



### **Frontier MFG Global Equity Fund – Institutional Class (FMGEX)** *Sub-advised by MFG Asset Management – Sydney, AU*

Global stocks rose over the September quarter, to mark their ninth gain in the past 10 quarters, after companies posted higher-than-expected earnings, the U.S. economy expanded briskly, the Federal Reserve reaffirmed that monetary policy would only be tightened gradually, and Japan's economy rebounded. Gains were capped when the U.S. escalated its trade war with China, U.S. bond yields rose on inflationary pressures, a higher U.S. dollar buffeted emerging markets, and investors fretted about the impasse over the UK's departure from the EU.

U.S. stocks reached unprecedented heights in September as companies reported strong earnings growth and the economy hummed. Financial research and data company FactSet said that 80% of S&P 500 companies announced earnings per share for the second quarter that beat estimates – a 'beat rate' that is the highest since FactSet began tracking this measure in 2008. In September, the Fed raised the U.S. cash rate by a quarter point to between 2% and 2.25% and, as expected, signaled another five rate increases into 2020. The Fed made its eighth post-crisis rate increases on signs that the U.S. economy was growing at close to capacity. Over the three months, reports showed the U.S. economy completed nine years of consecutive growth (June 2009 to June 2018) when it expanded an annualized 4.2% in the June quarter, its fastest pace in four years. The U.S. jobless rate stayed close to the 18-year low of 3.8% set in May and consumer confidence hit an 18-year high in September (as measured by the Conference Board). Gains were capped when the U.S. and China tit-for-tat tariff enactments widened to about half their traded goods and 10-year U.S. government bond yields rose 21 basis points over the three months to 3.06% on inflation concerns.

European stocks rose after European companies posted higher-than-expected earnings, U.S. and European trade tensions eased, and Sweden's mainstream parties held off populists in elections. In July, U.S. President Donald Trump and EC President Jean-Claude Juncker met and agreed to "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods", a statement that boosted hopes the U.S. and EU would avoid a trade war. Sweden's centrist parties did better than expected in the country's election to prevent the populist Sweden Democrats from holding a pivotal, rather than nuisance, position in negotiations to form a government, even though the mainstream parties failed to win enough support to immediately mould a coalition. Gains were capped when the EU rejected the latest withdrawal agreement offered by the UK and Italy's new populist government said it was aiming for a budget deficit of 2.4% in 2019, three times the shortfall of the previous government and in breach of EU budget requirements for indebted governments. Reports showed the eurozone and EU economies expanded 0.4% in the second quarter, the same rate as for the first quarter.

Japanese stocks rose as the economy bounced back to expand 1.9% in the June quarter, after contracting in the previous quarter, and pro-stimulus Prime Minister Shinzō Abe overcame a corruption scandal to win a third term as leader of the Liberal Democratic Party, which allows him to stay in office for three more years. In China, stocks struggled amid concerns about the trade war with the U.S. and as signs emerged the economy is cooling.

---

*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 Fund. 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.frontiermutualfunds.com](http://www.frontiermutualfunds.com).*



## Frontier MFG Global Equity Fund – Institutional Class (FMGEX) *Sub-advised by MFG Asset Management – Sydney, AU*

Emerging markets fell as the collapse in Argentina's and Turkey's currencies presaged financial crises in these countries and Brazil's presidential election in October created uncertainty.

The Fund recorded a positive return for quarter. The stocks that performed best included the investments in HCA Healthcare, Apple and Lowe's. HCA rallied after the U.S. hospital chain reported higher-than-expected profits and revenue for the second quarter and raised guidance for the full year due to higher patient numbers and an increase in higher-paying procedures. Apple surged (to become the first U.S. company with a market value in excess of US\$1 trillion) after the consumer-technology company recorded higher-than-expected earnings for the third quarter and boosted its sales forecast for the fourth quarter due to the high demand for iPhones and other services. Lowe's climbed after the retailer's new CEO told a conference of his plans to simplify the company's operations, lift store productivity, improve service levels, and boost longer-term returns.

Stocks that lagged included the investments in Facebook, Kraft Heinz and eBay. Facebook slid after management said slower revenue growth and higher costs would reduce profit margins from about 45% to about 35%, the Instagram founders left and the company revealed that 50 million accounts had been hacked. Kraft Heinz fell after issuing lower earnings guidance for fiscal 2018 even though management indicated renewed focus on improving the business's organic growth. Online auction site owner eBay dropped after the company trimmed its forecast for full-year revenue amid lower-than-expected growth in its Marketplace and StubHub (online ticket exchange) businesses and slower-than-expected progress in the company's 'structured data' initiative, which is an attempt to standardize data related to product display.

We remain cautious on the outlook for equity markets and still see the balance of risks tilted to the downside.

Asset prices are at, or near record levels, partly due to accommodative monetary policy. However, the Fed and European Central Bank are tightening monetary policy, which will reduce demand for bonds and other assets by about US\$1.5 trillion on an annualized basis from October 2017 to the end of this year. We think that a shrinking of central-bank balance sheets of this size is unique in modern history and this drop in demand for bonds is likely to put meaningful upward pressure on long-term bond yields by early 2019. Accordingly, we view this as a significant source of risk for other asset prices, including equities.

The Trump administration's fiscal stimulus is unique in that it is occurring at the end of a period of extended economic growth. The tax cuts and increased spending represent a stimulus of more than 1% of GDP for the next two years, when the unemployment rate is already close to an 18-year low. The risk is that this stimulus

---

*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 Fund. 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.frontiermutualfunds.com](http://www.frontiermutualfunds.com).*



## Frontier MFG Global Equity Fund – Institutional Class (FMGEX) *Sub-advised by MFG Asset Management – Sydney, AU*

will increase wage pressures and fan inflation, which complicates the Fed's plans for gradual tightening of monetary policy. Similar to the reduction in bond demand, stimulus so late in an extended upturn poses a threat to asset prices.

Trade tensions between the U.S. and its major trading partners remain high, notwithstanding the recent renegotiation of its trade pact with Canada and Mexico. In the case of China, it remains unclear whether Trump will be satisfied with a reduction in the trade deficit, or wants to preserve the U.S.'s technology advantage. If it is the latter, negotiations will take longer and the likelihood of no agreement is higher.

Due to these risks, we held the cash position in the strategy at about 18% over the September quarter. Notwithstanding the uncertainty surrounding stock markets, we are confident about the long-term outlook for the investments selected for our portfolio and the portfolio's risk profile. Many of the stocks in the portfolio benefit from being leading digital platforms, the shift to a cashless society, having a stronghold on the enterprise software market or the dynamics of ageing populations.

*Movement in benchmark indices are in local currency unless stated otherwise.*

---

*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 Fund. 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.frontiermutualfunds.com](http://www.frontiermutualfunds.com).*