



Product Review

Hostplus — Balanced

ISSUE DATE 13-04-2023

About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	61-80% GROWTH ASSETS
SUB SECTOR REVIEWED	SUPERANNUATION
TOTAL FUNDS RATED	23

About this Option

PDS OBJECTIVE	CPI + 3.0% P.A. ON AVERAGE OVER 10 YEARS; CPI + 4.0% P.A. ON AVERAGE OVER 20 YEARS
PDS DATE	21-09-2022
OPTION SIZE	\$63.1BN (DECEMBER 2022)
ANNUAL FEES AND COSTS (PDS)	1.3% P.A.
ACCOUNT TYPES	ACCUMULATION; PENSION

About this Fund

FUND NAME	HOSTPLUS
FUND ABN	79 008 634 704
FUND INCEPTION	08-02-1988
FUND SIZE	\$92.3BN (DECEMBER 2022)
MEMBERSHIP	2M
MEMBERSHIP FEE (P.A.)	\$78.00
ADMINISTRATION FEE (P.A.)	\$32.24 PER MEMBER FROM THE FUND'S ADMINISTRATION RESERVE, PLUS 0.0165% P.A. OF ACCOUNT BALANCE. ASSUMES A \$50,000 INVESTMENT.

About this Trustee

TRUSTEE	HOSTPLUS
FUND MANAGER	HOSTPLUS
ASSETS MANAGED IN THIS SECTOR	\$92.3BN (DECEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	35
ASSET CONSULTANT	JANA INVESTMENT ADVISERS

Investment Team

PORTFOLIO MANAGER	SAM SICILIA, GREG CLERK & CON MICHALAKIS
INVESTMENT TEAM SIZE	23
INVESTMENT TEAM TURNOVER	LOW

Investment process

STYLE	SAA & DAA
SECTOR EXPOSURE	ACTIVE & PASSIVE
GROWTH / DEFENSIVE SPLIT %	76 / 24
USE OF ALTERNATIVES	YES

Option rating history

APRIL 2023	RECOMMENDED
MARCH 2022	RECOMMENDED
APRIL 2021	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

- Genuine long term investment approach supported by a young member base and strong cash flows.
- High-quality, experienced and stable senior investment team.
- Engagement of JANA as asset consultant.

Weaknesses

- Despite the recent spate of mergers the investment team remains small relative to peers of similar size and complexity.
- Total fee load is at the higher end of the Lonsec-rated peer group.
- A lower allocation to traditional defensive assets and a higher allocation to illiquid assets may afford the Option less downside protection in a sudden, extended equity market sell-off and in addition, introduce greater liquidity risks.

Option Risk Characteristics

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

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			●

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

Hostplus — Balanced

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 Balanced Option ('the Option') is a 76%/24% growth/defensive diversified mix of assets with exposure to equities, infrastructure, property, private equity, and alternatives. This Option is managed by Hostplus which employs a selection of specialist fund managers, supplemented with a number of direct investments/ co-investments.
- The Option aims to deliver returns (after fees and taxes) of CPI plus 3.0% p.a. on average over 10 years. The secondary objective is to deliver returns (after fees and taxes) of CPI plus 4% p.a. on average over 20 years.
- From a risk perspective, the Option aims to limit the likelihood of negative returns to between three and four out of every 20 years (on average).
- The information provided in this report refers to the accumulation option. For further details on the pension option, please refer to the relevant PDS.
- The Option has a 'hard' maximum allowable limit of 50% towards illiquid investments, such as unlisted infrastructure, unlisted property and private equity. **While the illiquidity premium has contributed to the Option's strong returns in recent years, these investments may present liquidity issues in times of market stress.** As at December 2022, the Option's allocation to illiquid assets is approximately 40%, this being the 'soft' limit.
- The Option's PDS dated 21 September 2022 disclosed Annual Fees and Costs ('AFC') totalling 1.30% p.a. This value comprises (1) Administration Fees and Costs of 0.24% p.a.; (2) Investment fees and costs of 0.94% p.a.; and (3) Net Transaction Costs of 0.12%. Administration fees and costs are \$1.50 per week, plus \$32.24 per member from the Fund's Administration Reserve, and 0.0165% p.a. of the account balance equating to 0.24% p.a. on a \$50,000 balance. The Option itself does not charge a performance fee at the headline level. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates, particularly with respect to net transaction costs.
- The Option currently does not charge a buy/sell spread although this is subject to change depending on market conditions. Please refer to the PDS and fees and costs factsheet for more information.

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-asset growth oriented 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 equities, property, alternatives and illiquid assets to provide long-term investment growth.

