



# Product Review

## Hostplus — Property PST

ISSUE DATE 25-03-2022

### About this Review

ASSET CLASS REVIEWED	PROPERTY AND INFRASTRUCTURE
SECTOR REVIEWED	DIRECT ASSETS
SUB SECTOR REVIEWED	DIVERSIFIED
TOTAL FUNDS RATED	7

### About this Option

PDS OBJECTIVE	AIMS TO ACHIEVE CONSISTENT INCOME RETURNS AND CAPITAL GROWTH OVER THE LONGER TERM.	
PDS DATE	24-02-2022	
OPTION SIZE	\$275.6M (DECEMBER 2021)	
MANAGEMENT COSTS	0.89% P.A.	
ACCOUNT TYPES	ELIGIBLE SUPERANNUATION FUNDS	

### About this Fund

FUND NAME	HOSTPLUS SELF-MANAGED INVEST	
FUND ABN	13 140 019 340	
FUND INCEPTION	24-02-2021	
FUND SIZE	\$301.9M (DECEMBER 2021)	
MEMBERSHIP	608	
MEMBERSHIP FEE (P.A.)	\$0.00	
ADMINISTRATION FEE (P.A.)	\$165 P.A.	

### About this Trustee

TRUSTEE	HOSTPLUS	
FUND MANAGER	HOSTPLUS	
ASSETS MANAGED IN THIS SECTOR	\$7.1BN (DECEMBER 2021)	
YEARS MANAGING THIS ASSET CLASS	18	
ASSET CONSULTANT	JANA INVESTMENT ADVISERS	

### Investment Team

PORTFOLIO MANAGER	SPIROS DEFTEREOS	
INVESTMENT TEAM SIZE	25	
INVESTMENT TEAM TURNOVER	LOW	

### Investment process

STYLE	MULTI-MANAGER	
GROWTH / DEFENSIVE SPLIT %	75 / 25	
BENCHMARK	CPI + 2.0% P.A. OVER 20 YEARS	

### Option rating history

MARCH 2022	RECOMMENDED
APRIL 2021	INVESTMENT GRADE
MAY 2020	INVESTMENT GRADE

### What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Strengths

- Provides eligible superannuation funds, such as SMSFs, with exposure to unlisted property assets. These assets have typically been difficult for retail investors to access at low investment minimums.
- Improved liquidity position vs other typically illiquid, direct property investments, albeit Lonsec highlights the liquidity mismatch between the Option and its underlying assets.
- Strong performance of Hostplus' property strategy in recent years.

### Weaknesses

- While recent mergers have bolstered the investment team, it is still small relative to peers of similar size and complexity.
- A material allocation to ISPT, a manager that is a related party entity, introduces a perceived conflict of interest. That said, Lonsec acknowledges Hostplus has in recent years made significant efforts to diversify its underlying manager allocation.
- The portfolio is heavily concentrated in Australia-based assets, which poses geographic concentration risk. While offshore exposure is increasing, this is an area in which the team has historically had less experience.

### Option Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE	●		
LEVERAGE RISK		●	
SECURITY LIQUIDITY RISK			●
SECURITY CONCENTRATION RISK		●	
REDEMPTION RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

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## BIOMetrics

### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

### Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR		●	

Fee BIOMetrics are a function of expected total fee as a percentage of expected total return.

## What is this Option?

- The Hostplus Self-Managed Invest ('the Fund') is a pooled superannuation trust ('PST') as this term is defined under the Superannuation Industry (Supervision) Act 1993 ('SIS Act'). It is designed to pool the assets of eligible complying superannuation funds to invest in assets managed by Hostplus Superannuation Fund ('the Super Fund' or 'the Manager').
- The Hostplus Property PST Option ('the Option') provides a multi-manager style exposure to unlisted property assets via selected external investment managers that are held in the Super Fund. The Option predominantly has exposure to Office and Retail property assets (approximately 62% of the Option) located in Australia (approximately 82% of the Option).
- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.0% p.a. on average over 20 years. The secondary objective is to target returns over and above the Mercer/IPD Australia Monthly Property Fund Index Core Wholesale (an index measuring post fee NAV total returns to core unlisted wholesale funds within the Australian investment market).
- From a risk perspective, the Option aims to limit the likelihood of negative returns to between four and six out of every 20 years (on average).
- The Option invests in illiquid, unlisted property funds. While the illiquidity premium has been a key driver to the Hostplus Balanced Option's strong returns in recent years, these investments may present liquidity issues in times of market stress.
- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of six options available) and withdrawals. This liquidity provision can occur due to the Super Fund's notional funding structure. Investors should note that under the terms of the Option's PDS suspension of applications, switches and withdrawals can occur at the Manager's discretion.

