



Product Review

Hostplus — Property PST

ISSUE DATE 13-04-2023

About this Review

ASSET CLASS REVIEWED	PROPERTY AND INFRASTRUCTURE
SECTOR REVIEWED	DIRECT ASSETS
SUB SECTOR REVIEWED	DIVERSIFIED
TOTAL FUNDS RATED	9

About this Option

PDS OBJECTIVE	AIMS TO ACHIEVE CONSISTENT INCOME RETURNS AND CAPITAL GROWTH OVER THE LONGER TERM.	
PDS DATE	28-11-2022	
OPTION SIZE	\$499.6M (DECEMBER 2022)	
ANNUAL FEES AND COSTS (PDS)	1.37% P.A.	
ACCOUNT TYPES	ELIGIBLE SUPERANNUATION FUNDS	

About this Fund

FUND NAME	HOSTPLUS SELF-MANAGED INVEST	
FUND ABN	13 140 019 340	
FUND INCEPTION	24-02-2021	
FUND SIZE	\$499.6M (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	SPIROS DEFTEREOS	
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 property assets. These assets have typically been difficult for retail investors to access at low investment minimums.
- Improved liquidity position vs other typically illiquid, direct property investments, albeit Lonsec highlights the liquidity mismatch between the Option and its underlying assets.
- Strong performance of Hostplus' property strategy in recent years.

Weaknesses

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

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.

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.

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 — Property PST

ISSUE DATE 13-04-2023

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 Property PST Option ('the Option') provides a multi-manager style exposure to unlisted property assets via selected external investment managers that are held in the Super Fund.
- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.0% p.a. on average over 20 years.
- The secondary objective is to target returns over and above the Mercer/IPD Australia Monthly Property Fund Index Core Wholesale (an index measuring post fee NAV total returns to core unlisted wholesale funds within the Australian investment market).
- From a risk perspective, the Option aims to limit the likelihood of negative returns to between three and four out of every 20 years (on average).
- The Option predominantly has exposure to Office and Retail property assets (approximately 47% of the Option) located in Australia (approximately 75% of the Option).
- The Option invests in illiquid, unlisted property funds. While the illiquidity premium has been a key driver to the Hostplus Balanced Option's strong returns in recent years, these investments may present liquidity issues in times of market stress.
- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of six options available) and withdrawals. This liquidity provision can occur due to the Super Fund's notional funding structure. Investors should note that under the terms of the Option's PDS suspension of applications, switches and withdrawals can occur at the Manager's discretion.
- The Option's PDS dated 28 November 2022 disclosed Annual Fees and Costs ('AFC') totalling 1.37% p.a. This value comprises (1) Administration Fees and Costs of 0.35% p.a.; (2) Investment fees and costs of 0.62% p.a.; and (3) Net Transaction Costs of 0.40%. 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 property portfolio that is best suited to long-term investors who can accept some investment risk over the longer term. The Option has a high exposure to illiquid property assets with the aim of providing long-term investment growth, predominantly from an income return.
- While the returns of the Option are expected to be less volatile than equities and listed property securities investments, investors should be aware that the Option may experience periods of negative returns and that there is a risk of incurring a capital loss on the Option.
- As such, Lonsec considers the Option suitable for medium to high-risk profile investors with a seven+ year investment-time horizon and it will generally sit within the growth component of a balanced portfolio.

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).

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

Hostplus — Property PST

ISSUE DATE 13-04-2023

- Departure of Susannah Lock (Head Of Responsible Investments). Hostplus is recruiting for Lock's replacement.
- Fees:
 - Annual fees and costs increase ('AFC') from 0.89% p.a. to 1.37% 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 property assets held in the Super Fund, and previously had been made available as a trial offering to approximately 30 investors known to the Super Fund.
- The investment team of 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 Michalakakis. 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. Michalakakis (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 Michalakakis' 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 (Property), Spiros Deftereos, who joined the Super Fund in December 2012, and has a total of 18 years industry experience. Prior to his role at the Super Fund, Deftereos worked at Lend Lease in a product development role within their investment management division. He has also worked in

property advisory roles with NAB and PwC. Lonsec notes that Deftereos was previously supported by an Investment Specialist, however post-merger with Statewide Super 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 property team structure, the team is nevertheless still smaller and less experienced than investment personnel managing like assets at superannuation funds of similar size and complexity.

- The Super Fund's Board of Directors ('Board') comprises nine members with equal representation from employers (Australian 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

- Approximately 88% of assets are allocated to 'Core' property assets. The Manager defines these as high quality assets providing a stable, durable return predominantly driven by income. In contrast, the non-core property allocation carries more risk and tends to be more opportunistic in nature e.g. carrying development risks or contain higher leverage.
- The Option has historically invested in assets within Australia but has, in recent times, increased its allocation to offshore assets (approximately 25% of the Option). Lonsec is generally supportive of this as it may serve to improve diversification by investing in sectors of the market not commonly found in Australia such as medical office and multi-family residential, ultimately providing a broader landscape in which underlying managers can search for fundamentally strong and attractive properties. Lonsec notes however that the investment team has less experience in offshore markets, and consider

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P 3-10

Hostplus — Property PST

ISSUE DATE 13-04-2023

that its consultant, JANA, may have less expertise in these areas given they do not have 'on-the-ground' analysts offshore. Lonsec will seek to continue building conviction in the investment team's expertise in offshore assets in future reviews.

