Lonsec

Recommended

Product Review
Hostplus — Infrastructure PST

ISSUE DATE 13-04-2023

About this Review

ASSET CLASS REVIEWED	PROPERTY AND INFRASTRUCTURE
SECTOR REVIEWED	DIRECT ASSETS
SUB SECTOR REVIEWED	INFRASTRUCTURE
TOTAL FUNDS RATED	1

About this Option

PDS OBJECTIVE	AIMS TO ACHIEVE INCOME RETURNS AND CAPITAL GROWTH OVER THE LONG TERM.
PDS DATE	28-11-2022
OPTION SIZE	$391.3M (DECEMBER 2022)
ANNUAL FEES AND COSTS (PDS)	1.11% P.A.
ACCOUNT TYPES	ELIGIBLE SUPERANNUATION FUNDS

About this Fund

FUND NAME	HOSTPLUS SELF-MANAGED INVEST
FUND ABN	13 140 019 340
FUND INCEPTION	27-05-2019
FUND SIZE	$391.3M (DECEMBER 2022)
MEMBERSHIP	608
MEMBERSHIP FEE (P.A.)	$172.75
ADMINISTRATION FEE (P.A.)	ABOVE INCLUDES $165 P.A. ADMINISTRATION FEE PLUS $7.75 P.A. TRUSTEE FEE. 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	19
ASSET CONSULTANT	JANA INVESTMENT ADVISERS

Investment Team

PORTFOLIO MANAGER	JORDAN KRAITEN
INVESTMENT TEAM SIZE	23
INVESTMENT TEAM TURNOVER	LOW

Investment process

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

Option rating history

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

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

Weaknesses

- While recent mergers have bolstered the investment team, it is still small relative to peers of similar size and complexity.
- A material allocation to IFM, a manager that is a related party entity, poses manager concentration risk and introduces a perceived conflict of interest. That said, Lonsec acknowledges Hostplus has in recent years made significant efforts to diversify its underlying manager allocation.
- The portfolio has a current bias towards Australian, demand-based assets which may have greater sensitivity to Australian economic activity.

Option Risk Characteristics

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

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

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

Hostplus — Infrastructure PST

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

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

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY			●		
ESG				●	

Fee profile

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

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

What is this Option?

- The Hostplus Self-Managed Invest ('the Fund') is a pooled superannuation trust ('PST') as defined under the Superannuation Industry (Supervision) Act 1993 ('SIS Act'). It is designed to pool the assets of eligible complying superannuation funds to invest in assets managed by Hostplus Superannuation Fund ('the Super Fund' or 'the Manager').
- The Hostplus Infrastructure PST Option ('the Option') provides a multi-manager style exposure to unlisted infrastructure assets via selected external investment managers and co-investments held in the Super Fund.
- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.0% p.a. on average over 20 years.
- The secondary objective is to target returns over and above the MSCI Australia Quarterly Private Infrastructure Index (Unfrozen), which is an index measuring post fee NAV total returns to core unlisted wholesale funds within the Australian investment market.
- From a risk perspective, the Option aims to limit the likelihood of negative returns to between three and four out of every 20 years (on average).
- The Option predominantly has exposure to Airports, Toll Roads, Seaports and Social Infrastructure (approximately 56% of the Option) with just over half of assets located in Australia (approximately 56% of the Option). The Option invests in illiquid, unlisted infrastructure funds and co-investments with fund managers. While the illiquidity premium has been a key driver to the Hostplus Balanced Option's strong returns in recent years, these investments may present liquidity issues in times of market stress.
- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of six options available) and withdrawals. This liquidity provision can occur due to the Super Fund's notional funding structure. Investors should note that under the terms of the Option's PDS suspension of applications, switches and withdrawals can occur at the Manager's discretion.
- The Option's PDS dated 28 November 2022 disclosed Annual Fees and Costs ('AFC') totalling 1.11% p.a. This value comprises (1) Administration Fees and Costs of 0.35% p.a.; (2) Investment fees and costs of 0.61% p.a.; and (3) Net Transaction Costs of 0.15%. Administration fees and costs are $165 p.a. plus a $7.75 p.a. trustee fee equating to 0.35% p.a. on a $50,000 balance. A $240 one-off joining fee is deducted from the initial investment amount. 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-manager, unlisted infrastructure portfolio that is best suited to long-term investors who can accept some investment risk over the longer term. The Option has a high exposure to illiquid infrastructure assets to provide long-term investment growth, predominantly from an income return.
- While the returns of the Option are expected to be less volatile than equities and listed infrastructure securities, investors should be aware that the Option may experience periods of negative returns and that there is a risk of incurring a capital loss on the Option.
- As such, Lonsec considers the Option suitable for medium to high-risk profile investors with a five+ year investment-time horizon and it will generally sit within the growth component of a balanced portfolio.

