



# Product Review

## Hostplus — Infrastructure PST

ISSUE DATE 01-04-2021

### About this Review

ASSET CLASS REVIEWED	PROPERTY AND INFRASTRUCTURE
SECTOR REVIEWED	DIRECT ASSETS
SUB SECTOR REVIEWED	INFRASTRUCTURE
TOTAL FUNDS RATED	2

### About this Option

PDS OBJECTIVE	THIS OPTION CONSISTS OF TANGIBLE INFRASTRUCTURE ASSETS AND AIMS TO ACHIEVE INCOME RETURNS AND CAPITAL GROWTH OVER THE LONG TERM.	
PDS DATE	15-02-2021	
OPTION SIZE	\$51.7M (DECEMBER 2020)	
MANAGEMENT COSTS	0.81% P.A. (INCL. INVESTMENT FEE 0.49% P.A. AND ICR 0.32% 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	\$156M (DECEMBER 2020)
MEMBERSHIP	608
MEMBERSHIP FEE (P.A.)	\$0.00
ADMINISTRATION FEE (P.A.)	\$165 P.A.

### About this Trustee

TRUSTEE	HOSTPLUS
FUND MANAGER	HOSTPLUS
ASSETS MANAGED IN THIS SECTOR	\$4.9BN (DECEMBER 2020)
YEARS MANAGING THIS ASSET CLASS	17
ASSET CONSULTANT	JANA INVESTMENT ADVISERS

### Investment Team

PORTFOLIO MANAGER	JORDAN KRAITEN
INVESTMENT TEAM SIZE	14
INVESTMENT TEAM TURNOVER	LOW

### Investment process

STYLE	MULTI-MANAGER
GROWTH / DEFENSIVE SPLIT %	75 / 25
BENCHMARK	CPI + 2.5% P.A. OVER 20 YEARS

### Option rating history

APRIL 2021	INVESTMENT GRADE
MAY 2020	INVESTMENT GRADE
AUGUST 2019	INVESTMENT GRADE

### What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

### 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

- A small investment team relative to peers of similar size and complexity.
- A material allocation to IFM, a manager that is a related party entity, heightens 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.
- 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.

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## BIOMetrics

### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

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

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

### Fee profile

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

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

## What is this Option?

- The Hostplus Self-Managed Invest ('the Fund') is a pooled superannuation trust ('PST') as this term is defined under the Superannuation Industry (Supervision) Act 1993 ('SIS Act'). It is designed to pool the assets of eligible complying superannuation funds to invest in assets managed by Hostplus Superannuation Fund ('the Super Fund' or 'the Manager').
- The Fund was initially launched in the 2017/18 financial year to an initial round of investors known to the Super Fund. It was designed to retain business from SMSF investors in the hospitality industry. After this successful trial, the Super Fund sought to distribute the PST more broadly to other other eligible superannuation funds, such as SMSF investors.
- 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 that are held in the Super Fund. The Option predominantly has exposure to Airports, Toll Roads, Seaports and Social Infrastructure (approximately 57% of the Option) with just under half of assets located in Australia (approximately 44% of the Option).
- The Option aims to deliver returns (after fees and taxes) of CPI plus 2.5% p.a. on average over 20 years. The Option also has a primary internal objective of targeting returns over and above the Australian 10 year bond yield plus 4.5% p.a..
- From a risk perspective, the Option aims to limit the likelihood of negative returns to between four and six out of every 20 years (on average).
- The Option invests in illiquid, unlisted 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 Fund is also offering standalone access to the IFM Australian Infrastructure Fund as one of the six PST options available. This report does not constitute a rating or view on this option. While the Option has a material allocation to IFM alongside other investment managers, Lonsec has not been provided access to the IFM investment management team in order to form a qualitative opinion on IFM or the IFM Australian Infrastructure Fund.
- As per the PDS dated 15 February 2021, the fee structure/disclosure for the Option is as follows:
  - Management cost of 0.81% p.a., comprising an investment fee of 0.49% p.a. (management fee of 0.37% p.a. and performance fee of 0.12% p.a.); plus
  - An indirect cost ratio (ICR) of 0.32% p.a. (transaction cost of 0.11% p.a. and operational cost of 0.21% p.a.); and
  - An administration fee of \$165 p.a. A one off joining fee of \$240 is also charged. The Option itself does not charge a performance fee at the headline level.
- Transaction costs are incurred when assets are bought or sold and are an additional cost to the member. Operational costs include all administrative / operational expenses that are additional costs. As noted above, the Option's transaction and operational costs are captured in the ICR. The Option's buy-spread is nil. Buy/sell spreads are subject to change depending on market conditions. Refer to the Manager for current buy/sell spreads. Borrowing costs are estimated at 0.01% p.a. Please refer to the Option's PDS for further details.

