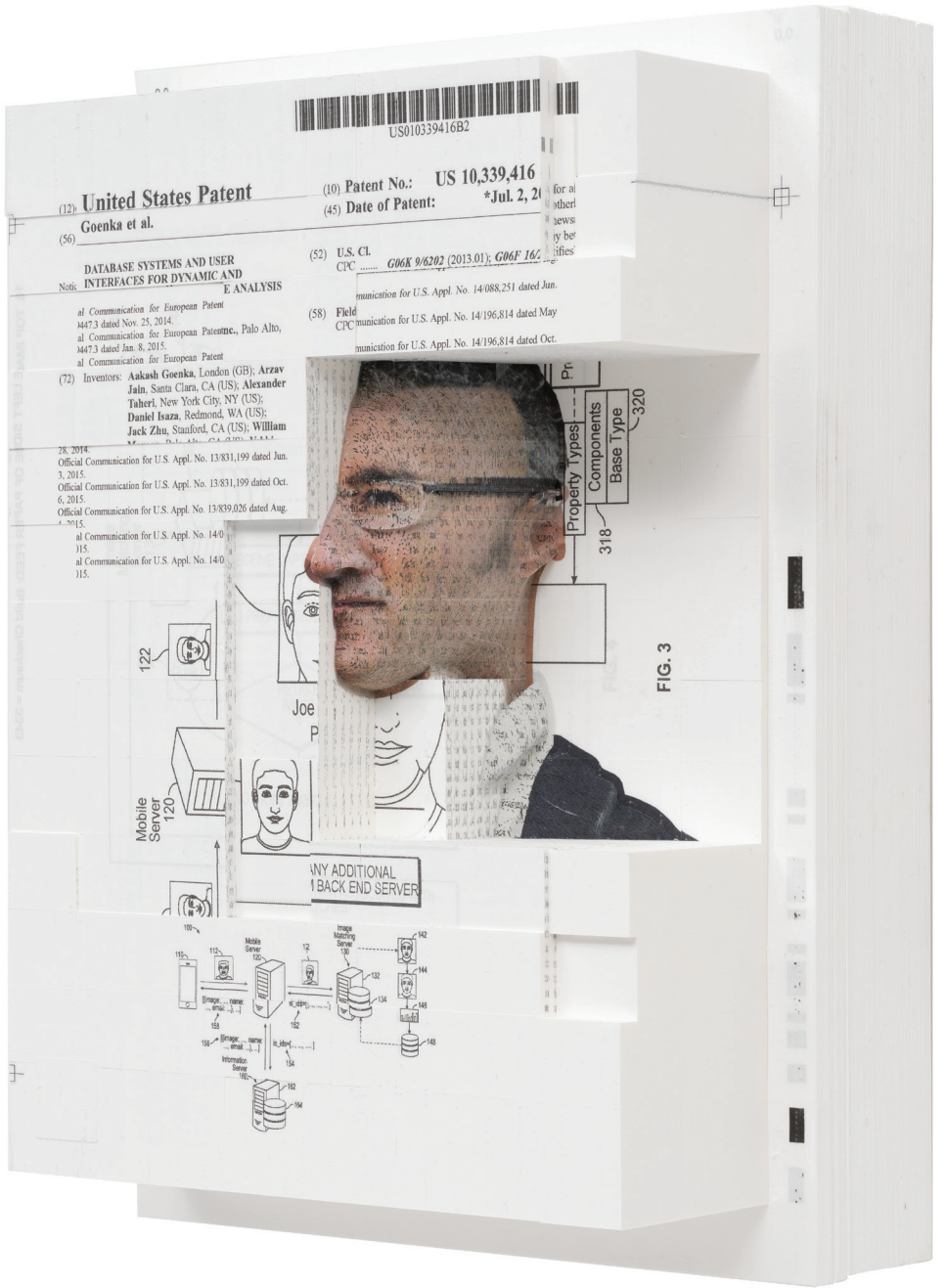
NZ Funds

Investment Outlook H1 2026

Artificial Intelligence, Capital Cycles & Long-Term Returns



Business update

Founded in 1988, NZ Funds is one of New Zealand's oldest independent investment managers. NZ Funds is a partnership of 11 Principal-Managers who are responsible for all activities of the Group. The Principal structure is overseen by NZ Funds' Board, which is independently chaired and has a majority of independent directors.

NZ Funds offers asset management, wealth management, Superannuation and KiwiSaver. We do not engage in investment banking or the broking of individual securities. We emphasise a long-term approach in all our investment strategies and believe the best outcomes are achieved by combining high quality financial advice with globally diversified portfolios.

Our long-term investment approach is designed to ensure clients compound their wealth at a faster rate than term deposits (after tax and fees). In this we have consistently been successful when the right time frame is applied. A year ago, we advised clients:

"It is particularly challenging for clients and advisers alike when interest rates rise sharply, and growth assets fall. During such periods, which can last for several years, it can appear as if 5-6% returns from term deposits are available risk free, while growth assets do not work."

