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

Global stocks hit record highs in the three months to September 30th as they rose for the sixth quarter in seven after reports showed stimulus is helping reopening economies recover from the pandemic, the Federal Reserve indicated it would keep rates low for a while yet, and tech stocks reported earnings that showed how much they have benefited from the shift to online. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Consumer Discretionary (+16%) rose the most as economies reopened while Energy (-16%) was the sector that declined.

U.S. stocks set fresh record highs after readings showed the jobs market had recovered nearly half the jobs lost when the economy was closed to restrict the pandemic, Big Tech shone, and the Federal Reserve moved to a flexible average inflation target by allowing inflation to exceed 2%. The Fed's shift suggested lower interest rates for longer as it indicated the central bank would not pre-emptively raise interest rates when unemployment was low so long as inflation was under control. During the quarter, reports indicated the U.S. economy was recovering from the record 31.4% annualised decline in the second quarter. Of note, a report showed the jobless rate fell to 8.4% in August and that the economy had added 10.6 million jobs since it shredded 22.2 million jobs in March and April when the jobless rate was 14.7% (compared with 3.5% in February). Big Tech CEOs survived a grilling from Congress over the alleged anti-competitive nature of their businesses as the tech icons posted healthy earnings for the second quarter. In political news, the Democratic and Republican parties held their conventions and at quarter end polls placed Democrat presidential nominee and former Vice President Joe Biden ahead of President Donald Trump in the quest for the White House.

European stocks fell as reinfection rates picked up enough for restrictions to be reimposed. Of note during the quarter was that EU leaders struck an agreement to allow the EU to sell debt on a large scale for the first time so it could install a 750-billion-euro pandemic recovery fund.

The Fund recorded a positive return in the September quarter. Stocks that contributed the most included the investments in Duke Energy and Excel Energy of the U.S. and Hydro One of Canada. Duke Energy rose on talk the electricity and gas utility would be subject to a takeover bid by power producer NextEra Energy of the U.S. Xcel Energy gained after the monopoly provider of electricity and gas services across eight mid-western U.S. states announced a higher-than-expected jump of 18% in earnings-per-share growth for the second quarter and management reiterated its 2020 and long-term earnings guidance. Hydro One rose after the electricity transmission and distribution company received a favourable court ruling on its appeal of the regulator's treatment of deferred tax assets.

Stocks that detracted included the investments in Vinci of France, FirstEnergy of the U.S. and National Grid of the UK. Vinci dived after the economic blow associated with the pandemic reduced the first-half revenue of the concessions and construction company by 15%. FirstEnergy plunged after the U.S. Attorney's Office of Ohio

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charged House Speaker Larry Householder and five others with bribery and money-laundering charges tied to a bill that effectively was a US$1.5 billion bailout of a former subsidiary of FirstEnergy's nuclear plants in the U.S. state. National Grid fell as investors assessed the impact of the latest draft regulatory rulings in the UK.

Notwithstanding our expectations for greater volatility in the short to medium term driven by the COVID-19 crisis, we are confident that the underlying businesses that we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices over the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The Fund seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. 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 resilient nature of earnings and the structural linkage of those earnings to inflation, investment returns generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them attractive and an investment in listed infrastructure can be expected to reward patient investors with a long-term time frame.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.