Caron’s Corner Transcript – 5.12.2025

AI Beneficiaries: Allocating Where AI-Driven Efficiency Gains May Be Best

Jim Caron, CIO of the Portfolio Solutions Group, is joined by Thomas Kamei of Counterpoint Global to explore how artificial intelligence and automation may reshape workforces and to highlight surprising investment opportunities in companies poised to adopt these technologies.

On Wednesday May 28 at 10:00 EST, Counterpoint Global is hosting a seminar entitled:

AI Beneficiaries: Investing in Second-Order Effects

To register for this event and access the related whitepaper, click on the link above.

Jim Caron: Hello, this is Jim Caron, CIO of the Portfolio Solutions Group. Welcome to another edition of Caron's Corner powered by The BEAT. The BEAT is Bonds, Equities, Alternatives and Transitional investments like short-term cash and short-duration instruments.

Last week I said I was going to be very excited about this week's Caron's Corner because we have a special guest to talk about AI beneficiaries, Thomas Kamei. Thomas is an Investor for Counterpoint Global, one of MSIM's active equity teams. He's been with the team 13 years and leads Tailwinds, a U.S. equity strategy, and sustainability research for Counterpoint Global. Thomas was a fellow at the Aspen Institute in 2015 and was previously at Kleiner, Perkins, Caufield and Byers, where he analyzed late-stage technology businesses for the green technology growth strategies. Thomas received a BS in architectural studies from the University of Southern California and here's a fun fact about Thomas - he has attended every Berkshire Hathaway annual shareholders meeting in Omaha since 1996.

Thomas, your team, Counterpoint Global has been investing in world-changing technology like AI for over 20 years. Can you talk about some lessons learned from studying these big shifts?

Thomas Kamei: First of all, Jim, thank you so much for having me today - I’m a big fan of the podcast. To start, I think there's one big key to our culture and this really starts with Dennis Lynch, the Head of Counterpoint Global. It's his willingness to think differently. His key belief is that if you're using the same tools, data and heuristics as everybody else, you get average results, and our job is to try to beat the market and think differently. That was the genesis of starting this disruptive change research back in 2004 by team member Stan Delaney. Then we also have our Consilient research with Michael Mauboussin and both of those components really fed into what we've built here.

If there is one big idea to set the table when we look back over the last 100 years, it is that when a big technology comes along, the market is very quick and often bids up the enablers of the technology - when actually all the value ultimately ends up accruing to the companies that leverage the technologies, the ones that find ways to effectively bring the new technology in-house. The automobile is a great case study. Back in 1920, over 100 years ago, if I told you then that there were going to be more cars in America than Americans, you would have quickly thought to buy all the auto automobile manufacturers because you're going to make a killing. But the reality is if you've held that equity for 100 years, you got wiped out. On the other hand, if you were able to identify that the car was an enabling technology for something bigger, like suburbanization, where you can drive around and compare prices at big-box retail, and then you invested in Walmart. In this case if you held that from 1980 to 2020, you would have 1600 times your money. By contrast, Ford was only about 20 times. Again, you have to identify the technology and then not just jump on the obvious idea, but go to the second derivative for the second-order beneficiary. Yes, AI is what we're going to be talking about today, the current big technology that the market's wrestling with. But everybody's very quick to jump on the "are you underweight or overweight Nvidia" and again, we're really just trying to think more broadly, like what does this technology mean for the market.

Jim: That's great. It's super interesting to hear you talk about AI - and I know you published a white paper entitled ***AI Beneficiaries: Investing in Second-Order Effects | Morgan Stanley*.** Let's talk about that. The paper discusses the team's research on how AI and automation might reshape the future workforce and in which types of companies stand to benefit the most. Can you explain the key findings? Are there second-order impacts we should already be monitoring?

Thomas: First of all, this paper is now available and we're actually debuting it on Caron's Corner. The research is very much ongoing, so hopefully 6 months from now we'll have new findings. One second-order effect that we are have high conviction in today is that AI is going to lead to a huge amount of efficiency gains and productivity gains - and as a technology is it's not just blue-collar labor but also white-collar labor. We're really trying to wrap our arms around what that means for a broader index of companies. And here's the punchline - if you read the paper, the top section of the first page, it says that if the top 1,000 largest companies reduce their most automatable jobs by 50% , that would be 1.7 million jobs and $207 billion of avoided expense. Now it's really important to call out here that as Counterpoint Global or Morgan Stanley, we're not advocating to reduce all these jobs. But as fiduciaries and investors, it's our job to think about the ramifications of these technologies more broadly.

Jim: Everybody talks about this now, right? What are the AI-driven efficiency gains? You're touching on some of it, but I think to a lot of people this becomes very confusing. How do you actually identify which companies are likely to benefit from these AI efficiency gains?

