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Frontier Investment Update – Equities Performance

July 2020

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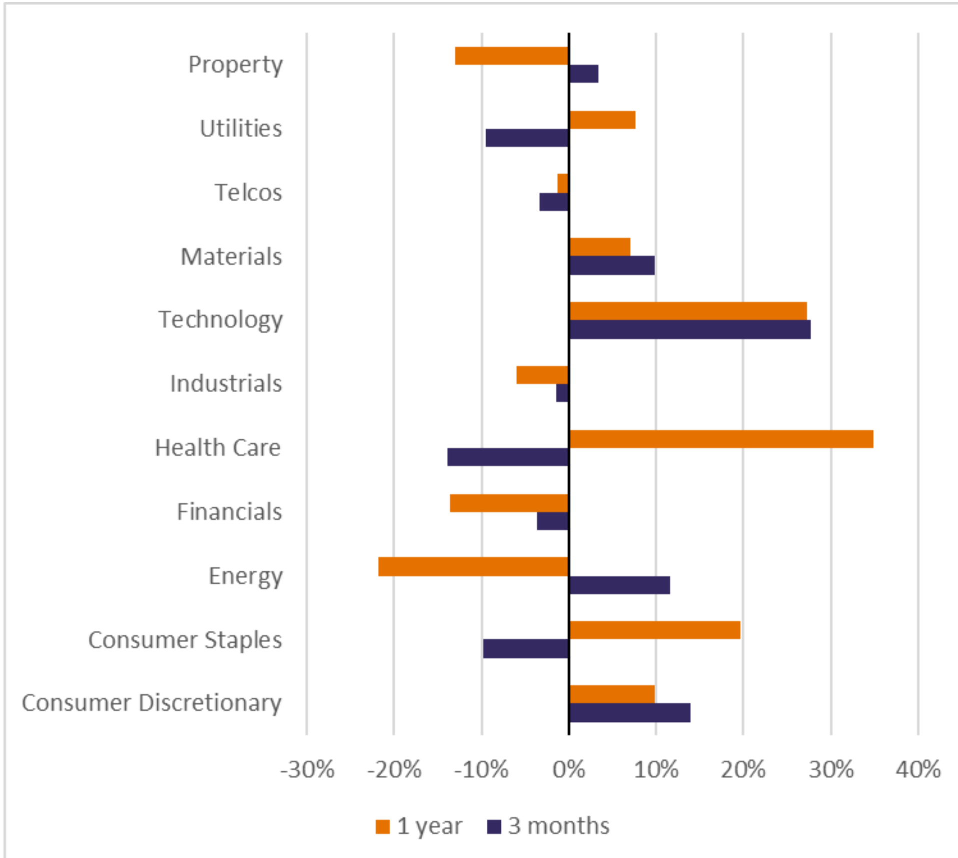
SUMMARY

Why are we sending this?	Frontier collected information from more than 130 Equities managers for quarterly, six monthly and annual performance to 30 June 2020. In addition to a small number of subsectors, these managers are in the asset classes of Australian equities, Australian small caps, global equities and emerging markets equities
What sector is the data related to?	The data covers the major equities sectors where Australian clients invest
What has changed recently?	We analysed active management outcomes noting the following meaningful features of the June 2020 quarter: • Markets snapped back in April 2020 following one of the worst individual months on record for stock markets (March 2020) • All markets, MSCI ACWI, EM, and Australian equities returned positive performance for the quarter ending June 2020 although for the one-year period (i.e. financial year 2019/20), performance was mixed with unhedged global equities posting positive returns led by China and US equities while EM and Australian equities went backwards.
What is the actual data telling us?	The following slides and charts provide more information and are our aggregate manager findings for the quarter and year. Key findings for the quarter are: • Managers in Australian equities produced a mixed bag of performance over the quarter as dictated by stock selection and where investors thought the stimulus might help in the cyclical recovery • Emerging markets active management continued to prove challenging despite weaker China performance
Source of the data?	Data has been sourced directly from managers
Any actions for clients?	• Clients should assess their own manager performance data to see if it is aligned with the performance of other managers with similar investment approaches • Clients should look at their manager weights and consider whether rebalancing is required • Frontier would be happy to assist with analysis and help clients decide their next course of action
What is Frontier doing now	• Frontier will be following up where there has been performance and style exceptions • In the high current market volatility, Frontier will consider if further short-term updates are beneficial • Frontier is analysing whether there are investment opportunities for clients to capitalise on

