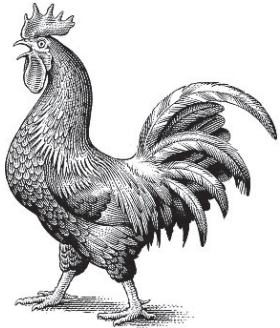


Brookfield wants boring slice of the \$10trn AI boom

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It's the data point that shocked financial markets. So far this year, investment in artificial intelligence – defined by Renaissance Macro's chief economist Neil Dutta as information processing equipment plus software – has contributed more to US GDP growth than consumer spending.

Given the US consumer makes up about 70 per cent of the world's largest economy, the sheer scale of the spending is clearly staggering. But with four of the world's most important tech companies leading the charge – Microsoft, Meta Platforms, Amazon and Alphabet are spending \$400 billion this year – Dutta's analysis has sparked a fierce debate about whether we're in a spending arms race that will end in tears when AI is commoditised and returns evaporate.

Brookfield, the \$US1 trillion (\$1.54 trillion) Canadian investment giant, has good news and bad news.

The firm's Australian boss, Stewart Upson, says AI is likely to become commoditised over time, and AI products are eventually likely to be sold in the same way as utility products such as electricity.

But Brookfield believes there is simply no chance that the world is going to build excess AI capacity. Although it argues that AI demand is larger and only likely to accelerate as computing costs fall, the big problem is that capacity remains constrained, and will stay that way even if its demand projections are overdone.

Brookfield predicts that \$US7 trillion of AI infrastructure needs to be built in the next 10 years, including \$US4 trillion for compute (think computer chips and servers), \$US2 trillion for data centres, and \$US500 billion each on power transmission and extras, such as fibre, chip manufacturing and robotics. It estimates that the current run rate of spending is only about half of what's going to be needed, leaving a big gap for private capital to fill.

"We've concluded that it is very real," Upson says. "If anything, it's under-hyped



right now, and it is going to be the most meaningful technological development we think we've seen, certainly in our lifetimes, but perhaps ever."

While investors in hyperscalers such as Microsoft, Meta and Amazon fret over whether the companies' spending binge will create a sustainable competitive advantage, Brookfield, as one of the world's biggest digital infrastructure investors, it's not hunting the sort of outsized returns tech investors are betting on.

It wants to plough funds into including so-called AI factories (think data centres on steroids that house clusters of thousands of chips), power solutions (including nuclear energy, battery storage and large-scale renewables) and what it calls GPU-as-a-service, whereby Brookfield finances firms that lease out access to high-end chips.

"We are essentially a utility-type investor," Upson says. "Most of the large-scale capital we have invested is in the backbone of the global economy and focused on stable, risk-

Stewart Upson, regional head of Asia Pacific at Brookfield Asset Management Inc.
PHOTO: BLOOMBERG.

adjusted returns. This is the new infrastructure of the world. It is going to become ubiquitous and a utility-type asset."

Two of Brookfield's biggest deals to date in the AI sector have been with governments: a partnership with the French government to invest €20 billion (\$36 billion) in AI capabilities, and a similar deal with Sweden to invest \$US10 billion. Although it's early days, Upson expects this sovereign AI push to gather pace as economies become more reliant on this infrastructure.

"Every government is going to need to have AI applications that they use for their own purposes, for every different government service, and they're not going to want that served offshore," he says. "My expectation would be the Australian government is very aware and very focused on it, and I'm sure they will be looking to address this."

In the same way that Brookfield has a specific energy transition strategy with \$US137 billion under management, the firm

is expected to unveil an AI strategy this year. That raises a fascinating question: can the world pull off the decarbonisation and AI revolutions in parallel?

Given energy looms as the big bottleneck for the AI boom, Upson concedes that juggling these twin goals will be difficult initially. "But I think it creates a lot more momentum that can be helpful just to get more power generation in general. We can move, say, on new nuclear plants in some of these locations because you've got this extra impetus."

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