



Product Review

Hostplus — Indexed 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 + 2.5% P.A. ON AVERAGE OVER 20 YEARS
PDS DATE	21-09-2022
OPTION SIZE	\$10.8BN (DECEMBER 2022)
ANNUAL FEES AND COSTS (PDS)	0.29% 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
SECTOR EXPOSURE	PASSIVE
GROWTH / DEFENSIVE SPLIT %	75 / 25
USE OF ALTERNATIVES	NO

Option rating history

APRIL 2023	RECOMMENDED
MARCH 2022	RECOMMENDED
APRIL 2021	RECOMMENDED

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

- High-quality, experienced and stable senior investment team.
- Lowest fee load in the Lonsec-rated peer group.

Weaknesses

- Limited diversification relative to actively managed multi-asset peers has resulted in higher volatility relative to the peer median over multiple time periods.
- Typically carries higher equity market beta relative to actively managed Lonsec rated peers.

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			●

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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 Indexed Balanced Option ('the Option') is a 75%/25% growth/defensive diversified mix of assets with exposure to equities, fixed income and cash. This Option is managed by Hostplus which employs a selection of specialist indexed fund managers. This Option was designed as a passive alternative to the Balanced (MySuper) option.
- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.5% p.a. on average over 20 years.
- 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 information provided in this report refers to the accumulation option. For further details on the pension option, please refer to the PDS.
- The Option's PDS dated 21 September 2022 disclosed Annual Fees and Costs ('AFC') totalling 0.29% p.a. This value comprises (1) Administration Fees and Costs of 0.24% p.a.; (2) Investment fees and costs of 0.04% p.a.; and (3) Net Transaction Costs of 0.01%. 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 balanced portfolio that is best suited to medium to long-term investors who can accept some investment risk over the longer term. The Option has a high exposure to equities 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.
- Fees:
 - Annual fees and costs increase ('AFC') from 0.06% p.a. to 0.29% 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.

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 acknowledges the high FUM level enables the Manager to negotiate competitive fees with its underlying managers within this Option.
- 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

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conviction in Sicilia's and Clerk's investment skills, and notes Michalakis' 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.

- Compared to the Fund's other active multi-asset options, Lonsec notes the involvement of the team and JANA in this Option to be minimal (and focused on asset allocation), albeit adequate given the passive nature of the Option.
- 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-rated 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.
- 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 not for profit philosophy, governance, and decision making structures. The CIO and Deputy 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 its default MySuper option (rather than the Option specifically).

Asset allocation

- JANA is responsible for researching and monitoring the strategic asset allocation ('SAA') 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.
- As a passive alternative option, this Option does not employ dynamic or tactical asset allocation.
- Lonsec notes in an effort to keep costs low, the Option is restricted to the major equity and bond asset classes which results in a portfolio that is less diversified when compared to active multi-asset peers.

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 has met with all the incumbent managers prior to onboarding them onto the Option. Once a manager is approved, the relationship management responsibility shifts to the investment team for all specific Hostplus matters.

Portfolio construction

- All of the Option's investments are outsourced to external managers, where pooled trusts and mandates are used. Overall, Lonsec believes that mandate tailoring or blending of individual asset class exposures can facilitate tighter portfolio construction and better control of product design to achieve desired performance and tracking error objectives though acknowledges this may not be as practical or relevant for index funds, where economies of scale assist in keeping costs down.
- The portfolio consists entirely of underlying indexed strategies which are designed to benefit from a cost and simplicity perspective. Hence in contrast to the active option, where more qualitative factors feature more heavily, cost considerations were a key driver in the allocation decision for this Option.
- Similar to other industry superannuation funds, the Option has investments in related parties, i.e. IFM. 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 is relatively low compared to Lonsec-rated peers, with all five current strategies being appointed since inception of the Option. Lonsec notes this is consistent with the investment team's philosophy of investing for the long-term with highly regarded investors (e.g. portfolio managers) independent of short-term distraction / noise.