AUSTRALIAN EQUITIES: JUNE QTR AND FY 19/20 – SECTOR PERFORMANCES



This chart shows the **relative** sector performance versus the S&P/ASX 300 for the June 2020 quarter and financial year 2019/20

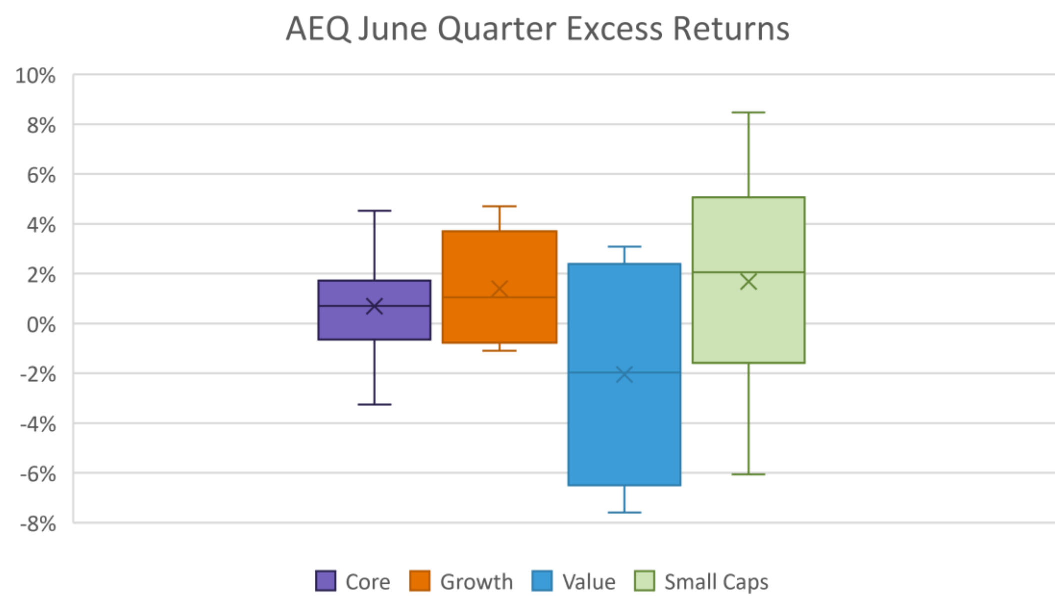
AUSTRALIAN EQUITIES: JUNE QUARTER – CONTRIBUTORS TO INDEX RETURN

Largest positive contributors to index returns	• BHP (Materials) • AFTERPAY (Information Technology) • RIO TINTO (Materials) • MACQUARIE GROUP (Financials) • WESFARMERS (Consumer Discretionary) • COMMONWEALTH BANK (Financials) • NEWCREST (Materials) • FORTESCUE METALS (Materials) • NATIONAL AUSTRALIA BANK (Financials) • TRANSURBAN (Industrials)
Largest negative contributors to index returns	• CSL (Health Care) • INSURANCE AUSTRALIA GROUP (Financial Services) • UNIBAIL-RODAMCO-WESTFIELD (Real Estate) • METCASH (Consumer Staples) • WHITEHAVEN COAL (Energy) • INCITEC PIVOT (Materials) • NUFARM (Materials) • NIB HOLDINGS (Financial Services) • FREEDOM FOODS GROUP (Consumer Staples) • AVITA THERAPEUTICS (Health Care)
General comments and expectations	• It has been a mixed bag of performers in the June quarter with Information Technology dominating; but also numerous Materials, Consumer Discretionary and Energy stocks performing well • Defensive areas like Health Care, Consumer Staples and Utilities underperformed, so the June quarter was different to the March quarter. Some of the best performers include more cyclical businesses • **Cyclical stocks snapped back in April which would have helped managers with greater cyclical exposure and less defensives. However, the more defensive managers should have performed better in Australian equities for the financial year**

