

Q&A with Ben Rogoff, Partner & Fund Manager Polar Capital Global Technology team

Is AI the catalyst for a broader tech market?

Q: Vik Heerah (VH), Head of Marketing, Polar Capital: Ben, it's been another fascinating year so far for technology stocks and equities more broadly. We've seen Trump's Liberation Day tariffs cause a sharp fall and then a very sharp recovery so we are already back to all-time highs on the NASDAQ. What has driven the market? And – a question I have asked many times before – are you now concerned about valuations?

A: Ben Rogoff (BR), Partner and Fund Manager, Polar Capital Global Technology team: It has been a very eventful year to say the least. We started with excitement after Trump's second election victory. We were then met with an unexpected Chinese AI model (DeepSeek), then the broader equity market suffering from Liberation Day and fear around what a reset in global trade might mean.

Since then, having reached points of maximum fear, markets have returned to highs as many of those worst-case outcomes did not transpire. There is still a lot of uncertainty, as we do not know how any of these trade deals are going to pan out, but it does now feel like the base case is a recalibration rather than a reset of global trade.

Against that backdrop, we have seen corporates continue to do well. Tech leadership has reasserted itself because ultimately AI data points, capital spending and adoption have all been very positive and this has driven markets higher.

In terms of valuations, they started the year elevated relative to historic levels, then moved a little higher, then sold off sharply. The tech sector is now trading towards the higher end of where valuations have been since the Global Financial Crisis (GFC). That naturally gives people reason to pause, as it is always easier – in theory at least – to buy things when they look cheap. But the reality is that they looked 'cheap' during the tumultuous period in April when we were worrying about what would happen to GDP (Gross Domestic Product) and earnings.

Looking at tech valuations is never easy – throughout my career the number one pushback to owning tech stocks has been around valuation. We are not being flippant about it; we are excited that technology earnings, at least in the areas we are interested in, have been revised upwards. We would also add that the starting point for valuations is not unreasonable against a backdrop of rapid AI adoption, a historic infrastructure buildout and the potential for new general purpose technology.

Q: VH: The recent challenge for you as active managers has been the concentration in the market. Do you see this broadening out?

A: BR: You're right – the market has been incredibly narrow. That has made for a difficult backdrop for nearly all active managers, particularly in the 'growth' world, because the Mag7 [Magnificent Seven] or other selected companies have been driving returns. However, these stocks have also been the engine room of the

absolute returns we have been able to deliver for our shareholders, so it's a case of 'be careful what you wish for'.

Natural monopolies such as Apple and Google, while perhaps their highest growth rates are behind them, have been incredible vehicles for shareholders to invest in. They have also been a thorn in our side in terms of being able to deliver alpha relative to the benchmark, because they have dominated returns and the industry's profits. Going forward, we think the market will broaden as we think we are two or three years into a new technology cycle. History suggests that winners from previous cycles fare less well in subsequent cycles. Of course, all these companies are well aware of that and their R&D [research and development] budgets demonstrate their desire to remain relevant.

For example, Google is one of the leading AI frontier companies in the world. It also has risk associated with AI, but it understands that risk so we think these companies are not going to go quietly – but history suggests a broadening of the market is highly likely.

We are a team of 11 and we have multi-cycle experience. As fund managers, we tend to focus on our winners and people usually want to know when we first bought Google or Apple. We very rarely get asked when we last owned a stock that is no longer relevant, but I think it is a key skill we have developed as a core part of our investment process. It has not really been a helpful tool over the past few years, as

mega-caps have dominated proceedings. However, if we are right and AI starts to act as a potential magnet or as a way to redistribute profit pools, then the skills we have learned and honed over previous cycles should start to become relevant again.

Q: VH: You have obviously been very bullish about AI, calling yourselves AI maximalists, but there are sceptics. What if you're wrong? What are the downsides or the risks of it not working? Or are we already past the point of no return?

A: BR: I suspect we are probably already past the point of no return. The performance we are seeing from the very latest Grok 4, but also Anthropic and Open AI models, as well as Gemini from Google, suggest the capabilities of these models are already at levels that make some of the bull case an inevitability in terms of the ability of AI to not just act as a tool for humans, but to begin to replace or supplant some of the things that today are done by humans. It sounds very scary, but it is also hugely exciting in terms of what humankind can do if we are able to gravitate to higher-value work as we have done in other periods of history when technology has automated human tasks.

It is becoming increasingly obvious that AI is going to change the world as we know it, but that does not mean the investment story is done and dusted. There are still meaningful risks to the AI story today. That may sound counterintuitive – if we are AI maximalists, why are we talking about risks? Partly because it is our job to remind investors that things do not go up in a straight line, even when you are right.

The principal risk that we see today is not Chinese entry or new models or some piece of regulation that could potentially slow some of the trends we are seeing. It is really whether AI models can continue to progress. If they can continue to move and scale in the way they have been, then the weaknesses of some of those models will get lost very quickly. The rate at which they are scaling is unprecedented, much faster than we saw with chip scaling and Moore's Law. The scaling we are seeing today is why

new models coming out are, in increasingly short spaces of time, meaningfully better.

Grok 4 from xAI is meaningfully better than Grok 3, which in itself is not a very old model. We are going to see new frontier models from Google, OpenAI, Anthropic and others. As we continue to scale AI, the addressable market for AI opens up, like the road would open up with a fast-performing car. The biggest risk is that at some point the scaling slows, and at some point this must happen. But xAI's very recently produced Grok 4 suggests to us at least that scaling laws today are alive and well.

Q: VH: A feature of the investment trust you manage is that you have five-yearly continuation votes. You are quite self-critical: how would you look back on the past five years for the Trust and for technology? More importantly, how do you look forward and what would you say to shareholders looking to vote?

A: BR: The first thing I would say to shareholders is that I would love another five years of being part of the incredible tech story that is evolving. It has been the privilege of my life to have been involved in tech investing for as long as I have, but also to have been the manager of this incredible investment vehicle. If you can vote and if you are so inclined, we would love to have your continued support.

In terms of how we feel about the past five years, it has been an incredible period, encompassing the ups and downs of the global pandemic. This was very much a whipsaw period for technology companies, marking the zenith of the last cloud 'software as a service' technology cycle. We came out of the pandemic and there was a tricky period initially for valuations as the hopes that pandemic behaviours would persist did not transpire. That was the sobering part of the past five years.

The last half of the period was about the AI story, with the advent of ChatGPT. We are not that far from the three-year anniversary of what I think is the 'Netscape moment' for the AI story and it has been an incredible period.

If we look at the rolling five-year period, the Trust's NAV (net asset value) is up more than 100%. We are very happy with this, but of course it is not a guide to future performance. In the five years prior to that, the Trust's NAV was up more than two and a half times. The tech sector has its ups and downs, but it has been a very exciting place to be for me as an individual and as an investor. I hope our shareholders feel the same way.

Without wanting to get bogged down in trying to predict outcomes, do we feel as excited about the next five years as the past five? We absolutely do. We are three years into what is likely to be a multi-year investment cycle. We are beginning to see the adoption of some of the AI engines like ChatGPT, said to be used by 800 million people now. We are moving into a world of AI. It is exciting and emerging at the moment, but over the next five years it will move into the mainstream and it is really hard to know what that will look like.

What we can say from looking at history is that the visible market opportunities that we can invest in today are going to give way to a vastly greater canvas, where the pricing of AI, the capability of AI and the billions of people that adopt AI will open up market opportunities that did not previously exist. How can you not be excited about that?

Ben Rogoff

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Find out more



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