- The Fund is also offering standalone access to the ISPT Core Fund as one of the six PST options available. This report does not constitute a rating or view on this fund. While the Option has a material allocation to ISPT alongside other investment managers, Lonsec has not been provided access to the ISPT investment management team in order to form a qualitative opinion on ISPT or the ISPT Core Fund.
- As per the PDS dated 24 February 2022, the fee structure/disclosure for the Option is as follows:
  - Management cost of 0.89% p.a. (comprising an investment fee of 0.62% p.a., a performance fee of 0.04% p.a., and transaction costs of 0.23% p.a.); plus
  - An administration fee of \$165 p.a. A one off joining fee of \$240 is also charged. The Option itself does not charge a performance fee at the headline level.
- Transaction costs are incurred when assets are bought or sold and are an additional cost to the member. Operational costs include all administrative / operational expenses that are additional costs. As noted above, the Option's transaction and operational costs are captured in the ICR. The Option's buy-spread is nil. Buy/sell spreads are subject to change depending on market conditions. Refer to the Manager for current buy/sell spreads. Borrowing and property operating costs are estimated at 0.91% p.a. and 1.10% p.a. respectively. Please refer to the Option's PDS for further details.

## Using this Option

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Option is a multi-manager, unlisted property portfolio that is best suited to long-term investors who can accept some investment risk over the longer term. The Option has a high exposure to illiquid property assets with the aim of providing long-term investment growth, predominantly from an income return.
- While the returns of the Option are expected to be less volatile than equities and listed property securities investments, investors should be aware that the Option may experience periods of negative returns and that there is a risk of incurring a capital loss on the Option.
- As such, Lonsec considers the Option suitable for medium to high-risk profile investors with a seven+ year investment-time horizon and it will generally sit within the growth component of a balanced portfolio.

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### Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

### Changes Since Previous Lonsec Review

- Corporate:
  - In November 2021, Intrust Super merged into Hostplus adding \$3bn to Hostplus’ FUM.
  - At the end of March 2022, Statewide Super will merge with Hostplus, contributing \$12bn in assets. The entire Statewide investment team will remain in Adelaide as part of an expanded Hostplus team.
  - Launch of CPIplus option in July 2021 in response to the Retirement Income Covenant for super fund trustees to offer products that address their members’ retirement income needs.
- Hostplus’ internal investment team:
  - Post-merger with Statewide Super, the combined team will number 25 staff, a significant uplift from 14 at last review.
  - Departure of Andrew Howard (Deputy CIO) who has moved to a CIO role at another super fund. Howard will be replaced by Con Michalakis, who is currently CIO of Statewide Super, post the merger with Hostplus.
  - Departure of Kim Farrant (Head of ESG). Farrant has been replaced by Susannah Lock under the new title of Head of Responsible Investments.
  - Departure of Neil Stanford (Head of Private Equity). Stanford will be replaced by Chris Williams who will be joining from Statewide Super post-merger.
- Fees:
  - Management cost decrease from 1.01% p.a. to 0.89% p.a.

### Lonsec Opinion of this Option

#### People and resources

- The Super Fund is a public offer superannuation fund for the hospitality (including tourism, recreation and sport) industry. As at December 2021, the Fund has over one million members with approximately \$79.2bn of funds under management (FUM), up from \$53.8bn at the time of the last review. Lonsec acknowledges the high FUM level provides a scale advantage allowing the Manager to negotiate competitive fees with its underlying managers including those within the Option. The Option was launched in May 2019 as a product offering to eligible superannuation funds including SMSFs, small APRA funds and approved deposit funds. It gains exposure to property assets held in the Super Fund, and previously had been made available as a trial offering to approximately 30 investors known to the Super Fund.
- The investment team of 25 (post-merger) is headed by CIO Sam Sicilia, who joined the Fund in 2008. Sicilia, who has 28 years of industry experience, is responsible for capital markets and generating investment insights for the Fund. He is supported by two Deputy CIO’s – Greg Clerk and Con Michalakis.