## Using this Option

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

- 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.

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## Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



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

## Changes Since Previous Lonsec Review

- Hostplus' funds under management (FUM) has risen from \$45.8bn to \$53.8bn. The size of the Option has increased from \$26.7m to \$51.7m (figures as at 31 December 2020).
- In February 2021, Hostplus (along with other industry funds) agreed to sell its stake in Members Equity Bank to the Bank of Queensland. Completion of the transaction is targeted before the end of the 2021 financial year, subject to regulatory approval.
- Hostplus' internal investment team:
  - Departure of Kristopher Staltare (Investment Specialist – Property).
  - Departure of Derren Tan (Investment Specialist – Infrastructure).
- Investment objective:
  - Reduced to CPI + 2.5% p.a. over 20 years in line with lower expected returns (previously CPI + 3.0% p.a.).
- Fees:
  - Management cost increase from 0.67% p.a. to 0.81% p.a. This is comprised of an investment fee increase from 0.35% p.a. to 0.49% p.a.
- Liquidity:
  - Withdrawals thus far (\$3.1bn as of 31 December 2020) under the Federal Government's Early Release Scheme have been significantly lower than initially feared (\$8-10bn). While this is a positive result, Lonsec highlights this experience is shared across the wider superannuation system, and can be attributed in large part to the unprecedented fiscal support (such as JobKeeper/Seeker) helping to stem outflows.
  - Nevertheless, in the wake of the COVID-19 crisis, Hostplus has increased its liquidity levels (especially in the default Balanced option) in anticipation of any future such programs being announced. While Lonsec notes the Fund SAA is by and large close to the levels pre-crisis, this episode only further highlights Lonsec' long-standing concerns regarding the level of impact of Hostplus' significant overweight to unlisted assets may have on Fund liquidity.
- Valuations:
  - During the peak of the COVID-19 crisis in early 2020, Hostplus experienced 'valuation uncertainty' from external valuers in regards to its unlisted assets. As a result, the Board exercised their valuation policy discretion for the first time, and assigned director valuation adjustments in March 2020 (-10% for Property and Infrastructure; -15% for Private Equity). Post-June 2020, all assets have returned to being externally valued, with a project currently underway to develop an enhanced process for managing a situation such as this should it occur again in the future.

