AI Value Chain

Transcript

...right? When they think about AI, it's all about the US. And they think that, if they were to actually go into international markets, they are actually going to miss out on that AI exposure. So just to be able to respond to that question, I think I want to do justice to it by explaining what exactly is the MSCI approach towards, you know, how do we calculate AI exposure?

What do we even mean by AI, right? Because I think for some investors, like for different investors, AI can mean different things. So there are some investors who would say that, what AI really means, the chip manufacturers of the world, the semiconductors of the world, the cloud infrastructure, the data centers, and all of that is good. But there is more to AI than just that.

What we have done is that we have mapped out the entire AI value chain. And in that value chain, of course, we have all these companies, including the hyperscalers. But at the same time, we also have, let's say, the energy providers that are, let's say, producing energy that power these data centers. We are looking at companies that are producing data, organizing data, acquiring data that can be used by model trainers.

We look at the model trainers themselves. We look at companies that are embedding AI within their commercial offerings or are, let's say, developing apps that are using AI as the primary functionality. So, you know, there are many, many different components of AI. And what we have done is that once we have defined this, we are using AI to solve for AI.

We are using large language models to be able to draw what that economic linkage is between companies and the different components of AI. And then we are essentially giving them a quantified score. Now, once you do that, the power of this particular data set is that you can aggregate that up at any index level, any portfolio level. You could calculate country-level exposures.

And so that's what we have done. What we have found is that US, of course, it tends to have high exposure to AI. And the underlying, the narrative there or the explanation there is that US companies, they are more exposed to the data and the application layer of AI. Whereas the companies in Taiwan or Netherlands, even China, they are more exposed to the physical layer of AI, which is the infrastructure layer of AI.

Now, these are companies that are involved in advanced chip manufacturing. They're creating the entire hardware system for the AI build-out. And so, you know, there can be no model training if there's no infrastructure. So they're kind of, you know, very important in that entire value chain, right? So it's important to account for them. And what we are seeing is that, as I was saying, US is more dominant in a certain AI space.

There are countries in Taiwan, the companies in Taiwan, Korea, that are exposed to a different type of AI. And so let's say for international investors, then the question is that if they're going to go international in their equity allocations, are they going to be leaving AI behind? I'm not sure if data exactly is telling us that. What it is really telling us is that you get a slightly diversified mix of AI.

You're leaving behind maybe a little bit of the application and the data layer of AI, and you're getting more of the physical layer of AI. So there's kind of this diversification that you get within your AI allocation by just going international in equities.

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