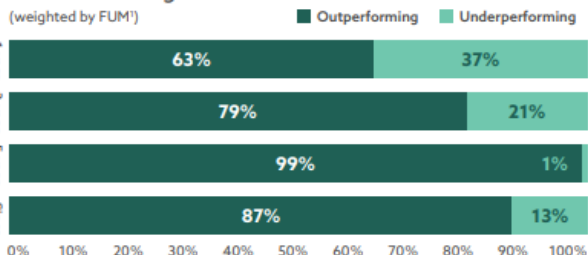
Pursuing  
excellence  
in investment management

### Consistent outperformance from our managers

Funds under management of



### Fidante Managers vs Benchmark Performance



## Disclaimer

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It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

Any projections are based on assumptions which we believe are reasonable but are subject to change and should not be relied upon.

Past performance is not a reliable indicator of future performance. Neither any particular rate of return nor capital invested are guaranteed.



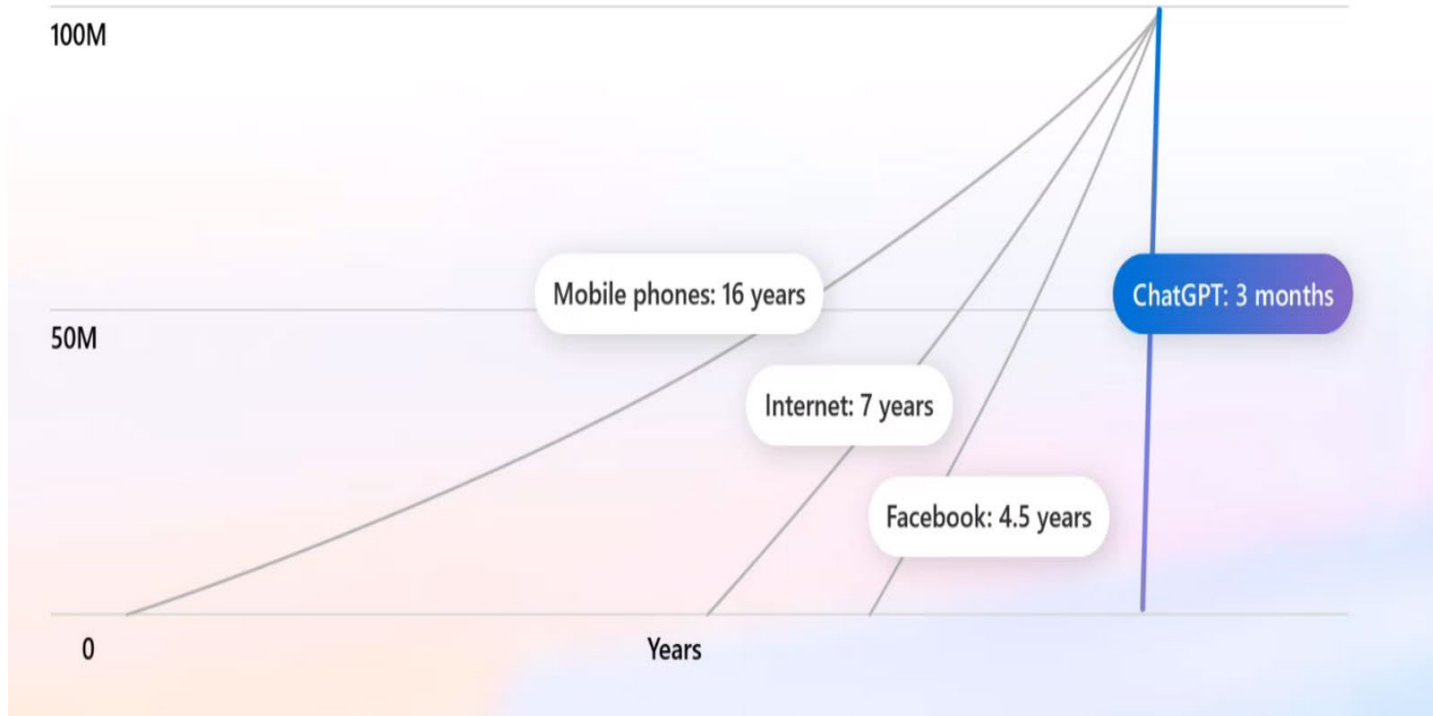
# Webinar Agenda

What's next in AI?

