



Frontier MFG Core Infrastructure Fund An important update

The following seeks to explain how we view the covid-19 crisis. While the situation is fluid, we can see that the lockdown of communities is hurting many companies including some we invest in.

Our investment universe comprises regulated utilities (water, gas and electricity) and infrastructure companies (toll roads, airports, communications infrastructure, energy infrastructure and social infrastructure). Overall, the health emergency has affected infrastructure businesses harder than utilities.

Regulated utilities might face some short-term declines in earnings but we do not expect significant changes to their long-term earnings outlooks. Their earnings are highly defensive and regulators generally allow for losses due to issues outside of the control of the regulated utility to be recovered over the near to medium term. We do not expect significant impacts upon water utilities, integrated power utilities, gas utilities and transmission and distribution utilities, which comprise more than 60% of the Core portfolio, even though, notwithstanding their defensive characteristics, they have suffered share price declines in recent weeks.

Within our infrastructure universe, the airports and toll roads segments face significant short-term declines in patronage. Airports and toll roads provide essential services and the demand for the services will return over time. However, the duration of the lockout and any following economic downturn will be key to how these companies recover. We have allowed for a significant drop in passenger movements and car trips in our forecasts and assess that our companies have sufficient cash flow and liquidity to manage through the economic downturn. While we expect that some of these companies will reduce their dividends in the short term, our experience of previous demand shocks in the transport industry gives us confidence that the demand for transport will recover over the longer term, which will lead to resilient earnings and dividends.

While the pace of development of the infrastructure networks of telecommunications infrastructure companies might slow, we expect the earnings of these companies to be highly defensive in response to this crisis. The demand for data across mobile telephony and the internet will grow and continued investment in telecommunications infrastructure is necessary to satisfy this demand.

The energy infrastructure companies in the portfolio generate earnings by storing oil, gas and chemicals or transporting oil and gas across their pipeline networks. These companies have limited exposure to changes in the oil price and, while the revenues they earn from transporting oil and gas can potentially change with movements in volumes, underwritten 'take or pay volumes' usually account for the majority of revenues so we assess their exposure to volume decreases as low. If the customers of these businesses have solvency issues then this could cause problems, but access to energy infrastructure services is essential to their ability to earn revenues (i.e. it's non-discretionary spend to the extent they remain operating). Importantly, we note that the overwhelming bulk of customers these companies serve are investment-grade credit quality. We thus believe the energy infrastructure companies are well placed to cope with the economic consequences of the virus.

The portfolio's social infrastructure companies operate infrastructure assets such as schools and hospitals. They receive payments from governments or from semi-government authorities and face minimal, if any, demand risk. They typically have relatively high gearing levels compared with average companies, which reflects limited demand risk and the low credit risk associated with being paid by governments. These companies generate modest earnings for shareholders, reflecting the relatively low level of underlying risk. We expect these companies to operate in their normal manner. We will review their solvency profiles but we do not expect them to suffer undue risk.



Frontier Funds

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 in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

**Gerald Stack,
Head of Infrastructure**

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.

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400 Skokie Blvd., Suite 500 – Northbrook, IL 60062 – 847-509-9860 – www.frontiermutualfunds.com