Frontier MFG Core Infrastructure Fund
Sub-advised by MFG Asset Management – Sydney, AU
Institutional Class (FMGIX), Service Class (FCIVX)

Global stocks in the December quarter staged their worst quarterly performance in more than seven years after tighter U.S. monetary policy, tensions between China and the U.S., key resignations from the U.S. administration, and political uncertainty in Europe fanned doubts about the global economic outlook. During the quarter, 10 of the 11 sectors fell in US-dollar terms. Energy (-22%) and IT (-17%) fell most while utilities (+0.5%) rose.

U.S. stocks slumped as political uncertainty intensified and the Federal Reserve disappointed those who hoped the central bank would end its rate increases when it delivered an expected increase in December. Concerns about the stability of the administration of President Donald Trump swelled after Defence Secretary James Mattis quit in December over Trump's decision to pull U.S. troops from Syria. Concerns rose further when an impasse with Congress about paying for a wall along the Mexican border led to a partial government shutdown, and Trump reportedly looked into sacking Jerome Powell, his appointee as Fed chairman, for raising U.S. rates too fast. In December, the Fed raised the U.S. cash rate by 25 basis points to between 2.25% and 2.5%, the fourth rate increase of 2018 and the ninth rate increase since the global financial crisis. Investors were disappointed that the Fed only reduced its forecast for rate increases in 2019 from three to two – some were hoping for none. The U.S. ended 2018 with the jobless rate at a 49-year low of 3.7% and inflation largely contained to about 2% on key barometers.

European stocks fell as political concerns in France, Germany, Italy and the UK grew and the risk of a recession in the eurozone rose after Germany's economy contracted in the September quarter. In France, judged a source of renewed European integration since centrist Emmanuel Macron won presidential elections last year, Macron's credibility was dented after he buckled to the widespread demands of yellow vest protesters, whose original gripe was against an increase in the tax on petrol and diesel for environmental reasons. German politics was jolted when the political party (and its Bavarian equivalent) led by Chancellor Angela Merkel fared so poorly in two state elections in October, she said she would step down as leader of the Christian Democratic Union in December. This unexpected decision raised doubts about how long Merkel can survive as leader of Europe's biggest economy (which she can do even after she stepped down as party leader). Italy's new government created uncertainty when the EU rejected its proposed budget deficit for fiscal 2019, an unprecedented step against any EU member. In the UK, the government of Theresa May postponed a parliamentary vote on Brexit from December 11 until mid-January, heightening talk the UK will depart from the EU without any agreement. Even though concerns grew that the eurozone economy is stalling, the European Central Bank said it would end its net asset-buying by year end. Reports showed the eurozone economy only expanded 0.2% in the third quarter, as Germany's economy contracted the same amount.

Japanese stocks tumbled after the Bank of Japan trimmed its inflation forecast for fiscal 2020 to 1.5%, which is under its goal of 2%. Chinese stocks fell as the trade dispute with the U.S. and a crackdown on shadow lending intensified doubts about the strength of its economy. Emerging markets overall slid on the gloomy global outlook.

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The Fund recorded a negative return for the quarter. Stocks that detracted the most included the investments in PG&E of the U.S., Edison International of the U.S., Aeroports De Paris of France and Grupo Aeroportuario del Pacifico and Grupo Aeroportuario del Sureste of Mexico. PG&E plunged 15% and Edison lost 7.9% on concerns the electrical utilities might be liable for starting deadly bushfires in California. Aeroports De Paris shed 14% after the French government said the law to sell its controlling interest in the Paris airport operator wouldn't be ready until the end of the northern winter and it was considering selling its ownership on a piecemeal basis rather than to a strategic buyer. Grupo Aeroportuario del Pacifico lost 20% and Grupo Aeroportuario del Sureste shed 23% after all Mexican airport operators slumped when newly elected President Andrés Manuel López Obrador said his government would cancel construction of a partially built new airport for Mexico City that is expected to cost US$13 billion.

Stocks that added the most on a contributions basis included the investments in American Tower, Duke Energy of the U.S. and Terna of Italy. American Tower jumped 9.4% after the owner of wireless communications towers raised guidance for fiscal 2018, and reported higher-than-expected earnings and sales figures for the third quarter. Duke added 8.9% after third-quarter earnings beat expectations after heat across the southern U.S. boosted demand for energy to help people cool down. Terna gained 9.1% after the grid operator said its results for the nine months to September 30 showed a 2% gain in net income and a 3% increase in capital expenditure from a year earlier.

The Fund 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, 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 time frame.

Movements in stocks are in local currency.