Frontier MFG Global Sustainable Fund
Institutional Class (FMSGX), Service Class (FMSRX)
Sub-advised by MFG Asset Management – Sydney, AU

FRONTIER FUNDS

Quarterly Commentary, March 31st, 2025

Market Performance

Global equities lost ground in the March quarter, with the MSCI World Index down 1.8% in USD terms. Initial optimism around Trump's pro-business and pro-growth policies gave way to increased talk about stagflation as heightened economic policy uncertainty and aggressive trade policies roiled market confidence. Over the quarter, markets were increasingly concerned about a US recession, with the 10-year US Treasury yield declining by 35bp to 4.23%. The best performers in the quarter were Energy (+9.2%), Utilities (+6.1%), Financials (+4.9%), and Consumer Staples (+4.8%). In contrast, IT (-12.2%) and Consumer Discretionary (-11.2%) both declined. These moves were driven mainly by a rotation from growth into defensive sectors.

The STOXX Europe 600 was the best-performing index in the quarter, rising by 5.8% in Euros. The move was catalysed by the German government shaking off fiscal constraint to prioritise spending on defence and infrastructure. European outperformance was followed by a 2.9% gain in the MSCI Emerging Markets Index. Most other markets went backwards, led by the Nikkei 225, which fell 10.1%. The S&P 500 declined by 4.4% while the tech-dominated Nasdaq Composite moved sharply lower (-10.3%). Australia's S&P/ASX 200 Accumulation Index was 2.8% weaker and China's CSI 300 lost 1.0%.

The US economic picture looks uncertain in the near term with markets increasingly concerned about the prospect of stagflation. A softening in sentiment-based data did not flow through to economic activity, which has yet to indicate much impact from recent uncertainty. Newsflow during the quarter was dominated by US tariffs on China, Canada and Mexico. Initially announced in February, these policies have generated significant uncertainty. In addition, broader 'reciprocal' tariffs on all major trading partners of the US were anticipated in coming months. Outside of tariffs, the Federal Reserve signalled a cut in its growth outlook but raised its inflation forecasts. As mentioned above, Germany announced a €500 billion infrastructure investment fund to achieve rearmament and growth objectives. In China, there was talk of further fiscal stimulus.

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Developments in Sustainability

Energy transition and Decarbonization: The change in the US administration, particularly the withdrawal from the Paris Agreement and other executive actions, may see changes in federal funding for the energy transition. Uncertainty over Federal funding for decarbonization projects will remain until the budget reconciliation discussion. However, state-level regulations and funding, project economics and affordability continue to be the main drivers supporting a continuation of company decarbonization strategies. This reflects the price competitiveness of low-carbon alternatives and an expectation that not all jurisdictions will change their rules and policies.

Climate-related risk disclosure: In the quarter, both the US and Europe reduced mandatory requirements for companies' climate-related disclosures. This is despite an increase in mandatory climate-related reporting in other regions including Australia.

- In March, the **Securities and Exchange Commission**, US (SEC) voted to end its defence of the rules requiring disclosure of climate-related risks and greenhouse gas emissions.

- While in Europe, the European Commission announced the **EU Omnibus Plan & Clean Industrial Deal.** This has eased sustainability regulatory reporting for businesses based on size (Simplification Omnibus). Despite a reduction in the number of companies required to disclose climate-related risks, the EC remains committed to the energy transition and also announced a significant investment through the Clean Industrial Deal to support investment in green hydrogen, batteries and semiconductor manufacturing.

Diversity, equity and inclusion: Executive orders announced by the US administration in January have seen a shift in federal policy regarding diversity, equity and inclusion. While these executive orders focused mainly on federal employees and contractors, there has also been some retraction in public company targets and initiatives. This resulted in targeted brand boycotts by consumers in the February 2025 "Economic Blackout", which included Target, Amazon and McDonald's. Given differing consumer views, this remains a risk for companies to manage. We believe diversity of skills, experience, gender and ethnicity can benefit companies through broader discussion potentially leading to greater innovation and improved risk management.

Our approach to issues such as climate risk management and diversity, equity and inclusion are a focus where they are deemed material to the company. This is outlined in our Voting Principles, which are prioritized because we believe they align with best practices and have the potential to enhance long-term shareholder value creation. We recognize the varying expectations of stakeholders globally, particularly in the current environment. Despite potential short-term challenges, we remain committed to our long-term focus on risk management of these issues.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise. U.S. GDP statistics come from the U.S. Department of Commerce, while U.S. employment and inflation statistics are published by the U.S. Department of Labor. EU economic statistics come from Eurostat. UK statistics are released by the Office for National Statistics.

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Fund Performance

The fund delivered strong performance in the quarter, reflecting the high-quality nature of companies comprising the portfolio as well as defensive positioning. Key contributors included Nestlé, Dollar General and Novartis. Nestlé's share price has outperformed broader equity markets, primarily reflecting a market rotation into defensive, high-quality names in response to rising macroeconomic uncertainty. Dollar General performed well as sequential stabilization in its business after several years of deteriorating performance provided confidence to investors that it will be defensive in a weaker economic environment. The Novartis performance has been driven by better-than-expected uptake of new and more established drug assets. Novartis's relative performance has also been driven by "risk off" rotation into defensive healthcare.

Key detractors in the quarter included Alphabet, Microsoft and Amazon. Alphabet's underperformance can be attributed primarily to a meaningful increase in its planned capex spend in FY25 (driven by AI investments), as well as renewed concerns regarding its upcoming Search antitrust trial. Despite strength in Microsoft's AI businesses, Microsoft's underperformance was the result of non-AI growth falling short of expectations due to recent changes in channel incentives, which the company plans to readjust. Amazon's recent weak performance reflects normalization after strong performance in prior months, due in part to rising concerns about AI capex spend and the strength of the US economy.

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Outlook and strategy

The Trump administration's tariff policies have inflicted significant uncertainty on future trade relationships, economic growth and inflation outcomes. The exact purpose, final rates, and potential retaliation to the tariffs remain in flux. Our base case is that the initial announcements reflect a mix of both structural goals, such as reshoring and decoupling from China, and transactional goals. We assess the minimum tariff rate of 10% and higher China tariffs to be more structural in nature while reciprocal tariffs on other nations are more transactional in nature and thus more likely to be negotiated lower. However, outcomes remain uncertain with the impact on US and global growth ranging from manageable to significant. The tariffs are inflationary in the first instance, putting upward pressure on interest rates, although if growth were to slow significantly this would ultimately place downward pressure on both inflation and rates. The risk of a US recession is elevated, although our base case is that part of the tariffs are wound back and a recession is avoided.

Equity markets have fallen significantly in response to the tariff announcement. However, given elevated starting valuations and the potential impact on earnings from lower growth and higher input costs, we judge equity markets as moving towards fair value as opposed to significantly undervalued. As elevated risks are not yet overly discounted in equity valuations we maintain our defensive positioning, albeit opportunities at the individual stock level are always present and will be acted upon. The high-quality companies that comprise the fund's portfolio have shown their resilience in the current environment, and we believe that they remain well placed to deliver strong earnings, and share price growth, over the long term.