While this is a commonly-felt emotion, it is also a dangerous one, especially for clients encountering their first downturn. Selling long-term growth assets at a 5-7 year low to switch into term deposits while rates are high rarely works out well for the following reasons: higher than usual term deposit rates only last for twelve to twenty-four months. They then fall back to levels closer to inflation.

What is more, for many clients term deposit returns are taxed at 28% (assuming the use of a PIE) or up to 39% (if held personally or in a trust). So much of the hoped-for 5-6% return is lost, leaving higher tax bracket investors with between 3.6% and 4.3%. In contrast, as growth assets recover and push forward to new highs, almost all the gains accrue to the investor as the effective tax rate on both local and international shares is minimal (between 0.0% and 1.4%).

Portfolio returns before tax and fees

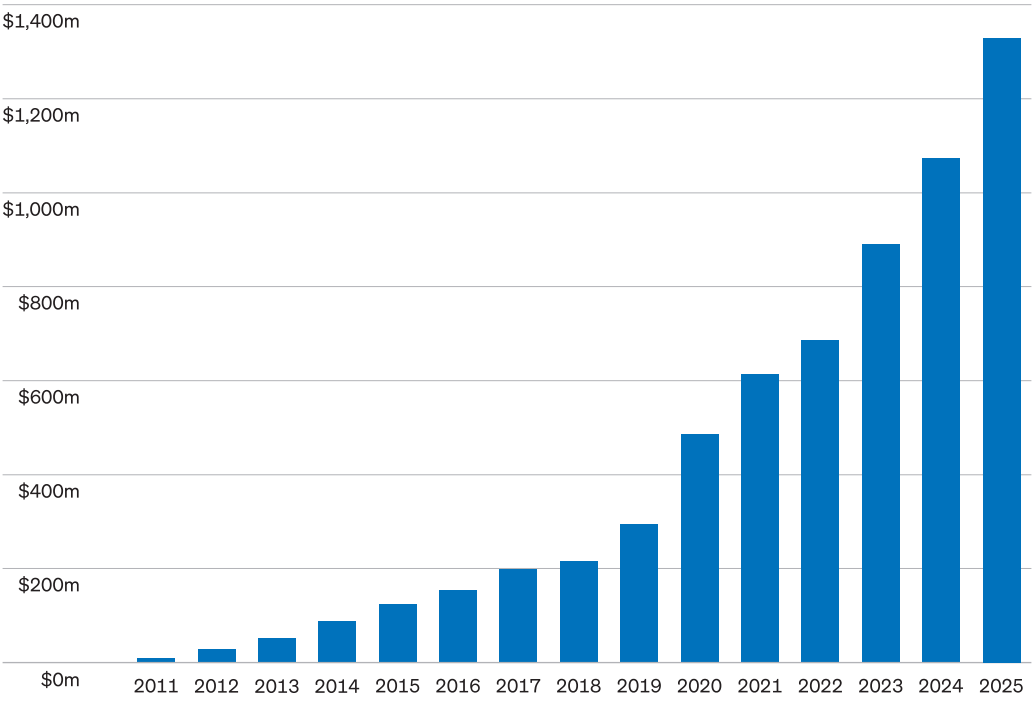
At 31 December 2025. Fees vary by service type and account size.[1]

