

Dundas Global Investors offers a disciplined path to AI-driven equity exposure

November 2025

AI has become a defining force in equity markets, driving record capital flows into a handful of dominant tech companies. But as infrastructure spending accelerates and valuations stretch, investors must ask: is this growth sustainable? Dundas Global Investors approaches this moment with caution and clarity. The addition of Dundas to a portfolio provides exposure to AI's long-term potential through businesses with durable fundamentals, disciplined capital allocation, and a proven ability to compound returns, without relying on momentum or market concentration.

Are the 'Mag 7' going to take over the world?

The durability of returns from the "Magnificent Seven" is a central question for investors. These companies continue to grow and innovate at scale, reinforcing dominant market positions. However, applying Occam's Razor* and the Law of Large Numbers** offers perspective: while fundamental progress is evident, extreme valuations may not translate into sustained shareholder returns. Price is what you pay; value is what you get.

As at 30 September 2025, the world's ten largest companies had a combined market value of US\$22 trillion - and accounted for a record 24.5% of the MSCI All Country World Index. They have changed the world and will likely continue to do so, but will they maintain their pricing power or will they be disrupted by competitors? The Law of Large Numbers eventually asserts itself - incremental growth becomes harder, and valuations must increasingly be justified by earnings, not sentiment or multiple expansion.

AI infrastructure: investment or speculation?

Chip suppliers, cloud hyperscalers, and AI platform providers appear locked in a circular investment cycle, bidding up capacity and expectations. Dundas focus on the economic reality behind the spending.

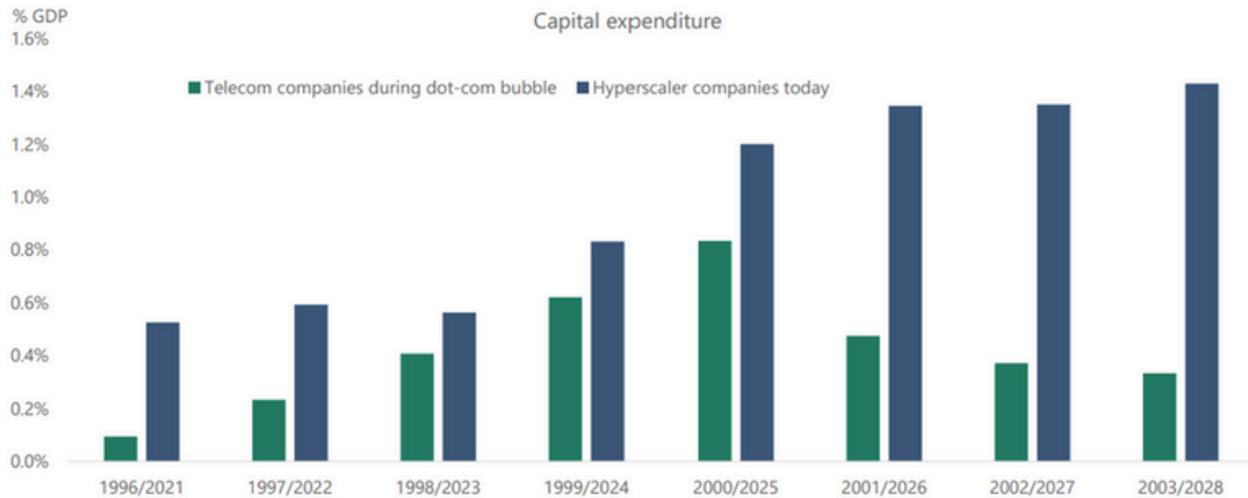
Many investors look to history for guidance, often comparing today's AI buildout to the dot-com telecom boom. As Torsten Slok's team at Apollo Academy recently highlighted, AI-related hyperscaler capex has already surpassed dot-com era spending, both in absolute dollars and as a share of GDP. Yet the comparison breaks down on one key dimension: asset longevity. Fibre optic infrastructure from the 1990s remains productive today, with useful lives of 20–25 years. In contrast, hyperscalers depreciate AI and SaaS servers over just 5–8 years.

