

Where might investors find the next Nvidia?

Published 29 April 2024

Mobeen Tahir

Director, Research

Key Takeaways

- Nvidia is providing the engine for artificial intelligence (AI) justifying the hype around the company.
- The AI value chain is diverse and pure-play AI companies can belong to a range of different sectors.
- Investing across the AI value chain gives investors exposure to many companies that could achieve similar success.

On 18 March 2024, Nvidia unveiled its new Blackwell platform. According to the company, its new GB200 Grace Blackwell Superchip provides an up to 30x performance increase compared to the same number of NVIDIA H100 Tensor Core GPUs¹ and reduces cost and energy consumption by up to 25x. This will enable breakthroughs in data processing, engineering simulation, electronic design automation, computer-aided drug design, and quantum computing.

This is an exciting list of use cases and a significant step up in terms of performance compared to the company's next best chip which is already the best by far on the market.

Investors naturally anguish over whether Nvidia's share price rally can be sustained and if its 1.6 trillion-dollar gain in market capitalisation in the last twelve months is justified². Ask a hundred analysts and you might get a full spectrum of responses. But if you ask whether Nvidia is innovating, selling real products that appeal to customers, and staying ahead of its competition, the answer is a resounding yes.

Still, investing in a single stock comes with a risk profile that might not work for everyone. Investors who are sold on the artificial intelligence megatrend are now wondering where they might be able to find the next Nvidia-like success story. In this blog, we outline how a pure exposure to the AI value chain gives investors the best chance of doing so.

The AI value chain

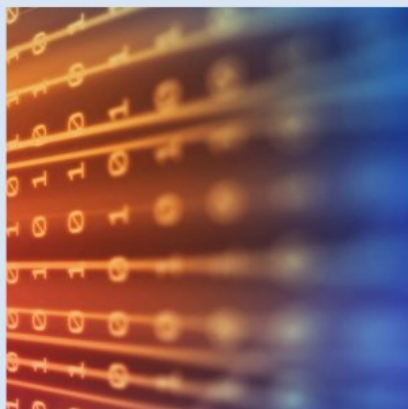
Engagers

Companies whose focus is in providing AI-powered products and services



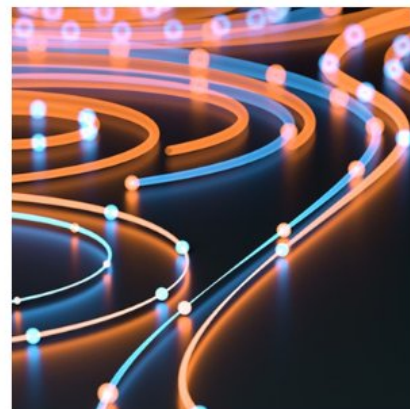
Enablers

Companies whose core products and services enable AI



Enhancers

Companies who are a prominent force in AI but whose product or service is not currently a core part of their revenue



Source: WisdomTree, Consumer Technology Association, 2024.

Engagers

Engagers focus on providing AI-powered products and services. Engagers can come from any industry. The common thread that connects them is their use of AI as part of their core business. At WisdomTree, we believe that in an AI investment strategy, engagers warrant the highest weight.

Illumina is an example of an engager in the biotechnology industry. In June 2023, Illumina announced PrimateAI-3D, an AI algorithm that predicts with unprecedented accuracy disease-causing genetic mutations. According to the company, each person carries millions of genetic variants that underlie individual differences in health and disease risk, but most of those variants are presently of unknown function. AI can help highlight disease-causing mutations facilitating the development of personalised medicine, rather than generalised medicine. This is going to herald an exciting new era in biotechnology³.

AI tools are enabling cyber criminals to launch more sophisticated attacks than ever before. Cybersecurity companies are, therefore, also making a concerted effort to embed AI within their solutions. SentinelOne, a prominent cybersecurity company, has recently announced Purple AI, a security framework that is designed to detect earlier, respond faster, and stay ahead of attacks. The software, which is now in beta, will empower security analysts to conduct better investigations and secure their organisations with the assistance of a generative AI tool that can perform complex functions but communicate in simple language⁴.