- **Are the early AI beneficiaries still good investments?**
- **Who are the other key players in the AI ecosystem?**
- **Where are the next AI infused opportunities beyond tech?**
- **What are the key risks & future opportunities with AI?**
- **What are the key AI themes currently playing out during the 1Q24 reporting season**

# Unprecedented Uptake

Fastest technology to 100m users

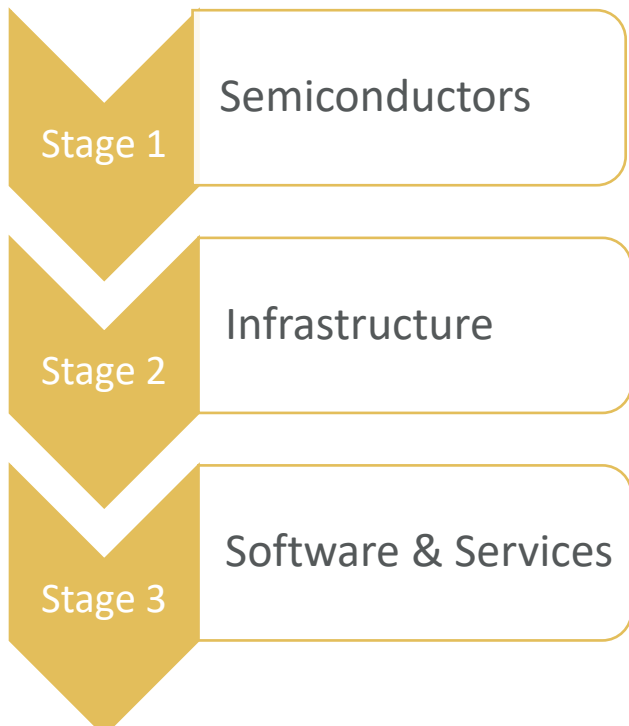


Source: Alphinity, Factset

# Stages of Stock Performance

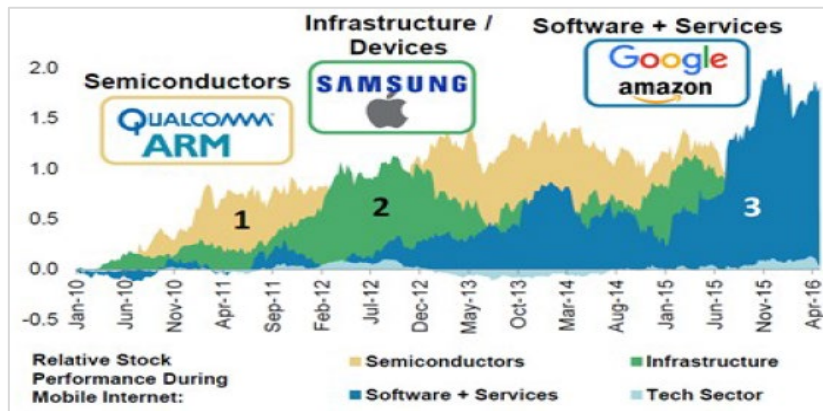
Using the internet cycle as a precedent

## Monetisation Roadmap

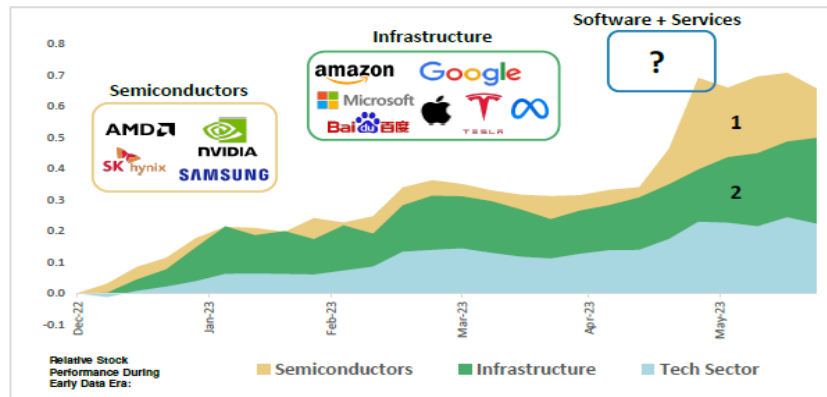


Source: Morgan Stanley, a16z, company data, Refinitiv, Alphinity

## Internet cycle stock performance



## Ai cycle stock performance

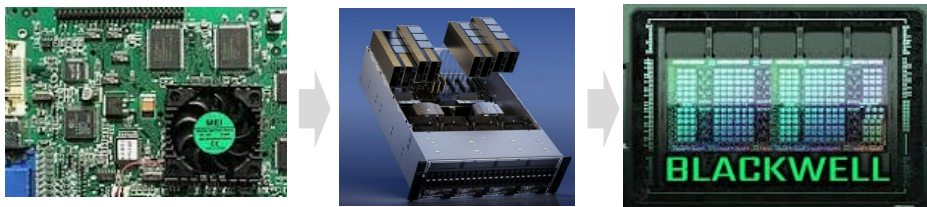


