



UNIVERSITY OF  
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Investment Management

# Cambridge University Endowment Fund

## Equity Exposure to Artificial Intelligence

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## Executive Summary

The launch of OpenAI's ChatGPT in November 2022 marked a step change in the accessibility of artificial intelligence ("AI"), transforming it from a specialist technology into a tool available to general users at scale. In the near-three years that followed, listed software companies delivered annualised returns of +30.5% (in US dollar terms)<sup>1</sup> while the "Magnificent Seven"<sup>2</sup> rose by +58.4% per annum (in US dollar terms), as investors grew excited about the transformative potential of AI. These gains reflected optimism about higher productivity, faster growth and improved profitability from AI adoption.

However, by late 2025, investor sentiment had developed and shifted. The rapid evolution in the capabilities of Large Language Models ("LLMs"), such as ChatGPT, Gemini, and Claude raised concerns that AI tools represented an existential threat to incumbent software providers. In particular, investors became concerned that as AI tools became more powerful and targeted new applications, established software businesses could be disrupted or even replaced. Further, investors questioned the resilience of traditional subscription-based software-as-a-service ("SaaS") models, previously considered an advantage, given their attractive growth rates, strong recurring revenues, and high profitability. These concerns precipitated the so-called "SaaSocalypse," during which listed software stocks declined -34.9% peak-to-trough between October 2025 and March 2026.

Against this backdrop, in the first quarter of Calendar Year 2026, UCIM conducted a thorough, granular assessment of AI-related impacts across the CUEF's public and private equity portfolios (approximately 63% of CUEF NAV as at 31<sup>st</sup> December 2025).<sup>3</sup> The objective was to show both where the CUEF stands to benefit from increased investment in the AI trend, and where AI could pose a risk to the existing business models of certain portfolio companies owned by the CUEF's fund managers (with a particular focus on software). This paper is a summary of a detailed analysis prepared for and discussed with UCIM's Investment Advisory Board in April 2026.

UCIM's analysis was, on balance, reassuring. UCIM believes that the CUEF has sufficient exposure to AI to capture long-term value from this trend; this exposure is well diversified and typically owned by specialist managers with a deep understanding of the technology. Further, UCIM believes that the rapidly changing dynamics of AI favour the type of high-quality active managers with whom it partners; we expect the dispersion between AI "winners" and "losers" to grow as initial investor hype gives way to a focus on fundamentals.

The majority of the CUEF's AI exposure is to the "picks and shovels" — materials, power generation and hardware — which can capture broad-based AI infrastructure spend and are recognised by the market as substantive "bottlenecks" to the AI megatrend. Regarding the narrative that certain companies that could be under threat from AI (in particular, software companies), UCIM's view is that the reality is more nuanced. The majority of the CUEF's underlying software holdings possess defensive characteristics in light of the threat of AI disruption with strong moats and, in many cases, credible paths to AI monetisation.

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<sup>1</sup> Source: Bloomberg

