MFG Core Infrastructure Fund

Institutional Class (FMGIX), Service Class (FCIVX)

Sub-advised by Magellan Investment Partners– Sydney, AU

Quarterly Commentary, September 30th, 2026

Market Performance

Global share prices, as measured by the MSCI World Index, rose modestly in the September quarter of 2026, gaining 1.9% in USD terms. The modest headline return masked considerable volatility: a sharp correction in the AI-related names in July, a partial recovery in August, and a narrow, technology-led market in September. Energy was the strongest sector over the quarter (+15.1%), a reversal from the June quarter, as the renewed US–Iran conflict and the return of risks to shipping through the Strait of Hormuz pushed oil prices sharply higher (WTI crude +30.1%). Information Technology also rose (+6.2%), though the more speculative data centre and semiconductor names gave back a good part of the June quarter's extraordinary gains as stretched valuations began to unwind. The rate-sensitive and cyclical sectors generally fell as bond yields rose, with Utilities (-9.5%), Industrials (-5.7%), Real Estate (-5.5%), Consumer Discretionary (-4.4%) and Consumer Staples (-2.6%) all declining. Elsewhere, Health Care (+3.6%), Communication Services (+3.6%), Financials (+1.8%) and Materials (+1.3%) all posted gains.

Regional performance largely reflected these same influences. Japan's Nikkei 225, the strongest market in the June quarter, was among the weakest over the September quarter (-4.2%), as the earlier relief on imported energy costs unwound. China's CSI 300 was the weakest major market (-11.8%), weighed down by continued softness in domestic demand and a manufacturing sector that remained in contraction. Emerging markets as a whole were little changed (-0.4% in USD). The US market was relatively resilient, with the Nasdaq up 2.6% and the S&P 500 up 2.2%, supported by the large technology names. European markets were mixed (STOXX 600 -0.7%, DAX +0.8%) as higher bond yields and renewed fiscal concerns weighed, while Australia's S&P/ASX 200 Accumulation Index rose 1.3%, helped by its larger weighting to resources and energy.

The broader macroeconomic backdrop was less favourable than in the June quarter. The earlier de-escalation that had brought energy prices down was reversed by renewed conflict in the Middle East, with further US and Iranian strikes, a broadening of the conflict across the region and a new Saudi-led defence arrangement all pointing to a more entrenched dispute and continued upward pressure on oil prices. Economic activity nonetheless remained resilient: business surveys pointed to continued expansion, and manufacturers across North Asia recorded particularly strong conditions on the back of AI-related demand. Inflation remained elevated, however, and rose further in parts of Europe and in Japan. The shift in interest rate expectations evident in the June quarter turned into actual tightening, with central banks in most major economies now raising rates, while government bond yields rose sharply: the US 10-year Treasury yield increased by around 80 basis points to 5.28% and the Australian 10-year yield to 5.35%, reflecting not only firm growth and inflation but also growing concern over fiscal positions, particularly in France and Spain. For markets, the relief that characterised the June quarter gave way to a more cautious tone, as resilient activity, supported by continued investment in AI, was increasingly weighed against higher energy prices, persistent inflation and a rising cost of capital.

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Fund Performance

The Fund experienced a negative return in the September quarter of 2026. As the US war with Iran persisted, energy prices remained at elevated levels and market interest rate expectations surged. At the same time, the ongoing strength of the AI narrative and a firm outlook for growth for AI-related companies supported risk appetite during the quarter, despite geopolitical ructions. Very large AI-driven capex also saw a surge in corporate bond issuance, which, along with rate hikes and renewed concern about government fiscal sustainability, pushed up benchmark borrowing costs. Significantly higher benchmark borrowing costs were a headwind for listed infrastructure as a long-duration asset class.

The top contributors for the quarter (in local currency) were United Utilities, Severn Trent and APA Group. UK water utilities United Utilities and Severn Trent gained, as new UK Prime Minister Burnham continued to retreat on some initial suggestions of greater public oversight, or even nationalisation, of UK water utilities. This alleviated some key risks for the stocks, which rose despite rising UK gilt yields during the quarter. Solid trading updates in the quarter, which reaffirmed the robust outlook for capital investment and earnings, were also supportive. Australian gas infrastructure company APA Group gained, supported by its announcement of strong FY26 results. The result showed cost cuts across the company and also strong asset performance, with the company indicating momentum on its growth strategy, including commitment to new investment in key renewables projects.

The top detractors for the quarter (in local currency) were Ferrovial, Vinci and Enbridge. Ferrovial declined, as the market continued to react unfavourably to news announced in late August that a consortium it was part of had been named as the preferred bidder for a major US HOT lanes project. The I-24 project, located in the US state of Tennessee, is quoted at a construction cost of US$9.2bn with a further US$24.8bn in value payments to the State, significantly higher than the next nearest bidder, and which was poorly received by the market. This was exacerbated by limited information provided on the deal given restriction prior to financial close. French transport infrastructure company Vinci fell as elevated oil prices and the prospect of increased French taxes on large infrastructure companies weighed on the stock. The company reported traffic figures in the quarter that indicated soft momentum in traffic across its airports and French road network, with roads especially soft and air passenger volumes mixed. North American energy infrastructure company Enbridge declined following a mixed June quarter earnings report, rising benchmark yields, and valuation concerns.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.

Outlook and Strategy

Notwithstanding our expectations for greater volatility in the short to medium term driven by the evolving political environment, including the current US administration and geopolitics with implications for economic growth, interest rates and inflation, we are confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we believe that share prices in the longer term may reflect the underlying cash flows, potentially leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, we believe the resilient nature of earnings and the structural linkage of those earnings to inflation means that investment returns typically generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In our opinion, given the current uncertain economic and investment climate, the historically reliable financial performance of infrastructure investments makes them attractive, and an investment in listed infrastructure has the potential to reward patient investors with a long-term time frame.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise. U.S. GDP statistics come from the U.S. Department of Commerce, while U.S. employment and inflation statistics are published by the U.S. Department of Labor. EU economic statistics come from Eurostat. UK statistics are released by the Office for National Statistics.

Mutual fund investing involves risk; principal loss is possible. The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the MFG Funds, and it may be obtained by calling 888-825-2100 and/or at www.mfg-funds.com. Read the prospectus carefully before investing.

The information provided herein represents the opinion of the Fund manager and is not intended to be a forecast of future events or a guarantee of future results. Further, there is no assurance that certain securities will remain in or out of the Fund's portfolio. The Fund's top ten holdings as of the most recent quarter-end may be obtained at www.mfg-funds.com.

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