



# From our **Fund Manager's Desk**

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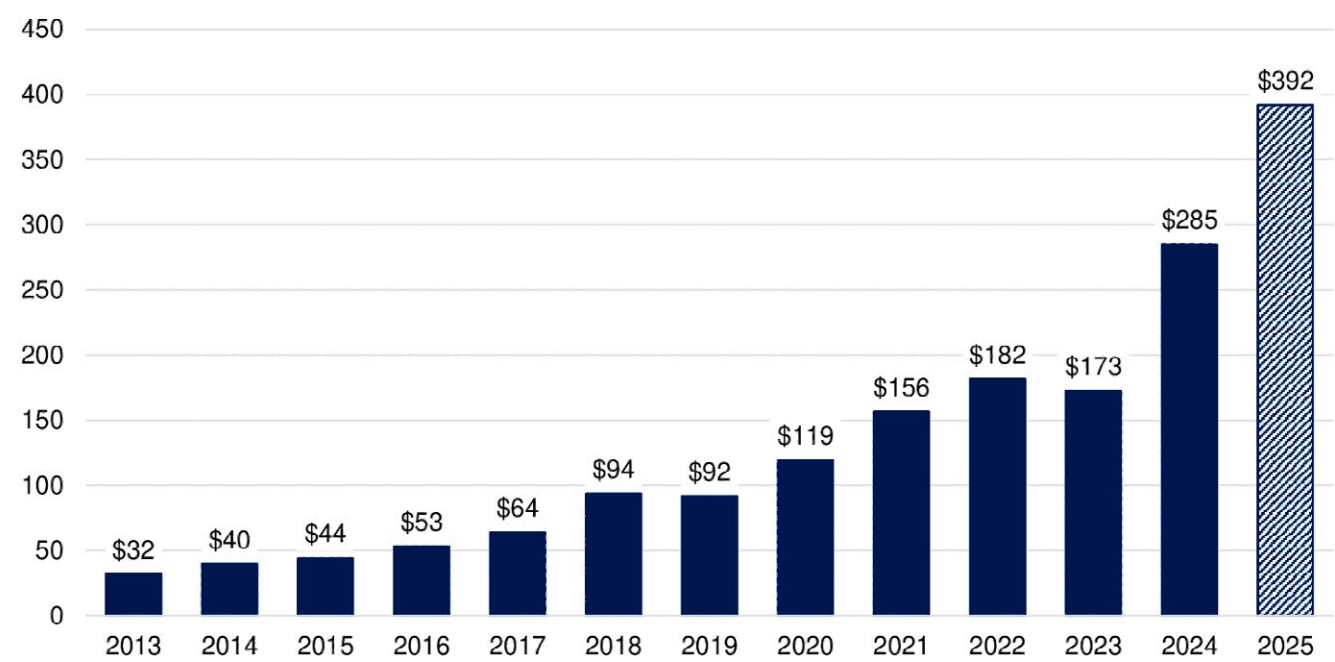
## Waiting for GenAI's Godot: When will the profits arrive?

The promise of Generative AI (GenAI) has ignited a gold rush within the cloud computing sector, with giants like Microsoft, Amazon Web Services, and Google Cloud pouring hundreds of billions into AI development and infrastructure. Yet, a critical question lingers: when will the promised returns be realised on these outsized investments? Like characters in Samuel Beckett's 'Waiting for Godot,' cloud vendors and investors find themselves in a state of perpetual anticipation, grappling with the complexities of monetising a technology that, while transformative, presents a unique set of financial challenges.