Clerk (previously Head of Investment Strategy) joined the Fund in 2016 but had a lengthy working relationship with the Fund prior to his appointment in his role at JANA where he spent 17 years, most recently as the primary asset consultant to the Fund. Michalakis (most recently CIO at Statewide Super) is set to join the Fund at the end of March 2022, and is responsible for leading the fund’s portfolio construction team. Lonsec has conviction in Sicilia’s and Clerk’s investment skills, and notes Michalakis’ experience will help ease some of the workload from the increasing volume of projects required to evolve the Fund’s strategy as FUM grows rapidly. In line with commitments made to Lonsec in previous reviews, Hostplus has bolstered its investment team resourcing through mergers, and has invested further in portfolio management and risk systems. Overall, Lonsec views these developments favourably and will seek to build further conviction once the teams have merged and systems put in place.

- The Portfolio Manager of this Option is Head Of Private Markets (Property), Spiros Deftereos, who joined the Super Fund in December 2012, and has a total of 17 years industry experience. Prior to his role at the Super Fund, Deftereos worked at Lend Lease in a product development role within their investment management division. He has also worked in property advisory roles with NAB and PwC. Lonsec notes that Deftereos was previously supported by an Investment Specialist, however post-merger with Statewide Super is likely to be supported by a broader analyst pool. While this helps to overcome the inherent limitations of the previous model being a dedicated two person property team structure, the team is nevertheless still smaller and less experienced than investment personnel managing like assets at superannuation funds of similar size and complexity.
- The Super Fund’s Board of Directors (‘Board’) comprises nine members with equal representation from employers (Australian Hotel Association) and employees (United Voice). Out of the nine members, three directors, including the Chair, are jointly selected by Australian Hotel Association and United Voice. The Board is responsible for the overall governance, management and long term strategic direction of the Super Fund, and also serves as the investment committee. The Board delegates day to day investment operational activities to the investment team, but remains ultimately accountable for the Super Fund’s investment management and outcomes. Compared to Lonsec-rated peers, Lonsec considers the Board to have less direct investment management experience, albeit possesses the breadth and diverse set of skills to oversee the investment team. That said, Lonsec notes the Board appears to be well aligned in its vision for the Option, delivering a consistent investment strategy that plays to the the Fund’s competitive advantages (young member base and strong cash flows).
- The alignment of interests between the Super Fund and investment team is considered to be relatively low but considered adequate, and in-line with the Super Fund’s not for profit philosophy, governance, and decision making structures. The investment team is paid a base salary, with ‘Heads of’ also receiving a discretionary component related to the performance

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of Hostplus and its default MySuper option, rather than the Option specifically. Lonsec notes this may lead the team to adopt a greater ‘whole of portfolio’ mindset rather than promoting a siloed culture.

### Asset allocation

- Approximately 90% of assets are allocated to ‘Core’ property assets. The Manager defines these as high quality assets providing a stable, durable return predominantly driven by income. In contrast, the non-core property allocation carries more risk and tends to be more opportunistic in nature e.g. carrying development risks or contain higher leverage.
- The Option has historically invested in assets within Australia but has, in recent times, increased its allocation to offshore assets (approximately 20% of the Option). Lonsec is generally supportive of this as it may serve to improve diversification by investing in sectors of the market not commonly found in Australia such as medical office and multi-family residential, ultimately providing a broader landscape in which underlying managers can search for fundamentally strong and attractive properties. Lonsec notes however that the investment team has less experience in offshore markets, and consider that its consultant, JANA, may have less expertise in these areas given they do not have ‘on-the-ground’ analysts offshore. Lonsec will seek to continue building conviction in the investment team’s expertise in offshore assets in future reviews.

### Research approach

- Lonsec considers JANA’s manager research process to be thorough and robust. JANA’s formal manager review and due diligence process involves multiple members of the team over a series of meetings to evaluate a manager on both quantitative and qualitative grounds. The JANA Research Committee is responsible for reviewing all research prior to assigning a manager an ‘investable’ rating. The list of ‘investable’ managers is then used by the asset consultants to construct individual client portfolios, taking into account various factors and requirements. Notwithstanding our favourable view of JANA, Lonsec continues to believe the reliance on a single asset consultant is sub-optimal and could be augmented with inputs from other external consultants and/or a build out of resources internally.
- Lonsec notes the Super Fund’s investment team is involved throughout the manager due diligence process and has met with all the incumbent managers prior to onboarding them. Once a manager is approved, the relationship management responsibility shifts to the investment team for all specific Hostplus matters.