Strategy/Year	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	10-year total[2]
NZ Funds KiwiSaver Scheme												
Income Strategy	4.8%	4.9%	3.3%	13.2%	-4.5%	3.3%	8.6%	2.0%	5.6%	7.1%	2.5%	**58.8%**
Inflation Strategy	9.5%	5.0%	1.6%	-0.4%	-5.9%	17.2%	21.7%	-4.5%	9.7%	3.3%	2.4%	**69.1%**
Growth Strategy	19.6%	15.8%	14.8%	-9.7%	-1.5%	35.9%	18.6%	-6.9%	18.7%	-1.5%	8.6%	**147.9%**
Balanced Fund	7.3%	9.6%	10.4%	-9.8%	0.2%	-	-	-	-	-	-	-
Life Cycle 0-54	17.9%	14.3%	12.8%	-7.6%	-1.9%	32.3%	18.4%	-6.2%	17.1%	-0.6%	7.8%	**135.7%**
Life Cycle 65	12.2%	9.3%	7.1%	-0.3%	-3.3%	20.6%	16.9%	-3.6%	10.0%	3.8%	3.6%	**96.3%**
NZ Funds Managed Superannuation[3]												
Income Strategy	4.8%	4.9%	3.4%	11.9%	-5.8%	3.4%	8.6%	2.0%	4.9%	-	-	**n/a**
Income Strategy – British Pounds	10.5%	16.1%	9.0%	7.1%	-1.7%	-0.5%	10.9%	0.4%	7.8%	-	-	**n/a**
Inflation Strategy	9.6%	5.2%	1.6%	-0.3%	-8.0%	16.5%	21.6%	-4.4%	7.7%	-	-	**n/a**
Growth Strategy	19.6%	16.0%	14.8%	-9.7%	-7.5%	34.4%	20.2%	-6.7%	14.3%	-	-	**n/a**
Growth Strategy – British Pounds	26.3%	28.3%	21.1%	-14.4%	-3.6%	29.0%	0.6%	-	-	-	-	**n/a**
NZ Funds Active Series[4]												
Cash Portfolio	3.5%	5.6%	5.4%	2.2%	0.9%	0.6%	1.7%	2.3%	2.2%	2.6%	3.7%	**30.2%**
New Zealand & Australian Bonds	5.8%	8.4%	2.0%	10.9%	-4.2%	4.5%	6.8%	5.0%	5.8%	6.6%	3.9%	**64.0%**
Global Bonds	3.9%	1.6%	4.6%	14.7%	-6.3%	2.9%	11.8%	-1.3%	5.3%	7.2%	2.6%	**52.0%**
New Zealand Property & Retirement Villages[5]	3.1%	1.9%	5.7%	-	-	-	-	-	-	-	-	**n/a**
New Zealand Infrastructure[5]	11.6%	-0.9%	1.2%	-	-	-	-	-	-	-	-	**n/a**
New Zealand Utilities[5]	13.8%	9.4%	4.4%	-	-	-	-	-	-	-	-	**n/a**
Global Property[5]	0.8%	5.4%	10.1%	-	-	-	-	-	-	-	-	**n/a**
Global Infrastructure[5]	12.4%	6.3%	6.4%	-	-	-	-	-	-	-	-	**n/a**
Global Utilities[5]	17.1%	7.0%	0.4%	-	-	-	-	-	-	-	-	**n/a**
New Zealand & Australian Shares	5.4%	11.2%	4.8%	-11.2%	-1.5%	12.8%	26.9%	-4.0%	22.9%	13.9%	16.9%	**106.5%**
Global Shares	19.0%	20.0%	24.9%	-10.4%	-4.3%	34.2%	22.3%	-7.8%	21.9%	-0.4%	11.4%	**181.3%**
Global Macro	23.7%	17.8%	3.5%	-22.0%	-18.8%	46.7%	13.7%	-10.3%	15.9%	-3.1%	7.7%	**60.6%**
NZ Funds Income Generator[6]												
Income Generator	1.2%	12.2%	8.3%	-5.3%	0.3%	5.2%	-	-	-	-	-	**n/a**

1. Returns are stated before tax, Portfolio/Strategy fees, and expenses, and any advisory fees. Past performance is not necessarily an indication of future returns.
2. '10-year total' shows cumulative return over the last ten years. Fund inception dates and information on returns since inception for each fund is available from NZ Funds.
3. Returns for NZ Funds Managed Superannuation Service Income Strategy British Pounds, Income Strategy, Inflation Strategy and Growth Strategy for 2017 are from inception (not annualised). Returns for NZ Funds Managed Superannuation Service Growth Strategy British Pounds for 2019 are from inception (not annualised).
4. Formerly NZ Funds Advised Portfolio Service (APS) and renamed NZ Funds Active Series on 17 March 2023.
5. The APS Inflation Category Portfolios were closed on 17 March 2023. All APS Inflation Category Portfolios have been replaced by Portfolios in the Active Inflation Series. For more information, please refer to the Active Inflation Series PDS which is available on our website, www.nzfunds.co.nz. Returns for Portfolios in the Active Inflation Series for 2023 are from inception (not annualised).
6. NZ Funds Income Generator returns for 2020 are from inception (not annualised).

NZ Funds KiwiSaver Scheme funds under management

A scientific approach to asset management has added significant value over time



Source: NZ Funds.

Asset market returns in 2025

Asset market returns in 2025 reflected a year of adjustment, as markets absorbed the policy reset associated with the start of a second Trump administration, the re-emergence of global tariff risk, and a sharp first half sell-off that gave way to a strong recovery in the second half as uncertainty was progressively priced in.

Returns on the whole were significantly better than after-tax term deposit returns, which declined as the year progressed. United States shares delivered double digit gains, supported by resilient economic growth and strong earnings from technology. However, United States shares underperformed global peers for the first time in several years, with Europe, Japan and China making strong contributions to client portfolios.

New Zealand and Australian shares continued to underperform amid weak domestic growth and tight financial conditions, however these eased as the year progressed and both markets finished the year higher. Similarly, Australasian property, utilities and infrastructure sectors made positive contributions for the year but underperformed their international peers, which have begun to benefit from the Artificial Intelligence capex cycle.