## Lonsec Opinion of this Option

### People and resources

- The Super Fund is a public offer superannuation fund for the hospitality (including tourism, recreation and sport) industry. As at December 2020, The Fund has over one million members with approximately \$53.8bn of funds under management (FUM), up from \$45.8bn at the time of the last review. Lonsec acknowledges the high FUM level provides a scale advantage allowing the Manager to negotiate competitive fees with its underlying managers including those within the Option. The Fund is a newly launched 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 14 is headed by CIO Sam Sicilia, who joined the Fund in 2008. Sicilia, who has 27 years of industry experience, is responsible for capital markets and generating investment insights for the Fund. He is supported by two Deputy CIO's – Greg Clerk and Andrew Howard. Clerk (previously Head of Investment Strategy) joined the Fund in 2016 but had a lengthy working relationship with the Fund prior to his appointment in his role at JANA where he spent 17 years, most recently as the primary asset consultant to the Fund. Howard (previously CIO at VicSuper) recently joined the Fund in March 2020, and is responsible for leading the fund's investments strategy team. Lonsec has sufficient conviction in Sicilia's and Clerk's investment skills, and notes Howard's pedigree and experience is helping to ease some of the workload from the increasing volume of projects required to evolve the Fund's strategy as FUM grows rapidly. Pleasingly, Hostplus has signalled an intention to hire roles within their investment team to bolster resourcing and invest in portfolio management and risk systems. Overall Lonsec views this shift favourably and is seeking to gain further conviction once hires have been made and systems put in place.
- The Portfolio Manager of this Option is Head of Infrastructure, Jordan Kraiten. Kraiten joined the Super Fund in October 2012, and has a total of 16 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 is usually supported by an Investment Specialist, however that role has been recently vacated. Lonsec considers the dedicated two person infrastructure team structure to be smaller and less experienced than investment personnel managing like assets at superannuation funds of similar size and complexity.
- The Super Fund's Board of Directors ('Board') comprises nine members with equal representation from employers (Australian Hotel Association) and employees (United Voice). Out of the nine members, three directors, including the Chair, are jointly selected by Australian Hotel Association and United Voice. The Board is responsible for the overall governance, management and long term

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strategic direction of the Super Fund, and also serves as the investment committee. The Board delegates day to day investment operational activities to the investment team, but remains ultimately accountable for the Super Fund's investment management and outcomes. Compared to Lonsec-rated peers, Lonsec considers the Board to have less direct investment management experience, albeit possesses the breadth and diverse set of skills to oversee the investment team. That said, Lonsec notes the Board appears to be well aligned in its vision for the Option, delivering a consistent investment strategy that plays to the the Fund's competitive advantages (young member base and strong cash flows).

- The alignment of interests between the Super Fund and investment team is considered to be relatively low but considered adequate, and in-line with the Super Fund's not for profit philosophy, governance, and decision making structures. The investment team is paid a base salary, with Heads of also receiving a discretionary component related to the performance 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 (24.8% of the Option), Toll Roads (11.2%) and Seaports (11.4%). 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 seven co-investments representing approximately 22% 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 resources to support the additional due diligence required for co-investments.

- The Option has historically held a bias towards Australian domiciled assets (current allocation of 44%). This allocation has fluctuated in recent times, with gradually higher exposure to North America (19%) and Europe incl. UK (28%) 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.

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### Portfolio construction

- The Option currently invests in six external managers and seven co-investment deals. Approximately 58% of assets (67% at last review) are held with one manager, being IFM, across the IFM Australian Infrastructure Fund and the IFM International Infrastructure Fund, and two co-investment deals. 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. Lonsec notes however that the investment team has strict governance processes in place which is supported by the independence of JANA, which reports directly to the Board when making recommendations on new underlying managers. Notwithstanding the manager concentration, Lonsec believes there is sufficient asset diversification on a look through basis.
- The Fund is also offering standalone access to the IFM Australian Infrastructure Fund as one of the six PST options available. While the Option has a material allocation to IFM, Lonsec has not been provided access to the IFM investment management team in order to form a view or rating on the standalone IFM option.
- In a move that is atypical for managers of illiquid assets, the Super Fund offers unrestricted switching between options within the Fund (the Option being one of 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 70%). While Lonsec characterises this approach as unusual in the retail investment industry, it is more pervasive within industry superannuation. In managing the risks of the notional funding structure, Lonsec notes that the Super Fund reports at each Board meeting on the aggregate impact of inflows/outflows/switches/market movements upon the asset allocation of the Hostplus Balanced Option.