### Portfolio construction

- The Option’s investments are outsourced to external managers, typically into commingled funds. In several cases, the Option has a material unit holding in the underlying funds (defined in this instance as holding more than 20% of units). Lonsec notes this may provide the Manager with a degree of influence over the future strategy of the underlying funds, for example in exiting or re-positioning a particular property asset, however it may also hinder the Option in redeeming their holding in full in any liquidity windows provided by the underlying manager. Notwithstanding this, Lonsec notes the Manager is more predisposed to holding assets over the long term.
- The Option currently invests in 38 underlying property funds across 10 managers. Approximately 25% of assets are held with one manager, being ISPT, across four of their funds. The largest exposure at 18% of assets is the ISPT Core Fund. Lonsec generally observes a higher level of manager diversification within multi-manager funds, and notes this concentration exposes investors to a higher level of manager risk. In addition, ISPT is a related party entity and therefore introduces a perceived conflict of interest which may compromise the objectivity of the portfolio construction process. That said, Lonsec acknowledges the manager’s efforts in diversifying this exposure and notes a steadily declining ISPT exposure over recent years. Furthermore, Lonsec notes that the investment team has strict governance processes in place which is supported by the independence of JANA, which reports directly to the Board when making recommendations on new underlying managers.
- The Fund is also offering standalone access to the ISPT Core Fund as one of the six PST options available. While the Option has a material allocation to ISPT, Lonsec has not been provided access to the ISPT investment management team in order to form a qualitative view or rating on the standalone ISPT option.
- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of six options available) and withdrawals. Liquidity is provided through the Super Fund’s notional funding structure which means the Hostplus Balanced Option is used as a funding source for all transactions. Lonsec notes this feature can only persevere as long as the Hostplus Balanced Option is much larger than the sum of all other available options (at least 60% of total assets under management, currently 67%). While Lonsec characterises this approach as unusual in the retail investment industry, it is more pervasive within industry superannuation. In managing the risks of the notional funding structure, Lonsec notes that the Super Fund reports at each Board meeting on the aggregate impact of inflows/outflows/switches/market movements upon the asset allocation of the Hostplus Balanced Option.

### ESG Integration

- The Manager has indicated a commitment to ESG with a strong policy framework and clear public positioning. The ESG policy is freely available on the

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firm's website. Overall, Lonsec views the strength of this commitment to be above peers.

- The level of disclosure with respect to the Manager's proxy voting policy and voting outcomes is in-line with peers supported by a decent proxy voting policy framework. Reporting on voting decisions is publicly available and aligned with peers.
- The level of disclosure with respect to the Manager's engagement policies and engagement outcomes is assessed as being in-line with peers with a decent engagement policy framework. Engagement reporting is publicly available and considered to be in-line with peers.
- There is clear evidence of ESG incorporation when selecting a manager, particularly through the use of an investment checklist that includes minimum ESG requirements. Some elements of ESG are visible throughout the product design process. The Manager conducts annual ESG reviews and while there is some monitoring of ESG factors at the manager level, it is still at a relatively nascent stage. Overall, ESG integration within the investment process is in line with peers.
- The investment team demonstrated an ability to engage on broad ESG topics and the Manager had a systematic approach to tracking engagement outcomes. ESG is integrated across equity strategies of the portfolio. There was some evidence of a structured approach to performing detailed look-through ESG analysis of underlying holdings.
- Overall, on a peer relative basis, Lonsec considers the level of ESG integration within this fund to be 'Moderate'.

