

# Investing in AI Enablers and Adopters



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**ALEX BERNSTEIN:** Hello, I'm Alex Bernstein and you're listening to The Alger Podcast, Investing in Growth and Change. As many investors know artificial intelligence has been a prominent theme across Alger strategies for some time now, impacting a wide range of sectors. Now, Alger has launched a wholly dedicated strategy called Alger AI Enablers & Adopters, which is available as both a mutual fund and an ETF. This new strategy is managed by portfolio manager Patrick Kelly, who's had a relentless focus on AI in his portfolios for more than a decade. Here to talk about his new strategy is Patrick Kelly. Patrick, thanks so much for joining me this afternoon.

**PATRICK KELLY:** Thanks, Alex.

**ALEX:** Patrick, you and I have been talking about AI, robotics, machine learning and similar technologies for at least ten or 15 years now. What makes you excited about AI today?

**PATRICK:** AI is not a new technology. It has been evolving and emerging over the years. And then we hit this inflection point in November of '22 with the launch of chatgpt, and this idea of generative AI was introduced. This marked a significant acceleration in the innovation behind AI, and democratized it as well. So now there are all these large language models that are being developed by companies such as OpenAI, and you have the cloud vendors and the chip companies that are all helping to democratize AI. That's enabling the masses to leverage AI technology which we believe will accelerate the innovation and the adoption of AI.

It was probably ten years ago where the CEO of Google said he believed that AI would have a more profound impact on society than fire or electricity, which was a pretty bold statement at that time, but it was difficult to fully appreciate it at that time. I think there's a better appreciation for that view now as the

technology is evolving and the innovation is accelerating.

Jamie Dimon, in his recent shareholder letter said, "While we do not know the full effect or the precise rate at which AI will change our business — or how it will affect society at large — we are completely convinced the consequences will be extraordinary and possibly as transformational as some of the major technological inventions of the past several hundred years: Think the printing press, the steam engine, electricity, computing and the Internet, among others."

**ALEX:** And you think that this is a pretty significant TAM? Total Addressable Market?

**PATRICK:** Yes. AI represents a massive TAM. From a big picture perspective, the idea behind AI is that it enables hardware and software to potentially replace or significantly enhance the productivity of humans.

Global Labor is roughly a \$30-40 trillion market. So, if you can replace or significantly enhance the productivity of labor, that is a massive TAM. And even if a fraction of that \$30-40 trillion is addressable, it's still a significant TAM. In addition to that, we believe that AI will also be a significant revenue generator to many companies which is further additive to that TAM. We also believe eventually every country will have its own AI cloud bc it can be a matter of national security and national sovereignty. And this spend is not tied to a P&L. The size of this potential market is important to understand and one of the primary reasons why we're so excited about the investment opportunities around AI.

**ALEX:** And that's the main idea behind the strategy?

**PATRICK:** Yes. We believe AI will create winners and losers across sectors, and that those companies that are well positioned to benefit and leverage AI could outperform the market over the long term.

**ALEX:** Patrick, the name of this strategy is the AI Enablers & Adopters Strategy. What does that mean? Enablers and adopters?

**PATRICK:** Enablers are the companies that are enabling other companies to take advantage of the AI and the adopters are companies that are adopting the AI from companies like Microsoft, Nvidia or OpenAI or these large language models. They're adopting it within their enterprises to significantly enhance the revenues and/or the efficiency of their business. We think because this technology is going to be so pervasive across sectors, there are a lot of different companies that are going to be able to take advantage and leverage AI technology.

**ALEX:** Patrick, I wanted to talk about a couple examples of technologies that you believe may be enhanced by AI.

**PATRICK:** It is difficult to list all of the areas where AI is having an impact but some of the main use cases where we are currently seeing an impact are software coding, marketing, fraud detection, digital advertising, call center/customer service and creative arts and design. We think AI use cases will continue to expand as generative AI is applied to emerging technologies. One big area of focus and opportunity long term is autonomous driving and autonomous robotics/humanoids. We think autonomy can create massive long term value to companies and the global economy. The timing of major advances is uncertain, but we think generative AI is accelerating the timing of these emerging technologies.

**ALEX:** And is this related to AGI? Artificial General Intelligence?

**PATRICK:** Yes. AGI basically means that you're mimicking human behavior or you're reaching human cognitive abilities, or you're able to perform tasks that humans would typically do. So, when we achieve AGI, there will be a lot of implications behind that. And again, I think that's why this represents such a large TAM and how AI can address some portion of the global labor TAM.

**ALEX:** Patrick, you've been tracking AI companies for years, and now you have a portfolio dedicated to AI. What makes a company not just a great company but a great AI company for this portfolio? That is, what "checks all the boxes" for you?

**PATRICK:** It would be a company where AI can enable that company to sustain or enhance their revenue growth rate and ideally, it's enhancing their competitive position and their competitive moat as well.

A company such as Microsoft seems to check all the boxes. Evercore ISI recently put out a piece on

Microsoft. They estimate that gen AI can lead to an additional \$80 billion of revenue in 2028 for Microsoft. We actually think that number is conservative. Microsoft is infusing AI across all of their applications. They are embedding AI across their entire product line, and this is not only leading to an acceleration in their topline growth, but it's also significantly enhancing their competitive position and their competitive moat.

And now Microsoft is launching an office copilot where they want you to basically start and end your day with your digital assistant, which we believe should significantly enhance your productivity as an employee. As a result, it further entrenches enterprises with Microsoft and their family of products.

**ALEX:** And beyond the more well-known names, you're also focused on AI companies that could be tomorrow's leaders?

**PATRICK:** Yes. Absolutely. We think that there are a number of companies that will benefit from AI that are not fully appreciated by the market. There will also be a number of emerging companies over the next decade that have the potential to disrupt the incumbents, and some of these companies, we may not really know who they are right now, but we believe there's a lot of funding going on in this area. Many of these companies will fail, but many others will be successful.

**ALEX:** Patrick, in considering a strategy like this, some investors will no doubt be asking, why active management? Why do you think active management of a product like this is so important?

**PATRICK:** Given the unprecedented pace of innovation, we want to have the ability to adjust our positions and weightings according to the rapidly evolving landscape. A perceived winner today may not necessarily be a winner tomorrow if they do not continue to adapt and innovate. And because all of this innovation is occurring at such a rapid rate, it does present risks to even some of the most dominant companies in the market.

We also expect volatility to be high in a number of the AI beneficiaries and want to be in a position to take advantage of that volatility

**ALEX:** Patrick, final question. For an investor who may be considering an AI product for the very first time, why Alger?

**PATRICK:** Why Alger? We believe the mega theme of artificial intelligence is perfectly tailored to our investment philosophy. Our investment philosophy revolves around investing in positive dynamic change. Identifying companies in the midst of

positive dynamic change and seeking to capitalize on that change before it is recognized by the rest of the market. AI is one of the biggest technological changes in history and this will be a multi-decade theme.

At Alger, we are a very fundamentally driven, experienced investment team. We are very focused on this topic of AI in thinking through how it's going to impact the economy, the market, sectors, and companies. We believe we are well suited to identify the potential winners and the losers as a result of this technological revolution.

**ALEX:** Patrick, thanks so much for talking with me this afternoon.

**PATRICK:** Thanks Alex. Great talking with you.

**ALEX:** And thank you for listening. For more information on the Alger AI Enablers and Adopters Strategy and for more information on how Alger can help you unlock your growth potential, please visit [www.alger.com](http://www.alger.com).

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