2023 – YEAR OF ARTIFICIAL INTELLIGENCE

With investor interest in AI surging, we sift through the noise to explain what all the excitement is about and how investors should approach this theme.

AI – What is it?

Artificial intelligence is a machine’s ability to perform the cognitive functions we usually associate with human minds. Most people have been leveraging AI for years, with voice assistants such as Siri or Alexa increasingly commonplace.

Generative AI

November 2022 saw a turning point in the AI revolution as generative AI entered the mainstream, with ChatGPT being released to the general public. Generative AI is a type of AI which generates content, ranging from text-based applications like GPT to AI generated artwork from applications like Dall-E.

In the last several months, we’ve seen companies integrate AI into tools such as chatbots, marketing content creation and even fast-food drive-through windows!

Identifying Opportunities

Semiconductors could benefit, as they are key components for AI tools and models. Generative AI could add $20B per year to the overall chip market by 2027.

Companies with proprietary data will also benefit, as their unique data will enable the creation of innovative models. New AI tools will also unlock the value behind significant data sets.

Productivity Gains and Cost Savings

Amidst high inflation, AI-driven productivity gains will be crucial for companies seeking to boost profit margins. Companies with high staffing costs or a large share of repetitive tasks that could be automated could benefit from the AI boom.

Could AI be overhyped?

We don’t believe so. As seen below, valuations for AI remain below broader tech, and we think strong revenue growth and surging adoption should allow fundamentals to remain attractive. AI could contribute $7T to global GDP growth through 2030, benefitting wide swaths of the economy.

Investing in the AI Value Chain

While the market’s initial focus has been on the semiconductor companies that enable the processing and data storage needed for generative AI models, investors should consider the broader AI value chain, which includes AI enablers and AI developers. Accessing the AI theme through dedicated exposures could make sense as the theme does not map easily to traditional sectors and regions.

AI Enablers: Companies that produce technology such as cloud services or AI-oriented chips which enable the development of AI.

AI Developers: Companies that develop AI such as natural language processing, generative AI, or predictive analytics.

Close-up of text:

Al & Robotics P/E Remains Cheaper than S&P 500 Tech Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>P/E Ratio</th>
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<tbody>
<tr>
<td>S&amp;P 500 Tech</td>
<td>33.2</td>
</tr>
<tr>
<td>NYSE FactSet Robotics and AI Index</td>
<td>23.1</td>
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# of months to reach 100M users

<table>
<thead>
<tr>
<th>Platform</th>
<th>2010 Launch</th>
<th>2016 Launch</th>
<th>2022 Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instagram</td>
<td>30</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>TikTok</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Chat GPT</td>
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Exposure to pure-play AI names in avg FA portfolio is minimal

0.4%

Related Funds

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
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<tbody>
<tr>
<td>IRBO</td>
<td>iShares Robotics and AI ETF</td>
</tr>
<tr>
<td>SOXX</td>
<td>iShares Semiconductors ETF</td>
</tr>
<tr>
<td>BTEK</td>
<td>BlackRock Future Tech ETF</td>
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Footnotes continue on following page.
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