Frontier MFG Select Infrastructure Fund
Institutional Class (FMSIX), Service Class (FMSSX)
Sub-advised by MFG Asset Management – Sydney, AU

FRONTIER FUNDS

Quarterly Commentary, December 31, 2021

Global stocks surged to record highs in the quarter ending December 31, 2021, as concerns abated about the economic damage of the new Omicron COVID-19 variant, U.S. companies posted stellar earnings reports, and U.S. Congress postponed a debt-ceiling showdown and passed more stimulus. The rise occurred even though the Federal Reserve decided to reduce its asset purchases after U.S. inflation reached a 39-year high and inflation accelerated worldwide. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information Technology (+13.2%) rose the most while Communication Services (-1.7%) was the sector that fell.

U.S. stocks climbed as better jobless numbers and encouraging reports on earnings, especially from the banks and Big Tech, prompted investors to brush aside concerns that inflation is being entrenched. A report showed consumer prices climbed 6.8% in the 12 months ending November 30, 2021, the most since 1982. In response, the Federal Reserve said it would accelerate its "tapering" of monthly bond purchases. The central bank said it would prune its asset buying such that in January it would buy only US$60 billion of Treasuries and mortgage-backed securities compared with US$120 billion a month pre-tapering, while most Fed policymakers said they were prepared to raise the U.S. cash rate three times in 2022. While reports showed an economy at full employment (the jobless rate fell to a pandemic low of 4.2% in November), the U.S. economy expanded at a revised annualised rate of only 2.3% during the quarter ending September 30th. In political news, the House of Representatives, over the unanimous opposition of Republicans, passed the US$2.2 trillion Build Back Better Act only for the centerpiece of President Joe Biden's domestic agenda to be blocked in the Democrat-controlled Senate. The House, with some Republican support, approved a US$1.2 trillion infrastructure package that had already passed the Senate. A proposal to raise the federal government's borrowing limit by US$2.5 trillion passed both chambers of Congress just before the December 15th deadline.

European stocks advanced on encouraging earnings results and improved economic news. A report showed the eurozone economy expanded 2.2% in the quarter ending September 30th after pandemic restrictions eased, the same speed it grew in the June quarter. A report that showed eurozone inflation reached 4.9% in the 12 months ending November 30th proved no dampener after the European Central Bank indicated it would not overreact to rising prices.

The Fund recorded a positive return in the quarter ending December 31st. Stocks that contributed the most included the investments in Crown Castle International, Norfolk Southern and CSX Corp of the U.S. Crown Castle gained after the tower operator announced it had increased its dividend by an annualised 11% a share when it delivered healthy third-quarter earnings. Norfolk Southern climbed after the Atlanta-based railway operator's third-quarter report showed railway operating revenues increased 14% to US$2.85 billion. CSX rose after the Florida-based railroad and transport company's third-quarter report showed revenue rose 24%, driven by growth across all business lines.

The stocks that detracted the most were the investments in Aena of Spain, Transurban of Australia and Royal Vopak of the Netherlands. Aena, the world's largest operator of airports, declined as the new COVID-19 variant disrupted travel. Transurban fell as investors worried about the potential impact of the surge in COVID-19 infections in New South Wales, priced in interest rate rises sooner than had been flagged previously by the Reserve Bank of Australia after a report showed inflation reached 3% in the 12 months ending September 30th, the ceiling of the central bank's target, and the company reached a settlement with the Victorian government and its contractors regarding the allocation of cost overruns on its West Gate Tunnel project that was larger than investors expected. Royal Vopak slid as the backwardation in oil markets continued, even as the storage terminal operator reported a solid third-quarter result that topped expectations.

Notwithstanding our expectations for greater volatility in the short to medium term driven by the COVID-19 crisis and potential interest rate volatility, 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.

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 at discounts to their assessed intrinsic value. 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.