# The Early Winner - Nvidia

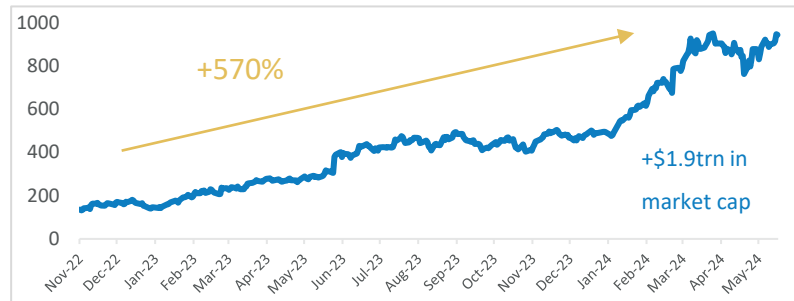
Leader in GPU's underpinning accelerated compute



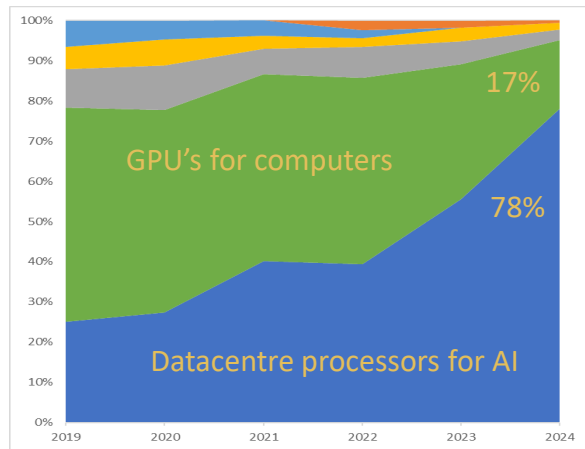
AI is accelerating migration from CPU's to GPU's



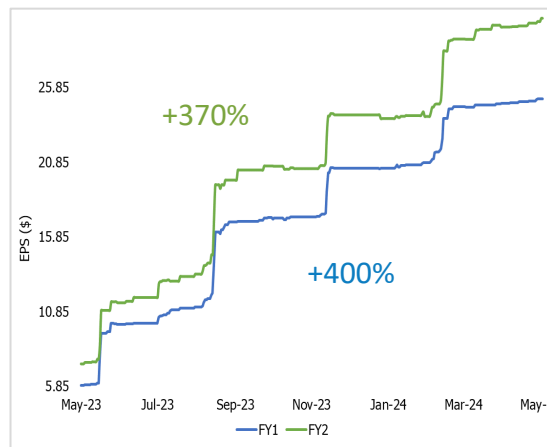
## Nvidia Performance



## Nvidia Revenue Mix



## Nvidia Earnings



Looking ahead: Market size x Market share

		Accelerator TAM				
		200	300	400	500	600
NVDA Share	90%	\$44	\$64	\$84	\$104	\$124
	80%	\$40	\$58	\$75	\$93	\$110
	70%	\$36	\$51	\$66	\$82	\$97
	60%	\$31	\$44	\$58	\$71	\$84
	50%	\$27	\$38	\$49	\$60	\$71
	40%	\$22	\$31	\$40	\$49	\$58
30%	\$18	\$25	\$31	\$38	\$44	

Source: Alphinity, Factset



# Early Winner - Microsoft

Well positioned for broad secular trends across AI segments



OpenAI - AI Infused products  
 – CoPilot - New Bing -  
 Security – AI partnerships