*Occam's Razor is the methodological principle that, all else being equal, one should favour hypotheses or theories which make the fewest unnecessary assumptions. Source: McFadden, J. (2023). Razor sharp: The role of Occam's razor in science. *Progress in Biophysics and Molecular Biology*, 186, 26-31. <https://pubmed.ncbi.nlm.nih.gov/38018886/>

**The Law of Large Numbers states that the average of a sufficiently large number of independent and identically distributed random variables converges in probability to the expected value. Source: Dinov, I. D. (2009). *Law of Large Numbers: The Theory, Applications and Extensions* [peer-reviewed article]. <https://pubmed.ncbi.nlm.nih.gov/21603584/>

Nvidia's accelerated GPU release cycle - Ampere releasing in 2020, Hopper in 2022, and Blackwell in 2024, suggests economic life may be even shorter as each new generation rapidly renders the last obsolete for cutting-edge AI workloads.

Capital expenditure share of GDP much higher for hyperscalers today vs telecom companies during dot-com bubble



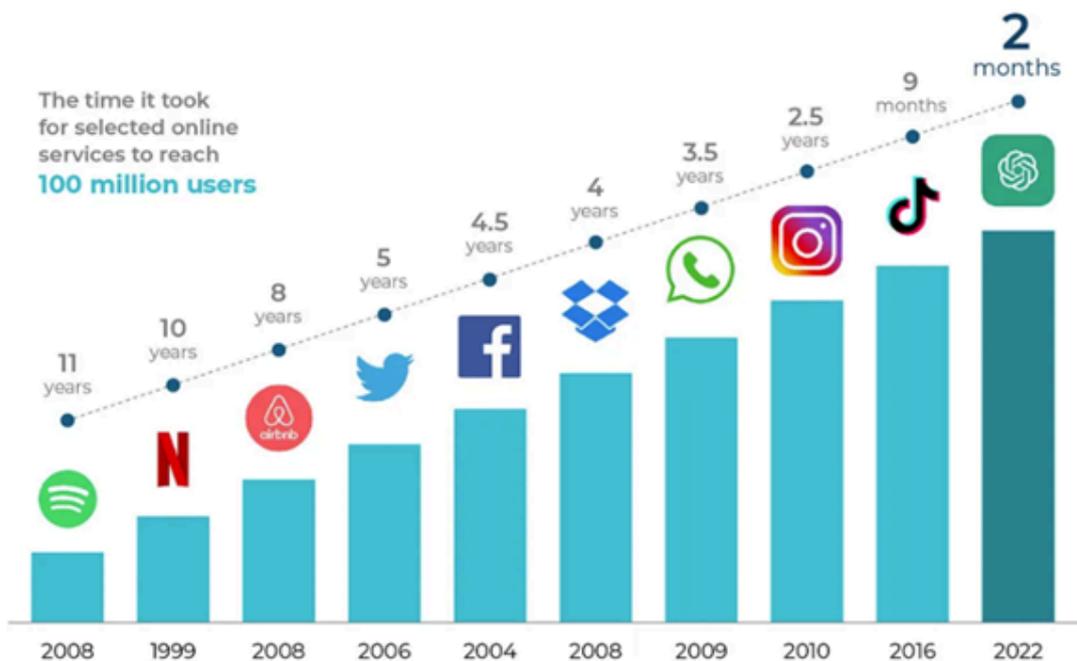
Source: Apollo, Bloomberg, Factset, Apollo Chief Economist. Note: Hyperscaler companies include Oracle, Microsoft, Meta, Amazon, Google and Telecom companies include Level 3 Communication, WorldCom, Global Crossing, Nortel Networks, Verizon, AT&T, Nokia, Cisco Systems, Williams Companies and XO Communications.

In other words, the AI buildout may prove transformative - but it must also prove profitable before the hardware expires.

The shorter the useful life of an asset, the more revenue and profit it must generate in a compressed timeframe to deliver an adequate risk-adjusted return. The infographic below from Netscribes (using World of Statistics data) illustrates this challenge: even the most successful digital platform businesses - those celebrated for rapid scaling - typically took more than five years to reach profitability.