### Risk management

- The Board charter details key policies and processes the Board has in place for the governance of the Option, as well as the key roles and responsibilities of the Board. Separate to this, the Super Fund's in-house Group Executive, Risk & Compliance oversees a compliance program which includes three risk management frameworks. Lonsec considers the existing compliance structure in place at the Super Fund to be adequate.
- The investment team conducts portfolio analytics primarily via JANA's tools, supplemented by the Citibank performance measurement and attribution system which is monitored in-house. Citibank, which serves as the custodian, is responsible for monitoring mandate breaches by external managers. Lonsec acknowledges Hostplus' efforts to improve their investment risk and performance analytical systems, illustrated by their recent adoption of Aladdin (public markets) and eFront (private markets). The combination of these two systems allows a 'whole-of-portfolio' view. Given Hostplus' overweight allocation to illiquid and unlisted assets, the adoption of eFront in particular provides a significant improvement in 'look-through' visibility on a host of key data including investment exposures and risk contribution.
- While the Option itself does not gear the Option's assets, the Option's weighted average gearing on a look through basis is currently 21% (December 2021). The Option does not prescribe a maximum

gearing target, but the Manager has confirmed that the maximum weighted average look through gearing using the prescribed maximum's of the underlying managers is approximately 28%. Lonsec considers the current look through gearing to be relatively conservative, but would prefer the Manager to formalise their gearing policy, for example the maximum look through gearing allowable and confirmation that units in a property option would not be acquired should it result in a look through gearing ratio above the said maximum.

- The Super Fund has a documented valuation policy outlining the process by which underlying assets are valued. As this Option is invested into commingled pooled funds, underlying managers are responsible for valuing the underlying property assets in accordance with commonly held best practice i.e. assets tend to be valued by a panel of independent valuers rotated on a periodic basis. The Super Fund has internal processes in place to check the reliability of these valuations. More recently, Lonsec has seen some superannuation funds adopt a policy of impairing their unlisted assets by a specified amount should the like listed asset fall by more than a prescribed hurdle. Lonsec believes this to be a sensible practice given that the valuation of unlisted assets tends to lag their listed counterparts. Lonsec would welcome the Manager to set more prescriptive guidelines under which they would change valuations provided by underlying managers, and notes an internal review of the valuation policy is currently underway.

### Performance

- The Option targets a return of CPI + 2.0% p.a. (after fees) over 20 year periods.
- While the Option was recently launched as one of six PST offerings within the Fund and as such does not have a material standalone track record, the property portfolio has been a component of the well-established Hostplus Balanced Option that Lonsec is familiar with and provides a rating on. In recent years, unlisted assets have contributed strongly to the overall performance of the Hostplus Balanced Option.
- Returns supplied by the Manager (as at 31 December 2021) show a return (after fees) of 14.9% over one year and 6.7% p.a. over three years, outperforming the Mercer/IPD Australia Monthly Property Fund Index Core Wholesale by 2.6% and 1.8% p.a. respectively.

### Overall

- Lonsec has upgraded the Option's rating to '**Recommended**' at this review. Lonsec has increased conviction in the Hostplus investment team's capabilities and their significant efforts in improving the Fund's operational and risk management aspects. SMSF investors typically find it difficult to gain exposure to this asset class, particularly at the low investment minimums which Hostplus is marketing the Option. Lonsec also notes the improved liquidity position relative to other direct property funds, which is achievable due to Hostplus' notional funding structure. Nonetheless, Lonsec does highlight the perceived liquidity mismatch between the Option and its underlying assets.

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- Despite the Hostplus team's expansion, it continues to be smaller than peers of similar size and complexity. This is particularly relevant in light of the strong cash inflows and the need to identify a strong pipeline of investment opportunities in the property sector, particular offshore which is growing in importance given the scale of opportunity is larger. The Option also allocates a material amount to one underlying manager increasing manager concentration risks. That said, Lonsec acknowledges this underlying manager provides a large and diverse exposure to property assets, and has contributed meaningfully to performance in the Lonsec rated Hostplus Balanced Option.

### People and Resources

#### Corporate overview

The Super Fund is an industry superannuation fund for the hospitality, tourism, recreation and sports industry. Originally founded in 1988 by the Australian Hotels Association and United Voice, the Fund has grown to over one million members with approximately \$79.2bn in funds under management (as at December 2021). The Fund is a pooled superannuation trust as this term is defined under the Superannuation Industry (Supervision) Act 1993 ('SIS Act'). It is designed to pool the assets of eligible complying superannuation funds to invest in assets managed by the Super Fund.

#### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
SAM SICILIA	CIO	28 / 13
GREG CLERK	DEPUTY CIO (STRATEGY AND RISK)	23 / 6
CON MICHALAKIS #	DEPUTY CIO (PORTFOLIO CONSTRUCTION)	34 / <1
SPIROS DEFTEREOS	HEAD OF PRIVATE MARKETS (PROPERTY)	17 / 8

# Statewide Super (joined March 2022)

The investment team is responsible for designing and implementing the Super Fund's investment strategy as determined by the Board of Directors ('Board').

The investment team is headed by CIO Sam Sicilia. Prior to joining the Super Fund as the inaugural CIO in 2008, Sicilia had considerable experience in investment consulting, spanning 14 years across Russell Investments, Bank of Ireland Asset Management, Frontier Advisors and Towers Perrin.

Greg Clerk joined the Fund as Head of Investment Strategy in February 2016 after a 17-year stint at JANA, most of the latter years as the primary asset consultant to the Fund.

Con Michalakakis joined the Fund in 2022 from Statewide Super, where he served as CIO. Prior to that, Michalakakis was Director of Marketing and Client Services for Pzena Investment Management. Michalakakis also previously worked with Merrill Lynch Investment Managers and Alliance Capital Management in similar roles.

Spiros Deftereos joined the Fund in 2012, and prior to that, had eight years' investment experience gained at Lendlease, Macquarie Group and PwC.

JANA's Stewart Eager is the primary asset consultant to the Super Fund. He joined JANA in January 2008 and prior to that worked at Equity Trustees, Old Mutual Asset Managers and M&G Investments globally.

Both the investment team (led by Sicilia) and JANA report to the Board, which also serves as the investment committee at the Super Fund.

#### Governance and investment committee

The nine-member Board is made up of three representatives from Australian Hotels Association (representing the employers), three representatives from United Voice (representing the employees), and three representatives jointly selected by Australian Hotels Association and United Voice. Board appointments last for three years and are staggered, with the Chair of the Board appointed from one of the three independent representatives. The current Chair is David Elmslie, a corporate veteran with previous experience at Crown Limited and Tabcorp Holdings Limited.

A Special Investment Group (SIG) operates as a sub-committee of the Board and has delegations from the Board to handle investment approvals. Members of the SIG include the Chair of the Board and three other Board members. Other Directors are invited but not required to attend

#### Asset consultant

JANA is a leading investment consulting firm. JANA's core business is providing traditional and implemented consulting advice to institutional clients, including corporate, industry and public sector superannuation clients as well as charities, foundations and endowment clients. As at 31 December 2021, total assets under advice were over \$850bn.

JANA was established in September 1987 as John A Nolan and Associates Pty Ltd, one of the pioneers of investment consulting in the Australian market. In December 2000, JANA became a fully-owned subsidiary of the National Australia Bank ('NAB'). In February 2012, MLC Implemented Consulting and JANA merged. In September 2017, NAB sold 55% of its stake in JANA to JANA management, retaining a minority ownership of 45%.

JANA has a well-resourced team (more than 50 investment professionals) although has experienced a degree of turnover in recent years. Lonsec will continue to monitor this situation and any potential impact of the recent ownership change.

### Asset Allocation

#### Strategic asset allocation

The Option does not set or target a strategic asset allocation within the property sector. However, the Option has historically allocated approximately 40% towards each of Commercial and Retail property assets. The Option's sector allocation as at 31 December 2021 is shown below.

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### Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
OFFICE	-	-	-	42.3%
RETAIL	-	-	-	24.0%
INDUSTRIAL	-	-	-	19.6%
RESIDENTIAL	-	-	-	4.2%
HOSPITALITY	-	-	-	7.8%
OTHER	-	-	-	2.1%
TOTAL	-	-	-	100%

### Tactical/Dynamic asset allocation

Given the long term nature of the underlying holdings, the Manager does not engage in tactical or dynamic asset allocation between sectors.

### Research Approach

The Super Fund delegates manager research responsibility entirely to JANA. JANA's manager research aims to identify managers that:

1. Are able to deliver risk-adjusted outperformance over the long term.
2. Have sustainable businesses.
3. Have repeatable approaches and the discipline to follow processes consistently.

The key factors researchers consider include investment philosophy and style, research capabilities, investment process, ESG integration, portfolio construction, people, organisation, performance and specific issues such as capacity and fees. In addition to assessing the strengths of a manager, strong emphasis is also placed on risk factors (process, business risk, key person risk, ease of exit, capacity, performance in varying market conditions).