Research approach

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

Portfolio construction

- The Option's investments are outsourced to external managers, typically into commingled funds. In several cases, the Option has a material unit holding in the underlying funds (defined in this instance as holding more than 20% of units). Lonsec notes this may provide the Manager with a degree of influence over the future strategy of the underlying funds, for example in exiting or re-positioning a particular property asset, however it may also hinder the Option in redeeming their holding in full in any liquidity windows provided by the underlying manager. Notwithstanding this, Lonsec notes the Manager is more predisposed to holding assets over the long term.
- The Option currently invests in 28 underlying property funds across 12 managers. Approximately 20% of assets are held with one manager, being ISPT, across four of their funds. The largest exposure at 15% of assets is the ISPT Core Fund. Lonsec generally observes a higher level of manager diversification within multi-manager funds, and notes this concentration exposes investors to a higher level of manager risk. In addition, ISPT is a related party entity and therefore introduces a perceived conflict of interest which may compromise the objectivity of the portfolio construction process. That said, Lonsec acknowledges the manager's efforts in diversifying this exposure, and notes a steadily declining ISPT exposure over recent years to the point where the Option now has a broadly similar exposure to other large managers such as Lendlease and Charter Hall. 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.

- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of six options available) and withdrawals. Liquidity is provided through the Super Fund's notional funding structure which means the Hostplus Balanced Option is used as a funding source for all transactions. Lonsec notes this feature can only persevere as long as the Hostplus Balanced Option is much larger than the sum of all other available options (at least 60% of total assets under management, currently 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

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P. 4 - 10

Hostplus — Property PST

ISSUE DATE 13-04-2023

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.
- While the Option itself does not gear the Option's assets, the Option's weighted average gearing on a look through basis is currently 23% (December 2022). The Option does not prescribe a maximum gearing target, but the Manager has confirmed that the maximum weighted average look through gearing using the prescribed maximum's of the underlying managers is approximately 24%. Lonsec considers the current look through gearing to be relatively conservative, but would prefer the Manager to formalise their gearing policy, for example the maximum look through gearing allowable and confirmation that units in a property option would not be acquired should it result in a look through gearing ratio above the said maximum.

Fees

- Lonsec considers the absolute fee load to be high compared to the Lonsec universe, and also towards the higher side of its peers to the broader multi-asset superannuation peer group. That said, Lonsec highlights the Option's high-quality underlying

assets and that retail investors have typically found it difficult to access such assets at low investment minimums.

- 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 property 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 property portfolio has been a component of the well-

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P 5-10

Hostplus — Property PST

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 14.2% over one year and 8.7% p.a. over three years, outperforming both the CPI + 2.0% p.a. objective and the Mercer/IPD Australia Monthly Property Fund Index Core Wholesale reference benchmark.

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 can find it difficult to gain exposure to this asset class, particularly at the low investment minimums which Hostplus is marketing the Option. Lonsec also notes the improved liquidity position relative to other direct property funds, which is achievable due to Hostplus' notional funding structure. Nonetheless, Lonsec does highlight the perceived liquidity mismatch between the Option and its underlying assets.
- 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 property sector, particular offshore. While a material allocation to one underlying manager poses concentration risks, Lonsec acknowledges it provides a large and diverse exposure to property 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 one million members with approximately \$92.3bn in funds under management (as at December 2022). The Fund is a pooled superannuation trust 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 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
SPIROS DEFTEREOS	HEAD OF PRIVATE MARKETS (PROPERTY)	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 Michalakakis joined the Fund in 2022 from Statewide Super, where he served as CIO. Prior to that, Michalakakis was Director of Marketing and Client Services for Pzena Investment Management. Michalakakis also previously worked with Merrill Lynch Investment Managers and Alliance Capital Management in similar roles.

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

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

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

Governance and investment committee

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

Hostplus — Property PST

Asset Allocation

Strategic asset allocation

The Option does not set or target a strategic asset allocation within the property sector. However, the Option has historically allocated approximately 40% towards each of Commercial and Retail property assets. The Option's sector allocation as at 31 December 2022 is shown below.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
OFFICE	-	-	-	29.8%
RETAIL	-	-	-	16.6%
INDUSTRIAL	-	-	-	20.3%
RESIDENTIAL	-	-	-	12.7%
HOSPITALITY	-	-	-	13.7%
OTHER	-	-	-	6.9%
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, with contribution from external specialists where required. In the past, the Super Fund had engaged Charter Keck Cramer, Jones Lang LaSalle, CBRE for consulting services in the property asset class.