<sup>2</sup> Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla

<sup>3</sup> Source: UCIM internal reporting

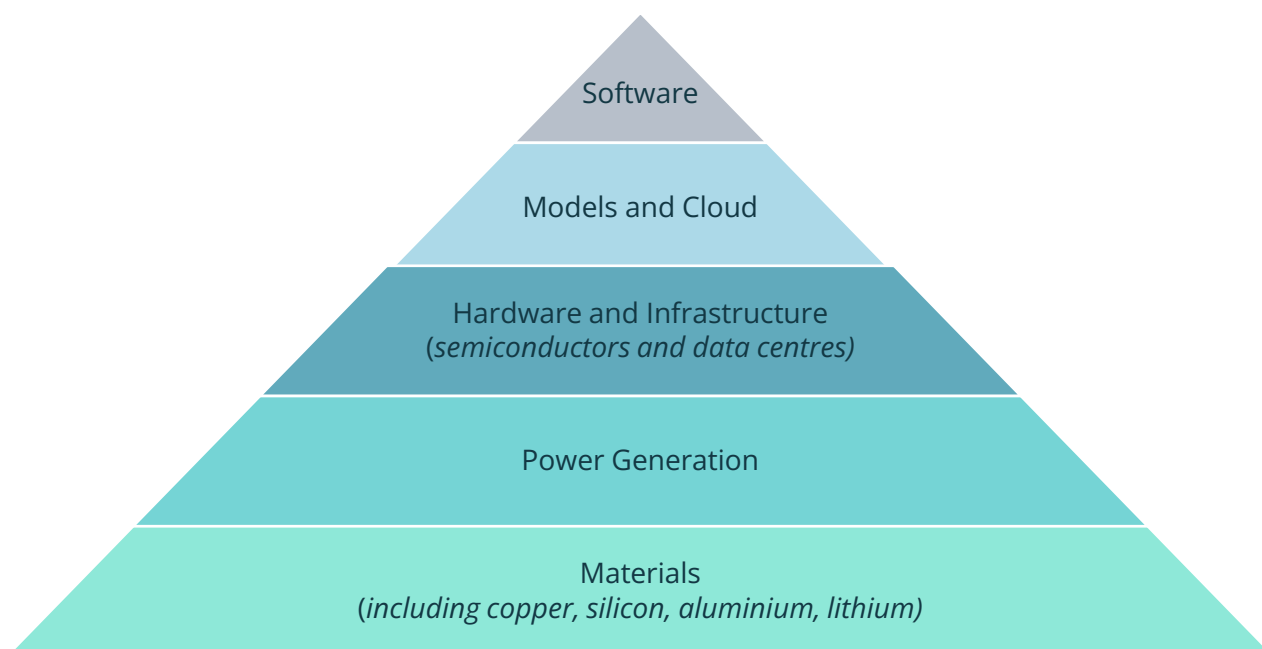
## Methodology

UCIM’s approach to understanding the CUEF’s AI exposure began by mapping its public and private equity holdings against a model of the AI value “stack” — a layered framework of industries and businesses that underpin the development and deployment of AI. This framework was derived from conversations with the CUEF’s specialist managers focused on investing in technology and is illustrated in Figure 1.

The stack comprises i) **materials** required to build and operate semiconductors and data centres; ii) **power generation**, including energy producers and grid infrastructure players; iii) AI-related **hardware and infrastructure**; iv) **models and cloud** providers;<sup>4</sup> and finally v) **software**.

Detailed analysis of underlying holdings was carried out across the majority of both public and private equity portfolios (63% NAV as at 31<sup>st</sup> December 2025). Where data were incomplete, conservative estimates were made about the nature of the underlying holdings within the portfolio. In addition, UCIM also interviewed eight of its public and private equity fund manager partners between January and March 2026 to understand how they approach AI and software investments. Finally, UCIM reviewed broker research on both the software sector, as well as individual companies, to understand how the market more broadly was assessing these holdings.

Figure 1: AI Value Stack Model



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<sup>4</sup> Including five of the “Magnificent Seven” – Alphabet, Amazon, Apple, Meta and Microsoft.

## Key Findings

Applying this methodology, UCIM's analysis shows the CUEF's exposure to "AI" across this value stack represents 24% of the fund's total net asset value<sup>5</sup>. Of this, just over half of the portfolio's AI exposure is invested in the base layers of the AI stack — materials, power generation and hardware — which benefit from rising demand as AI infrastructure is built. These "picks and shovels" holdings have delivered strong returns since the launch of ChatGPT, with hardware names performing particularly well. UCIM believes this represents a robust, relatively defensive exposure, constructed appropriately for the CUEF's long-term investment horizon.

Crucially, the success of these businesses does not hinge upon a single AI model achieving dominance. So, these allocations do not expose the CUEF to implicit "bets" about whether, for example, Claude or ChatGPT will ultimately win the greatest market share. Indeed, some of these positions are also exposed to other structural growth drivers independent of AI. For example, the power demand theme is also driven by efforts to electrify the global economy, which requires significant investment to add renewable supply and to upgrade existing grid infrastructure to cope with the resulting intermittency issues.

In addition to the public and private equity portfolios, the CUEF has additional exposure to power generation through allocations to two renewable energy infrastructure managers in its real assets portfolio, investments that also support UCIM's sustainable investment strategy. As of 31<sup>st</sup> December 2025, these commitments represented 3.3% of total CUEF NAV.

In the higher levels of the AI value stack, the CUEF has some exposure to model and cloud providers, though this allocation represents an "underweight" compared to the global public equity benchmark (MSCI ACWI). As discussed with investors in prior reports and presentations, this reflects the public equity portfolio's relative underweight exposure to the "Magnificent Seven" and a more balanced approach to portfolio construction with respect to both sector exposure and single-name concentration.