JANA's manager research process is as follows:

1. Step 1 – Filtering the investment universe: JANA's research team regularly meets with managers, including those that do not currently manage money for their clients. JANA has an 'open door' policy and will interview new managers without discrimination.
2. Step 2 – New manager/shortlist compliance process: If a manager is identified as having outstanding qualities, the research team will commence a formal due diligence process. JANA will meet with the manager multiple times and build relationships across a broad range of personnel to gain insights into the reasoning, the people and the processes behind the manager's investment decisions. JANA research is conducted by at least three JANA personnel to ensure a diversity of inputs, including the head of the relevant research team, the Head of Research or an Executive Director. Offshore managers must be met in their offices as part of the due diligence process. These meetings are documented in the JANA Information Management System (JIMS), JIMS currently covers 1,800+ product managers of which 260+ are currently used by JANA clients.
3. Step 3 – Presentation to the JANA Research Committee (JRC): Following the completion of due diligence, if a manager is considered additive to client portfolios, the research team prepares an Evaluation Sheet for review by the JRC. It is the role of the JRC to robustly review, analyse and question the

information presented to satisfy itself that thorough research has been conducted before the manager is confirmed as 'investable' for JANA's clients.

4. Step 4 – Ongoing Due Diligence: As part of the formal review and subsequent monitoring, managers participate in ongoing interviews with JANA staff, as often as needed where issues or concerns are present, or else are typically conducted twice a quarter. Regular manager meetings incorporate both quantitative and qualitative elements, similar to the due diligence process above. Termination of managers may happen for a broad range of reasons, including: departure of key personnel; adverse developments in the manager's organisation; excessive growth in assets under management and/or product proliferation; unexpected or unacceptable risk characteristics; underperformance, particularly in market conditions that should have been relatively favourable for the manager's stated investment approach; and perceived loss of the manager's 'edge'.

The manager recommendations are made to the Super Fund's investment team and Board for approval. JANA will meet with each incumbent manager at least quarterly.

For direct investments and co-investments, the investment team conducts due diligence alongside relevant JANA experts, with contribution from external specialists where required. In the past, the Super Fund had engaged Charter Keck Cramer, Jones Lang LaSalle, CBRE for consulting services in the property asset class.

### Portfolio Construction

#### Overview

The Option invests predominantly with external fund managers. In its allocation towards external managers, the Option typically allocates to pooled trusts.

The investment team does not engage in derivatives, but the underlying managers may employ derivatives either for hedging or directional exposure purposes.

#### Related party investments

Alongside other industry superannuation funds, the Super Fund has non-controlling interest in the following businesses:

- IFM; and
- ISPT.

The Manager has awarded large mandates to ISPT in this Option.

#### Underlying manager allocation

As at 31 December 2021

- AMP Select Property 3
- AMP Capital Diversified Property Fund 2
- AMP Ethical Leaders Private Asset Fund
- Blackrock Europe Property Fund
- Charter Hall Core Plus Industry
- Charter Hall Prime Industrial Fund
- Charter Hall Prime Office Fund
- Chauvel Neighbourhood Convenience
- Dexus ADPF
- Eureka Property Fund 1
- Franklin International Real Estate
- Hostplus Commercial Trust

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- Hostplus LEP Trust
- ISPT Residential Property Trust (DOF III)
- ISPT Core Fund
- ISPT Dev and Opp Fund II
- ISPT Retail Australia Property Trust
- ISPT Non-Discretionary Residential Mandate
- Invesco Core Real Estate USA (ICRE) Fund
- Kayne Anderson KAMOB Investors III
- Kayne Anderson Core Real Estate
- Kayne Anderson Real Estate (KAREP VI)
- Lend Lease Asian Retail Investment Fund 2
- Lend Lease Asian Retail Investment Fund 3
- Lend Lease Aust'n Prime Property Commercial
- Lend Lease Aust'n Prime Property Industrial
- Lend Lease Aust'n Prime Property Retail
- Lend Lease Communities Fund 1
- Lend Lease Sub Regional Retail Fund
- LWIP Trust
- LWIP Trust II
- Macquarie Real Estate Equity Fund 6
- Nuveen US Cities Multifamily Fund
- Nuveen US Cities Industrial Fund
- Pretium Single-Family Rental
- QIC Australia Core Plus Fund
- QIC Property Fund
- Mesirow Currency Overlay (Property)

### Risk Management

#### Risk limits

At a broad level, the Option has very few risk parameters and risk is generally controlled through diversification across property sectors and between underlying property assets. The Option has not set a maximum gearing ratio on a look through basis (21% as of December 2021).

