Frontier MFG Core Infrastructure Fund

Sub-advised by MFG Asset Management – Sydney, AU

Institutional Class (FMGIX), Service Class (FCIVX)

Global infrastructure and utility stocks fell over the March quarter for the first time in five quarters, in a decline that exceeded the fall in global equities in US-dollar terms, after prospects of faster inflation in the U.S. boosted U.S. bond yields and reduced the appeal of stocks considered by some to be bond proxies. Utilities were the sixth worst performing of the 11 industry classifications within the MSCI World Index in US-dollar terms over the quarter.

U.S. bond yields, the benchmarks for global credit markets, surged to four-year highs after a report in February showed that average hourly earnings for U.S. private sector workers rose 2.9% in January from a year ago, the fastest rise since 2009. The news boosted concerns the U.S. fiscal stimulus in the form of corporate tax cuts and extra spending would prompt the Federal Reserve to raise the cash rate more than three times in 2018. In March, the Fed raised the U.S. cash rate by 25 basis points to between 1.5% and 1.75%, its highest range since the global financial crisis began. Over the quarter, U.S. two-year government bond yields rose 39 basis points to 2.27% while 10-year government bond yields jumped 33 basis points to 2.74%.

Global stocks fell for the first quarter in eight in the March quarter after U.S. President Donald Trump imposed import restrictions that could lead to trade wars (especially with China), concerns mounted that U.S. inflation might accelerate enough to prompt the Federal Reserve to tighten monetary policy more than expected, worries gripped that regulators would crack down on U.S. technology companies, populists did well in Italy's election, and China's economy showed signs of slowing.

The Fund recorded a negative return over the three months ending March 31st. At a stock level on a contributions basis, the lagging stocks included investments in Dominion Energy of the U.S., Enbridge of Canada and TransCanada. Share price declines of 16% for Dominion, 17% for Enbridge and 12% for TransCanada were prompted by a revised policy statement from the Federal Energy Regulatory Commission regarding tax treatment for master limited partnerships. The FERC announced that the tax-friendly corporate structure popular with pipeline firms would no longer be able to recover an income tax allowance in certain pipeline service contracts.

The best-performing stocks on a contributions basis included the investments in Aeroports de Paris, Power Assets of Hong Kong and Getlink. Aeroports de Paris added 12% on higher traffic numbers – fiscal year traffic, for instance, rose a higher-than-expected 4.5% – and after a bill was drafted for cabinet to enable the government to reduce its stake in the airport operator. Power Assets gained 6% after the company controlled by Li Ka-shing reported a higher-than-expected 30% jump in 2017 earnings and announced its third special dividend in a little over 12 months. Getlink surged 8.3% after the operator of the Eurotunnel announced a deal whereby a GE STATCOM, which stabilises power supply, will enable the company to double tunnel traffic when the project is completed in 2019.

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The strategy remains consistent with previous periods and is not expected to change over the long term. The strategy seeks to provide investors with attractive risk-adjusted returns from the infrastructure asset class. 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, given the predictable nature of earnings and the structural linkage of those earnings to inflation, the investment returns generated by infrastructure assets are different from standard asset classes and offer investors valuable diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them particularly attractive and an investment in listed infrastructure can be expected to reward patient investors with a three- to five-year timeframe.