

# ROUNDTABLE



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PORTFOLIOS®

Winter 2023

## Exploring AI Opportunities Insights from three portfolio managers



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# AI's potential: Transforming industries and investments

The race toward increasingly competent artificial intelligence (AI) is shaping a new chapter in technology adoption and its relationship to investing. Three of our open architecture portfolio manager partners share their perspectives on AI and how it is shaping industries, businesses, and markets.

They will briefly delve into ways AI is leading a transformative chapter in technology adoption and why this matters significantly for investors seeking opportunities and potential returns in this dynamic landscape. As usual, opportunities, challenges, and fund strategies will be covered.

While AI is becoming an important part in portfolio management, there are still many aspects that require a human ability. Technology will complement active management but not replicate it anytime soon.

## Investing in the power of people™

Being the leading open architecture in Canada, National Bank Investments (NBI) is dedicated to providing diverse investment solutions to meet your evolving needs.

We strive to be the best option for client portfolios. More than ever, we're investing in the power of people.

**Evidence-based decisions**

Through our robust due diligence process, we model our analyses to remain truly rational.

**Adding value through active management**

We manage a dynamic mix of active and passive solutions. Our competitive advantage lies in our selection of portfolio managers across all asset classes to actively manage different risk factors for greater returns when markets are inefficient.

### Our investment beliefs

**Risk management**

We carefully budget the risk in our portfolios through an optimal diversification of styles, factors and portfolio managers.

**Focused investment strategy**

Fundamental to NBI's success, following this investment process brings in the best investment results.

# Fixed Income



## Daniel S. Janis III

Senior Portfolio Manager, Co-Head of Global Multi-Sector Fixed Income  
Manulife Investment Management

Manulife Strategic Income Fund

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### Opportunities

Bond yields across several global markets exhibit value given recent volatility but risks to global economic growth remain elevated. From here, we anticipate a moderation in economic activity as central banks near the end of monetary policy tightening cycles amid elevated, though declining, inflation.

The lagged impacts of higher interest rates remain uncertain but are expected to weigh on consumer spending and housing/labour markets over the medium term. Volatility persists as investors navigate a still uncertain economic and geopolitical landscape.

Through elevated uncertainty, higher volatility, and a challenging economic backdrop, we believe it's important to strike a balance between yield/risk and quality, stability, and liquidity.

The investment team continues to monitor:

- ▶ Changes to current central bank monetary policy and forward guidance,
- ▶ Global economic, employment, and inflation data,
- ▶ Continued tightening of financial conditions, and
- ▶ Elevated geopolitical tensions.

As we gain further clarity on the trajectory of global economic activity with global central banks nearing the end of historic tightening cycles, we believe there will be opportunities in credit, interest rates, and currencies.

### Challenges

We're currently focused on fact-finding regarding artificial intelligence (AI) implications within credit research. In support of this effort, we have created an internal "AI Task Force" which is led by two experienced members of the U.S. credit research team.

The committee's primary areas of focus are to:

- ▶ Determine potential artificial intelligence use cases for fixed-income research. We envision this area of focus evolving to shape future use of AI over time, identifying and adopting best practices for applicable use in investment management.
- ▶ Better understand investment implications for issuers under fixed-income credit research coverage.
- ▶ Work to expand overall knowledge base for broader fixed-income team. This is especially important as product and client-facing teams start to get more AI-related questions from clients.

### Fund strategy

Duration positioning is closer to the higher end of historical ranges but broadly diversified across global yield curves. We plan to adjust interest rate exposures dependent upon incoming economic data, changes to central bank policies, or in instances of pricing dislocation associated with event or geopolitical risk.

Sector positioning reflects a material reallocation away from pure credit risk in favour of interest rate risk. We still find opportunity in corporate credit but expect a weakness in credit fundamentals late in the economic cycle. Valuations are attractive across several other areas of fixed income, offering total return and diversification benefits away from pure corporate risk. Positioning reflects an allocation away from investment grade and high-yield corporate credit and bank loans in favour of global developed market governments, supnationals, taxable municipals, and securitized assets.

