

# MFG Global Sustainable Fund

Institutional Class (FMSGX), Service Class (FMSRX)

Sub-advised by Magellan Investment Partners— Sydney, AU

## Quarterly Commentary, March 31st, 2026

### Market Performance

Global share prices, as measured by the MSCI World Index, declined by 3.6% in USD in the March quarter of 2026. Gains in January gave way to a significant market drawdown in March. In January, markets were shaped by renewed geopolitical and trade tensions between the US and the EU following President Trump's comments on his intention to acquire Greenland. A broader message from the World Economic Forum in Davos was that the world was moving away from a US-led order. In February, investor attention shifted to rapid AI disruption after Anthropic's new Claude tools triggered fears over the earnings durability of software and related services. Although the broader index was little changed, this masked significant sectoral rotation. In late February, military offensives launched by the US and Israel against Iran became the dominant driver of global markets. Stronger-than-expected Iranian resistance, repeated attacks on energy infrastructure and disruption to shipping through the Strait of Hormuz drove a sharp rise in oil and gas prices and raised concerns about prolonged inflation and energy shortages globally. The key implication for markets over the quarter was a swing from a modest growth backdrop and manageable inflation post-US tariffs towards a more stagflationary environment. Unsurprisingly, the Energy sector (+37.7%) outperformed significantly during the March quarter while inflation-protected real asset exposure in Utilities (+9.6%) was generally favored. In contrast, the Discretionary sector (-10.4%) underperformed the most on concerns of inflation/consumer weakness, followed by Tech (-8.9%) and Communication Services (-6.7%) sectors on fears of AI threats to software.

Across regional equity markets, quarterly performance ultimately reflected differing exposure to the two dominant shocks of the quarter: first, the AI-driven reassessment of software and technology valuations, and second, the late-quarter energy shock. Markets that had benefited earlier in the quarter from domestic reflation or policy support, such as Japan and Europe, gave back performance as the conflict escalated. Despite Japan's exposure to imported energy, the Nikkei 225 Index outperformed over the March quarter, rising by 2.0% while Europe's STOXX 600 Index declined 1.0%. Owing to relatively tech-heavy exposure, the S&P 500 declined by 4.4% over the quarter, as highlighted by the Nasdaq's -7.0% quarterly move. Australia's S&P/ASX 200 Accumulation Index (-1.6%) and China's CSI 300 Index (-3.7%) were middle of the pack.

Economic data throughout the March quarter suggested that global activity was generally resilient at the start of the year, but that by quarter end the outlook had become more vulnerable to an energy-led inflation shock. In the US, January and February data pointed to solid activity, with stronger retail sales, improved manufacturing ISM readings and moderating inflation, giving the Fed some room to support growth. By February, payrolls had softened and other labor market indicators suggested a low-hiring, low-firing environment. The Fed's communication by late March indicated a holding bias so long as longer-term inflation expectations remained anchored. In Europe, January data supported a trend-growth narrative, while February still pointed to sub-par but resilient conditions. By March, however, inflation readings in parts of the continent had surprised on the upside, confidence had weakened and ECB forecasts shifted towards slower growth and higher inflation as energy costs fed through, prompting governments to begin rolling out support measures for households. In China, the quarter was characterized by more modest growth but continued policy support, with February and March seeing firmer activity data and an accommodative stance reinforced by fiscal measures and strategic priorities regarding household stimulus and key technologies.

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#### Developments in Sustainability

- **Climate transition:** Emission reduction targets and policy certainty remain a focus in the EU. In March 2026, the EU formally adopted an amendment to the European Climate Law setting a 2040 target of a 90% net greenhouse-gas reduction versus 1990, including a domestic target of 85% and up to 5% from international credits. The European Commission adopted a Clean Energy Investment Strategy to mobilise more private capital for the energy transition.  
[2040 climate target – Climate Action – European Commission](#)
- **World Economic Forum (WEF):** The World Economic Forum Annual Meeting 2026 took place in Davos. While climate remained on the agenda, the discussion placed strong emphasis on resilience and adaptation in areas such as water systems, wildfire resilience and the economic risks of environmental disruption. The discussion has moved from emissions reduction alone towards the costs of physical climate risk, resilience investment and adaptation.  
[World Economic Forum Annual Meeting 2026 | World Economic Forum](#)
- **Cyber resilience** remains a key focus for all sectors. In Europe, the Commission published draft guidance on the Cyber Resilience Act, which aims to safeguard consumers and businesses from increasing cyber threats. In the US we saw Stryker disclose in March 2026 that a cyber-attack had caused disruption to its business. Following this announcement, the US Cybersecurity & Infrastructure Security Agency (CISA) advised companies to defend against similar cyber activity. Cyber is increasingly both a regulatory compliance issue and a business continuity risk.  
[Cyber Resilience Act | Shaping Europe's digital future](#)  
[Customer Updates: Stryker Network Disruption | Stryker](#)
- **Technology – Social risks:** The start of 2026 brought a sharper focus on AI and platform accountability, especially regarding child safety. In the US, a New Mexico jury on 24 March 2026 found Meta liable under state consumer protection law and imposed \$375 million in civil penalties, and a Los Angeles jury on 25 March 2026 found Meta and YouTube liable in a landmark child-harm case; in the UK, the government launched a consultation covering potential social-media age bans and restrictions on addictive design features. These cases raise questions about whether social media platforms will face greater liability for user safety.  
[Meta, Google Found Liable in First Social Media Addiction Trial – Bloomberg](#)  
[Meta hit with \\$375 million verdict in New Mexico child safety case: What parents should know – ABC News](#)

