



Small Managers - BIG ALPHA - Report 93



Manager to enter AI foray through VC funds

B. G., Opalesque Geneva for [New Managers](#):

Tholus Capital wants to champion Artificial Intelligence (AI), which it sees as a transformative force for humanity. This year, the manager is launching an AI-focused fund of venture capital (VC) funds.

“AI is going to be a big game changer in the global economy, and much of the value potential is up for grabs,” according to the manager. “AI could contribute up to \$15.7tn to the global economy in 2030, more than the current output of China and India combined. Of this, \$6.6tn is likely to come from increased productivity and \$9.1tn is likely to come from benefits to consumers.”

Early-stage investments in AI Applications (such as algorithms, chatbots, tailoring of streaming services and online shopping, smart products, precision medicine, national security assessment...), AI Developer Tooling (to help developers and organizations build AI and machine learning (ML) systems at scale and speed), as well as certain early-stage opportunities in Cloud & Data Infrastructure, represent an attractive investment opportunity - and the best way to access this opportunity is via specialist VC funds.

Tholus Capital will expand on the topic of AI investment in the upcoming [Investor Workshop webinar](#) on May 16th (see details below).

The AI investment landscape

According to Tholus, foundation models such as Open AI's GPT have been the hot spots in AI that are attracting a lot of capital and hype. However, the training and operational scale requirements of foundation models are very capital-intensive. With the increasing competition from the open-source community, there may not be a clear path to monetization. So providers of foundation models will be limited to a few deep-pocketed players such as Microsoft and Google.

Hardware and computing are important prerequisites to the performance of AI models and - as the surge in the NVIDIA share price has shown - can prove very profitable. The technological barriers to entry to this vertical, however, are high and they require significant capital expenditure.

Tholus concludes that start-ups are best positioned to focus on the AI Applications and the AI Developer Tooling layers and could also see opportunities in new Cloud & Data Infrastructure. Within these layers, AI start-ups can get a clear understanding of what they are solving, analyse their ability to optimize their product and be quick in going to market and scale.

Portfolio

The fund of funds will invest in funds focused on start-ups. Those fund managers have a profound knowledge of the technology and the landscape and what building a tech company entails; they also

have networks and talent.

“Pure-play AI managers are best suited to take advantage of the opportunities in the space. This has led to the emergence of a small group of highly specialized VCs that are exclusively focused on AI,” according to Tholus.

“The key differentiator is that Tholus Capital only allocates to (i) ‘pure-play’ AI-focused managers, who (ii) have proven long-term domain expertise (and thus have not added AI either to a broader tech strategy or started their investment program after the recent launch of public-facing tools like chat GPT),” [Markus Bihler](#), co-founder of Tholus, tells Opalesque.

The manager identifies four types of AI-focused VCs: Incumbents with deep AI expertise, Generalists pivoting to AI investment, Technologists transitioning from tech giants or academia, and Opportunists seeking to capitalize on AI hype without relevant expertise. “We believe that a diversified investment strategy should focus on the established AI specialists, i.e. the Incumbents with some allocation to the Generalists as well as a small allocation to Technologists while avoiding any exposure to the Opportunists.”

The manager will allocate capital to two core groups of VCs: (1) the core portfolio will contain established AI specialists, and (2) the farming portfolio with first-time funds. “We have selected nine managers from a long list of global AI-focused early and late-stage venture capital funds,” Bihler adds.

The total size of the portfolio should not exceed \$200m. It will be a closed-end fund (and/or SMA) domiciled in the Caymans.

Through strategic investment in AI venture capital, Tholus aims to gain from the future success of AI-enabled industries.

[Tholus Capital](#) is a global thematic manager of fund of funds and OCIO (outsourced chief investment officer) incorporated in the Cayman Islands. The team was formed in March 2022 and works globally.

Next Investor Workshop Webinar

How to Access Mission Critical Investments in AI, Aerospace & Defence

In this interactive webinar, we will introduce you to some of the leading specialized investment managers in two areas of technology we believe will shape the next decades and are already of significant geopolitical importance: Aerospace & Defence and Artificial Intelligence.

Who?

- Markus Federle, founder & managing partner, Tholus Capital
- Apoorva Pandhi, managing director, Zetta Venture Partners
- Shreya Rajpal, CEO and co-founder, Guardrails AI
- Brad Harrison, managing partner of Scout Ventures
- Shaun Moore, co-founder & CEO, Tern

When: Thursday, May 16th at 11 am ET (4 pm GMT, 5 pm CEST, 6 pm Riyadh, 7 pm Dubai)

Free registration: www.opalesque.com/webinar/