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

FRONTIER FUNDS

Quarterly Commentary, March 31, 2024

Global equity markets posted strong returns in the quarter ending March 31st. The sectors with the largest gains were Communication Services (up 13.7%), followed by Information Technology (12.8%) and Financials (12.0%), while the laggards were Utilities (down 2.2%), Consumer Staples (-4.8%) and Materials (-5.6%).

The main drivers of these strong returns were improved earnings outlooks and sentiment. U.S. economic data released during the quarter was stronger than expected, though not strong enough to suggest that a broad-based reacceleration in inflation was likely. Earnings results for the December quarter released in the March quarter led to sizeable earnings upgrades. Overall, this dataflow saw investors reduce the number of quarter percentage point Federal Reserve rate cuts they expect by the end of 2024 from six to three, while also pushing up the U.S. 10-year Treasury yield by 30bp to 4.2%.

In Europe, several countries including Germany, Finland, the UK and Ireland entered a technical recession by posting two consecutive quarters of negative GDP growth for the second half of 2023. The 10-year German government bond yield increased 30bp to 2.3%, a move broadly in line with movements in global sovereign bond yields.

In Japan, the Bank of Japan ended its negative interest rate policy that had been in place since 2016. Japanese equity returns have benefited from corporate governance changes that promote returns and a return of inflation, which boosts nominal growth rates. The yield on Japanese 10-year government bonds rose 10bp to end the quarter at 0.7%. While the Chinese authorities are also attempting to improve corporate profitability, we believe that relatively low trading multiples in China are justified by permanent political and governance risks and the more difficult economic backdrop in the medium term.

The Fund recorded a negative return for the quarter ended 31 March, with hopes for a near-term reduction in benchmark interest rates fading as monthly inflation readings eased at a slower-than-anticipated pace.

Stocks detracting the most during the quarter were Cellnex, Xcel Energy and SBA Communications. Spanish communications company Cellnex declined during the quarter as bond yields in Europe moved higher. U.S. utility Xcel Energy fell after the company was asked by a law firm – representing various insurers – to preserve a utility pole that had fallen within the vicinity of a major wildfire in Texas. The suggestion was that the law firm would seek damages if Xcel's subsidiary utility (Southwestern Public Service) were to be found negligent. Meanwhile, shares of wireless tower company SBA Communications declined on expectations that central bankers were unlikely to lower benchmark interest rates in the immediate near term. This decline also follows the strong share price performance towards the end of 2023.

Some of the largest stock contributors over the quarter included Ferrovial, Aena and TC Energy. Shares of Spanish toll road and airport operator Ferrovial climbed following the announcement of a higher-than-expected toll rate at its key 407 ETR asset. Tolls for this major asset had been frozen since the onset of the pandemic (February 2020). Spanish airport operator Aena rose following a strong start to 2024 traffic and a better-than-expected 2023 result. Shares of TC Energy increased after reporting above-consensus FY23 results and progress made towards its de-leveraging plan.

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Notwithstanding our expectations for greater volatility in the short to medium term driven by inflation and interest rates, we are 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 expect that share prices in 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, 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 Labour. EU economic statistics come from Eurostat. UK statistics are released by the Office for National Statistics.