Frontier MFG Core Infrastructure Fund
Institutional Class (FMGIX), Service Class (FCIVX)

Sub-advised by MFG Asset Management – Sydney, AU

FRONTIER FUNDS

Quarterly Commentary, June 30, 2021

Global stocks soared to record highs as they rose for the ninth quarter in 10 during the three months ending June 30, 2021, after investors backed that vaccines and more government spending would drive economies, dismissed an acceleration in inflation as transitory, and thus believed statements from central banks they would keep monetary policy loose. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information Technology (+12%) climbed the most on healthy earnings while Utilities (-0.7%) declined on concerns that longer-term bond yields might rise.

U.S. stocks gained as companies, especially tech ones and the banks, reported healthy earnings reports for the first quarter, the administration of President Joe Biden announced plans for another US$4 trillion in spending (that Congress is still to approve), consumers spent as they grew in confidence, and, by the White House count, 67% of adults have received one vaccine dose. Reports, however, on inflation provoked spasmodic caution. Consumer inflation rose 5.0% in the 12 months ending May 31, 2021, the fastest pace since 2008, while producer prices surged 6.6% in the year ending May 31st. These reports fanned talk the U.S. Federal Reserve might rethink its loose monetary policy. A Fed survey of its policymakers show they had brought forward their expectations of when they would sanction a higher U.S. cash rate. They (as represented by their median forecast) now expect to approve two increases in the cash rate from close to 0% by the end of 2023.

European stocks rose as countries relaxed pandemic restrictions as vaccine programs rolled out and the European Central Bank said it would keep aggressive monetary stimulus in place, though gains were limited by news that an ever-more debt-heavy eurozone economy is contracting. A report showed the eurozone economy shrank 0.3% in the March quarter, which followed a contraction of 0.6% in the December quarter. Another report showed government debt stood at 98% of eurozone GDP at the end of December.

The Fund recorded a positive return in the June quarter when Utilities was the only sector of 11 in the MSCI World Index to decline in U.S. dollars. The stocks that contributed the most were the investments in Cellnex Telecom of Spain, National Grid of the UK and Enbridge of Canada. Cellnex, a wireless telecommunications infrastructure and services company with more than 50,000 sites across Europe, gained as the market overhang associated with the company's recent capital raising dissipated. National Grid, an electricity and gas utility with operations in the UK and the U.S., rose after its operating profit for fiscal 2021 beat consensus by 2 percentage points. Enbridge rose on the back of strong first-quarter results, which revealed that the company's critical Mainline asset is once again operating in a fully utilised and apportioned manner, after disruptions associated with the health crisis weighed on volumes during 2020. Trading in the company's stock was also supported by a favourable judgment, issued by the Minnesota Court of Appeals, reaffirming the regulator's approval of the company's Line 3 replacement project. The decision reassured investors that the project would meet its previously guided fourth-quarter 2021 in-service date.

The stocks that detracted the most were the investments in Sydney Airport, Eversource Energy of the U.S. and APA Group of Australia. Sydney Airport slid after Melbourne then Sydney were placed in 'lockdown' after the virus escaped quarantine. Eversource Energy fell after the Connecticut Public Utility Regulatory Authority slammed the utility that through subsidiaries offers electricity, natural gas and water services for its preparation for and response to Tropical Storm Isaias that hit in 2020. In a politically charged decision, the authority found that Eversource did not satisfy relevant performance standards, ordered an indefinite reduction of 90 basis points to subsidiary Connecticut Light & Power's authorized return on equity, ordered the opening of a regulatory docket to consider issuing civil penalties against the subsidiary and foreshadowed the disallowance of certain costs that the authority asserts were imprudently incurred were

Eversource to seek recovery. Eversource has indicated it will appeal these findings. APA declined amid talk that the assets of Australia's largest natural gas infrastructure business would be worth less in the transition to cleaner energy.

The Fund outperformed the S&P Global Infrastructure Total Return Index over the quarter. Outperformance relative to the benchmark was principally attributable to the portfolio's overweight exposure to regulated utilities in developed markets, which comprise more than 60% of the portfolio and less than 20% of the benchmark. Regulated utilities performed strongly during the quarter, supported by softening nominal yields on 10-year U.S. Treasury bonds. Nominal yields on the key risk-free rate proxy declined by about 30 basis points during the quarter, despite comments from the U.S. Federal Reserve that it is likely to begin tightening monetary policy sooner than previously signalled. This pronouncement by the Fed prompted market participants to revise their expectations of future inflation lower, driving real yields on 10-year U.S. Treasury bonds even more deeply negative. Relative performance also benefited from the greater global diversification of our regulated utility holdings in comparison with the benchmark; regulated utilities domiciled outside the U.S., which performed strongly during the quarter, comprise more than 25% of our portfolio compared with just under 2% of the benchmark.

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 strategy 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.