



# Aiming to seize the future with Allianz Global Artificial Intelligence

**For fund distributors and professional investors only**

Lead Portfolio Manager **Sebastian Thomas** and Senior Research Analyst **Stephen Jue**, two of the team behind **Allianz Global Artificial Intelligence**, explain their active management approach to Artificial Intelligence (AI).

*“We want to enable clients to tap into the largest driver of innovation and disruption over the next decade”*

## Why did you launch the fund?

**Sebastian Thomas:**

*We launched the fund because AI is set to have a huge economic impact and we want to enable clients to tap into the largest driver of innovation and disruption over the next decade<sup>1</sup>. Consultants PwC predict that AI will drive global GDP gains of USD 15.7 trillion by 2030, making it the biggest commercial opportunity in today's economy. More companies are exploring how they can use AI to improve their products and consumer experiences, enhance efficiency and drive competitive advantage.*

## Why is active management key to seizing the opportunities here?

**Sebastian Thomas:**

*While many CEOs are bullish about the potential for AI to transform their competitive prospects, there will be winners and losers. That's inevitable given the level of disruption likely caused by AI. Some firms will fail in the execution of the underlying technology, others will struggle with cultural challenges related to AI adoption or wider market dynamics. Stock picking and active management will be critical for identifying companies that will prosper.*

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## Can you tell us more about the fund's history and client base?

**Stephen Jue:**

*We introduced the first Global Artificial Intelligence Fund in Japan with our partners Sumitomo Mitsui in September 2016 and raised USD 873 million in two weeks. It was the biggest new fund launch in 2016, and assets under management now stand at more than USD 4 billion (as of 31.01.2018). In March 2017, we launched a Luxembourg-based UCITS vehicle for Europe and Asia ex-Japan, and recently added leading distribution partners in Singapore, Hong Kong, and China. With primary distribution through retail and private banks, our client base is mostly individual investors who seek secular growth over the long term<sup>1</sup>.*

## What exactly does the fund invest in?

**Stephen Jue:**

*We invest in companies that stand to benefit from the deployment of AI infrastructure, the development of AI applications, and the adoption of*

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AI to transform their industries. At this early stage in the development of AI, about 40 per cent of holdings are related to AI infrastructure, which includes companies in the semiconductor, electronic components, and software sectors helping to build out the AI ecosystem.

## What makes this fund different?

**Sebastian Thomas:**

One of the things that differentiates the fund from, say, a typical tech fund is that it invests in companies across all sectors that are benefiting from the rapid developments in AI – not just the technology sector. For that reason, the fund is not managed to an index. We use the MSCI World Information Technology Index as a reference benchmark. However, as AI is gradually adopted by more companies outside of the technology sector, the MSCI World Index might be more appropriate longer term.

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## What's the fund's geographic exposure?

**Stephen Jue:**

Although US-headquartered companies constitute the majority of holdings, we expect greater global diversification over time as more AI developments emerge out of research labs, and as AI-related start-ups seek listings. As noted at our recent Investment Forum in Hong Kong,

China is investing heavily in AI-related technologies, setting up a potential AI "arms race" with the US.

## Can you tell us about some of the companies that the fund holds?

**Stephen Jue:**

Many companies are now leveraging the latest AI technologies to drive new innovations. For example, Square<sup>2</sup> is unique in the FinTech space and leverages AI to help onboard and score transaction risks in segments of the market that other processors have been unable to do economically. One of the most exciting longer-term applications of AI will be in health care. Athenahealth<sup>2</sup> provides software for managing medical records and patient engagement, and is applying machine learning to optimize the patient scheduling process and help doctors better leverage patient data.

## Finally, a question you must get a lot: Do you have any plans to incorporate AI into the investment process?

**Sebastian Thomas:**

AI can't replace expert analysts and portfolio managers who are able to meet with management teams, attend industry conferences, analyze technological developments and assess how long-term value may accrue. The other big challenge is that AI-driven investing approaches perform especially poorly during periods of rapid technological innovation and industry-level disruption, when past performance is a poor indicator of future outcomes. That said, we're always watching for any tools that can improve the repeatability of positive outcomes for clients.

Want to know more about our fund and AI in general? Visit our dedicated insights page: <https://lu.allianzgi.com/en-gb/pro/insights/in-focus-artificial-intelligence>

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1 Source: A performance of the strategy is not guaranteed and losses remain possible.

2 Source: This is no recommendation or solicitation to buy or sell any particular security.

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