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:
 - At the end of April 2022, Statewide Super merged with Hostplus, contributing \$12bn in assets. The entire Statewide investment team remained in Adelaide as part of an expanded Hostplus team.
 - Separation of the investment team and investment operations team functions. The investment operations team now reports to the CFO but continues to work closely with the investment team.
- Hostplus' internal investment team:
 - Post-merger with Statewide Super, the combined team strength is 23 staff.
 - Con Michalakakis, most recently CIO of Statewide Super, has joined as Deputy CIO (Portfolio Construction).
 - Departure of Susannah Lock (Head Of Responsible Investments). Hostplus is recruiting for Lock's replacement.
- Asset allocation:
 - Hostplus has made a number of manager changes. See the 'Underlying Manager Allocation' section for a current list.
- Fees:
 - Annual fees and costs increase ('AFC') from 0.99% p.a. to 1.30% p.a. driven primarily by the RG97 fee disclosure regime which came into effect in September 2022. For AFC purposes, fixed dollar amount administration fees are now converted into a percentage figure assuming a \$50,000 investment.

Hostplus — Balanced

Lonsec Opinion of this Option

People and resources

- Hostplus ('the Fund') is a public offer superannuation fund for the hospitality (including tourism, recreation and sport) industry. As at December 2022, the Fund has over one million members with approximately \$92.3bn of funds under management (FUM), up from \$79.2bn at the time of the last review. Given the nature of the hospitality industry, the Fund's membership base is relatively young with an average age of 35 years old. Lonsec views the demography of the Fund as a competitive edge for the Option, supporting the adoption of a truly long-term investment approach. This allows the investment team to allocate to long duration assets such as unlisted property and infrastructure. Lonsec notes however that the acceleration in FUM growth can pose a challenge in the continued ability to allocate capital to high quality assets. Notwithstanding this, higher FUM, in and of itself, does have its benefits in providing the Fund with economies of scale. These scale benefits can theoretically be passed through to members in the form of potentially higher returns (from a higher unlisted assets exposure) or in the form of lower costs.
- The investment team of 23 is headed by CIO Sam Sicilia, who joined the Fund in 2008. Sicilia, who has 29 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 Michalakakis. 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. Michalakakis (most recently CIO at Statewide Super) joined the Fund in May 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 Michalakakis' experience helps 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 continue building further conviction in the expanded team and systems.
- Heads of asset classes Dmitry Capel (International Equities), Alice Hardie (Credit, Diversified Fixed Interest and Cash), Spiros Deftereos (Property) and Jordan Kraiton (Infrastructure) have an average 10 years working in the investment team, and an average 18 years industry experience. Lonsec has met with all senior members of the team and considers them as a whole to be experienced with complementary skills across investment consulting and/or management. The Statewide Super merger added a further three senior members who have been allocated roles in a restructured and expanded Hostplus team, namely Chris Williams (Private Equity), Daniel Dujmovic (Alternatives) and David Obst (Australian Equities). Lonsec is familiar with the Statewide Super team from previous reviews of their investment options, and has sufficient conviction in their abilities. The team remains based in Adelaide, which is supportive of a stable transition and team cohesion.
- Lonsec notes that despite the investment team being bolstered through mergers, it is still small relative to the peer group, especially in light of resource-intensive asset classes, and in particular, co-investments in private equity and infrastructure. Lonsec is comforted by the calibre of the senior team members, and notes the Fund has developed a coherent plan for an integrated and consistent approach across all asset classes. The continued strong growth in FUM requires a strong pipeline of investment opportunities and the timely and efficient allocation of capital, especially in property, infrastructure and private equity where a flood of institutional capital is fighting over good quality assets.
- The Fund's Board of Directors ('Board') comprises nine members with equal representation from employers (Australian Hotels Association) and employees (United Workers Union). Out of the nine members, three directors, including the Chair, are jointly selected by the Australian Hotels Association and the United Workers Union. The Board is responsible for the overall governance, management and long term strategic direction of the 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 Fund's investment management and outcomes. Compared to Lonsec peers, Lonsec considers the Board to have less direct investment management experience, albeit it 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 Fund's competitive advantages (young member base and strong cash flows).
- The Fund has engaged JANA's asset consulting service since 2002, and recently contracted them for a further six year term. Lonsec considers JANA's 60+ strong research team to be well resourced across all asset classes, albeit with a strong Australian focus (compared to global consulting peers) given its domestic base. Positively, Lonsec notes JANA reports directly to the Fund's Board instead of the investment team. Lonsec believes this structure adds another layer of risk management, with the Board being able to evaluate decisions with input from both internal and external sources, especially where there is non-consensus on an investment view. Notwithstanding the 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.
- The alignment of interests between the Fund and investment team is considered to be relatively low but considered adequate, and in-line with the Fund's profit-for-member philosophy, governance, and decision making structures. The CIO and Deputy

Hostplus — Balanced

ISSUE DATE 13-04-2023

CIOs have their own superannuation invested in the Fund but this is not mandated for the investment team. The investment team is paid a base salary, with asset class Heads also receiving a discretionary component related to the performance of the Fund and the Option rather than their sector of responsibility. Lonsec notes this may lead the team to adopt a greater 'whole of portfolio' mindset rather than promoting a siloed culture.

