

WALTER SCOTT



QUARTERLY COMMENTARY

GLOBAL

31 MARCH 2026

For use by institutional investors only. Not for use with general public.

AI challenges and opportunities

In a 2011 Wall Street Journal article, tech venture capitalist Marc Andreessen argued that the world was in the middle of a “technological and economic shift in which software companies are poised to take over large swathes of the economy.” As he memorably put it, “software is eating the world.” Fifteen years on, many observers believe that software itself is now on the menu. AI, they contend, is eating software.

A succession of new AI tools has ignited investor concern about how quickly and to what extent they might undermine incumbent software franchises. The world has indeed changed. The arrival of the latest generation of coding agents represents a significant shift in capability.

In the last few months, Anthropic’s Claude Code and Claude Cowork as well as platforms such as OpenClaw have been thrust into the limelight as autonomous digital assistants, underpinned by a new generation of large language models starting with the release of Claude Opus 4.5. They are digital ‘interns’, capable of performing at speed, multi-step processes.

As Michael Bhaskar of Microsoft AI and a forthcoming speaker at our Research Conference suggests, this is not simply a story of better tools—it marks a shift toward systems that can pursue goals on a user’s behalf. In practice, this is already visible in products like Microsoft Copilot’s Cowork (and more recently, the aforementioned Claude Cowork), which can take a simple instruction, construct a workflow, draw on emails and documents, and execute tasks across applications with minimal oversight. The implication is profound: workers are no longer just users of software, but managers of increasingly capable digital agents.

But to mount a successful attack on software incumbents, the various AI labs that are leading the disruptive charge have to chip away at the various moats that companies enjoy. Software companies that have replicable data, simple rule-based functions that can be easily carried out by AI agents, and weak integration or relationships with customers are likely to be the most vulnerable to displacement. In this evolving threat landscape, many investors have defaulted to a ‘sell first, ask questions later’ stance towards managing disruption risk. In our view, this is a tactic that ignores the strengths of many leading software businesses.

There is more to the best software companies than simple coding and product development. The infrastructure around leading software businesses is often highly complex with significant moats. However, it is critically important to examine companies on a case-by-case basis.

Analysing impacts and opportunities

The matrix below represents a framework which we employ to ‘interrogate’ companies, in terms of the risks and opportunities in this evolving environment.

Category	Metric	Description of metric
Data	Volume/accuracy	Depth of data and whether it is reliable/structured
	Proprietary	Is the data unique and owned by the company?
Company/market dynamics	Scale/market leadership	Resources to invest and dominance of focus area
	Brand	Reputation with customers and partners
	Customer stickiness	Retention rates of software with customers
	Embeddedness	Does the software provide a key workflow to customers?
	AI capabilities	How ‘good’ is the incumbent at incorporating AI into their existing software stack?
	Regulation	Does the regulatory environment allow for AI start-ups to have an impact or does it inhibit predation?
	Switching cost	How easy/difficult is it for customers to switch to an alternative?
	Network effects	Do existing users benefit from being on the same platform as additional users

We assess software incumbents’ resilience by examining their moats: proprietary, reliable data; financial resources, talent, and scale to sustain AI investment; brand strength and churn/retention; and how deeply the product is

embedded in daily customer workflows. We also evaluate AI execution capability, legal/regulatory defensibility, switching costs, and multi-user platform effects that increase stickiness and attract new users.

The matrix is a logical platform for fundamental analysis and a prompt for Research team debate. It is an approach founded on rigorous research and engagement with companies, competitors, and industry experts, at a time when the market is displaying its time-honoured predilection for translating uncertainty into negativity.

Intuit's Initiatives

Intuit has been sucked into the disruption debate. The company is well known for its 'QuickBooks' accountancy software for small and medium-sized businesses, and 'TurboTax,' which helps more than 40 million Americans and Canadians file their tax returns.

Our discussions with management, including Chief Technology Officer Alex Balazs last year, highlighted how Intuit has made the integration of AI a central pillar of its strategy across all its major products. Intuit has been using AI for years, harnessing it to accelerate innovation and defend against disruption. In terms of our above matrix, the company is an example of how the benefits of proprietary data come to the fore.