### ESG Integration

- The Manager has indicated a commitment to ESG with a strong policy framework and clear public positioning. The ESG policy is freely available on the firm's website. Overall, Lonsec views the strength of this commitment to be above peers.
- The level of disclosure with respect to the Manager's proxy voting policy and voting outcomes is in-line with peers supported by a decent proxy voting policy framework. Reporting on voting decisions is publicly available and aligned with peers.
- The level of disclosure with respect to the Manager's engagement policies and engagement outcomes is assessed as being in-line with peers with a decent engagement policy framework. Engagement reporting is publicly available but considered to be lagging peers.

- There is evidence of ESG incorporation when selecting a manager, particularly through the use of a new investment checklist that includes minimum ESG requirements. Some elements of ESG are visible throughout the product design process. The Manager conducts annual ESG reviews and while there is some monitoring of ESG factors at the manager level, it is still at a relatively nascent stage. Overall, ESG integration within the investment process is in line with peers.
- The investment team demonstrated an ability to engage on broad ESG topics and the Manager had a systematic approach to tracking engagement outcomes. ESG is integrated across equity strategies of the portfolio. There was some evidence of a structured approach to performing detailed look-through ESG analysis of underlying holdings.
- Overall, on a peer relative basis, Lonsec considers the level of ESG integration within this fund to be 'Moderate'.

### Risk management

- The Board charter details key policies and processes the Board has in place for the governance of the Option, as well as the key roles and responsibilities of the Board. Separate to this, the Super Fund's in-house Group Executive, Risk & Compliance oversees a compliance program which includes three risk management frameworks. Lonsec considers the existing compliance structure in place at the Super Fund to be adequate.
- The investment team conducts portfolio analytics primarily via JANA's tools, supplemented by the Citibank performance measurement and attribution system which is monitored in-house. Citibank, which serves as the custodian, is responsible for monitoring mandate breaches by external managers. Lonsec considers the lack of internal investment risk and performance analytical systems to be a relative weakness of the Super Fund. Lonsec would be encouraged to observe improvement in this regard moving forward.

### Performance

- The Option targets a return of CPI + 2.5% 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 2020) show a return (after fees) of -1.5% over one year, and 7.9% p.a. over three years, underperforming the CPI objective and the internal 10 year Australian Government Bond + 4.5% hurdle over one year, but outperforming both targets over three years.

## Hostplus — Infrastructure PST

### Overall

- Lonsec has retained the 'Investment Grade' rating of the Hostplus Infrastructure PST Option at this review. 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.
- Lonsec notes the size of the investment team is small relative to peers of a similar size and complexity, particularly in light of the strong cash flows received into the Hostplus Superannuation Fund and the need to identify a strong pipeline of investment opportunities in the infrastructure sector, particularly offshore which is growing in importance given the scale of opportunity is larger. The Option also allocates a material amount to one underlying manager which increases manager concentration risks. That being said, Lonsec acknowledges this underlying manager provides a large and diverse exposure to infrastructure assets, and has contributed meaningfully to performance in the Lonsec rated Hostplus Balanced Option.

### People and Resources

#### Corporate overview

The Super Fund is an industry superannuation fund for the hospitality, tourism, recreation and sports industry. Originally founded in 1988 by the Australian Hotels Association and United Voice, the Super Fund has grown to over one million members with approximately \$53.8bn in funds under management (as at December 2020). 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	27 /	12
GREG CLERK	DEPUTY CIO	22 /	5
ANDREW HOWARD	DEPUTY CIO	26 /	1
JORDAN KRAITEN	HEAD OF INFRASTRUCTURE	16 /	8

\* The Super Fund's investment team also includes five other 'Heads of' and four other 'Analysts/Investment Specialists'.

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 Super 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 Super Fund.

Andrew Howard (Deputy CIO) joined the Fund in March 2020 from VicSuper, where he served as CIO for a number of years. Prior to that, Howard was Mercer Investments' Asia Pacific CIO, Pacific Current Group (formerly Treasury Group) CIO, and Frontier Advisors' head of manager research.