# The infrastructure investment surge

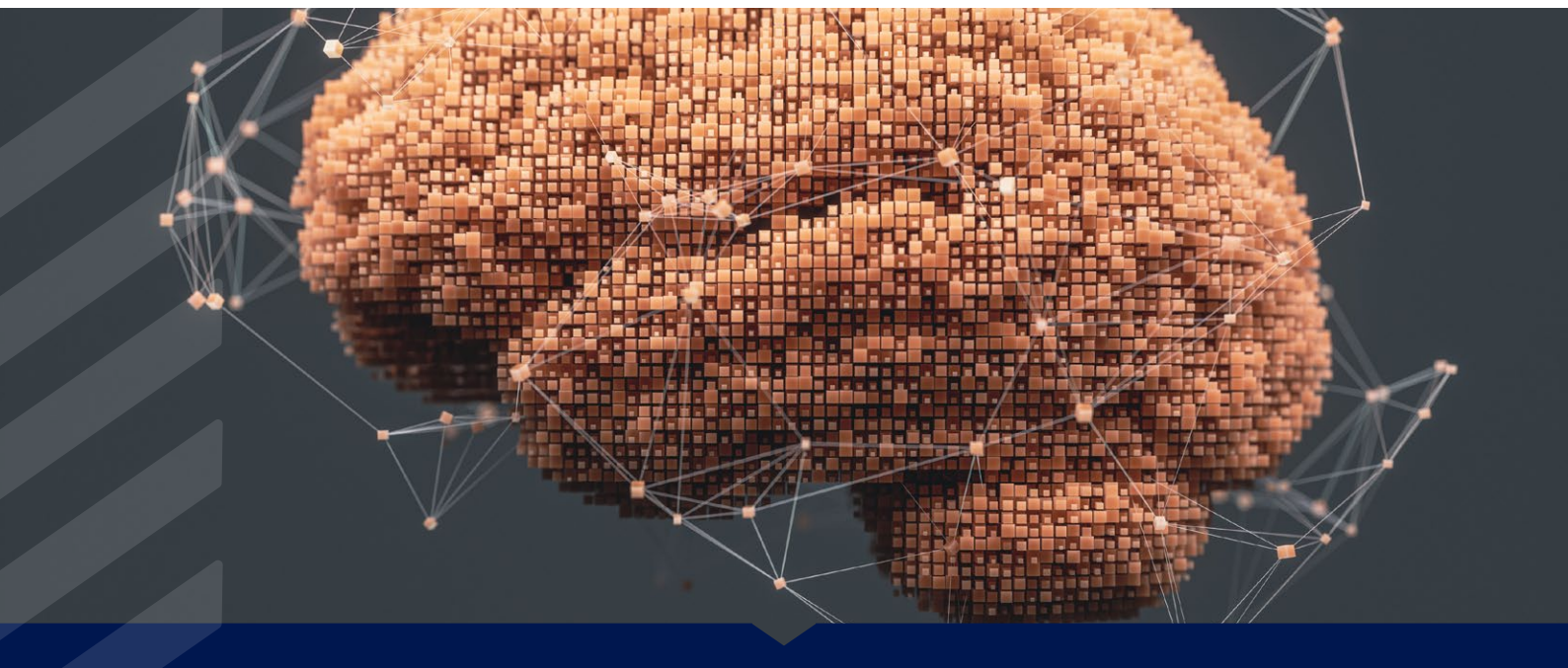
The sheer scale and pace of infrastructure investment is a primary driver of the delayed Return on Investment (ROI). The demand for powerful chips and specialised hardware to train and run large language models (LLMs) has led to an unprecedented build-out in data centres. According to Morgan Stanley research, the top 11 cloud players are expected to spend \$392bn on capital expenditure (capex) in 2025, an increase of almost 10% from their previous estimate, and roughly equivalent to total cloud capex in 2023 and 2024 combined.