Chat-GPT sprints to 100 million users



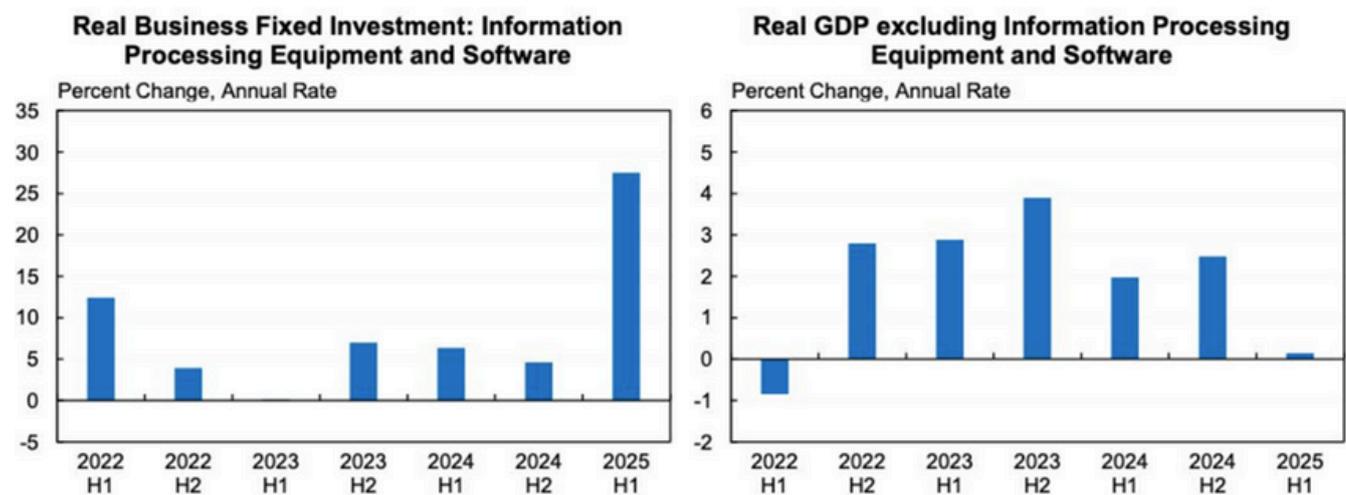
Source: World of Statistics.

So what does this mean? AI-native software vendors will need to monetise quickly. To offset short asset lives and high infrastructure costs, many will be forced to charge premium prices and accelerate revenue generation. Some will succeed, but many will not, making much of today's AI-driven capital expenditure inherently speculative. As AI spending shifts from model training to inference and enterprise deployment, aggregate investment is likely to remain elevated. However, if businesses fail to realise measurable gains in revenue or productivity, capital allocation will eventually be rationalised. In that scenario, data centre operators and AI infrastructure providers could run into trouble, having invested heavily but earning far too little in return.

If the path to performance has been narrow, then the path to growth is narrower

The US Bureau of Economic Analysis (BEA) recently revised second-quarter GDP growth to an annualised 3.8%. However, the headline masks weakness beneath the surface. The path to US growth - like market leadership - has become increasingly narrow.

Research by Harvard economist Jason Furman illustrates this clearly: Information Processing Equipment and Software contributed an estimated 92% of real GDP growth in the first half of 2025, linking directly to the capital expenditure boom by hyperscalers and AI-related investment. Strip that out, and the broader economy shows little forward momentum.



Source: Bureau of Economic Analysis..

Dundas monitors dividend announcements at both the company and sector level as powerful coincident indicators of economic activity, with a forward-looking component that reflects management confidence. With the US consumer representing 68–70% of GDP (BEA), small and mid-cap consumer businesses provide an important signal.

Currently, the dividend growth of the S&P 600 Consumer Discretionary sector has turned negative - a pattern historically aligned with recessionary periods. During the dot-com unwind, the Global Financial Crisis and the COVID recession, dividend declines coincided with economic contraction, often followed by a second leg down as consumer recovery lagged. Current trends suggest US consumer-focused SMEs are again signalling strain.

