

Global Equity Observer

## Industrials: the case for Professional Services — and why AI disruption fears miss the nuance

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The global artificial intelligence (AI) capex race shows little sign of slowing, while the market has branded a swathe of industries Advanced AI “losers”, seemingly on the basis they are rich in data which could be commoditised. However, looking more closely at the high quality niches within the crowded Industrials sector,<sup>1</sup> and particularly our Professional Services holdings, our analysis suggests that these very different businesses should continue to have high barriers to entry and, in many instances, have already been embracing the Advanced AI opportunity.

### Looks can be deceiving

The moniker “Industrials” evokes images of factories, smokestacks and assembly lines. Indeed, Capital Goods make up over 70% of the sector’s market capitalisation. However, our Industrials holdings tend to defy that stereotype, with a heavy skew to capital light Professional Services. For example, alongside RELX and Experian, discussed in more detail below, Broadridge Financial Solutions provides investor communications and technology to banks—a company arguably more at home in Financials—while ADP is a leading provider of payroll services and associated human resources software. It specialises in payroll, talent management and compliance solutions—effectively a tech company. We also recently purchased a stake in Uber (placed in the Transportation section of Industrials!)—with the ride-sharing platform showing higher margins and returns on capital as it continues to gain scale.

This isn’t to say high quality businesses don’t exist amongst Capital Goods companies. For example, we see the elevator industry as structurally attractive, supported by long-term tailwinds such as urbanisation and ageing populations. Crucially, the bulk of profits are driven by high margin maintenance contracts on the installed base rather than installing the elevators. We hold Otis, where these contracts—roughly half of group revenues—generate 75% of group profits; the kind of robust aftermarkets we favour. Resilience was proven during

<sup>1</sup> 255 companies across 25 sub industries – more than any other sector in the MSCI World Index. Source: Factset, 31 October 2025.

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COVID-19 when elevators were left idle in lockdowns. Otis' organic revenue fell just 2%, with maintenance revenue down only 1%, and profits up about 2%.<sup>2</sup>

## Not a sector call

Given the sector's sensitivity to weak markets, we believe it pays to seek out those sub industries or niches with both resilience and long-term structural growth opportunities. At the company level, we look for predictability and durability, favouring businesses with strong aftermarkets or recurring revenues, such as service contracts or data subscriptions. We assess for the quality of returns, the sustainability of competitive advantages, the discipline and effectiveness of management—both operationally and in their capital allocation—and we evaluate the downside risks.

This leads naturally to the central issue preoccupying markets since the third quarter of 2025: the question of disruption from Advanced AI.

## Data ripe for the picking?

For the past few months, investors have debated whether Advanced AI, including generative and agentic models, will disrupt software and other data-centred businesses. The reaction has been sweeping and blunt: companies with perceived data exposure have been marked down sharply, irrespective of business model, data type, economic drivers or level of ecosystem integration. The market's broad-brush approach has led to meaningful performance divergence within Industrials: year-to-date to 31 October 2025, while Capital Goods have returned an impressive 34%, Commercial & Professional Services, where many of our holdings lie, have fallen 5%.<sup>3</sup>

This “act first, analyse later” response is common at moments where a new technology captures imagination. Yet nuance matters; as we discussed in last month's Global Equity Observer, “When every data business looks like a target”, not all data-centred businesses are equally exposed, and in many instances, AI can help lower costs or improve products rather than undermining the business model itself.

## RELX: from print press to indispensable data infrastructure

Take RELX, which we have held since 2001. Its three-decade transformation—from print publisher to high-margin analytics powerhouse—is well documented. Digital revenues

have increased from 22% in 2000 to 84% today. Operating margins have expanded from around 7% in the 1980s to roughly 30% today, and returns on operating capital have risen from 20% to ~100%. Free cash flow margins have grown from 4% to near 28%.<sup>4</sup>

As a global leader in analytics and decision tools, the company's success is grounded in deep workflow integration. Across science, legal and risk markets, RELX products are embedded in day-to-day professional activity. Around 80% of revenues are subscription-based or recurring, underpinned by robust margins and strong cash generation. Its datasets—structured, proprietary, continuously enriched—are not easily replicated.