Asset allocation

- JANA is responsible for researching and monitoring the strategic asset allocation ('SAA') and dynamic asset allocation ('DAA') at the Fund. JANA's asset allocation is determined quarterly by the in-house committee, then tailored to meet clients' objectives. Lonsec considers JANA's asset allocation process to be robust and suited for the Fund's investment style.
- In stark contrast to the majority of peers, the Option has had until relatively recently a 0% target allocation to Fixed Interest and Cash and a high, structural target allocation to unlisted assets (such as infrastructure, property and private equity). In the wake of the COVID-19 pandemic and the Early Release Scheme, Hostplus revised this target allocation upwards to 5% Cash and 3% Fixed Interest.
- Lonsec notes the investment team characterises a large portion of the unlisted assets as 'defensive' in nature, due to their stable and durable income characteristics, as well as a result of the valuation lag associated with these assets which provides volatility smoothing in times of market stress. While Lonsec has previously noted the pragmatism of this approach given it marries up with the young member base and the longer term liabilities of the Option, Lonsec highlights that fixed interest and cash assets can typically offer strong defensive, diversification and liquidity benefits to members, especially in extreme market environments. Moreover, Lonsec believes the combination of a high allocation to illiquid assets and few liquid defensives provides little 'dry powder' to invest into opportunities as they arise after an equity market sell off. That said, Lonsec acknowledges the increased allocation to cash should help improve this to some extent.
- That said, the Option has broadly maintained its overweight allocation to illiquid assets since Lonsec's last review, and has the highest allocation to illiquid assets in the peer group, with an allocation of approximately 40% as at December 2022. While the illiquidity premium associated with the unlisted assets may introduce an additional element of return, Lonsec notes the risk of these investments can manifest differently and introduce added complexity particularly in times of stress (such as during the recent COVID-19 related market selloff), when liquidity becomes highly sought after. Lonsec also notes that there can be a significant 'opportunity cost' associated with investing in assets that cannot be readily liquidated to take advantage of other emerging opportunities. Lonsec highlights the Option is very reliant on its strong cash flow profile and a 'sticky' member profile, neither of which is guaranteed.
- Lonsec has held reservations that the current allocation to unlisted assets leaves (i) little margin of

safety should financial markets become stressed, and (ii) limits the Option's flexibility to invest in emerging opportunities as they arise in listed markets. Lonsec believes there is potential for the lower liquidity of the Fund to cause issues in episodes of extreme market stress (for example, it has the potential for the Fund to become a forcer seller of some of its illiquid asset holdings). That said, Lonsec acknowledges Hostplus navigated the recent crisis well with limited impact on its liquidity, and that the Fund is experiencing steady net cash inflows.

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. Lonsec notes the Fund's investment team is involved in the later stages of the manager diligence process and meet with all incumbent managers prior to onboarding them onto the Option. Given the number of strategies included in the Option, Lonsec would like to see the investment team continue to demonstrate a high level of engagement with the underlying managers on an ongoing basis.
- In the last several years, the Fund has increasingly internalised selected investment allocation functions, namely in the unlisted property, infrastructure and private equity asset classes. When reviewing direct investments and co-investments in unlisted property, infrastructure and private equity, the investment team conducts due diligence alongside relevant JANA experts, with contribution from external specialists where required. In light of the research-intensive nature of these asset classes, Lonsec considers the bolstering of investment team resourcing to be a positive development. Although Lonsec acknowledges the close collaboration with external resources to bolster internal capabilities, Lonsec will over future reviews monitor the effect of the additional team members on the Fund's investment bandwidth.

Portfolio construction

- The majority of the Option's investments are outsourced to external managers, with the exception of some investments within the property, infrastructure and private equity asset classes, where the Fund has increased its direct investments and co-investments in the past few years. For external managers, mandates are predominantly used which is preferred by Lonsec as it facilitates tighter portfolio construction to better achieve desired outcomes.
- In conjunction with JANA, the investment team employs an 'incubator strategy' which allocates a smaller portion of funds to start-up fund managers. Over time, the fund manager is either added to the broader portfolio as conviction increases or terminated altogether from the 'incubator strategy'.