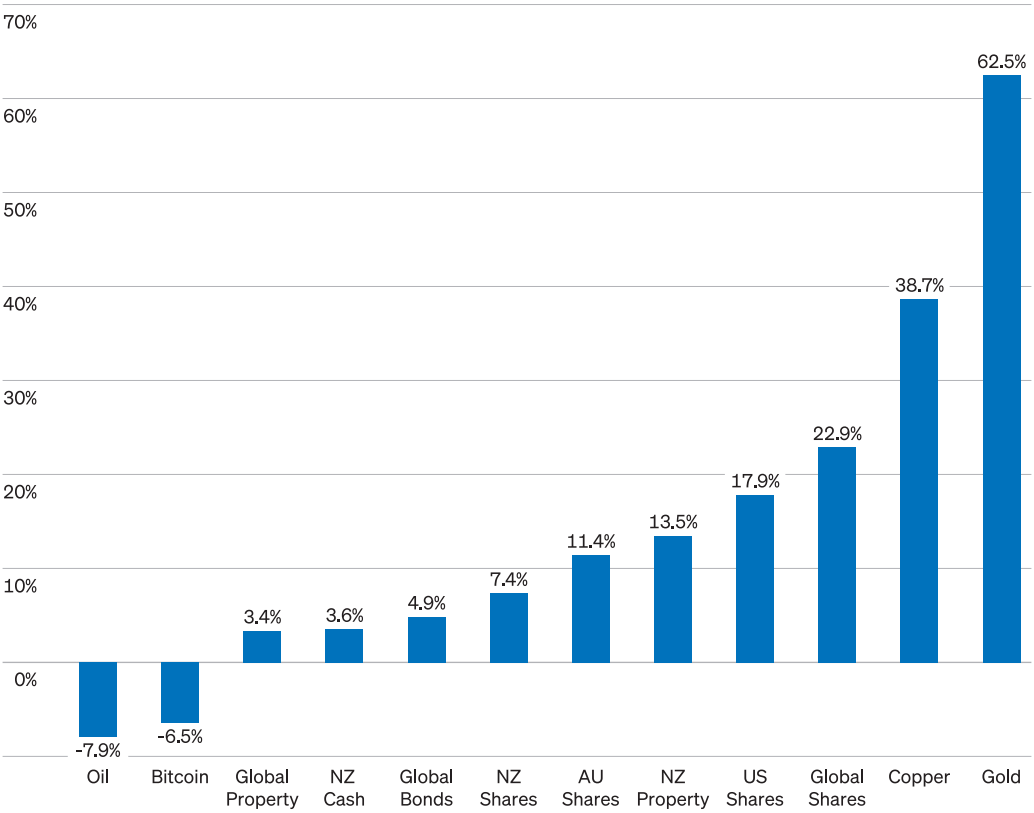
Looking ahead, New Zealand and Australia are well positioned for an economic cyclical rebound in 2026, following a prolonged period of interest rate cuts. We expect this environment to translate into higher share prices by the end of the year. We will continue to add domestic cyclical companies to clients' portfolios throughout the year.

Commodities performed strongly in 2025. Copper delivered volatile but positive returns on long-term electrification expectations and tariff concerns while gold continued its strong run for a second year fuelled by central banks seeking diversification from the United States dollar. Bitcoin in contrast was flat despite the introduction of supportive United States legislation; however a year of consolidation was not unexpected given its 122% gain last year.

Artificial Intelligence is emerging as the central force shaping returns across asset classes in 2026, underscoring the need for disciplined portfolio construction and diversified exposure to long-term structural themes. This report focuses on the investment implications of Artificial Intelligence for clients of NZ Funds.

Benefits of diversification

International investments outperformed again in 2025



Source: NZ Funds calculations, Bloomberg. New Zealand cash uses the 90-day Bank Bill Index return for 2025.

Artificial Intelligence: the next capital cycle

Artificial Intelligence has moved decisively from theory to deployment. What was, until recently, a largely academic and experimental field has become a central force shaping labour markets, corporate profitability, national security priorities, energy systems, and capital allocation decisions.

Unlike many previous technological innovations that improve productivity incrementally, within narrow sectors, Artificial Intelligence represents a general-purpose capital deepening event. Its economic significance in our view is comparable to electrification, mechanisation and the adoption of the internet. Each of those transformations initially appeared overstated. However, over time, they fundamentally reshaped competitive dynamics, altered long-term growth trajectories, and delivered substantial returns.

We do not view Artificial Intelligence as a speculative theme or a narrow technology trade. Nor do we view it as a financial bubble. Rather, it is best understood as a structural force that will change how capital and labour are allocated. Its investment implications extend well beyond technology shares into property, utilities, infrastructure, energy, commodities, interest rates and currencies, and portfolio construction itself.

