MFG Global Sustainable Fund

Institutional Class (FMSGX), Service Class (FMSRX)

Sub-advised by Magellan Investment Partners– Sydney, AU

Distributed by Magellan Investment Partners

Quarterly Commentary, June 30th, 2026

Market Performance

Global share prices, as measured by the MSCI World Index, rose sharply in the June quarter of 2026, rising by 13.8% in USD terms. The quarter marked a reversal of the stagflationary narrative that dominated in March. As the US–Iran conflict de-escalated and the threat to shipping through the Strait of Hormuz receded, energy prices fell sharply, with WTI crude declining 31.4%. The real market action for the quarter was in chip stocks and other perceived data center expansion beneficiaries, with price moves in the more speculative corners of the market extreme. The Philadelphia Semiconductor Index (SOX) surged around 88% over the quarter, its largest quarterly gain on record, surpassing those of the dot-com bubble era. This was led by memory and storage names on expectations of continued shortages. The likes of Micron (+242%), Intel (+216%), Marvell Technology (+201%) and AMD (+186%) all posted extraordinary moves. Notably, these moves were driven as much by momentum-chasing as by fundamental repricing and left valuations stretched heading into the second half. The rally in semiconductor stocks resulted in returns for the quarter being dominated by the Information Technology sector (+33.8%), followed by Industrials (+12.7%), Financials (+12.3%) and Consumer Discretionary (+9.1%). The previous quarter's defensive and inflation-protected winners lagged, with Energy (-13.1%) the weakest sector as oil collapsed, while Utilities (+0.4%), Materials (+1.8%) and Consumer Staples (+2.0%) all trailed.

Across regional markets, performance reflected exposure to the two reversing forces of the period: the technology rebound and the energy retreat. Japan's Nikkei 225 was the standout, surging 37.3% as relief on imported energy costs reinforced domestic reflation. Emerging markets (+24.1% in USD) also rallied strongly. The tech-heavy US led the developed markets, with the Nasdaq gaining 21.5% and the S&P 500 15.1%. Europe's STOXX 600 (+11.4%) and Germany's DAX (+10.2%) posted solid gains, while China's CSI 300 rose 12.7% on continued policy support. Australia's S&P/ASX 200 Accumulation Index was the notable laggard, up just 4.0%, held back by its heavy weighting to resources and defensives and limited exposure to the technology names driving the global rally.

The macro backdrop improved over the quarter, but not without complications. Falling oil prices, on the back of progress on a US–Iran deal, took much of the heat out of the inflation scare that defined March and shifted the mood from stagflation fears towards a more manageable slowdown. That said, the all-clear was far from clean: some energy costs, notably gas, remained elevated, and the durability of the peace deal is not assured. More importantly for investors, economic activity proved resilient: the US, Europe, Australia and China all delivered steady-to-firmer data while inflation stayed sticky. The upshot was a hawkish shift in interest-rate expectations: markets moved to price rate hikes rather than cuts in both the US and Australia, a notable reversal from earlier in the year, and government bond yields rose in the US as growth and inflation surprised on the upside. For markets, the quarter was ultimately a story of relief that the worst-case energy shock was avoided, tempered by the recognition that resilient growth and persistent inflation keep central banks cautious.

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Developments in Sustainability

- **Responsible Investment Association Australasia (RIAA) Conference:** We attended sessions on nature, human rights, circular economy, climate risk and presented on active listed-equities stewardship.
- **Industry recognition:** Magellan Investment Partners was recognised by the RIAA as a Responsible Investment Leader for 2026.
- **Forced labour:** Modern slavery exposure may become more financially material following USTR's proposed Section 301 tariffs on economies alleged to have weak forced-labour import bans. This is relevant for labour-intensive manufacturing, apparel, electronics, grid equipment, batteries and critical materials. Assessment of modern slavery risk is a key part of the investment process considering geographic footprint.
  USTR Makes Findings and Proposes Action in 60 Section 301 Investigations Relating to Failures to Take Action on Trade in Forced Labor Goods | United States Trade Representative
- **EU circular economy:** Proposed EU rules on unsold clothing could affect apparel, luxury and retail companies through inventory management, product design, traceability and working-capital impacts. We have engaged with apparel companies in our portfolio to assess their readiness for these new rules.
  ESG News
- **AI governance:** Oxford's AI governance white paper highlights financial risks from AI capex, regulation, legal liability, data-centre constraints, cybersecurity, workforce impacts and environmental risks. We contributed to industry feedback in the preparation of this report. The-Role-of-Investors-in-AI-Governance-Oxford-AIGI-FINAL-130426.pdf
- **London Climate Action Week:** The UN's AI Environmental Transparency Initiative increases focus on AI companies' energy, water and emissions impacts, and clean-power commitments by 2030. UNU

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. This MFG Global Sustainable Fund Quarterly Commentary is to be preceded or accompanied by a prospectus that 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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Fund Performance

The Fund delivered a positive return for the quarter but underperformed the benchmark that we believe is increasingly driven by bubble-like conditions in semiconductors and other perceived data center supply chain beneficiaries. Bubbles can unwind rapidly, and we remained disciplined around portfolio construction aimed to reduce the risk of permanent capital loss and build long-term wealth.

