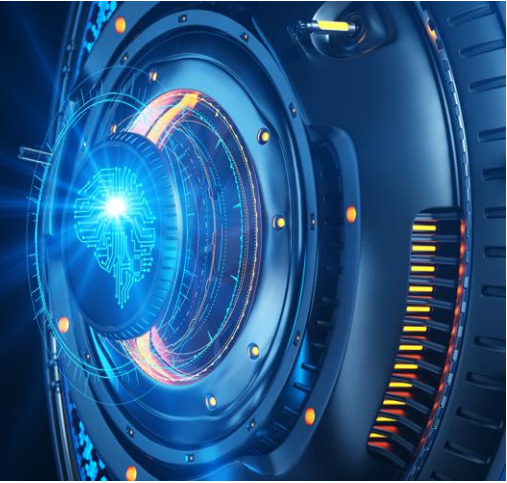


A “DeepSeek” dive into AI disruption



Transcript

Title: A “DeepSeek” dive into AI disruption

Speaker: Sri Iyer

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i³ Investments™ Team is a portfolio management team with Guardian Capital LP.

Q1. Why do you think DeepSeek is impacting the valuations of large U.S. technology companies?

DeepSeek has come up with an algorithm that allows us to lower the input costs of coming up with answers. The market is moving from large language model training to more inferencing. As input costs slow down or fall in the world of baseline large language models, you will see that hyperscalers will start to improve their opportunity set in delivering better models to the industry.

Q2. What’s the opportunity in the wake of the repricing of the large U.S. technology stocks?

Before we try to answer the question of how it benefits stocks, we need to be very clear in classifying companies within the AI space in a very broad sense, AI stocks can be classified into enablers and adopters. Enablers are companies that are in the forefront of building out the AI architecture. They involve semiconductor companies, as well as hyperscalers like OpenAI and Google and everyone else that are spending significant amounts of money to build these large language models.

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The adopters are companies that use these models for inferencing and making their software more productive. Recently, we have seen the baton being passed from the hyperscalers to the adopters, where we see that the adoption rate for these companies, like software companies, are starting to scale up quite fast. The impact of DeepSeek will just, kind of, put this into warp speed and see these companies start to adopt large language models into their daily solutions at a faster rate.

So, for example, if you look at companies like Microsoft, they already have been building small language models to address focused inferencing needs of different industries. You look at companies like ServiceNow, have gone huge into RAG models, which are again trained on specific data sets to solve problems. You're seeing companies like Apple, who are on edge AI, are actually using AI systems and a large language model that will be local to your smartphone or your laptops. So, companies are already starting to adapt to how to use large language models into their own business fields, but with the emergence of DeepSeek, you're going to see the cost of that input come down even more dramatically. So as input costs come down, you're going to see an exponential growth in adoption rates, and that is extremely good overall for the industry as a whole.

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Q3. How could this potentially impact how you construct your portfolio?

i³ Investments uses artificial intelligence to help predict earnings growth, earnings disappointments, dividend growth and dividend disappointments. It factors in the productivity cycle, it factors in the CapEx cycle, it factors in the revenue cycles and it factors all these new inventions that are coming out, where you're going to see more and more dramatic innovations in algorithms to reduce the cost of large language models.

This type of productivity response is captured by our artificial intelligence frameworks. The impact of that on the portfolios is based on the exposure to these enablers and adopters of artificial intelligence. We have exposure to both enablers and adopters in our quality growth strategies. While we have a larger exposure to the adopter cycle, or what we call SAS AI, in our dividend growth strategies.

At this point, this impact we see as a long-term positive and a short-term opportunity. So right now, we do not see any changes happening to our portfolios while we digest the impact on this news of DeepSeek, on the semiconductor industry in particular, and its trickle down effect to other parts of the industries, not just technology, but industrials, healthcare, commodities – in every aspect of the industry are going to see a trickle down effect of the lower cost of AI. And so, we think this is extremely positive for the overall productivity runway as well as the cash flow runway over the long term.

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Q4. As a user of AI systems, does this create more opportunity for what you and your team can do with technology?

The impact of DeepSeek on our opportunities in technology, as AI engineers using AI algorithms to infer, will have nominal changes to the extent that the architectures we use today are broken up into three parts: machine learning, deep learning, and large language models. Our dividend growth predictions and earnings growth predictions are built on machine learning architecture, which is already robust.

Our deep learning models, which are neural networks, which are five layer networks, are economical at this stage and we feel that the current open-source architectures are available for us to come up with great inferencing responses to stochastic behavior of stock prices. The third component, that we have made a foray over the last six years, is the large language model since November of 2023. Large language models are built on hyperscale architectures like OpenAI or Anthropic, or any of those other vendors. There is a cost involved when it comes to using large language models today. With the impact of DeepSeek, you could see these hyperscalers starting to drop their prices, to be competitive enough to some of the newer models that will come out, that will kind of either mimic or give you the same amount of inferencing for a lot of lesser cost. So, it will eventually trickle down into our framework, but the current data usage in our large language models and how we tend to use it, the cost savings will be reasonably marginal. But it's inevitable, at some point, these hyperscalers are going to use this very architecture that DeepSeek is doing into their own frameworks. So, we should see the impact of this anyways on a general basis and on a specific basis on us.

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Disclaimers

The i³ Investments™ Team combines quantitative and fundamental analysis in managing investment portfolios. The quantitative component of the team’s investment process has evolved as new tools and datasets have become available and, over time, new quantitative models which incorporate aspects of artificial intelligence have been incorporated. The i³ Investments™ Team provides a modern approach to portfolio construction, combining the advantages of quantitative analysis, big data, and artificial intelligence with the experience, perspective, and decision-making of our investment team. The application of quantitative investment analysis that incorporates artificial intelligence and machine learning in a forecast model is forward-looking and the simulated results are subject to inherent limitations. Investment strategies which rely on predictive artificial intelligence and quantitative models may perform differently than expected, as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors’ historical trends and the limitations of technology in the construction and implementation of the models. There is no guarantee that the use of the quantitative model and artificial intelligence will result in effective investment decisions. There are no guarantees that dividend paying stocks will continue to pay dividends. All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful.

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