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

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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 low compared to the Lonsec universe, and also the lowest amongst 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 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.
- Unlike the Hostplus Balanced investment option which holds a reasonable allocation towards assets that are not marked to market, Lonsec highlights this Option is invested purely in major equity and bond asset classes using a passive approach. As a result, the Option is less diversified, carries higher equity market beta and higher volatility relative to other Hostplus investment options as well as actively managed Lonsec-rated peers.
- 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.

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Performance

- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.5% p.a. over rolling 20-year periods. Over the 10 years to 31 December 2022 (all figures net of fees), the Option returned 8.0% p.a., outperforming its internal CPI objective but slightly below the Lonsec peer median. The Option also outperformed its 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 -6.3% and 3.8% p.a. respectively against the peer median return of -5.0% and 4.2% p.a. The Option's volatility over both time periods is within the 11-12% range, translating through to a Sharpe ratio of -0.6 and 0.3. This ratio was ahead of the peer median over one year but behind over three years, suggesting a peer-like risk adjusted return.
- Lonsec notes the Option's volatility has been higher than its peer median across all time periods measured, likely impacted by its limited diversification relative to actively managed multi-asset peers.

Overall

- Lonsec has retained the Fund's 'Recommended' rating at this review. While the investment team is smaller than peers of a similar size and complexity, Lonsec continues to rate the experience of senior members of the investment team. The Option's fee load is a key competitive strength in this peer group, providing a very competitively-priced and passive exposure to traditional asset classes.
- Lonsec cautions the Option's limited diversification has resulted in higher volatility in returns and greater drawdowns relative to more active peers. That being said these characteristics are fairly normal for low cost diversified options such as this.

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 one million members with approximately \$92.3bn in funds under management (as at December 2022).

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

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.

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

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	35%	20%	60%	35%
INTERNATIONAL EQUITIES - DEVELOPED	40%	20%	60%	40%
INTERNATIONAL EQUITIES - EMERGING	0%	0%	15%	0%
DIVERSIFIED FIXED INTEREST	17%	10%	30%	17%
CASH	8%	0%	20%	8%
TOTAL	100%	-	-	100%

Tactical/Dynamic asset allocation

Dynamic or tactical asset allocation is not featured in this Option.

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 passive, indexed performance over the long term.
2. Have sustainable business.
3. Have repeatable approach and 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 on a quarterly basis. 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'.

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

Portfolio Construction

Overview

The Option invests in externally managed strategies, where specific mandates are utilised where possible, or pooled trusts otherwise.

The underlying managers consist solely of indexed funds.

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

The Fund holds a number of small strategic investments. Alongside other industry superannuation funds, the

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Fund has non-controlling interest in the following businesses:

- IFM; and
- ISPT.

The Option has awarded a large allocation to IFM across the Australian and International equity asset classes.

Underlying manager allocation

As at 31 December 2022:

Australian equities

- IFM

International equities

- IFM

Australian fixed interest

- BlackRock

Global fixed interest

- BlackRock

Cash

- Citibank

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 Fund has a 0% hard limit allocation to illiquid assets.

Risk monitoring

Incumbent managers are formally reviewed 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; and perceived loss of the manager's 'edge'.

Hostplus 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 Hostplus 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 Option is rebalanced daily to ensure it is in line with the SAA.

Currency management

The Option 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.

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.

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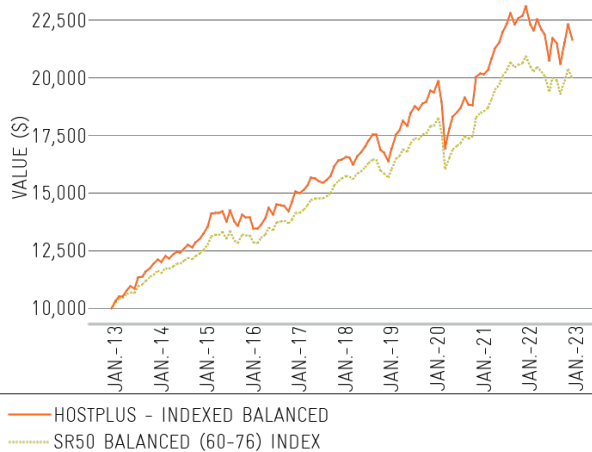
Quantitative Performance Analysis - annualised after-fee and after-tax % returns (at 31-12-2022)