AUST. SMALL CAPS: JUNE QUARTER – CONTRIBUTORS TO INDEX RETURN

Largest positive contributors to index returns	• ZIP CO (Financials) • APPEN (Technology) • FISHER & PAYKEL HEALTHCARE (Health Care) • MESOBLAST (Health Care) • ALACER GOLD (Materials) • KOGAN.COM (Consumer Discretionary) • AUCKLAND INTL AIRPORT (Industrials) • NEWS CORP (Communication Services) • MINERAL RESOURCES (Materials) • RAMELIUS RESOURCES (Materials)
Largest negative contributors to index returns	• UNIBAIL-RODAMCO-WESTFIELD (Real Estate) • METCASH (Consumer Staples) • WHITEHAVEN COAL (Energy) • NUFARM (Materials) • FREEDOM FOODS GROUP (Consumer Staples) • AVITA THERAPEUTICS (Health Care) • NAVIGATOR GLOBAL INVESTMENTS (Financials) • UNITED MALT GROUP (Consumer Staples) • COOPER ENERGY (Energy) • PHOSLOCK ENVIRONMENTAL TECH (Industrials)
General comments and expectations	• It has been a mixed bag of performers in the June quarter with an e-commerce-related financials stock dominating, an online retailer and health care stocks performing well, but cyclical stocks in the materials sector also contributed to index returns • **Over the financial year 2019/20, the more defensive managers should have performed best in Australian small caps**

AUSTRALIAN EQUITIES EXCESS RETURNS – JUNE QUARTER



This chart shows the full range of results, while the boxes show upper, median and lower quartiles for each of the Australian equities universes. The "X" represents the mean

*Excess returns versus S&P/ASX 300 for AEQ universes and S&P/ASX Small Ordinaries for the AEQ Small Caps universe