The Option invests up to 100% of its capital in illiquid assets.

#### Risk monitoring

Incumbent managers are reviewed formally annually, with frequent meetings between the managers and the Super Fund's investment team and JANA. Termination of managers may happen for a broad range of reasons. These include departure of key personnel; adverse developments in the manager's organisation (such as a change of ownership or strategic priorities); excessive growth in assets under management and/or product proliferation; unexpected or unacceptable risk characteristics; underperformance, particularly in market conditions that should have been relatively favourable for the manager's stated investment approach; and perceived loss of the manager's 'edge'.

The Super Fund adopts a similar philosophy when monitoring direct investments and co-investments.

The Super Fund employs a compliance program which formalises the structure and processes to meet legislative and regulatory requirements, overseen by the in-house Group Executive, Risk & Compliance. The compliance program includes three separate risk management frameworks:

1. The Risk Management Strategy (RMS) which outlines the Board's approach to risk management (how the Super Fund identifies, accesses, mitigates, manages, monitors and reports on risk);
2. Risk Appetite Statements (RAS) which is a formal declaration of the Board's risk appetite and articulates how much risk the Board is willing to accept in order to achieve its strategic and business objectives; and
3. Material Risk Register (MRR) and Key Risk Indicators (KRI) which contain details of material risks impacting the Option and captures the risk assessment, risk tolerance and mitigating controls of all the identified material risks.

The monitoring of the broader range of investment risks (liquidity, performance assessment) is undertaken by both JANA and the investment team, depending on the specific risk or exposure being considered. The custodian (Citibank) monitors the mandates for breaches.

#### Implementation

The Super Fund's investment team uses its strong cash flow to take advantage of new investment opportunities and typically does not sell down existing exposures.

#### Currency management

All foreign currency exposure is 100% hedged back to Australian dollars. The currency hedging process is outsourced to currency overlay manager, Mesirow Financial Investment Management.

### Risks

**An investment in the Option carries a number of standard investment risks associated with investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:**

#### Market and economic risk

Certain events may have a negative effect on the price of all types of investments within a particular market. These events may include changes in economic, social, technological or political conditions, as well as market sentiment.

#### Liquidity risk

Investors may be exposed to liquidity risk given the illiquid nature of the investments. Investments may be difficult or impossible to sell, either due to factors specific to that investment, or to prevailing market conditions. Liquidity risk may mean that an asset is unable to be sold or the Option's exposure is unable to be rebalanced within a timely period and at a fair price, potentially resulting in delays in redemption processing, or even the suspension of redemptions.

#### Performance Test risk

On 1 July 2021, the Federal Government's Your Future, Your Super (YFYS) reforms came into effect. Under these reforms, a key requirement is for APRA to conduct an annual Performance Test ('the test') for MySuper products from 1 July 2021, and for trustee-directed products from 1 July 2022. The purpose of the test is to increase transparency and accountability of superannuation funds for underperformance.

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An initial fail requires the fund to write to their members informing them of the outcome. Two consecutive failures will prohibit a super fund from accepting new members. As such, super funds face the risk of reputational harm, a decline in future contributions and an increase in member outflows. Investors should be vigilant about the ranking of their fund, and consult the APRA website for an up to date list of failing products.

### **Borrowing/Leverage risk**

Underlying investment trusts that the Option invests into may have borrowings to enable acquisitions of properties, or redevelopment. This leverage has the potential to increase capital gains for investors should the property rise in value, but may also enhance the potential for capital losses in the event that property values fall.

### **Other risks**

Please refer to the Option's PDS for more details on the Investment Risks and Operational Risks as identified by the Super Fund.

### **Quantitative Performance Analysis**

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The Product commenced on February 2021. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

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### Glossary

**Total return** ‘Top line’ actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss (‘peak to trough’) experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

### About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

### Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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