This report sets out how NZ Funds thinks about Artificial Intelligence, why we believe it is likely to define the next long-term capital cycle (rather than a short-lived period of enthusiasm), and why we believe our multi-asset approach is ideally suited to capture the long-term benefits of Artificial Intelligence while managing the risks, cycles, and volatility that inevitably accompanies transformative technologies and economic growth.

A familiar pattern in unfamiliar clothing

History provides a useful lens through which to assess new technological paradigms. Major productivity revolutions rarely deliver immediate and evenly distributed gains. Instead, they unfold in stages, often marred initially by disappointment, misallocation, and scepticism.

When electricity was first introduced into factories, productivity gains were limited. Early adopters simply replaced steam engines with electric motors while retaining the same factory layout and workflow. The true benefits of electrification were only realised decades later, once production lines were redesigned, labour practices adjusted, and entirely new business models emerged. Computing followed a similar trajectory.

Artificial Intelligence is following the same pattern. Public attention has focused on highly visible consumer applications, such as ChatGPT, DeepSeek and generative tools. While impressive, these represent only the surface layer of a much deeper transformation. The more important shift is occurring within firms' operating systems, supply chains, capital allocation processes, and risk management frameworks.

The defining characteristic of Artificial Intelligence is its scale. It allows optimisation, prediction, and pattern recognition to be applied across millions of decisions simultaneously. This changes not only how tasks are performed, but how organisations are structured and how capital is deployed. When Palantir's software was implemented by Chelsea and Westminster Hospital in the United Kingdom it cut patient wait lists by 28% and boosted theatre use from 73% to 86%, demonstrating how Artificial Intelligence is likely to impact resource use and in turn corporate profitability across many sectors of the economy including healthcare.

AI as capital, not labour

A common misconception is that Artificial Intelligence is primarily a labour-saving technology. While displacement of certain tasks is inevitable, this framing materially understates its economic significance and risks misunderstanding its investment implications. In the case of the NHS investment in Artificial Intelligence through Palantir, employees were not made redundant, they were utilised more effectively to deliver a higher level of output.

Artificial Intelligence should be viewed as capital that augments decision-making, rather than a tool to replace labour. In this sense, Artificial Intelligence behaves more like the telephone, fax, internet or a computer. It increases the productivity of all workers (skilled or otherwise), reduces error rates, compresses decision-making cycles, and enables organisations to operate at levels of complexity previously unattainable.

From an investment perspective, this distinction is critical. Labour substitution tends to deliver short-term cost savings that are quickly competed away. Investment capital, by contrast, delivers persistent economic growth through productivity gains which were previously unachievable. We expect the change currently underway in the global invested capital base to boost economic growth and compound corporate earnings for decades to come.

The infrastructure behind intelligence

Artificial Intelligence does not exist in isolation. It depends on an extensive and costly physical infrastructure that must be built, financed, maintained, and upgraded over time. This includes advanced semiconductor manufacturing (computer chips), data centres, electricity generation, transmission, cooling systems, and high-speed connectivity.

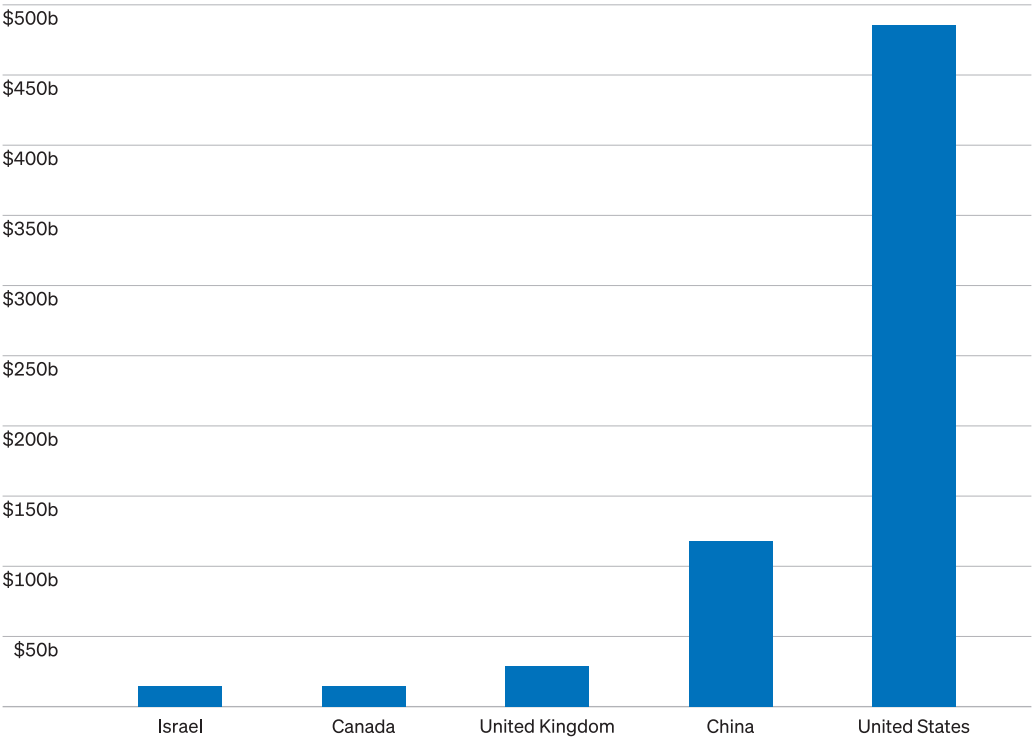
These assets are expensive, capital-intensive and slow to build. Unlike software, they cannot scale quickly. As a result, widespread Artificial Intelligence adoption will create long-term demand for real world assets from property companies, to power station manufacturers and utility operators to copper and silver miners to telecommunication and satellite companies, which is what asset allocators call the 'picks and shovels' of Artificial Intelligence.