The largest contributors to the Fund's performance over the quarter were TSMC, UnitedHealth Group and Adidas. TSMC is a beneficiary of both AI chip investment and the data center expansion cycle. In response to strong AI chip demand, TSMC raised its 5-year revenue growth CAGR by 5 points to 25% pa. While the growth will be supported by a large step up in FY26 capex (benefiting semi cap vendors like ASML), TSMC also raised its long-term gross margin guidance, signaling confidence in its ability to drive productivity, cost efficiencies and pricing power. UnitedHealth recovered from depressed levels due to a strong 1Q result with the medical care ratio improving to 83.9% (from 84.8% a year earlier), prompting management to raise FY26 adjusted EPS guidance. The result reflected a prioritization of margin recovery over membership growth, including trimming Medicare Advantage membership and restoring operational discipline at Optum Health. Softer industry-wide medical cost and utilization trends and a larger-than-proposed 2027 Medicare Advantage rate increase further supported sentiment. Adidas delivered a strong 1Q earnings result at the end of April that demonstrated broad-based brand momentum across sports performance and lifestyle products, continuing market share gains and margin expansion. Strong execution of brand and marketing initiatives throughout the 2Q26 FIFA World Cup has further increased market confidence in near-term sales results, cash generation and brand momentum.

Key detractors for the quarter included Intercontinental Exchange (ICE), Netflix and SAP. ICE was affected by a combination of i) broad concerns regarding the disruption of software by AI that applies to a small part of its business, ii) a decline in exchange energy volumes as the US and Iran reached a ceasefire, iii) US approval of perpetual futures for bitcoins and a stated willingness to consider additional asset classes and iv) a more resilient macro outlook and associated higher rates, which affects valuation and volumes in its mortgage business. We consider these concerns misplaced in aggregate and ICE as well-positioned to grow earnings at a healthy rate over time. With respect to perpetual futures and prediction markets, we consider the risks to ICE to be very low given limited exposure to retail trading and equities. Netflix has given up a lot of the gains following its rally after walking away from its bid for Warner Bros Discovery. This was driven by a combination of a more positive macro-outlook and higher interest rates (Netflix is viewed as defensive) and limited near-term engagement growth in the US. We view the latter as largely a short-term issue driven by a strong sporting calendar and growth in short video engagement due to improvements in algorithms. We continue to view Netflix as well-placed to maintain its position as the dominant streaming platform for professional content and grow profits strongly over the medium term. SAP has been affected by the broader weakness in the software sector on AI disruption fears (and to a lesser extent, macro uncertainty related to the Middle East conflict) despite solid Q1 execution driving 30% cloud ERP revenue growth and providing greater clarity on its AI monetization strategy at its annual Sapphire conference. We view SAP as one of the most AI-resilient software businesses.

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Outlook and strategy

We believe we are entering a dangerous period for markets. Over the past year or so the great promise of AI has morphed from being sensibly priced into markets based on fundamental opportunities and threats to a speculative bubble, driven by easy gains, price momentum, and fear of missing out (FOMO). Exuberance in the genuine benefits of AI has moved from rational to irrational as initial gains have driven increased retail participation and passive flows, often into leveraged, short-term, "bets". This has resulted in remarkable moves in a relatively narrow group of semiconductor companies and other perceived beneficiaries of the data centre expansion, which assumes current elevated profitability will not only be sustained at record levels but continue to expand. All other fundamentals, from geopolitical turmoil and elevated inflation to growing government debt levels, have been largely proven irrelevant to market performance, such has become the dominance of the AI thematic.

Manias of this kind can persist longer than valuation alone would suggest, and we make no attempt to call their timing, but history is consistent on the outcome for those who buy into crowded, richly priced leadership late in its run. We would rather forgo the final stretch of a move we cannot underwrite than expose capital to permanent loss when sentiment turns. Our discipline here is deliberate, and it is unchanged: we regard the companies we own as high-quality businesses with durable earnings growth, and we insist on paying sensibly for them.

The good news is the narrowness of the market's leaders has left many companies neglected, and quality franchises outside the favored themes are now available at valuations that imply expected returns among the most attractive we have seen since the post-Covid period. This is the opportunity we are focused on. Mindful of a backdrop of resilient activity and still-elevated inflation, we are using the market's preoccupation with a single theme to add selectively to businesses where we anticipate strong long-term compounding in earnings, cash flows and value – companies whose worth is undiminished even as attention is directed elsewhere.

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