*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](http://www.mfg-funds.com). Read the prospectus carefully before investing.**

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### Fund Performance

The Fund underperformed the benchmark over the quarter in an increasingly volatile market that saw significant rotations between sectors and thematic. AI safe havens in the form of Staples and Health Care benefited early in the quarter, but this reversed later in the quarter, given the inflationary pressures driven by the US-Israel-Iran conflict. At the same time, pressure on stocks at risk of AI disruption remained in place.

The largest contributors to the Fund's performance over the quarter were Taiwan Semiconductor Manufacturing Company Ltd (TSMC), Netflix and US Bancorp. TSMC performed strongly in response to strong AI chip demand. This saw TSMC raise its 5-year (2024-29) revenue growth guidance by 5 percentage points to a CAGR of 25% p.a. While the growth will be supported by a large increase in FY26 capex, TSMC also raised its long-term gross margin guidance, signaling confidence in its ability to drive productivity, cost efficiencies and pricing power. Topping this off, TSMC also reported a strong 4Q25 result that beat their guidance, driven by exceptionally strong gross margins. Netflix was resilient to broader market weakness as AI disruption concerns eased, investor sentiment continued to improve after it walked away from the Warner Bros acquisition, and its lack of exposure to higher oil prices. US Bancorp delivered a solid earnings update in the quarter and was expected to benefit from higher Net Interest Income due to a potential steepening in the US yield curve.

Key detractors for the quarter included Microsoft, SAP and Amazon. After performing strongly earlier in the year on accelerating growth in Azure, Microsoft gave back some of the strong performance. This was driven primarily by moderating optimism on Microsoft's AI positioning via its close relationship with OpenAI due to strong execution at Google and Anthropic. While short-term relative performance will continue to be affected by shifting views on AI positioning, taking a longer-term perspective we view all of the incumbent cloud providers as winners. SAP underperformed on a combination of sector-wide concerns about AI disruption and delays in customer upgrades due to the uncertainty created by US tariffs. We consider concerns of AI as it relates to SAP as misplaced, and view near-term delays to customer upgrades as irrelevant to its medium-term earnings potential. Amazon's share price came under pressure due to concerns of the ROI on the massive capex being spent by hyperscalers. While such massive investment in both short and long-lived assets in a dynamic environment carries risks, we view the hyperscalers as well-positioned to be long-term beneficiaries of AI proliferation.

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### Outlook and strategy

We entered the year navigating a fragile set of risk factors, from the anxieties of AI disruption and private credit liquidity to the uncertainties of tariff policies. The subsequent emergence of the US-Israel-Iran conflict has introduced a new set of risks to the market. The transformation of the Strait of Hormuz into a global economic chokepoint has triggered a sharp escalation in energy costs, with oil prices surging as much as 70% at their peak. This "oil disruption premium" functions as a pervasive tax on global consumption and production alike. The dual threats of revitalized inflation and physical supply-chain interruptions have catalyzed a significant increase in market volatility, prompting aggressive rotations across sectors and thematic exposures, albeit the overall market performance has remained surprisingly solid, with markets returning close to record highs following news of a tentative ceasefire in the Middle East.

Nonetheless, this elevated risk environment and corresponding correction in sentiment have led to bouts of indiscriminate selling of what we consider high-quality stocks with strong long-term earnings growth prospects. With share prices having fallen, but the intrinsic value unchanged, we believe the expected returns have become compelling for many stocks. Indeed, expected returns across many portfolio holdings are higher than they have been since the post-Covid period. While remaining mindful of the elevated risk environment, we are taking this opportunity to increase investments in a number of companies where we anticipate strong long-term compound growth in earnings, cash flows and value.

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