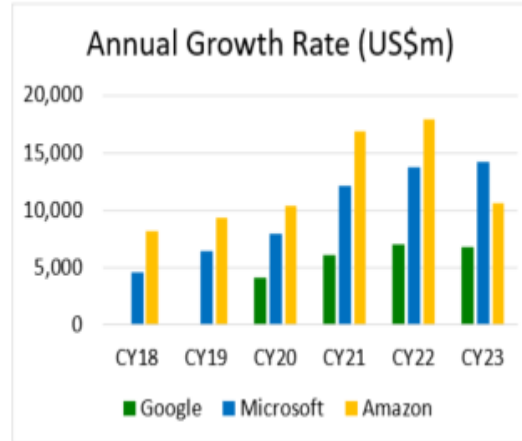
Cloud leadership:  
 Uplift as data shifts to the cloud  
 and inference instances expand



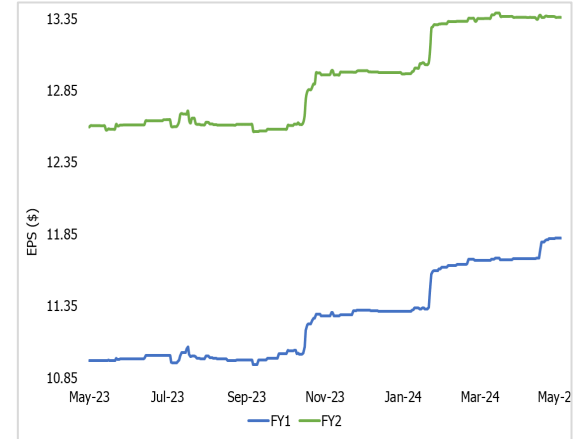
Strong earnings upgrades  
 from progressive AI product  
 launches



## CLOUD Providers



## Microsoft Earnings



Source: Alphinity, Factset

# Early Winner – SK Hynix

High Bandwidth Memory (HBM) as a key battleground for AI semis



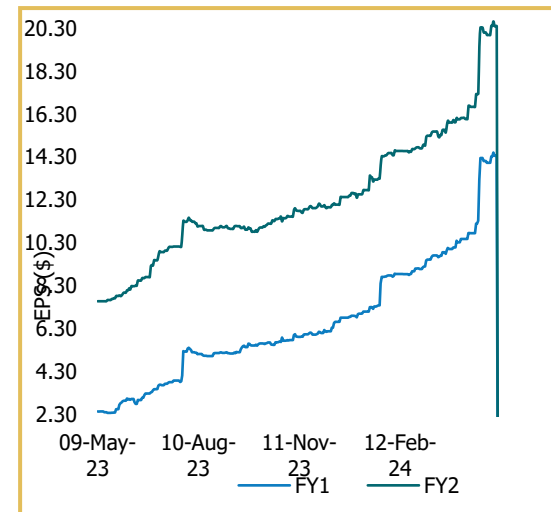
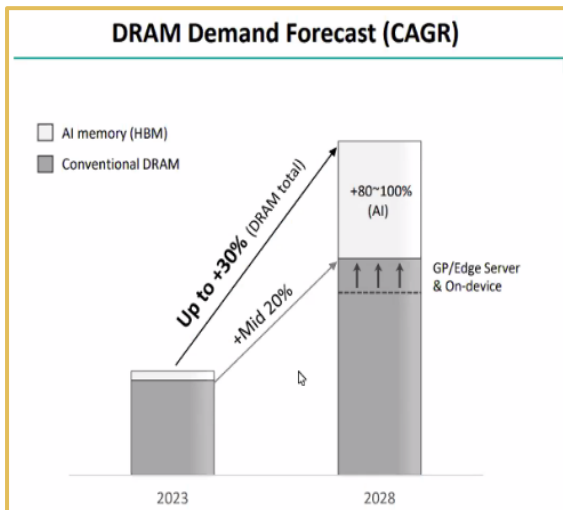
Leader in HBM –  
Crucial to GPU capabilities  
Technological edge: HBM3E &  
HBM4



AI driving huge demand for  
DRAM and HBM.