Software represents the CUEF's second largest allocation within the AI theme, after the "picks and shovels" group discussed above. This allocation is "overweight" relative to the MSCI ACWI (albeit these software holdings are concentrated in the private equity portfolio). UCIM has analysed this software exposure to understand the extent to which broader market concerns about a "SaaSocalypse" are relevant to the CUEF's holdings. UCIM reviewed software exposure in two sub-categories: application software (tools performing specific tasks or acting as a user interface) and infrastructure-related software (foundational "systems of record" and enabling platforms). The latter tend to be hard to displace because of their mission-critical functionality, or because they have access to customer data which cannot be easily replicated.

To assess resilience, UCIM evaluated the CUEF's application software holdings against a series of "offensive" and "defensive" attributes. These represent a list of the key qualities which UCIM believes will allow a software business to monetise AI successfully ("offensive") or to defend against disruption or displacement by AI-native alternatives ("defensive"). The list of qualities was derived from UCIM's independent research as well as conversations with the

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<sup>5</sup> Source: UCIM internal reporting, as at 31<sup>st</sup> December 2025.

CUEF's specialist managers across both the public and private equity portfolios. These qualities are summarised below.

#### **Offensive potential for a software business:**

- **Revenue generation:** Is there a path to monetise AI-enabled products?
- **Proven AI capabilities:** Does the company have a strong AI offering (even if current AI-linked revenues are low)? Does the company have an appropriately resourced AI development team, and is management incentivised to make this a success?

#### **Defensive attributes for a software business:**

- **Proprietary Data:** Does the application handle or provide proprietary data?
- **Domain Expertise:** Is the company a trusted brand within its industry? For example, some software providers are so trusted that “nobody gets fired for following the output from [x].”
- **Deeply Embedded** in the customer workflow: Are the switching costs high? These might be financial or practical costs.
- **Deterministic** (not probabilistic): Does the output support accurate decision-making? In other words, is the output required to be highly precise, and therefore less suited to a probabilistic large language model?
- **Network Effects:** Does the company access a network which is hard to replicate? For example, a marketplace connecting a fragmented group of buyers and sellers.
- **Functionality:** Does the application support complex tasks typically out of scope for AI? For example, fraud detection, payment processing, and user identity verification.

The attributes listed above are not an exhaustive list, but they have proven a helpful framework with which to assess the risk profile of the CUEF's application software holdings. UCIM's analysis of its underlying application software holdings indicates that the majority are defensive in nature (with at least three out of the six defensive attributes discussed above) and well-positioned to navigate AI-related transformation.

Further, UCIM assessed the fund managers who own these companies on behalf of the CUEF and gained conviction, in the vast majority of cases, in their ability to underwrite and navigate the complex and rapidly-evolving landscape of their opportunity set. The majority of the CUEF's software exposure resides within the private equity portfolio, where managers have a greater ability to influence company strategy, and UCIM was reassured that these managers are taking a proactive approach to position their companies well regarding AI.

## **Summary and Next Steps**

AI and its potential effects on the economy and equity markets continue to evolve rapidly. Although in recent months equity markets have expressed a blunt view on which companies will ultimately be AI “winners” or “losers”, UCIM expects investors to become more nuanced in their evaluations over time.

The potential for a greater range of outcomes and the expertise required to underwrite the evolving threats and opportunities to individual companies should favour UCIM's approach to investing with active, specialist public equity managers (compared to a passively managed approach). Where UCIM has relatively more exposure to software, its venture capital, growth, and private equity managers also have the expertise and ability to influence investment

outcomes by supporting their portfolio companies in adapting to the rapidly evolving AI landscape.

The analysis has informed UCIM's ongoing approach to monitoring underlying AI-related holdings and engagement with its fund manager partners. UCIM will remain vigilant in assessing its managers' ability to generate long-term value for the CUEF from this important theme, understanding how fund managers underwrite their portfolios and adapt accordingly. UCIM plans to regularly revisit this research and develop additional qualitative and quantitative tools to assess the impacts of AI on a portfolio-wide basis.

Beyond its direct impacts, UCIM's investment team will continue to carefully consider how AI might reshape other parts of the economy. For example, future developments will be impacted by the implications for consumer demand if increases in unemployment result from businesses replacing workers with AI tools, or the risks of disruption to consulting and client-supporting roles. While the pace of change makes it challenging to predict how AI will affect other sectors, as a long-term allocator, UCIM will continue to assess the risks and opportunities from this transformational technology.