This has two important implications for investors. First, the economic rents generated by Artificial Intelligence will not be captured solely by application-level software providers or chip manufacturers. Instead, over time, a significant portion of the profits will accrue to investors in the enabling infrastructure. Second, the pace of Artificial Intelligence adoption will not be constrained by demand, but by the availability of physical real-world assets and the long lead times needed to significantly increase a country's infrastructure.

This is why we caution against analysing Artificial Intelligence purely through the lens of technology shares, like Nvidia and Palantir Technologies. The more durable and defensible investment opportunities may sit in the physical systems that underpin intelligence itself, like the investments held in local and international property, utilities and infrastructure portfolios, as well as in demand for physical commodities like gold, copper and energy.

Global Artificial Intelligence spending by country

Total private Artificial Intelligence investments worldwide (2013-2024)



Source: NZ Funds calculations, Bloomberg.

Energy: the binding constraint

Energy consumption is emerging as one of the most important constraints on Artificial Intelligence. Training and operating large-scale models requires an enormous amount of reliable electricity. As adoption accelerates, energy availability will increasingly determine where Artificial Intelligence investment occurs.

In July 2025 China announced the world's largest dam project: the Motuo Hydropower Station on the Yarlung Tsangpo River. It will generate 300 billion kWh a year, take eight years to construct and cost an estimated $167 billion. Despite the scale of the project, it will only boost China's electricity supply by 3%. To stay competitive, countries that plan to adopt Artificial Intelligence will need to increase their annual electricity generation, transmission and telecommunications infrastructure by 6-7% by 2035.

Also in 2025, President Trump signed a number of executive orders like 'Unleashing American Energy' to incentivise the private sector to develop additional oil, gas, coal, nuclear and hydropower. Fortunately, not all electricity generation is expected to be carbon emitting. The United States federal agency for regulating civilian nuclear power plants, The Nuclear Regulatory Commission, plans to quadruple America's nuclear capacity by 2050.

The race for AI-driven energy security is also redrawing geopolitical boundaries, exemplified by the United States intervention in Venezuela to secure oil amid surging data centre power needs. For investors, this creates sustained demand for energy infrastructure, utilities, and industrial commodities critical to electrification and transmission, particularly copper, silver, gold and oil. Unlike short-term thematic trades, adopting Artificial Intelligence will be a multi-year capital cycle driven by physical investment not sentiment.

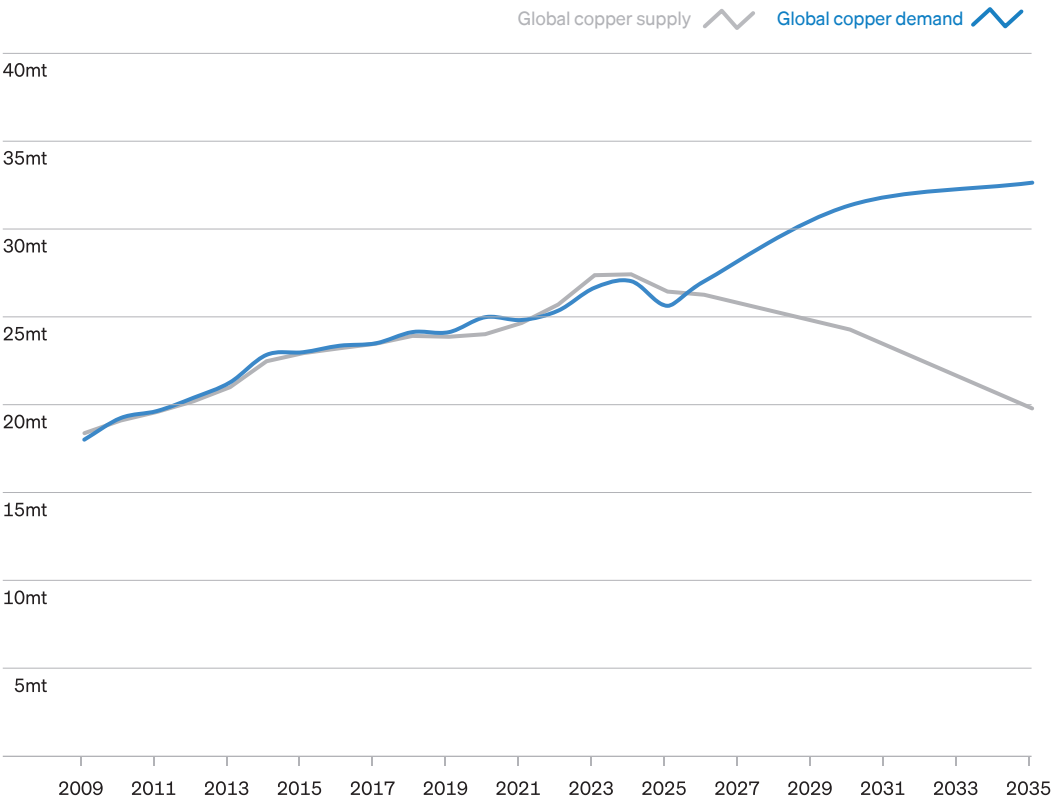
AI, productivity, and macroeconomic consequences