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 Michalakis, 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.
- Investment objective:
  - To better align the Option with its relevant YFYS infrastructure reference benchmark, Hostplus has changed the Option's internal investment objective to outperforming the MSCI Australia Quarterly Private Infrastructure Index (Unfrozen). The previous objective was outperforming the Australian 10 year bond yield plus 4.5% p.a.
- Fees:
  - Annual fees and costs increase ('AFC') from 0.63% p.a. to 1.11% 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.
  - Introduction of a $7.75 p.a. trustee fee.

Lonsec Opinion of this Option

People and resources

- Hostplus ('the Super Fund') is a public offer superannuation fund for the hospitality (including tourism, recreation and sport) industry. As at December 2022, the Super 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. Lonsec acknowledges the high FUM level provides a scale advantage allowing the Manager to negotiate competitive fees with its underlying managers including those within the Option. The Option was launched in May 2019 as a product offering to eligible superannuation funds including SMSFs, small APRA funds and approved deposit funds. It gains exposure to infrastructure assets held in the Super Fund, and previously had been made available as a trial offering to approximately 30 investors known to the Super Fund.
- The investment team of 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 Super Fund. He is supported by two Deputy CIO's – Greg Clerk and Con Michalakis. Clerk (previously Head of Investment Strategy) joined the Super Fund in 2016 but had a lengthy working relationship with the Fund prior to his appointment in his role at JANA where he spent 17 years, most recently as the primary asset consultant to the Fund. Michalakis (most recently CIO at Statewide Super) joined the Super Fund in May 2022, and is responsible for leading the portfolio construction team. Lonsec has 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 Super 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.
- The Portfolio Manager of this Option is Head Of Private Markets (Infrastructure), Jordan Kraiten, who joined the Super Fund in October 2012, and has a total of 18 years industry experience. Prior to his role at the Super Fund, Kraiten worked at Macquarie in a variety of roles and offices, most recently in the risk management division in New York. Lonsec notes that Kraiten was previously supported by an Investment Specialist, however post-merger with Statewide Super will now be supported by a broader analyst pool. While this helps to overcome the inherent limitations of the previous model being a dedicated two person infrastructure team structure, the team is nevertheless still smaller and less experienced than investment personnel managing like assets at superannuation funds of similar size and complexity.
- The Super Fund's Board of Directors ('Board') comprises nine members with equal representation from employers (Australian 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 Super Fund, and also serves as the investment committee. The Board delegates day to day investment operational activities to the investment team, but remains ultimately accountable for the Super Fund's investment management and outcomes. Compared to Lonsec-rated peers, Lonsec considers the Board to have less direct investment management experience, albeit possesses the breadth and diverse set of skills to oversee the investment team. That said, Lonsec notes the Board appears to be well aligned in its vision for the Option, delivering a consistent investment strategy that plays to the Super Fund's competitive advantages (young member base and strong cash flows).
- The alignment of interests between the Super Fund and investment team is considered to be relatively low but considered adequate, and in-line with the Super Fund's not for profit philosophy, governance, and decision making structures. The investment team is paid a base salary, with asset class Heads also receiving a discretionary component related to the performance of Hostplus and its default MySuper option, rather than the Option specifically. Lonsec notes this may lead the team to adopt a greater

'whole of portfolio' mindset rather than promoting a siloed culture.