Production cuts & higher demand  
leading to inventory shortages










Big price increases  
expected in 2024 –  
driving strong earnings  
upgrades



Source: Alphinity, Factset

# Generative Artificial Intelligence – Mapping the ecosystem

AI offers a plethora of investment opportunities, but not all are created equal

Areas of Interest	Beneficiaries	Our Positioning
<div data-bbox="320 303 620 407" style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold;">Semiconductors</div>	<ul style="list-style-type: none"> <li>• <b>Semis:</b> Nvidia, AMD, Broadcom</li> <li>• <b>Foundry:</b> TSMC, Samsung, SK Hynix</li> <li>• <b>Semicap:</b> ASML, LAM, KLAC</li> <li>• <b>Design:</b> Cadence, Synopsys</li> </ul>	<div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> </div>
<div data-bbox="324 519 624 623" style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold;">Infrastructure</div>	<ul style="list-style-type: none"> <li>• <b>Cloud:</b> Azure, AWS, GCP, OCI</li> <li>• <b>Networks:</b> Arista, Juniper, Nvidia</li> <li>• <b>Devices:</b> Apple, Samsung, Dell, HP</li> </ul>	<div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> </div>
<div data-bbox="324 727 624 831" style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold;">Applications</div>	<ul style="list-style-type: none"> <li>• <b>Models:</b> Open Ai, Gemini, Claude, Perplexity</li> <li>• <b>Enterprise:</b> Microsoft, ServiceNow, Salesforce, Adobe, Snowflake, MongoDB, DataDog</li> </ul>	<div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="margin: 5px;"></div> <div style="margin: 5px;"></div> </div>

# Applications – The Risk of Picking Winners

The shifting landscape is leading to volatile company performance



## Positioning

- Opportunities for Adobe to embed generative AI capabilities across its entire portfolio of creative, document and experience cloud products

## Alphinity thoughts

- Potential risk from AI video generation capabilities such as Sora from Open Ai leave Adobe at the crossroads for AI success



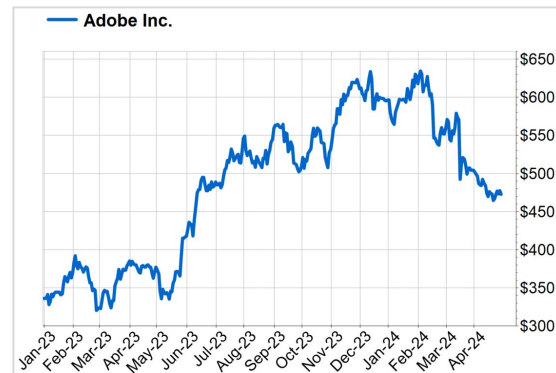
## Positioning

- Snowflake is positioning as a provider of clean data for successful AI implementation as well as providing access to leading Ai models and serverless functions for AI application

## Alphinity thoughts

- Some questions emerging regarding whether Snowflake becomes disintermediated by AI analytics provided through hyperscalers