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P. 4-13

Hostplus — Balanced

Lonsec notes this approach provides the Fund earlier access to these start-up managers, thereby securing capacity and potentially a more competitive fee structure.

- Similar to other industry superannuation funds, the Fund has investments in related parties, e.g. IFM and ISPT. While related party investments have the perceived conflict of interest which may compromise the objectivity of the portfolio construction process, Lonsec notes the investment team has strict governance processes in place which is supported by the independence of JANA, which reports directly to the Board.
- Portfolio turnover within the Option is relatively low compared to Lonsec-rated peers. Lonsec notes the low turnover is a function of the high allocation to unlisted assets (target 40%), as well as being consistent with the investment team's philosophy of investing for the long-term with highly regarded investors (e.g. portfolio managers), ignoring short-term distraction/noise. At present, Lonsec does not have any concerns on the Fund's approach to manager addition/termination.

ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green/sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as aligned with peers. The Manager has an articulated commitment to the integration of ESG within their investment process with evidence of policy framework and clear public positioning. The responsible investment policy and stewardship policy are freely available on the firm's website and include voting guidelines. The level of disclosure with respect to the proxy voting policy and voting outcomes is in-line with peers supported by publicly available reporting and high-level voting beliefs. The Manager has outsourced engagement activities and reporting to stewardship providers.
- The Manager has indicated that their Responsible Investment style is 'ESG Integration' and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of 'Stewardship', Managers will usually focus their ESG strategy on Engagement and Voting as the key tool in managing their ESG risks. While stewardship approaches are common across most Managers, they can form the key ESG strategy employed by some Managers. Due to the qualitative nature of this style Lonsec highlights the need for Managers to provide clear and detailed reporting on both engagement and voting activities and recommends investors review the fund stewardship reporting where available.
- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection underlying strategies or managers, or the extent to which ESG impacts asset allocation. It

does not review the ESG integration at the level of each of the underlying funds or strategies.

- While the Manager does have some minimum standards for manager selection they are seen by Lonsec as being light compared to peers. There is regular monitoring of the ESG processes and approaches of underlying Managers, however the ESG characteristics of the underlying stocks are not reviewed by the Manager. Proxy voting is retained by the Manager which ensures that shares are voted consistent with the Managers own policies and values. Documentation requirements are appropriate. There are only limited signs that company engagement on ESG issues is a component of the Manager's investment approach.
- While ESG does not form a component of the Managers broader compliance framework, Lonsec looks very favourably on the level of transparency the Manager provides into portfolio holdings. Voting on the Fund is not controlled by the Manager limiting the Fund's ability to vote in alignment with its own analysts views or investment/sustainability priorities.

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 Fund's in-house Group Executive, Legal & Compliance oversees a compliance program which includes three risk management frameworks. Lonsec considers the existing compliance structure in place at the Fund to be adequate.
- The investment team conducts portfolio analytics primarily via JANA's tools (which includes JANA Solve) and the highly regarded MSCI BarraOne system, 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.

Fees

- Lonsec considers the absolute fee load to be high compared to the Lonsec universe, and also to be relatively higher than its peers in the broader multi-asset superannuation peer group.
- Lonsec is generally supportive of performance fees so long as they are appropriately structured. In this case, Lonsec notes that the Manager does not directly charge performance fees but may have performance fee arrangements with a number of its external investment managers. Performance fees are deducted from investment returns received from underlying investments. Lonsec notes the performance fee is not linked to the performance

Hostplus — Balanced

of the overall investment option, but rather on the performance of the underlying investment only.

Product

- The Fund is a registrable superannuation entity (RSE) for which Host-plus Pty Ltd is the issuer and the Trustee. APRA regulates the trustees of superannuation funds who are required to act in the best interest of their members. The Fund uses tier 1 service providers. APRA has not flagged any concerns at the time of this review.
- The Fund may hold a reasonable allocation towards assets that are not marked to market. The RE/trustee has developed a transparent and well documented valuation policy ensuring valuations are consistently applied through time. In addition, Lonsec sees the establishment of a separate valuation committee dedicated to unlisted assets as best practice given their scale and complexity. Lonsec also notes the segregation of duties between those managing the assets and those conducting valuations. Where valuations are relied upon by the managers of interposed vehicles, the Manager/Super Fund has a process to ensure valuations are conducted by third party external valuers for property and infrastructure allocations. The Manager also has a policy with respect to private equity allocations to assess if the General Partner's ('GP') valuation practices are appropriate. The Manager's valuation policy has measures to deal with stale underlying valuations where market environments are rapidly changing.
- 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.
- The Fund is subject to the Federal Government's Your Future, Your Super (YFYS) reforms which came into effect on 1 July 2021. Under these reforms, a key requirement is for APRA to conduct an annual Performance Test ('the test'), which has the purpose to increase transparency and accountability of superannuation funds for underperformance. Lonsec notes that the failure of the test can result in a decline in future contributions and member outflows for the option. At the time of this report, the product has not failed the Performance Test.