ServiceNow is another engager which provides software to facilitate smarter, faster, and better ways to work. Its generative AI-powered Now Assist solution can help summarise text, provide customer support, create content and write code. It is a perfect example of how AI will help streamline tasks, improve efficiency, and allow office-based humans to do more value-added tasks.

Enablers

Enablers typically form the foundation of AI adoption. Semiconductors are an ideal example. Semiconductor chips, also known as integrated circuits, are the backbone of modern electronics, comprising tiny electronic components etched onto a silicon wafer. These chips are pivotal for AI, especially generative AI, due to their capability to handle massive amounts of data and execute complex computations rapidly. In generative AI applications, semiconductor chips power neural network architectures, enabling tasks such as image generation, natural language processing, and music composition. Their high processing speed and energy efficiency make them indispensable for advancing the capabilities of AI systems. At WisdomTree, we believe that in an AI investment strategy, enablers warrant the second highest weight, closely behind engagers.

Naturally, Nvidia features in this category. But despite Nvidia's name becoming practically synonymous with semiconductors in recent times, it is not alone in this space. Taiwan Semiconductor Manufacturing Company (TSMC) is a dedicated foundry business, which means that it manufactures semiconductor products as a service. Nvidia is one of its clients making TSMC indispensable in Nvidia's supply chain.

Qualcomm is another notable AI enabler. Its products facilitate the adoption of AI across many industries including automotive, mobile, consumer electronics and networking. In the automotive industry, for example, its Snapdragon product is helping create an AI-powered connected car that can deliver a personalised experience for its passengers, be connected to cloud services, and help cars become automated.

Enhancers

Enhancers are companies that are a prominent force in AI, but their AI-powered products or services are not most of their overall revenue. At WisdomTree, we believe that given their relevance in the value chain, an AI investment strategy should allocate a small weight to enhancers as well.

Tesla is an example of an enhancer. Tesla is an automotive and clean energy company, but its autonomous driving software is miles ahead of its competitors. Even though regulation varies around the world in terms of what level of autonomous driving might be permitted, Tesla cars have the capability to collect data and learn from real world driving scenarios even when autonomous driving is not actively engaged. This means that as and when more regions around the world become amenable to greater levels of autonomous driving, Tesla's cars will be frontrunners on account of their head start in collecting data and learning from it.

Other household tech companies like Microsoft also belong among enhancers. Microsoft's traditional software solutions like Windows and Office are not AI-based, but the company is swiftly embedding AI in its solutions. For example, Microsoft Copilot is a large language model designed to be a chatbot companion to

allow users to better utilise Microsoft software. Moreover, the company's ownership of ChatGPT developer OpenAI also gives it a leadership role in the AI ecosystem.

Enhancers can, therefore, potentially become engagers if AI becomes a core part of their business. Until then, a small weight allows the investment strategy to recognise their importance in the space, but ensure differentiation versus major market indices.

Conclusion

The next Nvidia could come from anywhere across the AI value chain. The examples mentioned in this blog merely illustrate how varied the value chain can be. Diversification across the value chain can help investors build an exposure poised to benefit from the future growth of businesses in this space as companies are classified and weighted based on their AI characteristics and credentials rather than market capitalisation. This also helps mitigate the risk of overconcentration in any single stock as companies go through hype cycles.

Sources

- 1 Graphics processing unit.
- 2 Source: WisdomTree, Bloomberg, as of April 2024.
- 3 Illumina.com, June 2023. <https://www.illumina.com/company/news-center/press-releases/press-release-details.html?newsid=b067ea3b-be0e-4318-a910-6bd659e0d232>
- 4 Sentinelone.com, April 2024. <https://www.sentinelone.com/platform/purple/>

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree

does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT

Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

WisdomTree Artificial Intelligence UCITS ETF

Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the "Fund") has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree¼s website: **https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports**

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich

Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.