

## TNI CIO Forum AI Session Summary – 3rd April 2025

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This note seeks to answer the questions we posed in the workshop but includes learning from an interview with John Stecher (Blackstone), what we learned from a discussion with Gavin Baker (Atrides).

### *As CIOs of large institutions how should we think about investing in AI?*

Here are my sub-questions and answers under that general topic:

#### **1. Where is AI's driving technology going in the next 5 years? What big developments should we expect?**

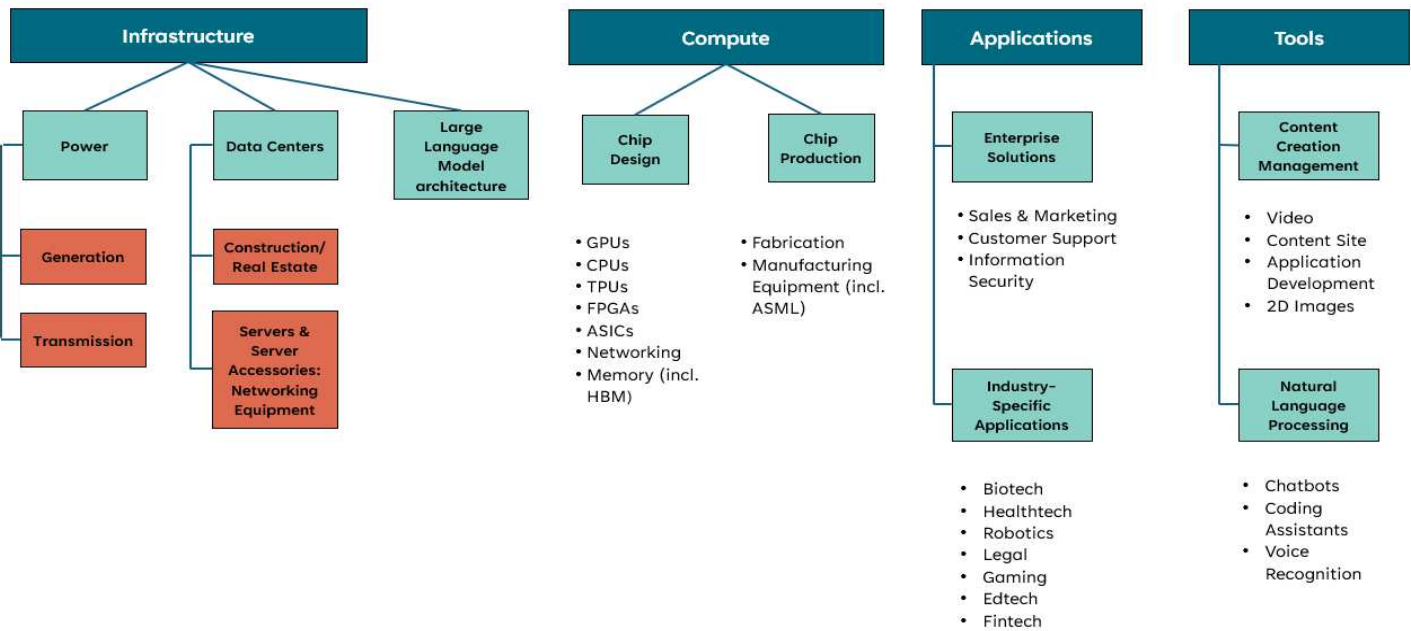
Over the next five years, AI—especially large language models—will become vastly more efficient, personalized, and ubiquitous, expanding from niche use to near-universal adoption. Innovations like sparse Mixture-of-Experts architectures, Edge AI, and multi-modal capabilities will enable models to operate across devices and media types, integrating text, video, audio, and images. Mixture-of-Experts (MoE) architectures refer to a model design that uses multiple specialized sub-models ("experts") but only activates a subset of them for each input, rather than using the entire model all at once.

AI agents will gain reasoning and planning abilities, perform multi-step tasks autonomously, and adapt to individual users through memory and personalization. Industries such as education, healthcare, mobility, and finance will be transformed by AI's integration into workflows, while **new interfaces like voice and augmented reality (AR) will reshape how humans interact with machines**. AR refers to the **real-time overlay of digital information (text, images, audio, or 3D objects)** onto the physical world, typically through devices like smartphones, tablets, or **AR glasses**. Unlike Virtual Reality (VR), which immerses users in a fully digital environment, **AR enhances the real world** by adding computer-generated elements to what you see and interact with.

Stronger regulation will aim to ensure transparency and safety, and according to insiders, the pace of change may render some **knowledge jobs obsolete within five years**—prompting speculation that AIs will soon be training AIs themselves. Most importantly, AI will see a much broader proportion of the global population using AI compared to today (5% today goes to 90%). Virtually everyone will become intimate in their use of one or more LLMs changing conversations, knowledge and productivity.

#### **2. How do you break down the AI investment opportunity in your mind? Infrastructure, semiconductors, applications, tools?**

The AI investment opportunity can be viewed through four interconnected categories: infrastructure, semiconductors (compute), applications, and tools.