Performance

- The Option aims to deliver returns (after fees and taxes) of CPI plus 3.0% p.a. over rolling 10-year periods. Over 10 years to 31 December 2022 (all figures net of fees), the Option returned 9.1% p.a., outperforming its internal CPI objective and above the Lonsec peer median return. The Option also outperformed the broader peer group benchmark, SuperRatings' SR50 Balanced (60-76) Index, over this time period.
- Over the one-year and three-year periods to 31 December 2022 (all figures net of fees), the Option returned -2.5% and 5.9% p.a. respectively against the peer median returns of -5.0% and 4.2% p.a. Key contributors to performance were allocations to unlisted property, infrastructure and private equity;

key detractors were positions in listed equities, bonds, and listed property.

- From a risk perspective, the Fund's one-year Sharpe ratio of -0.7 is marginally superior to the peer median of -0.8. Lonsec notes the Fund's Sharpe ratio is also above the peer median over the medium to long term. Apart from the one year period, the Fund has realised higher volatility relative to its peer group over most assessed time periods. Furthermore, Lonsec highlights the Option has over the medium to long term a worst drawdown figure greater than the peer median, which may be indicative of its underweight allocation to traditional defensive assets vs peers.

Overall

- Lonsec has maintained the Option's 'Recommended' rating at this review. Lonsec has solid conviction in the Hostplus investment team's capabilities and in the Fund's operational and risk management aspects. The investment team is led by high-quality and experienced senior members, and the material team expansion is a positive development. Hostplus has demonstrated the willingness to invest in resources and business systems alongside the rapid growth in funds under management. Lonsec is also comforted by the continued involvement of JANA and the significant resources they dedicate to Hostplus.
- That said, the team remains smaller than peers of similar size and complexity. The total fee load is at the higher end of the Lonsec-rated peer group. The higher allocation to illiquid assets can offer less downside protection and liquidity in the event of another sudden, extended equity market sell-off.

People and Resources

Corporate overview

The Fund is an industry superannuation fund for the hospitality, tourism, recreation and sports industry. Originally founded in 1988 by the Australian Hotels Association and the United Workers Union, the Fund has grown to over to one million members with approximately \$92.3bn in funds under management (as at December 2022).

Hostplus — Balanced

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
SAM SICILIA	CIO	29 / 14
GREG CLERK	DEPUTY CIO (STRATEGY AND RISK)	24 / 7
CON MICHALAKIS	DEPUTY CIO (PORTFOLIO CONSTRUCTION)	32 / 1
DMITRY CAPEL	HEAD OF PUBLIC MARKETS (INTERNATIONAL EQUITIES)	22 / 13
DAVID OBST	HEAD OF PUBLIC MARKETS (AUSTRALIAN EQUITIES)	31 / 1
ALICE HARDIE	HEAD OF PUBLIC MARKETS (CREDIT, DFI & CASH)	17 / 11
DANIEL DUJMOVIC	HEAD OF PUBLIC MARKETS (ALTERNATIVES)	9 / 1
JORDAN KRAITEN	HEAD OF PRIVATE MARKETS (INFRASTRUCTURE)	18 / 10
SPIROS DEFTEREOS	HEAD OF PRIVATE MARKETS (PROPERTY)	18 / 9
CHRIS WILLIAMS	HEAD OF PRIVATE MARKETS (PRIVATE EQUITY)	29 / 1

The investment team is responsible for designing and implementing the 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 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.

Dmitry Capel joined the Fund in 2009, and prior to that, had an asset consulting and actuarial background gained at Russell Investments and Mercer. Capel is responsible for the global equities offering at the Fund.

Jordan Kraiten joined the Fund in 2012, and prior to that, spent over seven years at Macquarie Bank in the risk management group.

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

Alice Hardie joined the Fund in 2011, and prior to that spent seven years across multiple institutions including Witan Investment Trust, Plum Financial Services and Goldman Sachs JBWere.

Chris Williams joined the Fund in 2022 from Statewide Super, where he served as Head of Alternatives and Deputy CIO. Prior to this, Williams held various positions in funds management, banking and investment banking.

David Obst joined the Fund in 2022 from Statewide Super, where he served as Senior Investment Manager of Australian and International Equities. Obst has over 25 years' experience in financial services, with the last 12 years specifically in investment management, previously working in the investment team at Local Super SANT.