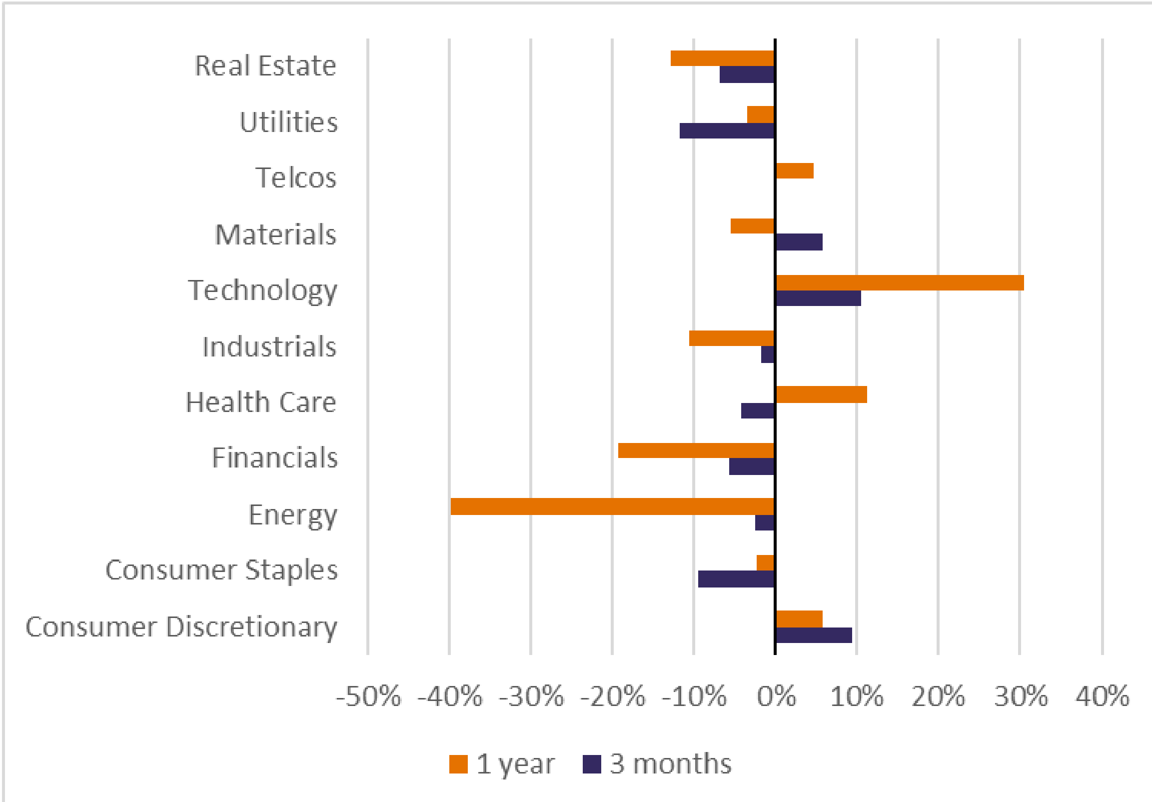
AUSTRALIAN EQUITIES – ACTIVE MANAGEMENT RESULTS

Market returns	• The S&P/ASX 300 was **up** 16.8% for the quarter to 30 June 2020 respectively • The S&P/ASX 300 was **down** -7.6% over the one-year period, or financial year 2019/20
Observations on the universe of managers and returns	The managers that responded had June quarter returns between 9.2% and 21.5%
Best performing managers	In the June quarter, Growth managers continued to perform consistently better than Core and Value managers in relative terms • After Growth massively outperformed Value in the March quarter, this was less pronounced in the June quarter • The flight to safety in March was followed by a rebound in cyclicals in April. However, many stocks that rallied hard were owned by Growth managers, so surprisingly it was still a better environment for Growth
Worst performing managers	• Low volatility and defensive strategies (often used for pensions strategies) performed below the median manager over the quarter due to the strong performance of cyclicals and growth stocks Value managers produced solid absolute returns although there was a large dispersion in results; the median value manager underperformed the median manager of the other peer groups • Those invested in cyclicals and more invested in mid caps have done better • Those with more Energy exposure have done better as this rebounded

AUSTRALIAN SMALL CAPS – ACTIVE MANAGEMENT RESULTS

Market returns	• The S&P/ASX Small Ordinaries was **up** 23.9% over the quarter, and **down** -5.7% over the one-year period to 30 June 2020 • The S&P/ASX Mid Caps returned 4.2% and 30.3% for the June month and quarter respectively, and for the one-year period returned 0.5% • The S&P/ASX Mid Caps Index outperformed both the Small Caps and the broader index over all periods
Observations on the universe of managers and returns	The managers that responded had June quarter returns between 17.8% and 32.4% • All manager returns were significant on an absolute basis and for some offsetting the substantial negative returns posted in the March 2020 quarter • There was a mixed bag of performers in the small-cap segment with companies considered likely to benefit from a stimulus driven cyclical recovery rebounding the strongest
Best performing managers	• Those managers with exposures to cyclicals including Consumer discretionary stocks were rewarded in the June quarter • Managers with a higher mid-cap allocation have also performed better
Worst performing managers	• Those managers investing in defensive sectors tended to underperform the benchmark as cyclical stocks rallied

INTERNATIONAL EQUITIES: JUNE QUARTER – SECTOR PERFORMANCES



This chart shows the **relative** sector performance for developed markets (versus MSCI World) for the June 2020 quarter and financial year 2019/20