Asset allocation

- The Option has a fairly broad definition of infrastructure, however the Manager predominantly allocates to 'core' infrastructure assets that have greater defensive characteristics. This equates to assets with long term contracts, high barriers to entry and durable, inflation linked revenue streams. The Manager will also invest in 'core plus' assets when specific investment opportunities arise. These assets tend not to have the same monopolistic characteristics as 'core' assets but may offer the potential for greater returns. Lonsec recognises that infrastructure is a non-homogenous asset class that can span the risk return spectrum and includes a growing number of more opportunistic sectors. As such, Lonsec would prefer more formal asset allocation guidelines to ensure the asset mix does not stray from those assets with the expected characteristics of inflation protection, more predictable income streams and diversification benefits to traditional assets such as equities.
- A significant portion of the Option is invested in demand-based assets where revenues are linked to usage, for example Airports (29% of the Option), Toll Roads (7%) and Seaports (10%). While these assets are good quality, long duration, 'core' assets, a portion of their earnings revenue has a greater degree of economic sensitivity, as compared to regulated infrastructure assets where earnings have a greater degree of independence from the economic cycle. Lonsec notes the Manager continues to reduce the sensitivity of the portfolio to Australian GDP, a prudent measure given a broader dispersion of potential outcomes for the Australian economy in the near to medium term.
- The Manager has invested in several co-investments in recent years which has the potential to provide an edge over peers with less scale. Co-investments are typically made alongside an existing underlying manager within the Option (and occasionally as part of a consortium of other clients of the underlying manager). The Manager currently has interests in 13 co-investments representing approximately 23% of the Option. Lonsec considers the Manager's size and strong relationships with underlying managers a material positive in accessing these opportunities which, all else being equal, may provide differentiated sources of alpha when compared to competitors. Notwithstanding this, Lonsec notes co-investments introduce a more concentrated set of risks given each deal tends to provide exposure to a single asset which brings with it its own set of idiosyncratic risks. Lonsec would also welcome additional dedicated resources to support the greater due diligence required for co-investments.
- The Option has historically held a bias towards Australian domiciled assets (current allocation of over 50%). This allocation has fluctuated in recent times, with gradually higher exposure to North America (14%) and Europe incl. UK (25%) domiciled assets. Lonsec is generally supportive of this rotation as it should serve to improve diversification from a reduced exposure to the Australian economy, and ultimately provide a broader landscape in which managers can search for fundamentally strong and attractive infrastructure assets.

Research approach

- Lonsec considers JANA's manager research process to be thorough and robust. JANA's formal manager review and due diligence process involves multiple members of the team over a series of meetings to evaluate a manager on both quantitative and qualitative grounds. The JANA Research Committee is responsible for reviewing all research prior to assigning a manager an 'investable' rating. The list of 'investable' managers is then used by the asset consultants to construct individual client portfolios, taking into account various factors and requirements. Notwithstanding our favourable view of JANA, Lonsec continues to believe the reliance on a single asset consultant is sub-optimal and could be augmented with inputs from other external consultants and/or a build out of resources internally.
- Lonsec notes the Super Fund's investment team is involved throughout the manager 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.
- Co-investments occur with managers that have already been through JANA's manager research process and allocated to within the Option. JANA and the investment team work together to assess all co-investment opportunities and present such opportunities to the Board for approval. The investment team takes a lead role on all commercial negotiations and structuring considerations. While acknowledging the heavy input from JANA, Lonsec considers the depth of research undertaken by the Super Fund's investment team to be less granular than peers investing in similar assets.

Portfolio construction

- The Option currently invests in seven external managers and 13 co-investment deals. Approximately 40% of assets (51% at last review) are held with one manager, being IFM, across the IFM Australian Infrastructure Fund and the IFM Global Infrastructure Fund, and one co-investment deal. Lonsec generally observes a higher level of manager diversification within multi-manager style funds, and notes this exposes investors to a higher level of manager risk. In addition, IFM is a related party entity and therefore introduces a perceived conflict of interest which may compromise the objectivity of the portfolio construction process. That said, Lonsec acknowledges the manager's efforts in diversifying this exposure and notes a steadily declining IFM exposure over recent years. Furthermore, Lonsec notes that the investment team has strict governance processes in place which is supported by the independence of JANA, which reports directly to the Board when making recommendations on prospective underlying managers. Notwithstanding the manager concentration, Lonsec believes there is sufficient asset diversification on a look through basis.

