



Frontier MFG Global Plus Fund – Institutional Class (FMGPX), Service Class (FMPSX) *Sub-advised by MFG Asset Management – Sydney, AU*

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

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.



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intensified doubts about the strength of its economy. Emerging markets overall slid on the gloomy global outlook.

The Fund recorded a negative return for the quarter. The stocks that struggled most included the investments in Apple, Facebook and Kraft Heinz. Apple tumbled after earnings downgrades by key suppliers raised concerns about the strength of demand for Apple's latest devices. Facebook fell after media reports attacked how top executives handled fake news, privacy issues and other incidents. Kraft Heinz slid after its cost cutting was delayed in order to support better sales growth during the third quarter.

Stocks that performed best included the investments in Starbucks, McDonald's and Yum! Brands. Starbucks surged after faster-than-expected sales growth of 4% in the Americas and 3% globally for the third quarter beat expectations, and the coffee chain said it would cut about 5% of the workers based in its headquarters in Seattle to reduce costs. McDonald's rose on higher-than-expected sales in the third quarter thanks to better performances in Australia, Canada and the UK. Yum! Brands rose after same-store sales and profit for the third quarter outdid expectations.

While equity prices have fallen recently, we remain cautious because there are still many forces that could drive them lower still.

The pre-eminent worry for global stocks is that global monetary policy has further to tighten. The U.S. Federal Reserve is reducing the size of its balance sheet and has signaled another two rate increases in 2019, while the European Central Bank stopped expanding its balance sheet at the end of 2018. These reductions in central bank bond purchases present a risk to bond prices, which could flow through to equity prices.

This monetary tightening is occurring at a time when global economic growth has slowed and become less synchronised across the major economies. As well as tighter monetary policy, this slowing has been driven by heightened political uncertainties. In the U.S., the Republican Party's loss of control of the House of Representatives in the mid-term elections reduces President Donald Trump's control of Congress and might cause his actions to become more unpredictable at a time when the U.S.-China confrontation, international trade tensions and North Korea denuclearisation talks are ongoing. In Europe, many voters remain concerned about immigration and sluggish economic growth, resulting in elevated political risk.

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Due to these risks, we held the cash position in the strategy at about 18% over the December 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.

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