At the macroeconomic level, Artificial Intelligence is anticipated to have a positive impact on investment returns through its impact on productivity rates, GDP growth, inflation rates, and interest rates. The transmission mechanisms between these different components of an economy are complex and often operate with significant lags so the benefits are expected to accrue over extended periods of time.

In the early stages of adoption, Artificial Intelligence investment is capital-intensive and may suppress individual companies' near-term profitability as firms incur significant upfront costs. Over time, however, productivity gains should begin to flow, leading to higher output per person, improved capital efficiency resulting in strong inflation-adjusted GDP growth for AI-empowered countries.

Global copper production and primary demand

Artificial Intelligence is anticipated to cause a capex super-cycle



Source: NZ Funds calculations, Bloomberg.

Importantly, productivity-driven growth is fundamentally different from growth driven by credit expansion (like the borrowing that preceded the Global Financial Crisis in 2009) or fiscal stimulus (like the government spending that followed Covid). It is less likely to cause inflation, or a credit crisis, and is therefore more sustainable and more likely to support real earnings growth for an extended period of time.

This has implications for interest rates. While strong growth ordinarily places upward pressure on yields, productivity-driven growth offsets inflationary pressures, allowing real rates to remain at lower levels, thereby supporting businesses and consumers. The net effect is likely to be a more nuanced interest rate environment than investors experienced following Covid, with interest rates in successful AI-adopting countries remaining structurally lower than less technologically advanced nations.

Implications for wealth management & portfolio construction

Artificial Intelligence reinforces the importance of taking a diversified multi-asset approach to wealth management and portfolio construction, rather than concentrating exposure in a narrow group of listed technology companies.

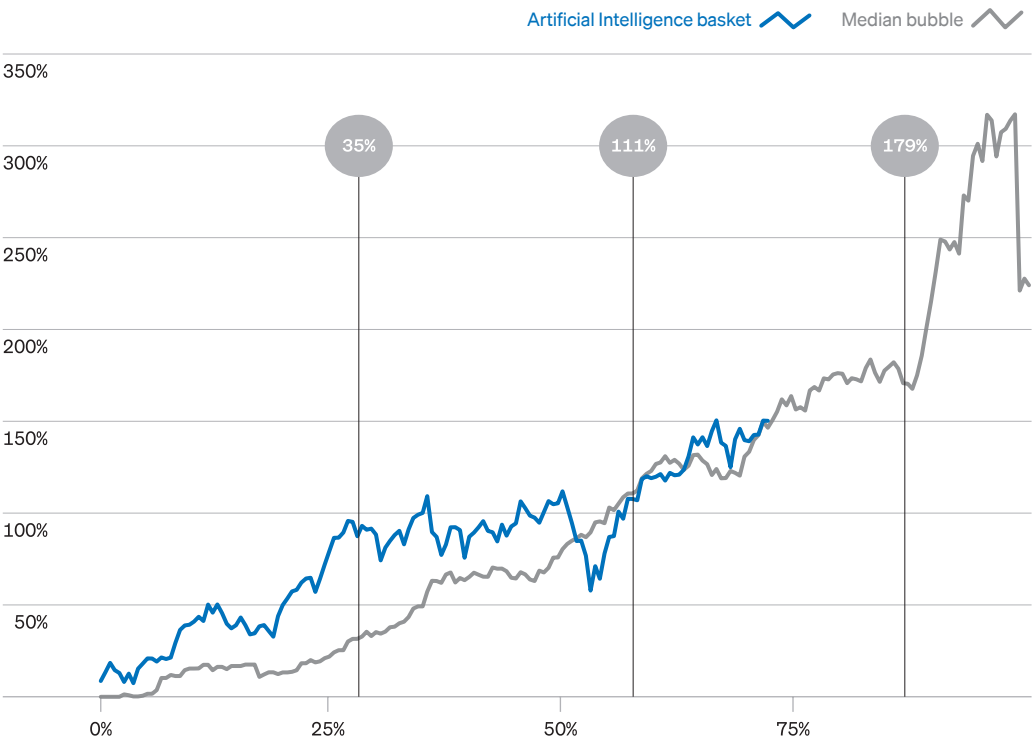
While growth equities and technology businesses currently sit at the forefront of Artificial Intelligence development, the economic impact of Artificial Intelligence extends well beyond software into the physical economy. Clients with designated exposure to domestic and international property, utility and infrastructure sectors of the economy are ideally positioned to benefit from the decades-long buildout that is required to underwrite the global adoption of Artificial Intelligence at scale.