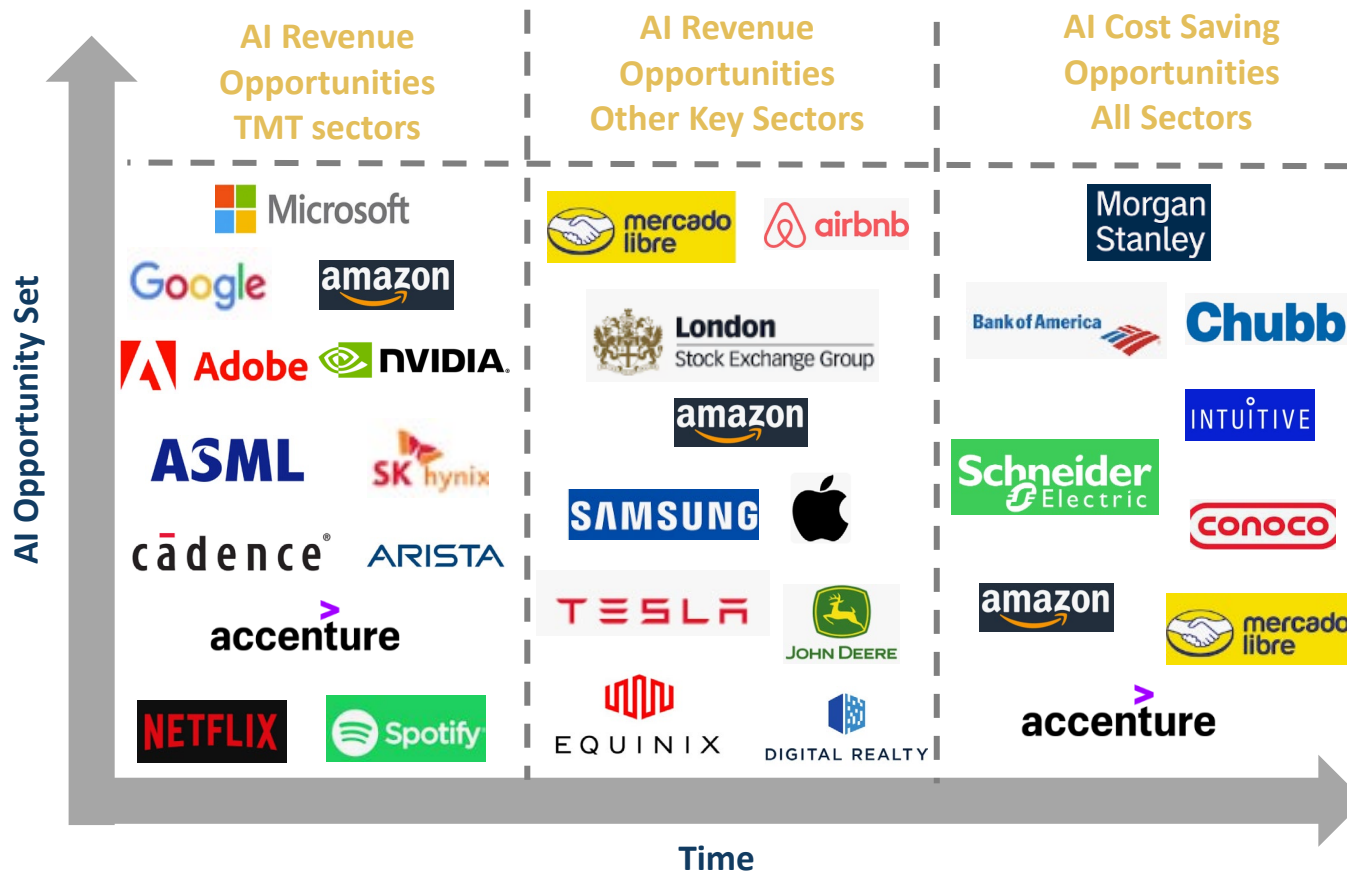
## Adobe Share Price



## Snowflake Share Price



# Investment Opportunities in AI – Across Sectors and Across Time



# Potential Next Wave AI Beneficiaries

Airbnb, MercadoLibre and LSE



AI represents the ultimate platform shift for web based businesses.

ABNB wants to use AI to transition from an online vacation platform to the “ultimate concierge” providing hyper personalised experiences for consumers.

All mega-cap technology stocks are multiproduct. This is ABNB’s long term AI-enabled vision.

Airbnb Acquires  
AI Startup  
GamePlanner



MELI is an eco-system stock with multiple avenues to use AI to boost revenues and reduce costs.

MercadoLibre - E-commerce algorithms to help match sellers and buyers.

Mercado Credito - AI for credit scoring and fraud detection.

Mercado Envios – AI for improved logistics and automation.

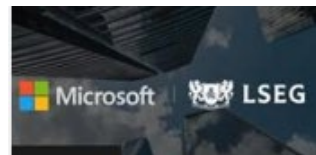


**London**  
Stock Exchange Group

In 2023, Microsoft took a 4% stake in in LSEG and formed a strategic partnership to work together on financial data.

AI related products developed by MSFT and LSEG include Meeting Prep and Teams communication for financial markets.

Opportunities for AI tools to improve scalability and deliverability of Refinitiv data and analytics.