With more than 30 years of proprietary data – something start-ups lack – Intuit is building "Intuit Intelligence", a more accurate and trusted model than general AI systems. It is focusing on a "done-for-you" AI vision, where financial tasks like taxes, bookkeeping, debt management, and cash flow are increasingly handled autonomously by AI agents rather than manually by users. AI agentic workflows manage invoices, detect late payments, create tailored messages, and even place AI-driven voice calls; these tools help customers get paid faster with minimal effort. For instance, an AI-powered bank feed is available on QuickBooks, and 45% of customers using it report saving 12 hours per month on bookkeeping.

Mr Balazs believes that the current environment is reminiscent of 1999 with the advent of the internet, only this time it's moving at 10 times the speed. AI enables Intuit to move faster, innovate at scale, and disrupt niche applications rather than be on the receiving end of disruption. In our view Intuit's solid foundation of AI building blocks is enhancing the company's ability to increase its share in an addressable market worth over US\$300bn.

In a recent Wall Street Journal interview, CFO Sandeep Aujla was strident in his view of current market sentiment. "The market is seeing a boogeyman that frankly doesn't exist. And sooner or later, the fundamentals are all that matters and the market is going to realize that..."

Assessing Adobe

Adobe has suffered valuation contraction over the last year, despite good earnings growth and strong cash flow generation. This reflects concern from some observers over AI-related erosion of the company's competitive moats, although this overlooks its strengths in areas such as the embeddedness of its product suites.

The market is pondering how competition from businesses such as Canva will impact Adobe's 'freemium'-type model, where Adobe offers a lot for free initially, thereby driving adoption and usage, then ramps up monetisation. There are questions regarding the 'stickiness' of enterprise customers in future, with some believing that companies such as Google potentially present a disintermediation risk. The momentum of Adobe's Firefly GenAI offering has received some critical scrutiny. Shantanu Narayen's announcement about stepping down from the CEO role after 18 years at the helm once a suitable successor is found, hasn't helped sentiment, although he is staying on as Chairman.

Technology transitions can provoke a binary market response, especially when the business is almost treated as one uniform product instead of a set of customer segments with different needs, levels of sophistication and switching costs. Over the last year, we have conducted channel checks with assorted enterprise users of Adobe such as film companies, and advertising and creative agencies. The readings from this exercise suggest that the low end (casual users and small teams) may remain price-sensitive and more willing to try cheaper tools, while professional and enterprise users tend to value reliability, integration, and control, and are less prone to switching once workflows are embedded.

Adobe's competitive edge has not just been the quality of its tools, but in delivering them within an integrated platform that facilitates end-to-end idea formation, creation, personalisation, delivery, and measurement. AI has lowered the barriers to building software applications, but Adobe's strength lies in this tight integration of its tools with content workflows, interfaces, and applications – offering a seamless, compliant, and brand-safe solution for its customers. The company's AI strategy is aimed at enhancing these integrated solutions. The company's recent first-quarter results were good. 'AI-first,' which is where AI is the core driver rather than a bolt-on enhancement, saw annual recurring revenue (ARR) more than tripling year on year which points to continued progress in monetisation.

Google is co-selling 'Foundry' into enterprise accounts alongside Adobe. Foundry is an enterprise-grade service that enables businesses to create, customise, and deploy proprietary generative AI models trained on their own intellectual property. This suggests partnership with a hyperscaler rather than disruption.

Nonetheless, against a backdrop of rapid AI innovation, the rate of travel of Adobe's AI endeavours and the strength of its moats continues to be scrutinised by the market and the Walter Scott Research team.

Fortinet's fortitude

There has been some debate as to how a new breed of GenAI cyber companies may pose a threat to cybersecurity companies such as Fortinet. Its Security Fabric platform is considered the most comprehensive and advanced of its kind, offering a unified solution that protects the entire digital attack surface. An attack surface represents all possible points where, for instance, a hacker could gain unauthorised access to a system.

As per our interrogation framework, it is an example of where market leadership and scale confer the business with significant advantages. The company, with over 900,000 customers, has been building AI capabilities into its products for years (as evidenced by 500+ AI patents), notably under its FortiAI brand, which is now embedded across its Security Fabric. These tools automate threat detection, response, and routine security or network operations, reducing manual work for analysts and improving response speed.

A meeting with the CFO and a senior executive in the Technology division last year, laid out AI-related opportunities. Unlike many AI startups which focused on software alone, Fortinet integrates proprietary hardware (e.g., its FortiGate appliances) with security software. This enables high-performance throughput with advanced inspection and AI-powered threat prevention at scale. This tight hardware-software coupling raises the bar for pure-AI competitors.