In terms of currency positioning, we continue to hold a long-term constructive view on the Canadian dollar, however, will continue to actively manage exposures, balancing longer-term, cyclical opportunities with the risk of continued headline-driven volatility.

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# Canadian Equity



## David Jiles, CFA

Head of Canadian Equities  
Leith Wheeler Investment Counsel Ltd.

Leith Wheeler Canadian Equity Fund

[Held within 9 Meritage Portfolios: [get more information](#)]

### Opportunities

Without question recent advances in Artificial Intelligence (AI) by organizations like OpenAI have lit a fire under the stocks of companies hoping to be part of the new thing. The stock price of AI hardware and software supplier NVIDIA Corp, for example, nearly tripled in the first half of 2023 alone. It's too early to label the AI gold rush a bubble, but it does resonate with times like 2016–2017, when Canopy Growth went from \$4 to \$67 in less than a year. Canopy would go on to become the world's largest cannabis stock worth over \$26 billion in 2021. It now trades at less than a dollar per share.

### Challenges

With that said, our equity portfolios do have companies expected to be impacted directly and indirectly by AI. In August 2023, OpenText, a company in Leith Wheeler's Canadian Equity strategy, announced a new suite of AI products called Aviator. OpenText helps businesses with information management complexities, giving them deep experience organizing and protecting all types of large data sets. Developing AI products at this stage is a good opportunity for OpenText, as 60% of their business relates to data and content management, which AI can help customers leverage.

Cost savings will accrue to many industries, especially ones with expensive overhead that can be safely automated, like financial services. Banks already report using AI in their markets and trading businesses and future use cases will include enhancing advice and customer service.

It is early days for generative AI and companies will need to train large language models with their own data to ensure the output is of high quality and that customer data privacy is respected. While measurable results are probably a couple of years away, some immediate savings such as more efficient coding by internal programmers, are already being realized.

### Fund strategy

Given the rapid advances in AI, our teams are also sensitive to the higher risks that accrue to companies with smaller competitive advantages — i.e., those with a business model that relies on performing low value-added, repeatable tasks, that can be replaced by smart tech.

If we had written this article 10, 20, or even 40 years ago, the examples may have differed, but the conclusion would have been the same: the best way to choose stocks and manage portfolios for clients starts with defining and adhering to a disciplined process. Buying quality businesses at attractive prices with a long-term view works — whatever short-term themes dominate the headlines.

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# Global Equity



## Tony Genua

Senior Vice-President and Portfolio Manager  
AGF Investments Inc.

AGF American Growth Fund

[Held within 14 Meritage Portfolios: [get more information](#)]

### Opportunities

The 1920s, known as the “Roaring Twenties,” saw remarkable growth driven by technology, increased consumer demand, and a robust manufacturing sector. We believe the 2020s can similarly be dynamic and transformative, perhaps the “Rolling” 20s, with leadership emerging in sectors like Generative artificial intelligence (AI), healthcare, robotics, autonomous vehicles, and global reshoring efforts.

Generative AI is poised to be a significant paradigm shift, perhaps disrupting industries more rapidly than other major past innovations like the telephone, automobile, and internet. AI’s potential to boost efficiency and revenues across sectors may well be underestimated. Bank of America suggests that corporate AI implementation could save approximately \$65 billion in operating costs over the next five years, with AI’s global economic impact reaching \$15.7 trillion by 2030. Our view is companies such as Nvidia, Arista Networks, Synopsis, and Lam Research, are the “picks and shovels” in the gold rush, providing the essential tools for Generative AI.

### Challenges

Two economic concerns loom for the equity market. Firstly, federal government debt has soared due to pandemic-related spending. Interest costs are a concern with the significant move-up in rates. Secondly, geopolitical risks seem to be ongoing, with Russia/Ukraine battles, the recent Israel/Hamas conflict and possibly China’s activities, adding to market uncertainty.

### Fund strategy

Regarding market positioning of the portfolio some changes have been made. The underweight position in the Technology sector has been reduced, as we anticipate the Federal Reserve nearing the end of its rate-hiking cycle. Portfolio changes emphasize companies with strong earnings visibility.