Daniel Dujmovic joined the Fund in 2022 from Statewide Super, where he was responsible for management of the Cash, Fixed Income and Property asset classes.

JANA's Stewart Eager is the primary asset consultant to the 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 Fund.

Governance and investment committee

The nine-member Board is made up of three representatives from the Australian Hotels Association (representing the employers), three representatives from the United Workers Union (representing the employees), and three representatives jointly selected by the Australian Hotels Association and United Workers Union. 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 Damien Frawley, a financial services industry veteran with over 35 years' experience in the sector domestically and internationally.

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 over 80 institutional clients, including corporate, industry and public sector superannuation clients as well as charities, foundations and endowment clients. JANA has a well-resourced team (more than 50 investment professionals) though has experienced a degree of turnover in recent years. As at January 2023, JANA's management team fully owns the asset consultant, having bought out the 45% interest owned by Insignia Financial. Lonsec will continue to monitor this situation and any potential impact of the recent ownership change.

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Asset Allocation

Strategic asset allocation

JANA's Asset Allocation Committee meets quarterly to discuss views on markets and asset classes. This includes a peer review process where research teams submit the assessment of the current positioning of their respective asset classes. JANA follows a 'Valuation, Fundamentals and Sentiment' framework. Valuation is the key determinant of JANA's views, but the timing and sizing of a view may be modified by their assessment of fundamentals and / or sentiment. 'Valuation' is assessed over a three-year time frame, while 'Fundamentals' and 'Sentiment' involve an assessment of the current economic and market environment. In-house JANA views are submitted from the Capital Markets Group. The outtakes from these are then discussed in the quarterly Client Portfolio Review meetings, which review the implications for individual client SAA.

The SAA has relatively wide ranges, allowing the investment team a considerable degree of flexibility in allocating its investments. The Option has traditionally held a zero target allocation to fixed interest assets and cash, and relatively higher allocations to illiquid assets such as unlisted Property, Infrastructure and Private Equity. In the wake of the COVID-19 market drawdown of early 2020 and subsequent payouts under the Early Release Scheme, Hostplus now targets a 5% SAA benchmark allocation for Cash, with excess liquidity requirements expected to be met through positive net contributions and, if required, from the Alternatives bucket. This is key change in Hostplus' investment strategy brings the Fund more in line with its peers. That said, unlisted and illiquid assets continue to dominate the SAA benchmark allocation.

The Option's latest (31 December 2022) SAA details are tabulated below.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	21%	10%	40%	20.9%
INTERNATIONAL EQUITIES - DEVELOPED	21%	10%	40%	19.5%
INTERNATIONAL EQUITIES - EMERGING	8%	0%	15%	7.2%
PROPERTY	11%	0%	30%	12.8%
INFRASTRUCTURE	11%	0%	30%	11.5%
PRIVATE EQUITY	10%	0%	25%	13.1%
CREDIT	7%	0%	20%	5.7%
ALTERNATIVES	3%	0%	20%	3.4%
DIVERSIFIED FIXED INTEREST	3%	0%	20%	0.5%
CASH	5%	0%	15%	5.4%
TOTAL	100%	-	-	100%

Tactical/Dynamic asset allocation

JANA's approach to dynamic asset allocation (DAA) is based on an assessment of both absolute and relative value. The approach is supported by academic research and actual outcomes, designed to reduce downside risk and at times, capture outsized upside opportunities. Similar to the SAA process above, the 'Valuation, Fundamentals and Sentiment' framework is used extensively in the DAA process.

JANA does not seek to provide value from short-term tactical asset allocation.

Research Approach

The 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 prospective managers without discrimination.
2. Step 2 – Prospective 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

Hostplus — Balanced

ISSUE DATE 13-04-2023

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 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 Fund had engaged Charter Hall, Jones Lang LaSalle, CBRE for consulting services in the property and infrastructure asset classes, as well as Partners Group in the private equity asset class.

Portfolio Construction

Overview

The Option invests predominantly with external fund managers, with the exception of some investments within the property, infrastructure and private equity asset classes, where the Option has been increasing its direct investment and co-investment holdings over the past few years. In its allocation towards external managers, the Option utilises specific mandates where possible, or pooled trusts otherwise.

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

The investment team collaborates with JANA to employ an 'incubator strategy' which allocates a smaller portion of funds to start up fund managers. These fund managers are run by investors (typically portfolio managers previously employed at established firms) who are highly regarded by JANA / the Fund. The 'incubator strategy' is designed to lend a smaller scale of support to highly regarded investors who as a result of their less-mature business structure, may face higher operational risks. Over time, the fund manager is either added to the broader portfolio as conviction increases, or terminated altogether from the 'incubator strategy'.