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GLOBAL EQUITIES: JUNE QUARTER – CONTRIBUTORS TO INDEX RETURN

Largest positive contributors to index returns	• APPLE (US, Information Technology) • AMAZON.COM (US, Consumer Discretionary) • MICROSOFT (US, Information Technology) • TESLA (US, Consumer Discretionary) • PAYPAL (US, Financial Services) • FACEBOOK (US, Communications Services) • SHOPIFY (US, Information Technology) • NVIDIA (US, Information Technology) • HOME DEPOT (US, Consumer Discretionary) • ADOBE (US, Information Technology)
Largest negative contributors to index returns	• BERKSHIRE HATHAWAY (US, Financials) • HSBC HOLDINGS (UK, Financials) • MERCK & CO (US, Health Care) • WELLS FARGO (US, Financials) • PFIZER (US, Health Care) • JPMORGAN CHASE (US, Financials) • VERIZON COMMUNICATIONS (US, Communications Services) • COCA-COLA (US, Consumer Staples) • JOHNSON & JOHNSON (US, Health Care) • PHILIP MORRIS INTERNATIONAL (US, Consumer Staples)
General comments and expectations	• The majority of the best contributors continued to be the technology-related stocks which have fared relatively well through COVID-19 and viewed as more resilient whether cyclical or defensive in nature • The largest negative contributors were Financials as well as defensive stocks including Health Care • Almost all significant contributors and detractors were US stocks • **The best performing managers will have held US mega-cap technology or tech-related stocks**

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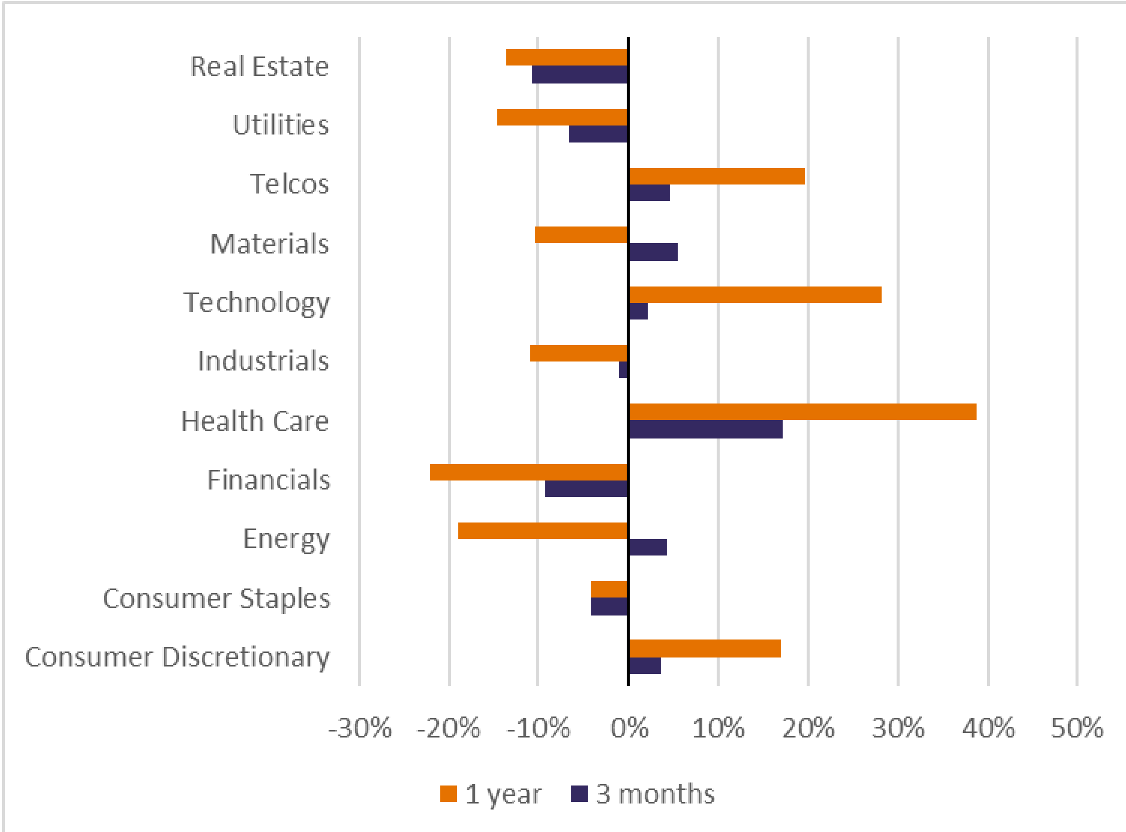
EMERGING MARKET EQUITIES: JUNE QUARTER – SECTOR PERFORMANCES