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

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

#### Asset consultant

JANA is a leading investment consulting firm. JANA's core business is providing traditional and implemented consulting advice to institutional clients, including corporate, industry and public sector superannuation clients as well as charities, foundations and endowment clients. As at 31 December 2020, total assets under advice were approximately \$650bn.

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

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

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### 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 22% to Airports, Toll Roads (12%), and Seaports (13%) and Social Infrastructure (12%). The Option's sector allocation as at 31 December 2020 is shown below.

#### Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AIRPORTS	-	-	-	24.8%
SEAPORTS	-	-	-	11.4%
TOLL ROADS	-	-	-	11.2%
SOCIAL INFRASTRUCTURE	-	-	-	9.8%
ELECTRICITY, TRANSMISSION & DISTRIBUTION	-	-	-	7.3%
PIPELINES	-	-	-	6.7%
RENEWABLE ENERGY	-	-	-	6.5%
WATER & WASTEWATER	-	-	-	5.7%
LIQUEFIED NATURAL GAS	-	-	-	2.3%
OTHER	-	-	-	14.3%
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 property sectors.

### Research Approach

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

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

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

JANA's manager research process is as follows:

1. Step 1 – Filtering the investment universe: JANA's research team regularly meets with managers, including those that do not currently manage money for their clients. JANA has an 'open door' policy and will interview new managers without discrimination.
2. Step 2 – New manager/shortlist compliance process: If a manager is identified as having outstanding qualities, the research team will commence a formal due diligence process. JANA will meet with the manager multiple times and build relationships across a broad range of personnel to gain insights into the reasoning, the people and the processes behind the manager's investment decisions. JANA

research is conducted by at least three JANA personnel to ensure a diversity of inputs, including the head of the relevant research team, the Head of Research or an Executive Director. Offshore managers must be met in their offices as part of the due diligence process. These meetings are documented in the JANA Information Management System (JIMS), JIMS currently covers 1,800+ product managers of which 260+ are currently used by JANA clients.

3. Step 3 – Presentation to the JANA Research Committee (JRC): Following the completion of due diligence, if a manager is considered additive to client portfolios, the research team prepares an Evaluation Sheet for review by the JRC. It is the role of the JRC to robustly review, analyse and question the information presented to satisfy itself that thorough research has been conducted before the manager is confirmed as 'investable' for JANA's clients.
4. Step 4 – Ongoing Due Diligence: As part of the formal review and subsequent monitoring, managers participate in ongoing interviews with JANA staff, as often as needed where issues or concerns are present, or else are typically conducted twice a quarter. Regular manager meetings incorporate both quantitative and qualitative elements, similar to the due diligence process above. Termination of managers may happen for a broad range of reasons, including: departure of key personnel; adverse developments in the manager's organisation; excessive growth in assets under management and/or product proliferation; unexpected or unacceptable risk characteristics; underperformance, particularly in market conditions that should have been relatively favourable for the manager's stated investment approach; and perceived loss of the manager's 'edge'.

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

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

### 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 2020

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- FSI EDIF II
- FSI GDIF Hedged Feeder Fund 2
- Gardior Fund A – Infrastructure Units
- Gardior Fund B – Infrastructure Units B
- GIP Gemini Fund
- IFM Australian Infrastructure
- IFM International Infrastructure
- Macquarie GIF III
- Morrisons UTA
- QIC QGIF
- QGIF Iona Aggregator Trust
- QIC REV Investment Trust No. 1
- Utilities Trust of Australia

### Co-Investments

- Anglian Water
- Campus Living Villages Fund
- Freeport Note
- Lochard Energy
- NSW Ports
- PARF
- SICEEP

### 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 new investment opportunities and typically does not sell down existing exposures.

#### Currency management

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

#### Risks

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

#### Market and economic risk

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

#### Liquidity risk

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

#### 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.

ANALYST: BALRAJ SOKHI | APPROVED BY: DARRELL CLARK

## 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.

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