NZ Funds' approach of combining actively selected securities with passive index exposure, alongside macro assets and alternatives, reflects the reality that the long-term winners from Artificial Intelligence are as yet unknown and are unlikely to be confined to a single sector or region. Well-diversified portfolios are therefore more likely to deliver reliable investment outcomes than concentrated exposures.

Major technological transitions can be accompanied by asset market bubbles. This was widely discussed in late 2025. NZ Funds does not believe current market conditions meet the key criteria of a speculative bubble, as prices of AI-related companies are not growing at an increasing rate – a situation which ultimately becomes unsustainable and requires a reversal. This has been a defining characteristic of all historical bubbles. This is not to say that this will not occur in the future, which highlights the importance of multi-asset diversification and downside mitigation.

Is Artificial Intelligence a bubble? Not yet

Price appreciation against NZ Funds' proxy index of previous bubbles



Source: NZ Funds calculations, Bloomberg.

Final thoughts

Artificial Intelligence represents a profound structural shift in the global economy, but it does not alter the fundamental principles of sound investing. NZ Funds' focus remains on taking a diversified multi-asset approach that captures changes in long-term structural demand while managing risk through cycles. Artificial Intelligence reinforces the importance of owning growth equities including market-leading names such as Meta, Apple, Nvidia, Microsoft and Palantir Technologies, alongside designated exposures to property, infrastructure, utilities, energy systems, and commodities that enable Artificial Intelligence to be deployed at scale.

By combining actively selected securities with passively managed index exposures and maintaining currency diversification and incorporating downside mitigation in clients' portfolios, we believe NZ Funds' approach to wealth management can participate in the benefits of Artificial Intelligence while remaining resilient to volatility, valuation shifts, and unforeseen shocks over time. In this sense, Artificial Intelligence strengthens rather than challenges the case for a scientific approach to long-term wealth management that is grounded in diversification and discipline.

Simon Denny, *Document Relief 31 (Palantir Image Identification patent)*, 2021
Inkjet print on archival paper, glue, custom metal wall mount, 297 × 210 × 110mm

FALCON is an image database and recognition system made to capture, record, and catalogue human faces. Developed by Palantir Technologies Inc, FALCON is available to state and non-state agencies ranging from police departments to Facebook and deploys biometric data analysis to carry out various surveillance-related activities.

Document Relief 31 (Palantir Image Identification patent) slices into the United States patent for FALCON, detailing its facial recognition technology. Peeking out from its pages is a portrait of Palantir co-founder and CEO Alex Karp. *Document Relief 31 (Palantir Image Identification patent)* was produced using the world's first paper 3D printer technology. The machine has cut, glued and stacked sheets of A4 paper into relief prints.

Palantir is an American publicly-traded software company specialising in Artificial Intelligence. It primarily serves defence and intelligence agencies but recently began offering its software to commercial enterprises across various industries. Founded in 2003 by New Zealand citizen Peter Thiel and Alex Karp, Palantir IPO'd on 30 September 2020 and has since appreciated 1,905%.

NZ Funds began researching Palantir in 2020, but due to ESG concerns did not purchase it until 22 January 2025. Since then, the company's shares have appreciated 92.61%.

Over the last two decades Simon Denny (b. 1982, Tāmaki Makaurau Auckland) has assiduously examined the aesthetics and ideologies of new technology and mass media in the digital era. Denny is a graduate of the Elam School of Fine Arts, Auckland and Städelschule, Staatliche Hochschule für Bildende Künste, Frankfurt am Main. Denny lives and works in Berlin, Germany.

New Zealand Funds Management Limited
Additional legal information

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Please also note that past performance is not necessarily an indication of future returns. NZ Funds is an active investment manager. Accordingly, any securities discussed in this report may or may not be held by the Portfolios and Strategies at any given point in time. Data in this Investment Outlook has been sourced from Bloomberg on various dates leading up to 31 January 2026 by NZ Funds' Investment team.



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