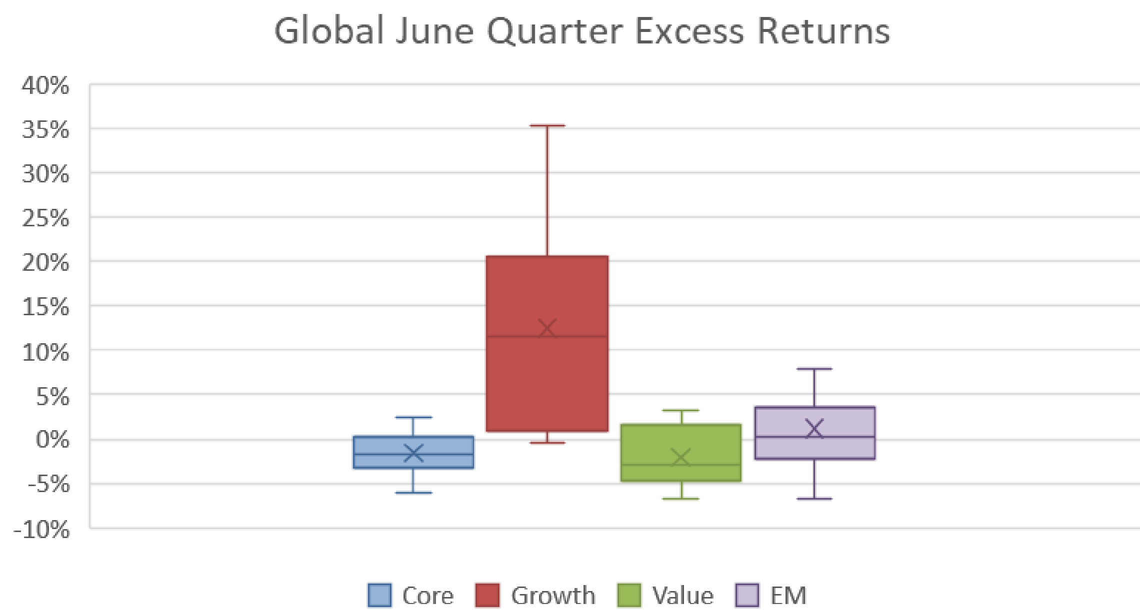


This chart shows the **relative** sector performance for emerging markets (versus MSCI EM) for the June 2020 quarter and financial year 2019/20