Hostplus — Infrastructure PST

- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of four options available) and withdrawals. Liquidity is provided through the Super Fund's notional funding structure which means the Hostplus Balanced Option is used as a funding source for all transactions. Lonsec notes this feature can only persevere as long as the Hostplus Balanced Option is much larger than the sum of all other available options (at least 60% of total assets under management, currently 63%). While Lonsec characterises this approach as unusual in the retail investment industry, it is more pervasive within industry superannuation. In managing the risks of the notional funding structure, Lonsec notes that the Super Fund reports at each Board meeting on the aggregate impact of inflows/outflows/switches/ market movements upon the asset allocation of the Hostplus Balanced Option.

ESG Integration

- 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. Documentation requirements are appropriate. There are only limited signs that 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 Super Fund's in-house Group Executive, Risk & Compliance oversees a compliance program which includes three risk management frameworks. Lonsec considers the existing compliance structure in place at the Super Fund to be adequate.
- The investment team conducts portfolio analytics primarily via JANA's tools, supplemented by the Citibank performance measurement and attribution system which is monitored in-house. Citibank, which serves as the custodian, is responsible for monitoring mandate breaches by external managers. Lonsec acknowledges Hostplus' efforts to improve their investment risk and performance analytical systems, illustrated by their recent adoption of Aladdin (public markets) and eFront (private markets). The combination of these two systems allows a 'whole-of-portfolio' view. Given Hostplus' overweight allocation to illiquid and unlisted assets, the adoption of eFront in particular provides a significant improvement in 'look-through' visibility on a host of key data including investment exposures and risk contribution.

Fees

- While the headline fee is high compared to the Lonsec universe, and also towards the higher side of its peers in the broader multi-asset superannuation peer group, given the Option's high-quality underlying assets and that retail investors have typically found it difficult to access such assets at low investment minimums, the total fee load is considered to be reasonable.
- 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.

- The Fund holds allocations 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 infrastructure allocations. 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 targets a return of CPI + 2.0% p.a. (after fees) over 20 year periods.
- While the Option was recently launched as one of six PST offerings within the Fund and as such does not have a material standalone track record, the infrastructure portfolio has been a component of the well established Hostplus Balanced Option that Lonsec is familiar with and provides a rating on. In recent years, unlisted assets have contributed strongly to the overall performance of the Hostplus Balanced Option.
- Returns supplied by the Manager (as at 31 December 2022) show a return (after fees) of 9.8% over one year, and 6.8% p.a. over three years, delivering broadly in line with the CPI + 2.0% p.a. objective.

Overall

- Lonsec has retained 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. SMSF investors typically find it difficult to gain exposure to this asset class, particularly at the low investment minimums and reasonably attractive management cost at which Hostplus is marketing the Option. Lonsec also notes the improved liquidity position relative to other direct infrastructure funds, which is achievable due to Hostplus' notional funding structure. Nonetheless, Lonsec does highlight the perceived liquidity mismatch between the Option and its underlying assets.
- That said, the team remains smaller than peers of similar size and complexity, especially given strong cash inflows and the need to identify a strong pipeline of investment opportunities in the infrastructure sector, particular offshore. While a material allocation to one underlying manager poses concentration risks, Lonsec acknowledges it provides a large and diverse exposure to infrastructure assets, and has contributed meaningfully to performance.

People and Resources

Corporate overview

The Super Fund is an industry superannuation fund for the hospitality, tourism, recreation and sports industry. Originally founded in 1988 by the Australian Hotels Association and the United Workers Union, the Super Fund has grown to over to one million members with approximately $92.3bn in funds under management (as at December 2022). The Fund is a pooled superannuation trust as this term is defined under the Superannuation Industry (Supervision) Act 1993 ('SIS Act'). It is designed to pool the assets of eligible complying superannuation funds to invest in assets managed by the Super Fund.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
SAM SICILIA	CIO	29 / 14
GREG CLERK	DEPUTY CIO (STRATEGY AND RISK)	24 / 7
CON MICHALAKIS	DEPUTY CIO (PORTFOLIO CONSTRUCTION)	32 / 1
JORDAN KRAITEN	HEAD OF PRIVATE MARKETS (INFRASTRUCTURE)	18 / 9

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

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

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

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

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

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

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

Governance and investment committee

The nine-member Board is made up of three representatives from 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.

