

## Topic Navigation

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- **As a PE Investor, what posture on AI to take?**

## How Do We Weigh-up Business Opportunities and Threats?

Whatever about forming an AI strategy for a single business domain, having to do so across varied domains, a feature of private-equity investing, is exponentially challenging.

- Private Equity businesses need to anticipate opportunities and risks for their existing portfolio of investments as well as the pipeline of potential new investments.
- For their core competency of surfacing new investments and exiting existing investments, what has changed with the emergence of these new AI-driven technologies?
- The field has already transformed itself immeasurably over the past decade to become considerably more data-centric when investing. Layering an AI capability on top of this quantitative approach will inevitably raise the bar again.
- If the requisite skills are not available yet in-house, could an 'Operating Partner' model bridge that gap in the meantime, while new capabilities are built internally?

## Risks: Do these threaten existing business models?

Here are some of things to think about:

- **Deepfakes** - prospect of reputational damage
- **Disinformation** - disinformation campaigns that required hundreds of people prior can now be created and dispensed with two people and AI, according to James Landay of Stanford HAI.
- **Discrimination** - systems known to discriminate across race, gender, age among other things, with good model explainability still some way off.
- **Displacement of Jobs** - white-collar roles likely to be displaced?
- **Trust / Privacy infringement** - A major failing of AI is that few tools and companies accept and act on feedback pertaining to model errors.

Sourced from: <https://hai.stanford.edu/news/davos-2024-six-takeaways-ai-conversation-wef>

## Priorities for PE Companies - Core Business

AI has the potential to revolutionise the life-cycle for PE.

- 1 Data-science Culture** - AI and data science can be used throughout the investment lifecycle for private-equity firms, from due diligence to monitoring. Businesses need to realise that data-scientists (or lack of them) doesn't need to be the bottleneck. These skills can be developed internally as user-friendly tooling in this space proliferates.
- 2 Centre of Excellence / Operating Partner** - At the outset, a core team can begin to drive best-practice and coordinate internal efforts around leveraging AI in a methodical way, prioritising pilots that have greatest scope for creating value.
- 3 Strengthen data-curation** - Models underpinning generative AI need large amounts of curated data to learn. As foundational models converge, proprietary data will become a differentiating factor in specialist model fine-tuning.
- 4 Regulatory / Trust** - Pre-empting evolving regulatory requirements and putting in place governance structures that underpin building trust in AI initiatives will be key. *Responsible AI* should be the mantra.
- 5 ESG Reporting** - automating the gathering of information and disseminating of reporting, with a human-in-the-loop, could reduce some of the regulatory burden.
- 6 Accelerated Targeting / Due-diligence** - For a well-tooled organisation, once mammoth tasks around screening candidate companies and keeping abreast of important industry shifts are much more easily automated and monitored. The task of performing due-diligence in virtual data rooms can be greatly simplified and made efficient.

## Priorities for PE Companies - Portfolio Businesses

Building on the points above, which are equally applicable to holdings:

- 1 Map risk / opportunities** - for existing companies, methodically determine what are the risks and opportunities in their domains emanating from AI. How has it affected competition?
- 2 Implications of AI for new investments** - GenAI can help transform processes at portfolio companies, improve operational efficiency and potentially identify new revenue streams.
- 3 Georgian model** - implement cross-portfolio collaboration and cross-pollination initiatives. What other insights from a PE firm's ecosystem can be tapped and made actionable? Look at the case-study we present on the next page.
- 4 Reg/Trust** - anticipate how a changing regulatory regime, arising from AI diffusion in a given sector, will play-out and act accordingly.

## Operating Partner Model

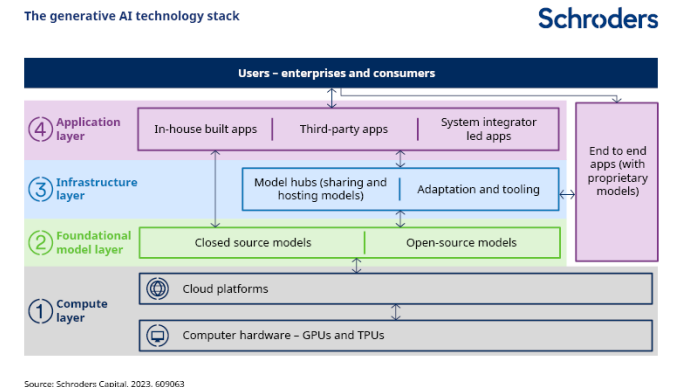
Consider an MLOps platform that would potentially harvest data-sets from portfolio companies and act as an 'ML lab' of sorts, to propagate ideas around leveraging ML. Such an approach has the potential for cross-pollinating best-of-breed ideas (and templates) for working with AI to portfolio companies within a PE firm. At the same time, this would begin to bring better observability for the private-equity firm over its disparate businesses.

Seeding portfolio companies with a framework(s) and a platform(s), a team within {a Typical PE/VC} could act as an **Operating Partner**, bringing specialty knowledge on how to appropriately architect and operate technology platforms for the purpose of introducing a data-science culture that can implement machine-learning strategies across disparate businesses.

## Layers of AI Ecosystem

Schroders (in Fig. 1) helpfully reproduce what is generally accepted as the AI tech stack. From layers 1 through 4, it's likely within layer 4 where most PE firms will operate.

- **compute layer** - hardware and cloud providers. capital intensive.
- **foundational model layer** - big tech companies. cost of training LLMs is huge, but gap with open-source is narrowing. OpenAI api-based services, but concerns around privacy issues may drive corporate users to ultimately self-host.
- **infrastructure layer** - developer tooling around building corporate AI capabilities - this is an intensely competitive space.
- **application layer** - perhaps where most PE activity will. What applications are ripe for an AI overlay, bringing new innovations.



Source: Schroders Capital, 2023. 609063

Figure 1. GenAI Technology Stack - from [insights/ai-revolution-who-s-profiting-now-from-generative-ai/](https://www.insightsai.com/ai-revolution-who-s-profiting-now-from-generative-ai/)