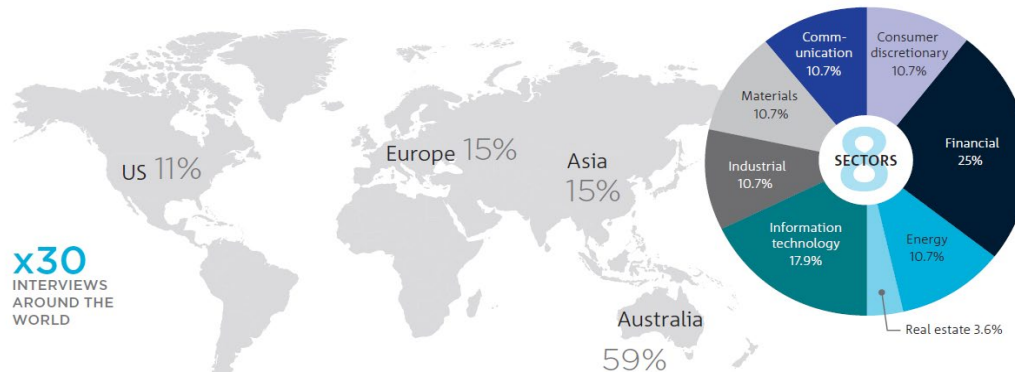
# AI Risks

AI Investments are not without risk



# AI & ESG: Alphinity CSIRO Collaborative Project on Responsible AI

## Project Scope & Overview



## Insights








- 1**  **Early days for AI** Companies recognize the opportunities in AI but are concerned about social license, reliability risks and the impacts of AI on customer relationships.
- 2**  **Good governance is good governance** Companies with a good overall governance and risk management are well prepared for Responsible AI. Identifying high risk use cases for AI is critical.
- 3**  **Leaders and laggards are already emerging** Companies leading the pack are asking questions about the future of their sectors in an AI-enabled world. Regulation is lagging innovation.

Source: Alphinity, CSIRO.



# 1Q24 Reporting Season

Strong momentum behind early winners & new trends emerging

Company	AI Theme	
	CLOUD demand AI initiatives	<ul style="list-style-type: none"> <li>• Strong advertising revenues, YouTube, Cloud.</li> <li>• Announced several new AI initiatives</li> <li>• Strong cost control &amp; capital management</li> </ul>
	Cloud LLM's (ChatGPT4.0) Services (Co-pilot) Datacentres Security	<ul style="list-style-type: none"> <li>• Strong results ahead on almost all metrics.</li> <li>• Cloud growth very strong</li> <li>• AI software &amp; services – will take time to come through</li> <li>• ChatGPT4.0</li> </ul>
	Cloud demand Capex spend Anthropic	<ul style="list-style-type: none"> <li>• Strong result, operating margin expanding</li> <li>• Cloud accelerating</li> <li>• Cloud capex rising rapidly, inside &amp; outside the US</li> </ul>
	Huge capex spending to come META AI	<ul style="list-style-type: none"> <li>• Huge increase in capex and returns will take time to come through</li> <li>• Need to prove they can make money from AI</li> </ul>
	Huge demand for datacentres & supporting services	<ul style="list-style-type: none"> <li>• Very strong demand for cooling systems going into datacentres</li> <li>• Organic bookings up 17% vs 7%</li> <li>• Focus on whole data centre (chip cooling, air chillers etc)</li> </ul>
	Electrification demand for datacentres	<ul style="list-style-type: none"> <li>• Data Centres could consume the same amount of electricity as ~20% of total US homes by 2030</li> <li>• 20% of sales to DC's</li> </ul>
	AI spend crowding out other spend	<ul style="list-style-type: none"> <li>• Consulting in a world of pain – clients coming to them for AI solutions</li> <li>• GEN AI bookings growing fast but not enough to offset drop elsewhere</li> </ul>

AI initiatives expanding and improving fast

Huge CAPEX spend by hyperscalers

Datacentre boom & related services

Massive power demand can create problems

AI capex crowding out other spend

AI services will take time to show up in the bottom line

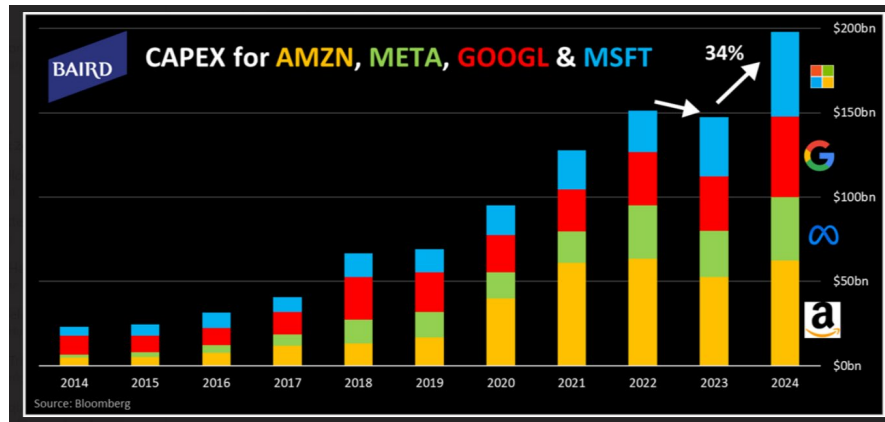
# Reporting Season – what is still to come?