CUMULATIVE CLOUD CAPEX (\$ BILLIONS)



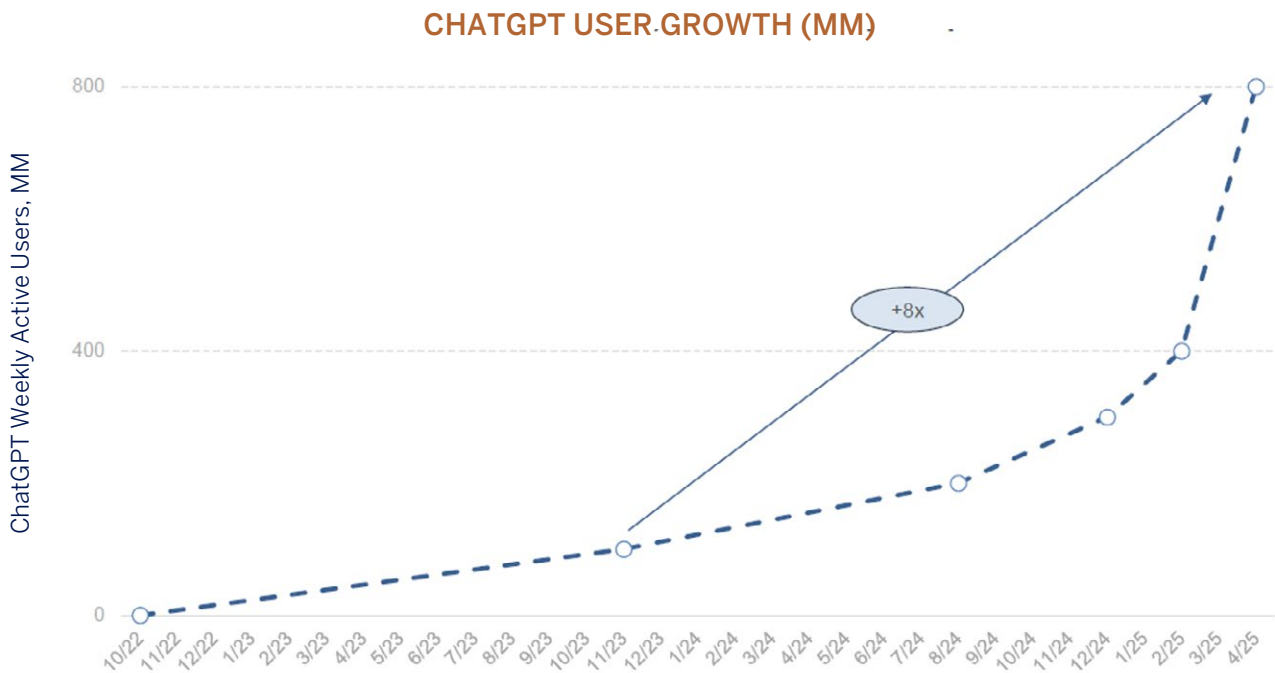
Source: FactSet, Morgan Stanley Research

This infrastructure build-out, requiring a substantial redesign of the traditional data centre and massive upfront investment, does not yield immediate returns. As fast as companies can begin selling services on their cloud platforms, they are building even more capacity with individual AI chip clusters bigger than the last. This constant cycle of spending and reinvestment means that any realised profits are soon diluted by new investments which take time to fine-tune and optimise.



## Challenges of Monetisation

While GenAI offers a plethora of potential applications, convincing customers of its value has proven more difficult. OpenAI, which owns ChatGPT, has reported eye-popping growth. Currently, they have more than 800 million users and a target of one billion by the end of this year, a milestone it should reach faster than any application or platform has ever achieved.



Source: OpenAI, BondCap

The challenge for OpenAI has been converting its users into paying customers. While traffic through ChatGPT exploded, the number of paying subscribers has lagged. Estimates suggest that OpenAI has approximately 20 million paying subscribers and more than 3 million business subscribers. Those users have assisted OpenAI to grow annual recurring revenue to more than \$10bn - nearly double what it was at the end of 2024. Anthropic, a competitor offering its Claude AI range of LLMs, has seen annual revenue grow to \$3bn. While growing impressively, it is not enough to cover the cost of serving the hundreds of millions of free users and to continue developing cutting-edge AI. These companies remain dependent on funding from venture capitalists and investors to keep up with their growth ambitions.