Asset Allocation

Strategic asset allocation

The Option does not set or target a strategic asset allocation within the infrastructure sector. However, in recent times, the Option has allocated approximately 29% to Airports, Toll Roads (7%), and Seaports (10%) and Social Infrastructure (7%). The Option's sector allocation as at 31 December 2022 is shown below.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AIRPORTS	-	-	-	29%
SEAPORTS	-	-	-	10%
TOLL ROADS	-	-	-	7%
SOCIAL INFRASTRUCTURE	-	-	-	7%
ELECTRICITY, TRANSMISSION & DISTRIBUTION	-	-	-	6%
PIPELINES	-	-	-	3%
RENEWABLE ENERGY	-	-	-	14%
WATER & WASTEWATER	-	-	-	2%
LIQUEFIED NATURAL GAS	-	-	-	2%
OTHER	-	-	-	20%
TOTAL	-	-	-	**100%**

Tactical/Dynamic asset allocation

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

Research Approach

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

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

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

JANA's manager research process is as follows:

1. Step 1 – Filtering the investment universe: JANA's research team regularly meets with managers, including those that do not currently manage money for their clients. JANA has an 'open door' policy and will interview 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 reasons, including: departure of key personnel; adverse developments in the manager's organisation; excessive growth in assets under management and/or product proliferation; unexpected or unacceptable risk characteristics; underperformance, particularly in market conditions that should have been relatively favourable for the manager's stated investment approach; and perceived loss of the manager's 'edge'.

The manager recommendations are made to the Super Fund's investment team and Board for approval.

JANA will meet with each incumbent manager at least quarterly.

For direct investments and co-investments, the investment team conducts due diligence alongside relevant JANA experts.

Portfolio Construction

Overview

The Option invests predominantly with external fund managers. In its allocation towards external managers, the Option allocates to pooled trusts as well as co-investing alongside an existing manager within the Option.

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

Related party investments

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

- IFM; and
- ISPT.

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

Underlying manager allocation

As at 31 December 2022:

- AMP Capital Community Infrastructure
- AMP Capital ADIT
- FSI Airport Fund
- FSI EDIF II
- FSI EDIF III
- FSI GDIF Hedged Feeder Fund 2
- Gardior Fund A – Infrastructure Units
- Gardior Fund B – Infrastructure Units B
- GIP Gemini Fund
- IFM Australian Infrastructure Fund
- IFM Global Infrastructure Fund
- Macquarie GIF II
- Morrisons
- Octopus Oasis
- QIC GIF
- QGIF Iona Aggregator Trust
- QIC REV Investment Trust No. 1
- Utilities Trust of Australia

Co-Investments

- Adelaide Airport
- Anglian Water
- Brisbane Airport
- Campus Living Villages Fund
- Enfinium
- Flinders Ports
- Gatwick Airport
- Lochard Energy
- NSW Ports
- Octopus GREP
- PowAR
- SICEEP
- TerraGen
- Tilt Renewables

Risk Management

Risk limits

At a broad level, the Option has very few risk parameters and risk is generally controlled through diversification across infrastructure managers and their underlying assets. The Option invests up to 100% of its capital in illiquid assets.

Risk monitoring

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

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

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

1. The Risk Management Strategy (RMS) which outlines the Board's approach to risk management (how the

Super Fund identifies, accesses, mitigates, manages, monitors and reports on risk);

2. Risk Appetite Statements (RAS) which is a formal declaration of the Board's risk appetite and articulates how much risk the Board is willing to accept in order to achieve its strategic and business objectives; and
3. Material Risk Register (MRR) and Key Risk Indicators (KRI) which contain details of material risks impacting the Option and captures the risk assessment, risk tolerance and mitigating controls of all the identified material risks.

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

Implementation

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

Currency management

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

Risks

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

Market and economic risk

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

Liquidity risk

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

Performance Test risk

On 1 July 2021, the Federal Government's Your Future, Your Super (YFYS) reforms came into effect. Under these reforms, a key requirement is for APRA to conduct an annual Performance Test ('the test') for MySuper products from 1 July 2021, and for trustee-directed products from 1 July 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 Super Fund.

Quantitative Performance Analysis

The Product commenced on May 2019. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

Hostplus — Infrastructure PST

Glossary

Total return 'Top line' actual return, after fees

Excess return Return in excess of the benchmark return

Standard deviation Volatility of monthly Absolute Returns

Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)

Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed

Time to recovery The number of months taken to recover the Worst Drawdown

Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

About Lonsec

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

Analyst Disclosure and Certification

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