The Productivity Boom

Investing in the Second Wave of the AI Revolution

The initial wave of the Artificial Intelligence revolution has been characterized by explosive growth in a concentrated group of semiconductor designers and large-cap technology companies. While these firms have captured the market's attention, we believe the most durable, long-term investment opportunities lie in the "second wave": the essential, physical infrastructure required to power and scale this technological paradigm shift. Just as the gold rush enriched not only the miners but also the suppliers of picks, shovels, and railroads, the AI revolution will create immense value in the companies building the foundational infrastructure upon which it depends. This report explores the key investment themes of this second wave, focusing on the second-order beneficiaries in energy, data infrastructure, and specialized industrials that are poised for a multi-decade productivity boom.

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Key Investment Themes of the Second Wave

1. Powering the Revolution: Energy Infrastructure

The computational demands of AI are staggering, creating an unprecedented strain on the existing power grid. Data centers for training large language models consume energy on the scale of small cities. We believe this creates a secular, long-term demand for companies involved in energy generation, transmission, and grid modernization. This includes regulated utilities with clear capital expenditure plans, as well as companies specializing in advanced cooling solutions and power management hardware.

2. Building the "Digital Real Estate": Data Centers

AI models do not live in the cloud; they live in vast, highly specialized physical buildings. The demand for data center capacity is outstripping supply at a historic rate. This creates a compelling opportunity not only for data center operators and REITs, but also for the entire supply chain, including manufacturers of high-speed networking equipment, fiber optics, and specialized cooling systems required to manage the intense heat generated by AI hardware.

3. The Physical Manifestation: Specialized Industrials & Robotics

The ultimate promise of AI is a revolution in physical productivity. As AI models become more sophisticated, they will increasingly control advanced robotics and automated systems in manufacturing, logistics, and healthcare. We see significant long-term potential in specialized industrial companies that are at the forefront of factory automation, robotic surgery, and autonomous logistics. These are the firms that will translate the digital intelligence of AI into real-world economic output.

Conclusion: A Disciplined Approach to a Transformative Theme

Investing in a transformative theme like Artificial Intelligence requires a disciplined, long-term perspective. While the first wave of the AI revolution has been characterized by high valuations and speculative fervor, we believe the second wave offers a more durable and fundamentally-driven investment opportunity.

By focusing on the essential "picks and shovels", the energy, infrastructure, and industrial companies that will form the backbone of the AI economy, we can participate in this powerful secular trend with a greater margin of safety. A successful strategy requires a deep understanding of these second-order effects and a commitment to identifying high-quality companies poised for sustainable growth. We encourage you to speak with your advisor to discuss how these themes may be appropriately integrated into your personal investment policy.

Important Disclosures