We continue to maintain our overweight position in Energy and Industrial Products sectors, with the respective strength in energy prices and the reshoring trends benefitting the latter sector. The earnings outlook is encouraging with US corporations expected to exceed expectations once again in the 3<sup>rd</sup> quarter and thus commencing a sequential year-ago improvement as 2<sup>nd</sup> quarter results appear to be the trough for this cycle.

In summary, the 2020s hold the potential for remarkable innovations poised to drive significant growth. However, economic concerns and geopolitical risks require vigilance. This dynamic landscape demands flexibility in positioning strategies and a disciplined approach should ensure participation in the many opportunities ahead.

[continued]

# Global Equity



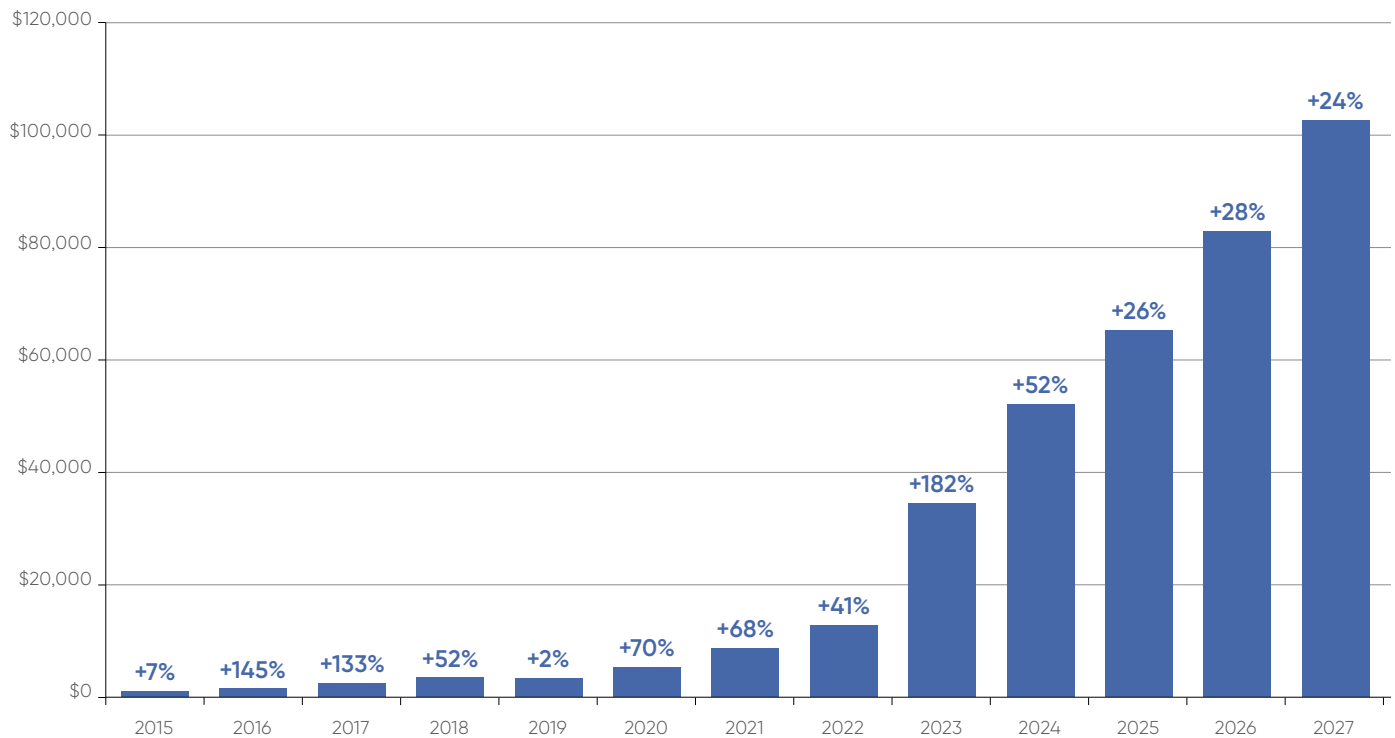
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### The GenAI wave drove Nvidia's GPU sales estimates to \$33.9bn in 2023, +182% y/y



Source: BofA Global Research (Note that GPU sales for 2023-2027 are estimates)

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