Performance metrics

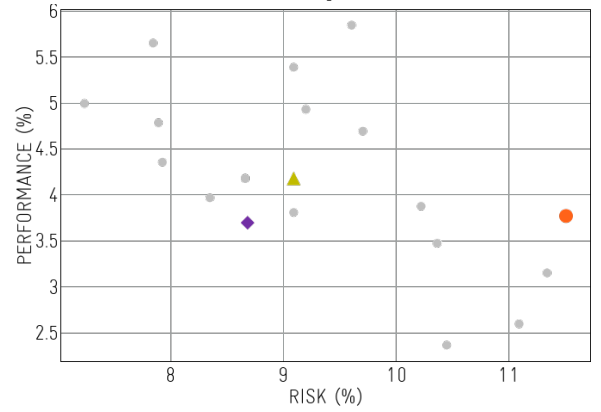
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-6.32	-5.04	3.77	4.18	5.62	5.78	8.03	8.35
STANDARD DEVIATION (% PA)	11.98	7.94	11.51	9.09	9.75	7.76	8.10	6.31
EXCESS RETURN (% PA)	-1.60	-0.06	0.07	0.48	0.60	0.76	0.87	1.26
OUTPERFORMANCE RATIO (% PA)	33.33	50.00	52.78	52.78	58.33	56.67	55.83	58.33
WORST DRAWDOWN (%)	-10.80	-8.64	-14.58	-12.54	-14.58	-12.54	-14.58	-12.54
TIME TO RECOVERY (MTHS)	NR	NR	8	8	8	8	8	8
SHARPE RATIO	-0.63	-0.78	0.28	0.42	0.47	0.66	0.78	1.12
INFORMATION RATIO	-0.39	-0.07	0.02	0.49	0.21	0.51	0.35	0.75
TRACKING ERROR (% PA)	4.08	2.34	3.21	1.89	2.79	1.64	2.47	1.49

PRODUCT: HOSTPLUS - INDEXED 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

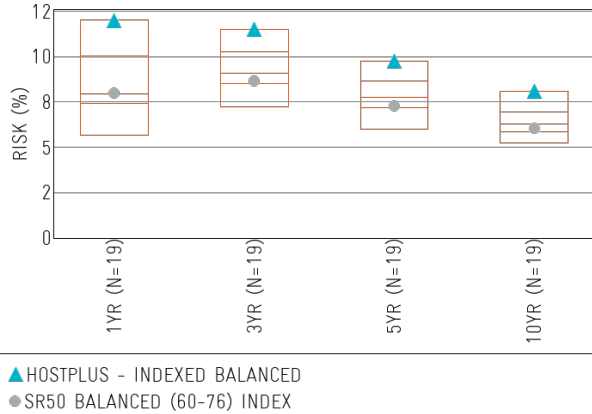
Growth of \$10,000 over 10 years



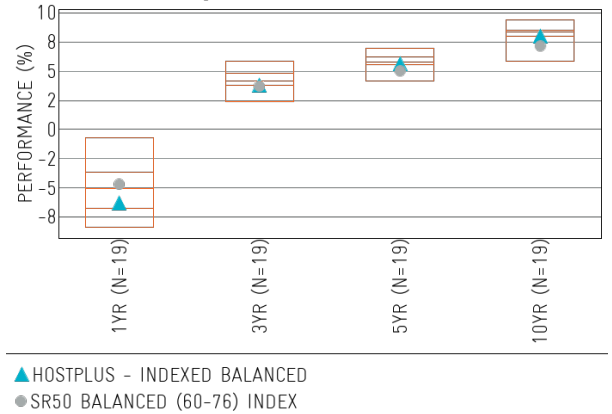
Risk-return chart over three years



Quartile chart — risk



Quartile chart — performance



ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

N: NUMBER OF ACTIVE FUNDS

N: NUMBER OF ACTIVE FUNDS

Hostplus — Indexed Balanced

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

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