## The high-stakes gamble on AI

While the appeal and demand for GenAI is clear, we sit at an uneasy period of matching supply and demand. In any industry, over-investment can lead to excess supply, limiting future returns and even resulting in protracted losses for companies. The burning question every investor is asking is: are we witnessing a repeat of mistakes we've seen countless times before?

Real-world implementation of GenAI is still in its very early phases; most companies have only begun to experiment with its implementation. Consumer use cases are available but, as evidenced by the unwillingness to upgrade to paid subscriptions, they haven't quite found product-market fit. If we are still so early in this journey, then why are the cloud hyperscalers committing such massive amounts of shareholder capital to a future they cannot be certain about? The answer lies in what is called Agentic AI.

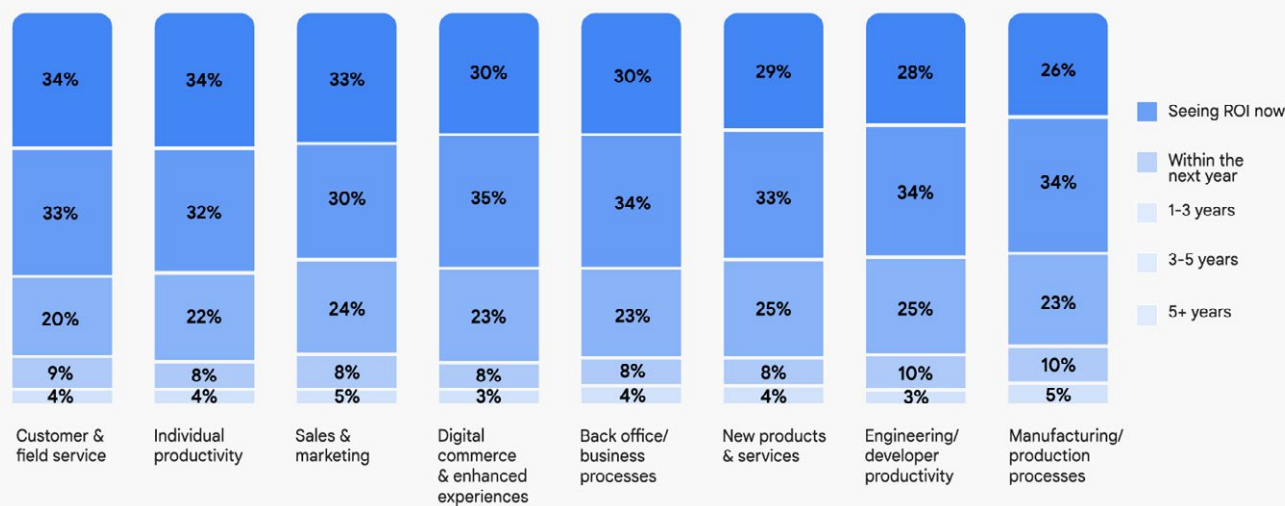
Agentic AI promises the development of autonomous AI software agents capable of perceiving, planning, and executing complex tasks. This pursuit is not merely a technological curiosity; it represents a paradigm shift towards AI that can operate independently, driving significant efficiency gains and potentially unlocking new business models. Every major tech company, from Google with its Gemini agents to Microsoft's Copilot extensions, is racing to develop these agents due to their potential to drastically automate workflows and enhance user experiences. Companies like ServiceNow are already deploying AI agents in customer service to handle routine inquiries and resolve issues, freeing up human agents for more complex tasks.

In the future, these agents could manage entire projects, autonomously negotiate contracts, or even conduct scientific research. The potential to create systems that react to the world and make decisions without constant human direction and interaction is the driving force behind this investment push by the largest global tech companies. The promise of these agents is the potential to drastically reduce labour costs and increase the speed of innovation.

# The ROI of GenAI

Even while it is still early, there are tangible signs of how GenAI is profoundly impacting early adopters. In a 2024 Google Cloud survey of 2,500 senior business executives, 60% of respondents reported actively leveraging GenAI in production. Among those, 74% report having achieved ROI in at least one use case within the first year.

