

The X Report

In our second X Report (where we highlight the AI, cyber, and space capabilities of the [Geopolitical Intelligence Group](#)), we focus on the AI hearings held last week in Washington, D.C. If you missed our [initial X Report](#), we did an “around the horn” on **AI and space**.

AI – Intelligent Life in D.C.?

Academy’s General (ret.) Groen worked behind the scenes with leading politicians concerning the AI discussions held in D.C. last week. He helped set their questions and guide them through discussions as they evolved. **I am happy to report that he was very encouraged by what he saw and heard** (and he found the underlying tone to be very constructive).

His quick takeaways:

- **We will not bow to the “alarmist” element that is out there.**
 - We cannot help but think of the “*Terminator*” when we hear about AI. We published a T-Report titled [August 29, 1997](#) back in May playing with that theme. The media embraces these fears (they do generate great “clickbait” headlines) and there was some discussion about the risks of AI “run amok,” but that didn’t drive the conversation. Not succumbing to these headlines is an important step for D.C. as getting caught up in the fear side of things would greatly detract from our policy making.
- **Thoughtful, protective, and balanced policy seems likely.**
 - We are in the early stages of shaping AI rules and regulations. There seems to be a path to creating some sort of regulatory body, but we don’t seem to be on a path to halt the progress and evolution of AI.
 - There will be some focus on the databases that “generative” and “large language” AI use and have access to. However, the underlying data available does affect what the AI “concludes” (for lack of a better word). There are legitimate concerns that the data can be constructed in such a way to purposefully bias results. That is something that we will need to watch closely.

In a world of artificial intelligence, it is encouraging to see “intelligence” amongst the politicians who will influence the direction of AI.

AI – The International Competitive Landscape

General (ret.) Groen and others seem comfortable that we will shape policy that lets AI development thrive in the U.S. We discussed the competitive landscape, and a few things are worth highlighting.

- **China.** China is committed to AI development. They have the resources (from hardware/technology to coders/developers). They will pursue AI aggressively and will be very good on that front. His belief is that because so much of the AI development in China is **dictated and controlled by the Chinese Communist Party (CCP)**, their progress will be hamstrung. This has been an ongoing theme in technology. Sometimes, well-funded, massive, and long-term planning-backed programs with very directed goals are not as successful as an industry of

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entrepreneurs who are free to explore various paths and ultimately find gems (where a large/directed program may not).

- **The EU.** Coming into these meetings, we had fears that we would see a “European like” response to AI, with them being so overly protective of the data that they would severely hamper AI development. The **General Data Protection Regulation (GDPR)** imposes obligations onto organizations globally regarding data related to people in the EU. If the underlying data is too limited, AI cannot function at its full capabilities (greatly reducing the interest in AI), which in turn will limit progress. Given Europe’s current regulatory leanings, it runs a real risk of not remaining a hub for AI.
- **India.** I may sound like a broken record, but once again we have to highlight the progress and trajectory of AI in India. They are improving by leaps and bounds and have the resources to be a global leader in AI. This sounds so familiar to readers of Academy’s reports since we have highlighted India’s role in space and their ability to capture business as companies look to shift/grow production outside of China. However, macro discussions (collectively) don’t seem as “India centric” as I think they should be.

We will watch the developing international landscape, but for now, the U.S. is in a “good place” to be a leader in AI use and development.

What Do AI and ESG Have in Common?

If you thought the answer is “a lot of new ETFs claiming to capture the opportunities” you may be right, but that is not the direction we are headed (at least not today).

As we are looking at how to assess the impact that AI might have on a company, there are a few things that we think are important to consider. **This is crucial as we are looking for “success” stories of companies that have adopted AI** (or leading edge technology, which is how I think of it) into their corporate strategy or products to produce big “wins.” Here, we aren’t discussing the companies that provide AI services, but companies that have harnessed this technology in some way that materially impacts the company. One company which has come up frequently in such discussions is Deere & Company¹. The technology incorporated into their equipment and support tools have transformed how farmers manage their farms. This is just one example, but it comes up frequently enough that I wanted to mention it. For AI to take off (including the AI providers) we will be looking for more “transformational” examples of where companies have employed AI (or just really high tech) into their products or process to transform themselves. As AI develops and evolves, we expect to see more of these stories. There are already many beyond the example given, but when we see a wave of “AI success” stories, the market will be able to price in greater efficiencies for the economy.

This brings us back to the title of the section – what do AI and ESG have in common? We think that **the companies that will be most successful incorporating AI will be those that truly embrace it.** Some soundbites on an earnings call, or a mention or two in an annual report won’t cut it! The companies that will best succeed in AI (much like those that led in terms of ESG) will be those where the CEO and

¹ Academy Securities has served as an Investment Bank for Deere & Company in the past and may seek to provide similar services in the future.

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leadership are “passionate” about it (rather than just trying to benefit from the current hype). They will align their board to support and understand AI (just like many of the most successful companies on the ESG front did and continue to do). This is not “binary” or mutually exclusive by any stretch of the imagination. Some of the companies that led the way in ESG will likely lead the way in AI adoption as well.

But, as you try to pick which companies to own (based on their ability to benefit from AI), it makes sense to really focus on the commitment at senior levels as management will not only set the tone for the firm, but also ensure that the **support** (money, training, etc.) and **culture** (willing to risk setbacks, even failures, etc.) **are in place for AI to thrive and become transformational.**

As AI becomes a regular topic within our “geopolitical” conversations, I’m generally encouraged by what I hear. Companies seem realistic about what they can expect from AI today and why it is key to start incorporating it. One fun story that I heard (partly in response to some of my own frustrations in trying to use AI to generate content) is about a company that heavily encouraged its units to experiment with “chatbots” to improve their current process (from producing reports to analyzing prospects). They have well over 100 groups working on incorporating it into their routines (or changing their routines entirely). **It is too early to tell how many of the “experiments” will lead to something being implemented, but it is that type of attitude that is likely going to produce results!** And this is an area where results will lead to more results. It is easy to ignore headlines (especially when they are mystifying or confusing), but it is impossible to ignore results.

Bottom Line

I was able to write something nice about politicians! That was good (and I don’t expect to be able to say the same as the budget issues bubble to the surface).

AI is evolving, and it is exciting to bring Academy’s expertise to our clients (and to get up to speed on AI, cyber, space, and India)!

We will do a follow up report on “space” in the coming weeks as a newly retired astronaut has recently joined our advisory board (see [press release](#)).

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