Thomas: Jim, I think that's the multi-trillion dollar question. Back in 2019 we actually started collaborating with professors at the Harvard Business School and built what we call Culture Quant. We found this amazing alternative data set, which gave us access to 300 million employees' monthly employer data for the last 15 years. We also have this amazing machine learning lab here at Morgan Stanley and what we were able to do was look at companies and understand their workforces. Our initial study was about retention - did companies that retain their employees outperform? The short answer is yes, and we used that as the core of this research project around AI. We also borrowed some research from Oxford called the Frey Osborne model (which I highly recommend everybody go read) and Stan Delaney's disruptive change research as well. The last step is about how do you allocate the surplus and that last point is really important.

This is where Michael Mauboussin had great frameworks for us to leverage. When a big technology comes through that creates a whole lot of efficiency, you have to have a view as to who captures those gains. A lot of the times the technology might come through and it might just benefit the consumers, where all of those savings get passed to them. Maybe there are times when the company gets to capture incremental margin or the suppliers gain more leverage and they become more profitable. Again, we're not just thinking about the technology that's only going to benefit consumers. Can we identify those companies that have outsized profitability gains that we're anticipating, especially times when we're before the Wall Street consensus gets there. Can we find those times when consensus thinks that we're only going to see a little bit of profitability gains when we're actually seeing a big profitability shift coming?

Jim: So you're not just throwing darts at a dartboard. You're actually doing a lot of hard work here, which is why we like talking to you because it's not easy. I mean, I think it's easy to talk about AI and say what it is and what it can do, but when you really get down to it and you have to invest, I think that's where a lot of the deep thought that your team does, and you tend to be very out-of-the-box thinkers. Now this is Morgan Stanley **Investment** Management, so let's talk about the **investment** process. How do you take all these insights that you're communicating to us and how do these insights contribute to your investment process in finding companies that may stand to benefit from AI?

Thomas: First of all, there are going to be a huge amount of really fun and interesting companies in robotics and software at the application layer, but we're actually spending a lot of time is thinking about other industries that are maybe the less obvious and maybe the more surprising beneficiaries of AI. I would point at some of the sleepy industrial businesses, like Cintas. I'm sure you've seen those trucks driving up and down the road, they deliver clean uniforms to places like auto garages and I actually think this is a really interesting case - and not an obvious one. Cintas is using all of this automation in their centralized cleaning facilities, so that's a productivity gain. But then also putting all sorts of analytics in the truck and that ultimately enables Cintas to be a more effective acquirer, and so they can operate and acquire their competitors in their very, very fragmented industry. They're differentiated.

Another industrial example is Waste Management. They're starting to use robots in the recycling lines to sort plastic. Obviously that's great for Waste Management because you actually take what is a loss-leader business and make it potentially profitable by reducing that labor and letting those people go do other things. The company has actually explained how they're transitioning labor into other categories within the business. That's another example of how you wouldn't think of a waste management company as an AI beneficiary, but that's a lot of market capital at play.

Jim: I think this is exactly how this technology from an investment perspective really gets put into play, because what we start to think about is let's find businesses or business lines that have huge inefficiencies in them where AI could be a really good solution. So your process of tying this together and having a methodical way to identify these things, and I know you tend to be longer term by nature and you're not just going after things on a month-by-month basis. You tend to be very well thought out, but I think that's the gain, and I think that's the benefit of this paper and from talking to you. Look, I can talk to you all day long, but I don't think our listeners have that kind of time. So Thomas, do you have any last thoughts or conclusions?

Thomas: Yeah, maybe two, Jim. First of all, thanks again for having us. It's really fun to get these ideas out there. One thing I really hope that this gets people to start thinking about - and this falls under our sustainability remit - but to really think about the societal implications of this technology, and I'd encourage everybody to download the paper off the website. The last conclusion is that there's a chart that shows how labor has changed over the last 100 years in America and you know, a lot of people in "technology land" are quick to say people will just reskill and find new things to do, point to times like the transition from farmers to manufacturing. I would say the one difference between that labor transition and the one that we're dealing with now is velocity, right? We had decades to transition people from the farms into the cities. But the innovations that are coming out of Silicon Valley are happening on a weekly basis and it's really important to wrap our arms around that.

The last thing I'll do is plug that we're actually going to go really deep into this process and the technology and then actually highlight some other really interesting sectors and a handful of other companies that we've identified that we believe are AI beneficiaries. Michael Mauboussin and I will do a webinar on May 28th – and there will be registration connected to your podcast. I'm really looking forward to pushing this and this is kind of day one, right? This is not a conclusion as much as a whole new vector of new places to build.

Jim: You're absolutely right. On May 28th at 10 AM Thomas and Michael Mauboussin will host a webinar. Now, this isn't the last time we're going to have this conversation as we're looking to incorporate these things into our own portfolios. Your thought leadership and partnering with you and thinking through this is the future.

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