

---

## SSI Convertible IQ: Tomorrow's AI Leaders – Accessing the Convertible Market

---

*Ravi Malik, CFA, Portfolio Manager*

**AI is expected to be a substantial catalyst for Convertibles, as previous waves of innovation and disruptive technologies fueled the asset class.**

Large Language models, a type of Generative AI, are a breakthrough innovation and a disruptive technology. Generative AI is likely to be bigger than many recent waves of disruptive technologies such as the Internet and Cloud Computing. It is expected to transform a wide swathe of industries through its impact on productivity enhancement and on augmenting revenue generation opportunities for enterprises. After the rollout of ChatGPT, hyperscalers and megacap tech players such as Microsoft, Amazon, Google, Nvidia, Tesla, and Meta have rapidly rolled out their own Generative AI strategies including large language models such as Bard by Google and LLaMA from Meta. They have led the way in creating Foundation models including Large Language models and have started to work on developing applications around them with copilot from Microsoft as an example.

Historically convertibles have been a big enabler of disruptive and innovative technologies as a multitude of significant innovators from Qualcomm, Nvidia, Amazon, Tesla, Salesforce, and Servicenow have financed the hypergrowth phase of their lifecycle in the convertibles market. This time around, hyperscalers and megacap companies have led the charge at this initial stage of generative AI because of the very large investments needed in terms of hardware in creating a Large Language Model platform. These big players have also benefitted initially because it is advantageous to be a repository of large datasets that can fuel the Generative AI application. However, these players have not come to the convertible market to fuel their growth, primarily because they generate vast amounts of free cash flow and do not need any funding.

Software and semiconductor companies outside of the hyperscalers and the highlighted megacap tech companies will also have a significant role in implementing the next stage of productivity enhancements and revenue generation opportunities stemming from Generative AI across various industries. Generative AI utilizes technologies such as the transformer neural network architecture to generate new content, videos, and even text that resembles human generated resources. It is starting to get deployed in marketing to create personalized advertisements and chatbots that can stimulate human-like conversations. It is starting to get used in Entertainment to create new video and music content customized to user preferences. Retail is also starting to use it to create personalized shopping experiences. In the automotive sector, it is starting to get deployed to create self-driving and autonomous vehicles. Generative AI will likely ultimately be utilized in almost every industry.

Semiconductor companies would benefit from the massive upgrade cycle that will likely take place as hyperscalers upgrade their infrastructure to cope with the massive computing requirements of generative AI. For example, within the convertible universe, Lumentum a manufacturer of optical components would benefit from increased demand for their products resulting from upgrades of data center interconnects and broadband access networks to enable them to handle gigantic data workloads associated with AI. It also enhances the reliability of their 3D sensing solutions.

Software companies will have a significant role in developing specific AI applications for companies with large proprietary datasets utilizing the very the AI platforms created by the hyperscalers. Within the convert

universe, data management and analytics software companies such as Mongo DB and Datadog have already started driving innovation through Generative AI and machine learning. MongoDB's enhanced smart apps are now able to go beyond predictive analytics to create completely new experiences, from chatbots offering personalized support to AI-generated images, code, audio, and video, all from natural language inputs and in real time, thereby creating more meaningful and reactive customer experiences. Datadog's recent integration with ChatGPT and other Large Language Models optimizes cost and performance for those models.

Over the next couple of years, we expect that AI driven growth will be a substantial catalyst and driver for financing in the convert market by software and semiconductor companies outside of Megacap Tech. This could drive significant performance from the asset class as has happened in previous waves of innovation and disruptive technology.

---

© 2023 SSI Investment Management LLC

*SSI Investment Management LLC believes all the information contained in the report to be accurate but we do not guarantee its accuracy. The analyst(s) principally responsible for the preparation of this research report certify that the views expressed in this research report accurately reflect his/her (their) personal views about the subject security (ies) or issuer(s) and that his/her (their) compensation was not, is not, or will not be directly or indirectly related to the specific recommendations or views contained in this research report. None of the information reported or opinions expressed constitute a solicitation of the purchase or sale of securities or any commodities.*

*The securities named in this report are not a recommendation. Investors must assess the suitability of any particular investment opportunity and carry out any due diligence that they require in relation to the strategy or investments or individual holdings of the strategies that SSI manages. In doing this, investors should seek separate advice. There is no guarantee these targets will be achieved and any investment is at risk of loss. These materials shall not constitute an offer by SSI Investment Management to sell or a solicitation of an offer to buy any securities.*

*SSI operated under the name of SSI Investment Management, Inc. (1/1/1973-4/30/2019) and as of 5/1/2019 operates as SSI Investment Management LLC.*