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

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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Fund Performance

The Fund delivered a positive return over the March quarter, as concerns over the potential impact of tariffs on the US and global economies steered investors to the relative safety of infrastructure.

Some of the largest stock contributors over the March quarter were Vinci, Exelon and American Electric Power. Shares of French toll road and airport operator Vinci lifted as its full-year result beat expectations and as the minority French government passed a budget, reducing short-term political uncertainty. The company was also boosted by the announcement of a German €500bn stimulus package that could benefit its contracting business. Shares of US-based utility Exelon climbed after reporting better-than-expected results and an increase to its five-year capital plan. Meanwhile, US-regulated utility American Electric Power rose after selling down a stake in its transmission assets at a better-than-anticipated valuation, which in turn alleviated a balance sheet overhang.

Stocks detracting the most over the March quarter were Sempra, Power Assets Holdings and Groupe ADP. US-based utility Sempra declined as management announced a guidance cut to FY25 expectations, which predominantly reflected the near-term impact of regulatory earnings lag in their Texas jurisdiction. Hong Kong-based utility Power Assets Holdings declined after announcing lower-than-expected dividend growth. Shares were also weighed down by continued speculation that the company would acquire an equity stake in a beleaguered UK water utility (thereby requiring significant investment). French airport operator Groupe ADP fell despite a solid result as the company guided to higher medium-term capex than the market was expecting.

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

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Outlook and Strategy

Notwithstanding our expectations for greater volatility in the short to medium term driven by inflation, interest rates and rapidly shifting policy from the new US administration, we remain confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we believe that share prices in the longer term may reflect the underlying cash flows, potentially 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, we believe the resilient nature of earnings and the structural linkage of those earnings to inflation means that investment returns typically 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, we believe the historically reliable financial performance of infrastructure investments makes them attractive, and an investment in listed infrastructure has the potential 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. 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.