



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

Global stocks set record highs as they rose for a sixth straight quarter in the September quarter after U.S. companies posted better-than-expected earnings for the second quarter, reports showed the world's major economies were growing in unison for the first time in a decade, the Federal Reserve reiterated that monetary policy would likely only be tightened gradually and Angela Merkel won a fourth term as chancellor of Germany.

In the U.S., 73% of S&P 500 companies reported 'positive' earnings-per-share surprises for the second quarter while 'blended earnings growth' reached 10.3%, according to FactSet, as the tech giants shone. In news on the economy, the third reading on second-quarter GDP showed the U.S. economy expanded at an annualised rate of 3.1% over the three months to June, the fastest pace in two years, while the jobless rate stayed around 16-year lows.

In Europe, stocks rose on Merkel's victory and upbeat economic reports such as the one showing the eurozone economy expanded 0.6% in the second quarter, to be 2.3% higher than 12 months earlier.

In other news, Japan's economy grew 1% in the second quarter, its sixth consecutive quarterly expansion, and Prime Minister Shinzō Abe in September called a snap election for October that polls show him winning. In China, the latest readings on industrial production, retail sales and investment disappointed though its economy expanded at a faster-than-expected pace of 6.9% in the 12 months to June.

Ten of the 11 industry classifications within the MSCI World rose in U.S.-dollar terms over the quarter. Energy and Materials were the best performers while Consumer Staples fell.

The Fund recorded a positive return in the quarter. At a stock level, the best performers included investments in PayPal, Visa and MasterCard. PayPal gained after better-than-expected earnings, which delivered 26% growth in total payments volumes including 50% in mobile transactions. Visa rose after its earnings topped analyst expectations for the third straight quarter, aided by outperformance of Visa Europe relative to the expectations held at the time of the acquisition. MasterCard rallied after second-quarter revenue hit a record as volumes and transactions on its network rose.

Stocks that lagged included investments in Kraft Heinz, Starbucks and HCA. Kraft Heinz slid after second-quarter revenue fell more than expected though cost-cutting boosted profit beyond analyst estimates. Starbucks fell amid cautious market commentary as to the outlook for growth in retail traffic and store footprint and the company slightly reduced its annual profit forecast. HCA fell amid uncertainty as to whether or not the ACA repeal bill would be passed given expiration of the budget reconciliation in the month of September.

Abnormally loose monetary policies have created distortions in asset markets, particularly in what we would call bond-proxy equities, which are sensitive to movements in longer-term interest rates. We are cautious about the

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*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).*



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outlook for these stocks. The Federal Reserve is likely to gradually increase interest rates and shrink its balance sheet as U.S. economic growth continues. The trajectory of monetary policy tightening will depend, in part, on the expected path of core U.S. inflation, which remains below the Fed's 2% target, as well as other economic and political developments.

In Asia, North Korea's endeavours to advance its nuclear intercontinental ballistic missile capability could be destabilising for global equities markets should a diplomatic misstep by either party lead to an escalation in tensions. While China appears to have control over the renminbi and capital flows, there is a risk Beijing could lose its battle to prevent a disorderly drop in the currency. In the U.S., the administration of Donald Trump's protectionist rhetoric presents risks to the management of trading and political relationships, particularly if a mistake were made in relation to China.

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. The Frontier MFG Global Equity Fund remains well positioned in high-quality names and has retained exposure to the following investment themes:

- Consumer technology platforms: The leading digital platforms have tremendous opportunities to monetise new services and products (even when they are not the originator). With high switching costs and barriers to entry, their entrenched positions are unlikely to be challenged in the foreseeable future.
- Enterprise software: Established enterprise software vendors benefit from their incumbency. They typically operate in concentrated markets with high barriers to entry, network effects, and high switching costs. The shift to cloud computing presents a significant opportunity for leading vendors to expand their addressable markets and win a greater share of total enterprise IT expenditure.
- Health Care and aging population dynamics: The Health Care sector has attractive growth tailwinds due to rising patient volumes, increasing expenditure and large unmet health care needs.
- The cashless society: There continues to be a strong secular shift from spending via cash and cheque to cashless forms of payments, such as credit cards, debit cards, electronic funds transfer and mobile payments.

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