Related party investments

The Option holds a number of small strategic investments. Alongside other industry superannuation funds, the Fund has non-controlling interest in the following businesses:

- IFM; and
- ISPT.

The Fund has awarded a large number of mandates to IFM across a range of asset classes, and to a certain extent, ISPT in the property asset class.

Underlying manager allocation

As at 31 December 2022:

Australian equities

- Airlie
- Allan Gray
- Citigroup
- Firetrail

- First Sentier
- Greencape
- Hyperion
- IFM
- L1 Capital
- Paradice
- Pental
- Tanarra
- Vinva
- Yarra
- UBS

International equities – developed

- AllianceBernstein
- Baillie Gifford
- BlackRock
- Bell
- Dundas
- Hosking
- IFM
- Independent Franchise Partners
- Maverick Long Enhanced Fund
- Orbis
- Paradice
- RWC
- T. Rowe Price
- Wellington

International equities – emerging

- Citigroup
- Martin Currie
- Neuberger Berman
- Northcape
- Ninety One
- UBS
- Wellington

Property

- AMP
- BlackRock
- Charter Hall
- Chauvel
- Dexis
- Gresham
- Hostplus Commercial
- Invesco
- ISPT
- Kayne Anderson
- LaSalle
- Lend Lease
- Macquarie
- Nuveen
- Pretium
- U.S. Cities Multifamily
- QIC

Australian private equity

- Airtree
- Artesian

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P 9-13

Hostplus — Balanced

ISSUE DATE 13-04-2023

- Blackbird Ventures
- Brandon Capital
- Carnegie
- Carthona
- Continuity Capital
- CM Capital
- CSIRO Innovation Fund
- Five V
- IFM
- Stafford Capital

International private equity

- AIF
- Artesian
- Blackbird Ventures
- Cornell
- Flexstone
- Harbour Vest
- Hermes
- IFM
- IP Group
- Kelso Fund X
- Lexington
- LGT Crown
- Partners Group
- Pomona
- ROC
- Safar Partners
- Siguler Guff
- Square Peg
- Southern Cross
- Star II
- Telstra Ventures Fund
- Virtual Communities
- Warburg Pincus
- Wilshire
- Wollemi

Credit

- Apollo
- Bain Capital
- Barings
- Blue Ocean
- Cross Ocean Partners
- Hayfin
- Kayne Anderson
- Loomis Sayles
- Taconic
- Willow Tree

Alternatives

- Apollo
- Apostle
- BlackRock
- Fitzroy
- Janus Henderson
- Perpetual
- Resolution Life
- Tangency Capital

- Snow Phipps & Guggenheim
- Wellington

Infrastructure

- Adelaide Airport
- AMP Capital
- Campus Living Villages Fund
- Darling Harbour
- First Sentier Investors
- Flinders Ports
- Gardior
- GIP
- IFM
- Macquarie
- Morrisons
- Octopus
- QIC
- US Power Fund

Fixed Interest

- BlackRock
- Citigroup
- iShares
- IFM
- Macquarie
- PIMCO
- Super Loans Trust

Cash

- Citigroup
- CBA
- IFM
- ME Bank

Strategic assets

- Industry Super Holdings

Others

- Mesirow currency overlay

Risk Management

Risk limits

At the broad level, risk within the Option is controlled through diversification across asset classes, and manager selection within each asset class. However, investment ranges within the SAA are relatively wide. The Option has a 50% limit allocation to illiquid assets, with a typical allocation of 40%.

Risk monitoring

Incumbent managers are reviewed formally annually, with frequent meetings between the managers and the 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'.

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P. 10-13

Hostplus — Balanced

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

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

1. The Risk Management Strategy (RMS) which outlines the Board's approach to risk management (how the 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 Fund's investment team uses its strong cashflow to take advantage of investment opportunities to move towards the desired asset allocation.

Currency management

The Fund engages in currency hedging by maintaining a set of passive hedge ratios to control currency risk.

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 some 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 2023. The purpose of the test is to increase transparency and accountability of superannuation funds for underperformance.

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 additional 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.

