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2025 has proved to be an eventful year so far. In our view, it has been defined by continued AI progress and, more recently, early signs of its disruptive potential. In terms of model progress, we have seen new AI models from OpenAI, Anthropic, Alphabet and xAI, that have continued to push the boundaries of AI capability. These models have made significant gains in key AI benchmarks, such as Humanity's Last Exam, made possible by the advent of a new scaling vector in so-called reasoning models and test-time compute that allow more time to build chains of thought to generate significantly better responses.

Recently, we have seen xAI release Grok 4, which Elon Musk claimed was the smartest AI in the world. This claim has subsequently been challenged by a new model from OpenAI, GPT 5, which, according to several other benchmarks, has regained the lead. Not only does this show that the AI race is alive and well, but this fundamental progress in AI models is underpinning our constructive outlook for the tech sector. We expect its progress to remain rapid, reflecting AI scaling five to six times faster than the improvements in transistor density that transformed our adoption of semiconductors, as predicted by Moore's law. Should AI scaling continue at this pace we are likely to be regularly surprised by AI progress as well as the size of the market opportunity addressable by AI.

Rapid AI adoption

Better models have also continued to drive AI adoption, which has also significantly increased this year. Consumers are beginning to adopt AI as an alternative to traditional search, as referenced by OpenAI, the market leader, which has seen its weekly average users increase from 300 million at the start of the year to around 800 million today. In fact, every day, OpenAI handles a billion queries – just three years after the launch of ChatGPT. To put this into context, and to highlight how much faster AI adoption is likely to prove relative to earlier technologies, it took Google until 2009, 11 years after it was established, to achieve a billion daily searches.

The combination of better models, improved reasoning and more users is driving an explosion in AI volumes. For instance, users of Cursor, an AI code editor, are already generating a billion lines of code every day. At Microsoft, 35% of the code required for new software is already AI-generated. Coding is just one of many applications that are driving remarkable token growth. Another way of measuring AI volume, tokens are the smallest chunk of text a language model can read or generate.

18 months ago, Google was processing 5 trillion AI tokens a month. In June, it processed nearly a quadrillion. That's 1,000 trillion – more than double the amount it processed in May.

Fuelling AI revenues and investment

AI revenues have also risen sharply, particularly for AI natives such as OpenAI, which has grown sales from \$1 billion in 2023 to more like a \$12 billion revenue run rate today. Rival Anthropic is said to have a \$4 billion revenue run rate. In addition, in its March quarter, AI was a meaningful contributor to growth at Microsoft Azure. Meanwhile, Meta has said it is seeing strong returns on its own internal AI spending, with AI driving 5% more ad conversions and 6% more time spent on Instagram in Q2 alone.

This growth, together with confidence in likely further AI progress, has seen AI investments significantly increase. In 2023, the year following the launch of ChatGPT, the five largest cloud companies spent a combined \$130 billion. In 2024, this rose 70% year-on-year to \$225 billion. And in 2025, despite earlier DeepSeek related concerns, spending is expected to exceed \$375 billion. In addition to hyperscaler CapEx, sovereign spending on AI is now exceeding \$50 billion annually. Yet despite spending \$447 billion between 2022 and 2024, the industry is still AI-capacity constrained, which helps explain why CapEx estimates have continued to move higher. One prominent sell-side analyst believes that, between 2025 and 2027, more than an additional \$1 trillion will be spent on AI infrastructure. We believe that the scale of this spending, perhaps as much as 1% of GDP in 2026, ultimately reflects confidence in AI progress, the scale of the AI opportunity and its likely status as the next general purpose technology.

While NVIDIA, our largest holding, has been the prime beneficiary of AI investment, it has also benefited many other companies across compute, storage and networking. A power bottleneck has also seen AI investments significantly benefit power and cooling companies. By 2028, Anthropic believes total AI training power demand may reach 20 to 25 gigawatts. For context, Microsoft, the second largest hyperscaler, has created just two gigawatts of datacentre capacity globally during the past year. We are excited about investment opportunities within power and cooling, and consider the sector to be the first of many likely to be pulled into the broader AI theme.

Agentic AI

Looking forward, the next significant AI waypoint is agentic – the idea of AI agents being able to plan, make decisions, and complete tasks to achieve a specific goal without human intervention. We are so excited about agentic AI that we made it the theme of this year's PCT Annual Report. At a prosaic level, agentic AI might be able to find a hotel and book it on my behalf, acting as a tool to help me, rather than using an online travel agent. However, our excitement is about the bigger prospect of non-human scaling possible with agentic AI.