Taken together, the message is clear: outside of AI-related investment, the US economy is flirting with recessionary conditions.

Outlook at a time when markets seem untethered

Global markets continue to drift between excitement and unease, with AI reshaping the future even as wars, tariffs, and geopolitical rifts leave investors untethered. The question remains: which truths can serve as a compass?

Over the long term, share prices tend to follow the trajectory of underlying business growth, often reflected in dividend performance. While valuations can drive short-term market movements, historical patterns suggest that fundamentals - such as consistent dividend growth - play a far more important role in sustaining returns over time.

Over the past three and a half years, share prices have risen sharply in areas such as the Magnificent 7 and segments of value, driven largely by valuation expansion rather than underlying earnings growth. This disconnect between price and fundamentals is unlikely to persist. The valuation tailwinds that have lifted markets are now more likely to become headwinds, and history shows that such adjustments can be both rapid and severe. Dividend growth also appears stretched at around 6%, buoyed largely by banks benefiting from higher interest rates, a pace that is unlikely to be sustained.

In a market dominated by mega-cap tech and speculative capital expenditure, Dundas offers a balanced approach. The team uses fundamental, bottom-up research to find companies capable of real long-term wealth generation that will lead to sustainable capital and dividend growth. Be sure to look out for next month's paper on a Dundas portfolio company: Amphenol.

Learn more about the Apostle Dundas Global Equity Fund at:
www.apostlefm.com.au/dundas-global-investors

Disclaimer

This document has been prepared by Apostle Funds Management Pty Limited ("Apostle") (ABN 16 129 922 612) (AFSL No. 458375). The Apostle Dundas Global Equity Fund (ARSN 093 116 771) is issued by K2 Asset Management Ltd ("K2") (ABN 95 085 445 094) (AFSL No. 244393), a wholly owned subsidiary of K2 Asset Management Holdings Limited (ABN 59 124 636 782). This material and the content of any offer document for the investment are principally governed by Australian rather than New Zealand law. This material may contain information provided directly by third parties which include Dundas Partners, LLP (AFSL No. 527238).

This material is for information purposes only. Offers to invest will only be made in the product disclosure statement ("PDS") and this material is not intended to substitute the PDS which outlines the risks involved and other relevant information. You should also consider the Target Market Determination ("TMD") when ascertaining if the product is appropriate for your needs. Both the PDS and the TMD are available from <https://www.k2am.com.au/forms-apostle-Dundas>. It is not an offer or a recommendation to invest and it should not be relied upon by investors in making an investment decision. Offers to invest will only be made in the relevant offer document and this material is not intended to substitute suitable disclosure documents which will outline the risks involved and other relevant information. Any investment carries potential risks and fees which are described in the relevant offer document. An investor should, before deciding whether to invest, consider the appropriateness of the investment, having regard to both the relevant offer document in its entirety and the investor's objectives, financial situation and need. This information has not been prepared taking into account your objectives, financial situation or needs. Please note that past investment performance is not a reliable indicator of future investment performance. No representation is made as to future performance or volatility of the investment. In particular, there is no guarantee that the investment objectives and investment strategy set out in this presentation may be successful. Any forward-looking statements, opinions and estimates provided in this material are based on assumptions and contingencies which are subject to change without notice and should not be relied upon as an indication of the future performance. Persons should rely solely upon their own investigations in respect of the subject matter discussed in this material. No representations or warranties, expressed or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this material. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available to Apostle. To the maximum extent permitted by law, all liability in reliance on this material is expressly disclaimed.

This document is strictly confidential and is intended solely for the use of the person to whom it has been delivered. It may not be reproduced, distributed or published, in whole or in part, without the prior approval of Apostle. Third party distributors may be used to market the investment to New Zealand investors. Where this occurs, this material can only be provided to New Zealand persons that the New Zealand distributor is authorised to deal with under New Zealand law and is not available to any person to whom it would be unlawful to make such offer or invitation.