## ROI TIMELINE FOR GEN AI USE CASES

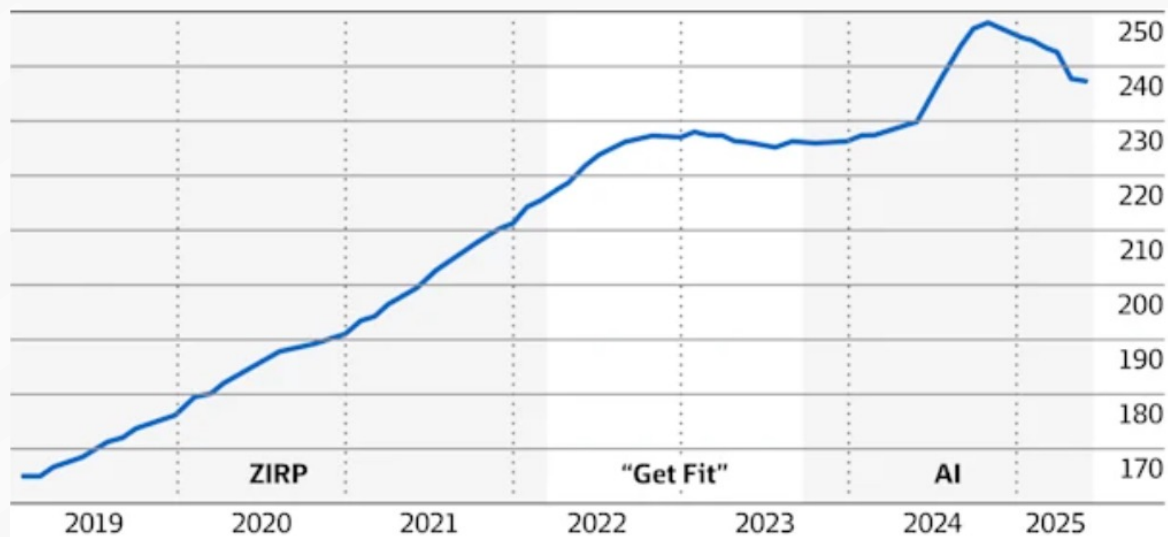


Source: Google Cloud

Unsurprisingly, given one of GenAI’s best capabilities is writing computer code, we’ve seen it flourish in the IT sector. According to Deloitte’s quarterly State of GenAI Report, IT departments are the most advanced in adopting GenAI. Here, software programmers are using AI to assist them in their day-to-day, to produce reams of code faster than before. Alphabet has previously said more than 25% of code was being written by GenAI. In May, Mark Zuckerberg said that he hopes that half the code development at Meta Platforms is going to be done by AI in the next year.

These big tech firms are achieving something remarkable - cutting staff, while continuing to grow. For these companies, where software development teams make up the largest expense, we could be entering a golden era of profitability.

## MICROSOFT NUMBER OF EMPLOYEES ('000)



Source: Coatue

# The evolving landscape and beyond

The GenAI landscape is constantly evolving, with new models and applications emerging at a rapid pace. The development of smaller, more efficient LLMs could help to reduce infrastructure costs and broaden accessibility. Additionally, advancements in AI agents and automation could unlock new revenue streams by enabling businesses to automate complex tasks and processes. Looking forward, the key to unlocking GenAI's ROI will be a combination of technological innovation and a focus on delivering value to customers.

The wait for GenAI's definitive ROI may feel like an endless loop, akin to the characters' vigil in 'Waiting for Godot.' However, beneath the surface of delayed returns lies a foundation of transformative potential. While the path to profitability may be uncertain, the long-term impact of GenAI on the cloud computing landscape is undeniable. As technology evolves and adoption accelerates, cloud vendors that can innovate and creatively solve customers' pain points will ultimately reap the rewards of this revolutionary technology. The key is to remember that while the perfect ROI may be elusive, the journey itself is reshaping the future of cloud computing.



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