Other risks

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

Hostplus — Balanced

ISSUE DATE 13-04-2023

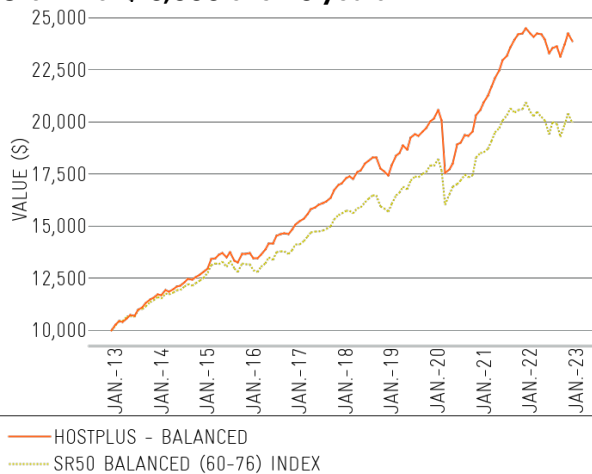
Quantitative Performance Analysis - annualised after-fee and after-tax % returns (at 31-12-2022)

Performance metrics

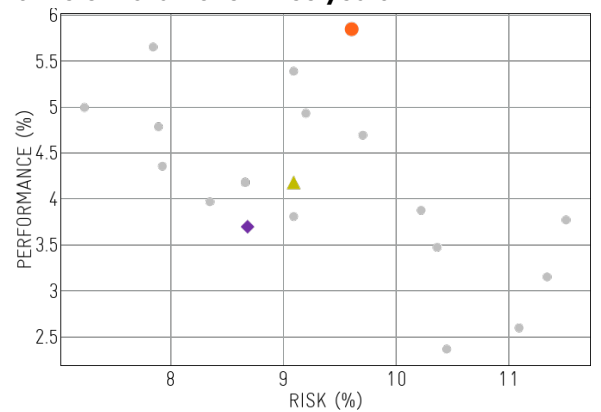
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-2.49	-5.04	5.85	4.18	6.94	5.78	9.10	8.35
STANDARD DEVIATION (% PA)	5.65	7.94	9.61	9.09	8.01	7.76	6.31	6.31
EXCESS RETURN (% PA)	2.23	-0.06	2.15	0.48	1.92	0.76	1.94	1.26
OUTPERFORMANCE RATIO (% PA)	66.67	50.00	61.11	52.78	60.00	56.67	60.00	58.33
WORST DRAWDOWN (%)	-5.53	-8.64	-14.63	-12.54	-14.63	-12.54	-14.63	-12.54
TIME TO RECOVERY (MTHS)	NR	NR	10	8	10	8	10	8
SHARPE RATIO	-0.66	-0.78	0.55	0.42	0.74	0.66	1.18	1.12
INFORMATION RATIO	0.69	-0.07	0.49	0.49	0.55	0.51	0.73	0.75
TRACKING ERROR (% PA)	3.25	2.34	4.41	1.89	3.48	1.64	2.66	1.49

PRODUCT: HOSTPLUS - BALANCED
 LONSEC PEER GROUP: MULTI-ASSET - 61-80% GROWTH ASSETS - SUPERANNUATION
 PRODUCT BENCHMARK: SR50 BALANCED (60-76) INDEX
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

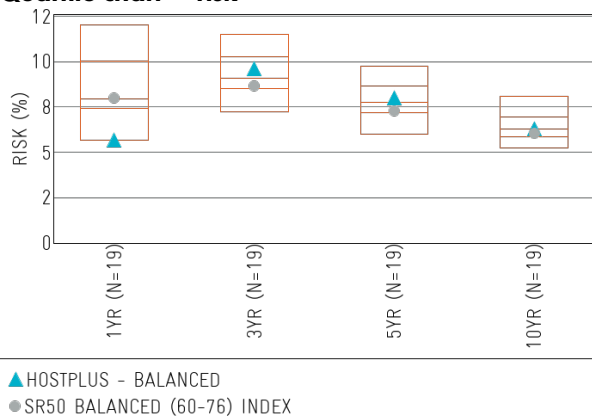
Growth of \$10,000 over 10 years



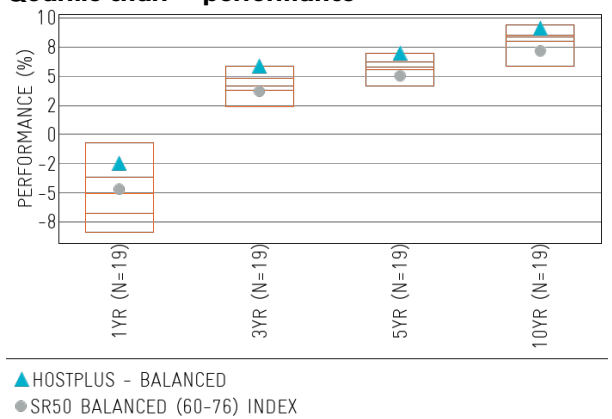
Risk-return chart over three years



Quartile chart — risk



Quartile chart — performance



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N: NUMBER OF ACTIVE FUNDS

N: NUMBER OF ACTIVE FUNDS

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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

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