A positive read-through for NVDA results



## NVDA – capex is up materially at hyperscalers

- Capex lifts across the other firms (Meta, Google, Amazon, Microsoft) were also up significant and not showing any signs of slowing down.
- This creates more comfort with the GPU accelerator demand environment and underpins solid expectations heading into NVDA's results on 23<sup>rd</sup> May.



Source: Alphinity, Baird

## Key questions

- Accelerator Market size &
- Nvidia's market share vs increased competition from internal chips from hyperscalers & AMD.

## On the ground research

- Fast moving
- Need to meet with management, peers, suppliers
- Understand long term drivers

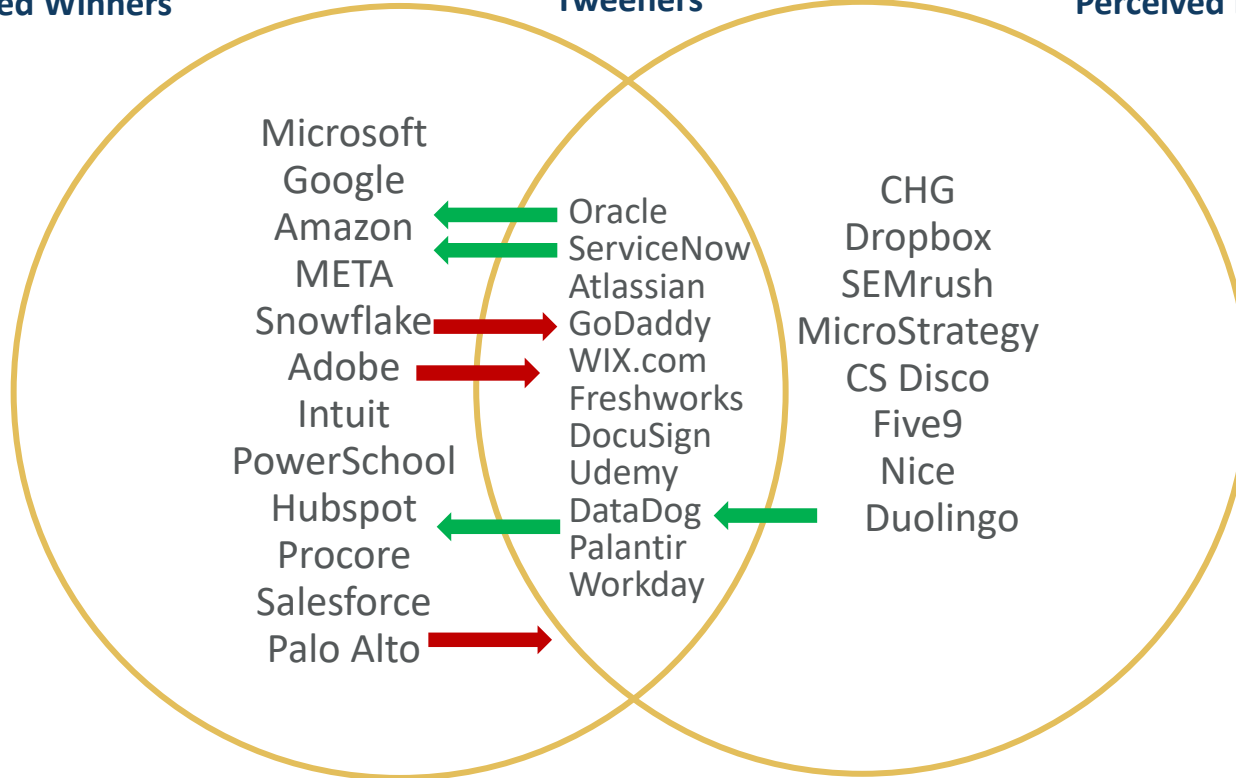
# AI Winners and Losers

The ground continues to shift as new use cases are released

Perceived Winners

Tweeners

Perceived Losers



Source: Jefferies, Alphinity



Aspire.Sustain.Proper.

## Q&A

ASX listed ETFs:

**XALG** – Alphinity Global Equity Fund

**XASG** – Alphinity Global Sustainable Equity Fund

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