

# Janus Henderson's Richard Clode Highlights the Huge Investment Opportunities of AI for Private Clients

AI is very clearly the next major technology and computing wave, with vast potential to disrupt multiple industries across the planet. Richard Clode, Portfolio Manager at Janus Henderson Investors, told delegates at the Hubbis Investment Forum in Hong Kong on September 27 that although in its very early stages, AI is already delivering some compelling investment opportunities. But he warned that it is vital to understand the concepts behind the technology, and stated that objectivity is vital to sort the winners from the losers and to back the right horses in what is going to be a long, long race. This is a short review of a very detailed talk and slide show, access to which is available for readers in the link below.

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**RICHARD CLODE**  
Janus Henderson Investors

**Richard is one** of the lead managers in the Janus Henderson Investors (JH) Global Technology Leaders Strategy, one of the firm's (and indeed the world's) longest-standing technology funds. The largest holdings as of August 31

computing, and other apparent 'winners'. "Nope, not going to happen," he stated. "I am not a futurologist, I'm an investor, and I want technologies that are going to happen in the next few years as a maximum, and I want companies that are going to make tonnes of money out of it. Technology is a great place to find stocks where you have positive earnings revisions and great new technologies, thereby driving up stock prices."

He also said he cares little for interest rates and other metrics when looking for real growth. "If the company is making profits and lots of it has a strong balance sheet and net cash on the balance sheet, I don't need the Fed to cut rates for my technology

your investment returns in equities in the last 20 years, the same thing will happen with AI. There will be numerous industries and stocks disrupted that you don't want to own. And there will be numerous new companies that are going to take advantage of this and be great investments, and that you do want to own."

### **Gates and AI's 'Wow' factor**

Richard said Bill Gates very clearly sees the 'Wow' factor in AI, considering it the latest breakthrough technology that will dramatically impact all walks of commerce and life. It is little wonder then that Satya Nardella, CEO of Microsoft, has stated that "the age of AI is upon us", and launched its AI solution in the

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include names such as Microsoft at 9.05%, Alphabet 8.18%, NVIDIA 8.01%, and plenty of others such as Amazon, Meta, Apple, Taiwan Semiconductor Manufacturing, and Uber. The fund was up 37% YTD at the same date and is up 285% in the past 10 years, according to JH data as presented by Richard at the Forum.

### **Real concepts turning real profits**

Richard first explained that he is sceptical (or more cynical, he said) about the Metaverse, Crypto, blockchain, quantum

companies to go up," he stated. "But I am here today to talk about how we look at identifying those companies and why we're really excited to be tech investors, particularly today.

### **AI – the real game changer**

AI is not a theme, he reported. AI is the real major next new technology wave. "It's going to impact everything that we do, and it's going to happen in the next 12 months, not in the next 12 years," he said. "In the same way the Internet defined

form of Copilot very recently.

Richard then went into some detail about the predictive objectives of copilot alongside Microsoft's personal computing suite, and that will result in a major leap forward in efficiency and productivity. "Everything that you do will start through a Copilot, through Generative AI," Richard told guests. "And that's why it is such an important technology – in short, it is going to change everything that we do. It will have as big an impact on usability and accessibility as the smartphone."

### Ultra-rapid evolution

Richard explained that AI models teach themselves, noting that ChatGPT was trained on 175 billion parameters, while the latest manifestations of similar models have about a trillion parameters, and they can learn for themselves, and as a result are able to solve problems that might have been thought impossible to solve by every MBA or doctorate degree out there.

And he reported that to train a trillion parameter AI model, you need an NVIDIA chip. "It costs about 50 times more to train an AI model with an Intel chip than it does with NVIDIA, which is why their stock price has soared – their earnings revisions keep going up and that is what despite the stock's rise, it has actually got cheaper this year."

### Layer on layer

Richard said that the next step after training those models is to launch some new amazing Gen AI product and/or service. "Once you roll that out and scale that, you need something called inferencing, which is very different to training. And that means NVIDIA, which has an inferencing chip, but there are also many other companies that we think will have a similar earnings journey to NVIDIA, and our job is to identify them."

He pointed, for example, to names such as Marvell, and Broadcom that will be co-designing these chips with global tech giants, and that are yet to really move into analysts' models. "I want to be able to get exposure for our clients to those sorts of companies," he stated.



### New branches sprouting from the vast AI tree

Richard then highlighted some other themes and developments to watch for. One of these is high bandwidth memory, empowered via hybrid bonding, which is delivered by just one mid-cap company in the Netherlands, named Besi. "This is an example of why you really need to understand where these technologies are going to understand the earnings trajectories of these companies," he said.

And this is not like a 'Peloton' phenomenon - here today and struggling tomorrow – but companies that Richard stated are going to make real profits out of AI. "What we saw with the FANG and the Internet age, was those trillion dollar market cap companies created because they disrupted basically two industries, retail and traditional media. But Generative AI is going to disrupt every industry. Jobs will be lost but new jobs will come with productivity gains on existing jobs."

### Recession proof

And as long as those productivity gains are delivered, companies are going to be willing to spend on this technology. "That is why we believe even during a recession, people are going to still spend on Generative AI, and that makes us very positive again on the profit generation of a lot of the companies out there. But we must be selective."

He explained, for example, that Microsoft charges USD30 for Copilot per enterprise user, and reported that Microsoft has 400 million enterprise users, meaning some very large numbers rolling out. He pointed to Adobe having launched Firefly for 5 US cents an image whereby a user can tell Adobe Firefly what image they want for your presentation or marketing document, and it is created instantaneously.

### These are just the early days

"And remember," he said, "we are in the very early stages, building the infrastructure today, and

there are numerous ways in which people will make real profits from these products and services in the future.” The smartphone has spawned millions of apps and services, such as Uber or Grab in Asia, revolutionising many services and spheres of commerce.

### The Magnificent Seven shoot down valuation misconceptions

Richard then turned to valuations, arguing that the ‘Magnificent Seven’ of Apple, Microsoft, Alphabet, Meta, Amazon, Nvidia and Tesla are actually far cheaper

on a forward basis than leading brand names such as Coca Cola, MacDonalds, Walmart and similar. And that is without factoring in the potential upside surprises on earnings revisions, such as NVIDIA has achieved in 2023.

And he added that the other thing that has changed is the cost of capital is returned. “Money isn’t free anymore,” he reminded the audience. “In the right technology stocks, we are now seeing major margin expansion, higher profit margins and a lot of tech companies and with the balance sheets to

be able to see them through any recession or slowdown.”

### New Horizons ahead with Janus Henderson

He closed his talk by offering more detail on their Horizon strategy and reiterating his message that their mission is to compound investors’ wealth over time. “This is a great time to be investing in tech because we have a major new wave,” he concluded. “But the way you want to invest in tech is different today.” As the Microsoft CEO has stated, the age of AI is upon us. ■

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