The company's FortiGuard Labs aggregates the massive amount of data it receives from its global installed base, which enhances its proprietary threat intelligence and automated defences. This is a real-world data advantage which is difficult for external AI models to replicate without an equivalent footprint.

Cybersecurity demand continues to rise as networks, devices and applications proliferate. Indeed, AI is increasing cybersecurity threat levels by empowering hackers. Integrated platforms that see more can learn faster and respond sooner. Fortinet's breadth across hardware, software and services, coupled with scale benefits and cost efficiency, positions it to keep taking share as security budgets grow.

AI opportunity knocks

In recent months, AI disruption concerns have seeped into a number of sectors outside of software-related businesses. This has reflected a somewhat dystopian view of the ultimate economic impact of AI. Compass Group has, by some, been dubbed an "AI loser." The bear argument follows the line of thought that if AI disrupts office-based employment, it will reduce the demand for workplace catering.

This would suggest an environment where AI represents a chronic threat to a significant section of the labour market, and by extension, personal consumption. Such an outcome would, of course, impact companies across the market spectrum. The negative narrative represents a thorough misunderstanding of Compass's business model, and the fact it is benefiting from the development of AI. You can read about our thoughts on the company here: [Compass not losing its bearings](#).

The rapidity with which AI is evolving will continue to present challenges, but also opportunities. Many leading companies in the software arena and other sectors are not 'steady state.' They have developed and grown over the years precisely because they are innovators, able to adapt to new dynamics. Against this backdrop, we continue to assess every AI development through the lens of fundamentals – vigilant, but also confident that many of the top software companies are well positioned in the AI revolution.

The information provided in this document relating to stock examples should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will feature in any future strategy run by us. Any examples discussed are provided purely to help illustrate our investment style or, are given in the context of the theme being explored. The securities discussed do not represent an entire portfolio and in aggregate may represent only a small percentage of a portfolio's holdings.

Walter Scott's investment approach: This material contains certain statements based on Walter Scott's experience and expectations about the markets in which it invests its portfolios and about the methods by which it causes its portfolios to be invested in those markets. Those statements are not guarantees of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. The information in this schedule is subject to change and Walter Scott has no obligation to revise or update any statement herein for any reason. The opinions expressed are those of Walter Scott and should not be construed as investment advice.

This document is provided for general information only and should not be construed as investment advice or a recommendation. You should consult with your advisor to determine whether any particular investment strategy is appropriate. This information does not represent and must not be construed as an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products. This document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorised.

Walter Scott & Partners Limited ("Walter Scott") is an investment management firm authorised and regulated in the United Kingdom by the Financial Conduct Authority in the conduct of investment business. Walter Scott is a non-bank subsidiary and 100% owned by The Bank of New York Corporation. All operations are based in Edinburgh, Scotland with a client service presence in the United States. Walter Scott is responsible for portfolios managed on behalf of pension plans, endowments and similar institutional investors.

Third party sources: Some information contained herein has been obtained from third-party sources that are believed to be reliable but the information has not been independently verified by Walter Scott. Walter Scott makes no representations as to the accuracy or the completeness of such information and has no obligation to revise or update any statement herein for any reason.

Past performance is not a guide to future results and returns may increase or decrease as a result of currency fluctuations. Many factors affect investment performance including changes in market conditions, interest rates, currency fluctuations, exchange rates and in response to other economic, political, or financial developments. Investment return and principal value of an investment will fluctuate, so that when an investment is sold, the amount returned may be less than that originally invested. Portfolio holdings are subject to change at any time without notice.

Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

BNY Investments and its affiliates are not responsible for any subsequent investment advice given based on the information supplied. This is not intended as investment advice but may be deemed a financial promotion under non-US jurisdictions. The information provided is for use by professional investors only and not for onward distribution to, or to be relied upon by, retail investors.

This document should not be published in hard copy, electronic form, via the web or in any other medium accessible to the public, unless authorised by Walter Scott.

1.0_COM002851_14/04/2026

WALTER SCOTT

Walter Scott & Partners Limited, One Charlotte Square, Edinburgh EH2 4DR
Tel: +44 (0)131 225 1357 · Fax: +44 (0)131 225 7997 · www.walterscott.com

Registered in Scotland 93685. Registered Office as above.
Authorised and regulated by the Financial Conduct Authority.

FCA Head Office: 12 Endeavour Square, London E20 1JN · www.fca.org.uk

➤ **BNY** | INVESTMENTS