

[WHAT THE EXPERTS SAY]

AI, an industrial revolution or a hype?

“No, I do not want to buy Microsoft stock. The Office suit is dead and you have free products that do the same thing for free. Microsoft is a has been”

A former client back in May 2009 (for reference purposes, the price of Microsoft was around USD 17 back then. It is around USD 445 today).

OUR last article addressing the AI issue in this magazine has triggered numerous comments and questions from clients and acquaintances. Is it really an industrial revolution? Isn't it all, in the end, just hype? Will many jobs disappear because of AI? Will this lead to some type of Terminator robot that will annihilate the human race (it seems that The Terminator movies have left a deep imprint on our global consciousness)? Where will the energy come from to power all these energy-hungry AI semiconductors?

All excellent questions to which we cannot answer with certainty. We do believe this is a new industrial revolution. But, yes, there is also a lot of hype. Any time Wall Street (and the financial industry

more globally) can grab on a theme and make a lot of money on it, be it via initial public offerings (IPOs), new bank products or more trading activity from clients, it will do so. A few years ago, it was 3D printing. Then it was cryptocurrencies. Today, it is AI.

Every CEO from every public company knows he/she has to address AI when making any public presentation, for fear of being seen lagging. The truth is, however, that most IT systems, even for big companies, are generally a mess and that adding some AI tools will not be a magic wand that somehow fixes everything. But, like Wall Street, they just have to respond to the hype, if only to please shareholders.

Which brings us to the quote from a former client stating the Office suite was dead and that, therefore, Microsoft was not a good investment back in 2009. In hindsight, this sounds ridiculous but, at the time, it was not necessarily so. After all, Google did offer similar tools for free and cloud computing (in which Microsoft today is a strong number 2 behind Amazon) was not a term that had been invented yet.



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With the benefit of time, everything seems obvious. In real time, however, nothing is clear and the best we can do is to make educated guesses. This is the most fascinating aspect of our job: understanding what is hype and what is real and adjusting our assessment as events unfold.

This is also why we try not to make too many forecasts but rather analyze what is in front of us. As we wrote last time, as we see it, we don't yet understand how the US tech giants will be able to monetize AI yet. That might change, and if and when it does, we will adjust accordingly.

One of the most interesting questions mentioned above is the issue of the energy consumption. It is not at all clear where the electricity needed to power all this AI tools will come from. As you may know, we are not very keen on the energy sector as such, but we do invest selectively in either the companies that can optimize energy consumption, such as ABB

or Schneider Electric as well as some that may be able to provide more electricity to the grid, such as BWX Technologies (which, because it makes the nuclear reactors for the US submarines, can also build small nuclear reactors for civilian use).

What seems also relatively clear today is that AI will not only be used as a positive force. Cyberattacks, already common, will probably become even more prevalent and dangerous with the help of AI programs. To us, it seems somewhat incredible that, while Alphabet, Meta, Apple and Nvidia are all worth more than at least two trillion dollars, the two biggest cybersecurity actors, Palo Alto Networks and CrowdStrike, are each worth around 100 billion dollars. This is not to say that their shares are cheap, but rather that there is probably a long runway for growth for cybersecurity companies in this new environment.

We will invest accordingly.

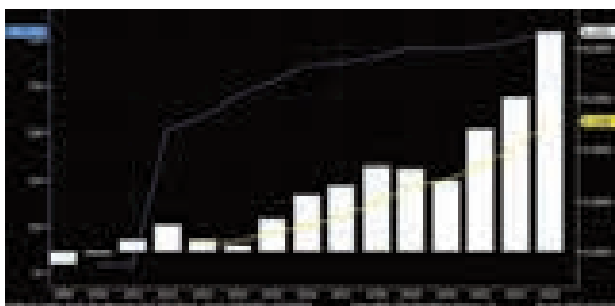


CHART: BLOOMBERG, SHOWING THE GROWTH IN FREE CASH FLOW PER SHARE FOR PALO ALTO NETWORKS.