EM EQUITIES: JUNE QUARTER – CONTRIBUTORS TO INDEX RETURN

Largest positive contributors to index returns	• TENCENT (China, Communications Services) – Defensive • MEITUAN DIANPING (China, Consumer Discretionary/E-commerce) – Cyclical • PINDUODUO (China, Consumer Discretionary/E-commerce) - Cyclical • RELIANCE INDUSTRIES (India, Industrials) – Cyclical • MEDIATEK (Taiwan, Information Technology) – Cyclical • JD.COM (China, Consumer Discretionary/E-commerce) – Cyclical • TSMC (Taiwan, Information Technology) – Cyclical • NAVER CORP (South Korea, Communication Services) - Defensive • SEMICONDUCTOR MANUFACTURING (China, Information Technology) - Cyclical • NIO INC (China, Consumer Discretionary/Auto) – Cyclical
Largest negative contributors to index returns	• CHINA CONSTRUCTION BANK (China, Financials) – Banking cycle • ALIBABA GROUP (China, Consumer Discretionary) – Cyclical • CHINA MOBILE (China, Communication Services) – Defensive • IND & COMM BANK OF CHINA (China, Financial Services) - Cyclical • PING AN INSURANCE (China, Financial Services) - Cyclical • BANK OF CHINA (China, Financial Services) - Cyclical • HINDUSTAN UNILEVER (India, Consumer Staples) - Defensive • SK HYNIX (South Korea, Information Technology) - Cyclical • CHINA TOWER CORP (China, Communication Services) - Defensive • CHINA PETROLEUM & CHEMICAL (China, Energy) - Cyclical
General comments and expectations	• The majority of the best contributors were Chinese e-commerce and internet-related stocks as well as semi-conductor businesses. • The main negative contributors were Chinese banks • **China exposure and industry biases clearly had a big impact on whether a manager performed well or not and those high in tech and e-commerce names were likely the best performers**

INTERNATIONAL EQUITIES EXCESS RETURNS – JUNE QUARTER



This chart shows the full range of results, while the boxes shows the upper, median and lower quartiles for each of the International equities universes. The “X” represents the mean

*Excess returns versus MSCI ACWI for OEQ universes and MSCI EM Index for the EM universe

GLOBAL EQUITIES – ACTIVE MANAGEMENT: JUNE QUARTER

Market returns	• The MSCI ACWI (unhedged in $A) was **up** +5.4% for the June quarter and **up** +4.2% for the 2019/20 financial year • The Australian dollar was strong over the quarter (reducing unhedged returns) but was fairly neutral over the one-year period
Observations on the universe of managers and returns	The managers that responded had June quarter returns between -0.7% and 41.2% • Technology-focused high growth managers delivered the best results
Best performing managers	In 2020, Growth managers have been strongly favoured, whether the rising markets of January/February, the decline of March or the rise again in April • They owned internet/social media stocks that were resilient to problems caused by the COVID-19 virus • Consumer Discretionary and Materials stocks rebounded to an extent in the June quarter, but it was still Technology exposures that mattered most
Worst performing managers	Global low volatility managers underperformed as a result of their defensive tilt in the June quarter • Staples and Utilities were the worst performing sectors Value and Core managers performed similarly in the quarter, but Value managers underperformed considerably over the financial year

EMERGING MARKETS EQUITIES – ACTIVE MANAGEMENT: JUNE QUARTER

Market returns	• The MSCI Emerging Markets Index (unhedged in $A) was **up** +4.6% for the June quarter, however was **down -**1.7% for the year to 30 June 2020 • The Australian dollar was strong over the quarter (reducing unhedged returns) but was fairly neutral over the one-year period • These results were slightly worse than developed markets and well below Australian equities returns over the quarter • Over the one-year period, the results were below developed markets but better than Australian equities
Observations on the universe of managers and returns	The managers that responded had June quarter returns between -1.7% and 20.2% • The median manager in Frontier's peer group marginally outperformed the MSCI EM Index however there was a diverse range of outcomes. The Index includes a significant China exposure (clearly the leading emerging market) and the majority of managers are underweight (including many with a large underweighting to China)
Best performing managers	Growth managers have performed better with Technology performing strongly • Further, those with less Financials and a greater allocation to Health Care performed well • An underweight to China was no longer a detractor in the quarter but over the financial year a larger allocation to China has helped.
Worst performing managers	Quality lagged over the quarter Value managers • Managers with a greater allocation in Materials and Energy as well as Latin America would have performed better over the quarter but this would have significantly detracted over the financial year • Managers with greater exposure to Real Estate and Utilities detracted over the quarter

IMPORTANT INFORMATION

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