Portfolio Construction

Overview

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

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

Related party investments

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

- IFM; and
- ISPT.

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

Underlying manager allocation

As at 31 December 2022:

- Charter Hall Prime Industrial Fund
- Charter Hall Prime Office Fund
- Chauvel Neighbourhood Opportunities Fund

Hostplus — Property PST

- Dexus ADPF
- Dexus Wholesale Property Fund
- Eureka Property Fund 1
- Franklin International Real Estate
- Hostplus Commercial Trust (Icon Place)
- Hostplus LEP Trust
- ISPT Core Fund
- ISPT Retail Australia Property Trust
- ISPT Residential Property Trust (DOF III)
- ISPT Dev and Opp Fund II
- ISPT Residential Mandate
- Invesco Core Real Estate USA (ICRE) Fund
- Invesco Commercial Mortgage Income Fund
- Kayne Anderson KAMOB Investors III
- Kayne Anderson Core Real Estate
- Kayne Anderson Real Estate (KAREP VI)
- Kayne Anderson Multifamily Fund
- Lend Lease Asian Retail Investment Fund 2
- Lend Lease Aust'n Prime Property Commercial
- Lend Lease Aust'n Prime Property Industrial
- Lend Lease Aust'n Prime Property Retail
- Lend Lease Sub Regional Retail Fund
- LWIP Trust I
- LWIP Trust II
- Nuveen US Cities Multifamily Fund
- Nuveen US Cities Industrial Fund
- Pretium Single-Family Rental
- QIC Australia Core Plus Fund
- QIC Property Fund
- Mesirow Currency Overlay (Property)

Risk Management

Risk limits

At a broad level, the Option has very few risk parameters and risk is generally controlled through diversification across property sectors and between underlying property assets. The Option's maximum weighted average look through gearing using the prescribed maximum's of the underlying managers is circa 24% as of December 2022. 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

Hostplus — Property PST

ISSUE DATE 13-04-2023

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.

Borrowing/Leverage risk

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

Other risks

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

Quantitative Performance Analysis

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

ANALYST: BALRAJ SOKHI | APPROVED BY: ALEC LEUNG

P 9-10

Hostplus — Property 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.

LONGSEC STRONGLY RECOMMENDS THIS DOCUMENT BE READ IN CONJUNCTION WITH THE RELEVANT PRODUCT DISCLOSURE STATEMENT. IMPORTANT NOTICE: Issued by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Lonsec receives a fee from the fund manager or financial product issuer(s) for researching the financial product(s), using objective criteria and for services including research subscriptions. Lonsec’s fee is not linked to the rating(s) outcome. Lonsec Investment Solutions Pty Ltd ABN 95 608 837 583 CAR (CAR: 001236821) of Lonsec receives fees under separate arrangement for providing investment consulting advice to clients, which includes model portfolios, approved product lists and other financial advice and may receive fees from this fund manager or financial product issuer for providing investment consulting services. Refer to the Conflicts of Interest Statement at: [Lonsec.com.au/important-documents](https://lonsec.com.au/important-documents) Lonsec does not hold the financial product(s) referred to in this document. Lonsec’s representatives and/or their associates may hold the financial product(s) referred to in this document, but details of these holdings are not known to the Analyst(s). **Warnings:** In line with industry practice returns may be estimated, to access verified returns please refer to the product provider. Past performance is not a reliable indicator of future performance. Any advice is General Advice based on the investment merits of the financial product(s) alone, without considering the investment objectives, financial situation and particular needs of any particular person. It is not a recommendation to purchase, redeem or sell the relevant financial product(s). Before making an investment decision the reader must consider his or her financial circumstances or seek personal financial advice on its appropriateness. Read the Product Disclosure Statement for each financial product before making any decision about whether to acquire a financial product. Lonsec’s research process relies upon the participation of the fund manager or financial product issuer(s). Should the fund manager or financial product issuer(s) no longer participate in Lonsec’s research process, Lonsec reserves the right to withdraw the document at any time and discontinue future coverage. The product rated in this publication may have related financial products or be associated with other financial products and platforms. The rating may only be applied to the financial product outlined in this publication at first instance, seek professional advice before you make an investment decision on related or associated financial products and platforms. You should be aware that the mandate, fees, underlying investments, the issuers of the related and associated financial products and platforms may be different from the financial product specified in this publication. **Disclaimer:** This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Financial conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice. Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, officers, employees and agents disclaim all liability for any error or inaccuracy in, misstatement or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it. ©2023 Lonsec. All rights reserved. This report may also contain third party material that is subject to copyright. To the extent that copyright subsists in a third party it remains with the original owner and permission may be required to reuse the material. Any unauthorised reproduction of this information is prohibited.