RELX has spent more than a decade incorporating automation and AI into its datasets, long before the current GenAI cycle. Management emphasises that its competitive moat comes not from price but from value delivered through precise integration of a distinctive suite of tools, tailored to clients' needs. It does not compete head-on with AI-native tools; rather, it collaborates as a trusted partner, with secure data environments and long-standing client relationships that would be difficult for challengers to displace.

Market concerns have centred on its Legal and Risk divisions (18% and 36% of revenue respectively), given the emergence of AI-assisted legal drafting and risk analysis. Yet these are the areas where workflow integration is deepest and where Advanced AI is already proving additive, for example revenue growth in its Legal AI platform has been accelerating, reaching 8% in the first half of 2025.<sup>5</sup> Another example is its AI-driven fraud detection platform in its Risk solutions, which identifies suspicious patterns in real time, reducing financial losses for clients and strengthening compliance. Proprietary data is key here: training effective AI models demands accuracy, depth, and reliability—areas we believe RELX has an edge.

Crucially, RELX's management maintains a disciplined approach, focusing on steady organic growth, high returns and incremental product improvements, with a strong track record of resilience through technological shifts.

## Experian: a different business model, another durable moat

While RELX operates as a data-driven professional publishing and analytics provider, Experian is fundamentally a credit and identity data steward, possessing some of

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<sup>2</sup> Source: MSIM research

<sup>3</sup> Source: Factset, 31 October 2025

<sup>4</sup> Source: RELX investor presentation, RELX.com

<sup>5</sup> Source: RELX investor presentation, RELX.com

the most sensitive and tightly regulated datasets in the private sector. The core is based on credit histories sourced from banks, but there are also employment and income records, utility and rental records and a growing pool of consumer permissioned bank account data, with 18 million U.S. customers having signed up to the Boost programme, giving up access to their bank account data in return for improved credit scores. The bulk of this digital gold dust<sup>6</sup> is not publicly available for LLMs (large language models) to scrape. Experian's advantage does not just lie in the sensitivity and exclusivity of its data. There is also the decades of accumulated domain expertise; long-standing client relationships with financial institutions; and deep embedding of its tools into customer risk and decision-making workflows through the Ascend platform.

As with RELX, Advanced AI appears likely to be beneficial to Experian rather than disruptive. The automation of software development is already underway, with large potential gains given that close to half of the 25,000 workforce are technologists, including 7,000 coders. On the revenue side, the Patient Access Curator is already gaining traction, helping U.S. Health Care providers identify patients and determine those responsible for paying the bills. Within the Consumer Business, the EVA digital assistant is already

improving engagement by five to six times, even with a relatively thin product level at present.

Given the highly regulated and privacy-centric nature of consumer credit, we believe the idea that a challenger could replicate Experian's data and trusted position quickly is shortsighted. Proprietary data, trust and workflow integration are formidable moats in data-rich businesses, and Experian fits into this category.

## Volatility brings opportunity

Against an all-encompassing narrative around revolutionary technology, we have revisited the fundamentals of our Professional Services holdings within Industrials and met with management to probe them on the question of disruption. We continue to focus on companies with credible earnings resilience and enduring competitive advantage in the Advanced AI world—qualities that, in our view, remain intact in our select Industrials holdings. Both RELX and Experian exemplify a capacity for innovation and indispensability, with the benefits of Advanced AI outweighing the disruption risks. We view the recent sell-off as a chance to strengthen our portfolios by re-underwriting the companies which have been oversold and, in some instances, adding to our positions.

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<sup>6</sup> "like gold dust": said about something that is very difficult to get because a lot of people want it. Source: Cambridge Dictionary

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