In our opinion, some of the most exciting moments in history have been driven by non-human scaling. Mechanisation during the Industrial Revolution allowed us to overcome physical constraints. The information age and the digitisation of knowledge saw us overcome informational and geographic constraints. We believe agentic AI has the potential to allow us to overcome cognitive and time constraints. A good way to think about this was something said by the NVIDIA CEO, Jensen Huang, when he described a future NVIDIA that could be 50,000 strong in terms of people, but augmented with 100 million AI assistants. If Huang is right, this could help us unlock significant productivity gains and unknowable positive externalities while enabling individuals and companies to reduce their dependence on human scaling.

Beyond agentic lies artificial general intelligence (AGI), also described as superintelligence. While we do not know when this will happen, we are confident that it will. Sam Altman, the CEO of OpenAI, has said superintelligence is possible in a few thousand days, while Mark Zuckerberg has recently said superintelligence is in sight. Elon Musk, perhaps unsurprisingly, has been bolder, suggesting that the probability of AI exceeding the intelligence of all humans combined by 2030 is essentially 100%.

Our positioning

What does this mean for investors and how are we positioned for it? We see more disruption ahead. More than two years ago, following the launch of ChatGPT, we pivoted our portfolios decisively in favour of AI, describing ourselves as AI maximalists. Since then, we have been hugely excited by and have participated in the progress that AI is made. However, AI disruption has been relatively modest as nascent AI has largely coexisted with pre-AI technologies. This is consistent with the Christensen theory of creative destruction, where new technologies begin as complements but often end as substitutes. However, more recently we have begun to see AI disruption emerge in several areas, including executive search, ad agencies, information services, and even within software, where shifting investment narratives have begun to cast some companies as losers from greater AI capability.

In our opinion, the recent derating of software stocks, something we anticipated some years ago, reflects the risk posed to their growth profiles. AI threatens not only the perceived business model made possible by the cloud, but also the value of their code bases that have taken decades to create but look less valuable in a world where AI can produce maybe a third of new code today.

The disruption that we are seeing in software is unlikely to end there. Just as increasing AI capability increases the aperture of the AI opportunity, so it should increase the scope and speed of AI disruption. At the same time, cheaper, better AI is likely to create market opportunities that did not exist before. Both the smartphone and cloud cycles inform us that these new market opportunities – what we call invisible market opportunities – can be significantly greater than the earlier identifiable ones.

AI disruption and incumbent technology

After years of having to contend with a remarkably narrow market driven by the remarkable Mag 7, more significant AI disruption and new market opportunities should mean that we begin to see AI begin to exert both positive and negative impulses on existing businesses and profit pools. In our view, we are beginning to see this already, with more of a two-way debate around the AI positioning of several of the Mag 7 members.

We also know the creative destruction within technology means that new cycles have rarely proven positive for incumbents. As such, we have begun to reduce our exposure to several of the Mag 7 names as we expect them to be less good AI conduits in the years ahead. Instead, we prefer to invest more directly in AI infrastructure enablers as well as AI beneficiaries, together with selected companies at the boundary of where technology meets the real world. This includes companies such as Axon, who have been using AI to redefine law enforcement.

Despite all this, we do not expect AI progress or stock prices to move in a straight line, nor do we expect the DeepSeek episode earlier this year to be the last time the AI story is challenged. Instead, we anticipate further bouts of volatility and buffeting, as is normal for a new technology cycle and steep innovation curves. We think that the current period is best understood as analogous to the mid-1990s, a period that was formative in my own investment career and one that saw the early years of the internet infrastructure build-out. Between 1995 and 1998, well before the dotcom boom, the Nasdaq enjoyed a very strong period of returns, rising around 350%. But during that time there were seven >15% corrections, all of which felt uncomfortable at the time. Now, history is an imperfect guide – and we expect further volatility in the years ahead – but we believe it is more important to remain focused on the AI theme, and the opportunities and disruption associated with this next general purpose technology.

We believe our multi-cycle investment experience, a team of 11 investment professionals and a dedicated AI fund that has been looking beyond the traditional boundaries of technology for almost eight years, leave us well positioned to capture more than our fair share of AI-related opportunities in the years ahead.

Find out more



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