**Infrastructure is currently the most dominant area**, attracting both public and private capital, with over \$1 trillion expected to be invested in U.S. data centers alone. Firms like Blackstone focus heavily here, targeting assets such as data centers, power sources, and networking capabilities essential for large AI models. Since training and deploying LLMs requires immense compute and infrastructure, even investments in foundational models are effectively infrastructure plays. Companies like Microsoft and Google exemplify broad exposure across infrastructure, semiconductors, and applications.

Semiconductors, particularly GPUs from NVIDIA, are the backbone of AI compute, with growing competition from AMD, Intel, and custom chips by Amazon, Google, and Meta. Adjacent technologies—like advanced storage, networking, and memory—are also key investment areas that support the massive compute needs of AI systems. On the application side, value creation is expected to be highest in vertical solutions that enhance productivity in industries like education, healthcare, mobility, law and finance. Tools—especially those improving developer productivity or enabling non-coders to build software—are an emerging opportunity, accounting for a growing share of VC investment. A sound AI investment strategy should balance exposure across these categories, with a strong emphasis on AI processing efficiency and scalability.

### 3. Where are the most attractive investment opportunities in the various parts of the AI value chain above?

The most attractive investment opportunities in the AI value chain are currently concentrated in infrastructure—particularly data centers, power, and compute—and in applied AI that delivers real-world productivity gains. Infrastructure dominates both public and private equity investments, supported by a massive capital surge into foundational platforms since the rise of generative AI. Venture capital has also heavily favoured core infrastructure, though there is growing attention on applications and tools, especially those solving industry-specific problems. TNI and Blackstone focus on “picks and shovels” strategies, investing in foundational enablers like data centers, renewable power, cybersecurity, and applied AI solutions across finance, legal, and compliance.

While investing directly in foundational models is seen as speculative, there's recognition that long-term value will accrue in the applications layer—much like in past tech revolutions. Applied AI tools and vertical solutions are emerging as key drivers of differentiation and value creation, making them increasingly attractive. A balanced investment strategy that spans infrastructure and high-impact applications may offer the best exposure across the evolving AI ecosystem.

#### **4. How would you compare public equity vs private equity AI investment opportunities?**

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Public and private equity AI investment opportunities are both heavily concentrated in infrastructure—especially data centres, power, and compute—where the largest dollar potential lies. Public markets have seen significant value accrual at the foundational and infrastructure levels, exemplified by the \$8.7 trillion surge in the top AI-focused firms since ChatGPT's debut. **In venture capital, core infrastructure dominates, accounting for 75% of AI investments**, but there's growing enthusiasm for applied AI and tools that drive industry-specific productivity gains. While foundational model investments are viewed as speculative, firms like Blackstone and TNI prioritize “picks and shovels” strategies—focusing on enabling platforms, data layers, and vertical applications. Ultimately, while infrastructure leads today, the long-term value is expected to shift toward applied AI solutions, echoing past tech cycles where foundational breakthroughs paved the way for transformative applications.

#### **5. How should we be testing our third-party asset managers' AI understanding as it applies to any given company?**

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To effectively assess a third-party asset manager's AI understanding, you should evaluate their understanding of how AI will impact any given industry or company. We start by assessing the asset manager's grasp of the technological drivers behind AI, their ability to delineate tasks that will ultimately be undertaken by machines vs humans in any given sector, and the manager's understanding of integration of unique data sources enriched by AI can impact a company's competitive advantage in any given sector. Ask whether they understand how advancements in algorithms and model efficiency affect various sectors, and how they evaluate a company's AI readiness or edge within its industry. Probe their use of third party AI experts and their use of AI tools like hybrid LLMs for research, and whether they know the boundaries of AI—recognizing where human judgment remains essential, such as in assessing management quality or drawing original insights.

Additionally, institutional investors should examine **how their asset managers apply AI in portfolio management**, including asset allocation and real-time position sizing using machine learning. Inquire about their use of differentiated third-party data sets and how they combine these with proprietary insights to develop a unique investment view. You should also test their investment conviction by asking for examples of companies they passed on or invested in, based on AI reasoning. Ultimately, you're looking for an asset manager who goes beyond superficial AI usage, demonstrating a sophisticated, cost-effective, and productivity-enhancing integration of AI into their investment process.

#### **Conclusion**

AI—especially large language models—will become vastly more efficient, personalised, and ubiquitous, transforming most knowledge work and driving adoption from a small minority of users today to the majority of the global population. From an investment perspective, the largest and most immediate opportunities are in AI infrastructure (data centers, power, compute) and semiconductors, with applied AI and vertical-specific applications expected to generate the greatest long-term value. In both public and private markets, we at TNI are currently focused on “picks and shovels” investments, while direct investment in foundational models are viewed as more speculative given the recent valuation gains. We have yet to find an example of a bubble that has not burst. We don't think AI is an exception. CIOs should assess asset managers' AI sophistication, focusing on their



understanding of AI drivers, use of differentiated data, practical integration of AI into investment processes, and ability to distinguish where human judgment still matters.

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