Chant West

Confidential

QSuper

Multi-Manager Rating

December 2021

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Ratings Methodology and General Disclosures

The attachment to this report provides an explanation of our ratings methodology, a description of our ratings and other important disclosures. Additional information about Chant West is available on our website (www.chantwest.com.au).

QSuper has retained us to rate its ability to construct multi-manager investment products and, in particular, the QSuper. We have charged QSuper a fixed fee for this service.

This report may only be used and distributed for a period being 12 months or until such time the report is updated, replaced or withdrawn by Chant West. Any report that has been updated, replaced or withdrawn is considered to be expired. Distribution of expired reports is strictly prohibited.

Chant West will seek to confirm with the product issuer that, where required, the fund has in place a current Target Market Determination as per Regulatory Guide 274: Product Design & Distribution Obligations, issued by the Australian Securities and Investments Commission.

Date of report: December 2021
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1. Multi-Manager Ratings

1.1 Overall rating

We have awarded QSuper our 5 Apples 'highest overall rating. This refers to QSuper's overall ability to construct quality multi-manager investment options for its members.

The attachment provides an explanation of our ratings methodology, a description of what the different ratings signify, an overview of our Responsible Investment classification system, and other important disclosures. It forms part of this report and should be read with the report.

This report is dated December 2021 and, to the best of our knowledge, unless otherwise stated, the information in this report is accurate at that date.

1.2 Individual investment option ratings

Table 1 shows our rating of each investment option considered in this report. These ratings may differ from the overall rating as they take into account the specific characteristics of each option.

Table 1: QSuper options rated

Single Sector	2022 Rating (Apples)		Last Year's Rating (Apples)
Australian Shares	3.5	Approved	3.5
International Shares	3.5	Approved	3.5
Cash	4.5	Recommended	4.5
Diversified			
Moderate	4.5	Recommended	4.5
Balanced	5	Highly Recommended	5
Aggressive	4.5	Recommended	5
Socially Responsible	4	Recommended	4

2. Responsible Investment Classifications

The Zenith Group's Responsible Investment (RI) classifications are determined by taking into consideration a broad range of factors, with the output of our analysis summarised in our product assessment reports and Multi-Manager Ratings Reports. The aim of the RI categorisations is to create a uniform framework where investors can broadly understand how superannuation funds and investment managers address RI themes and issues in their investment process. Consistent with this, Chant West-rated investment options are assigned a Responsible Investment Classification.

Table 2 shows our Responsible Investment Classification for each option rated. In our classification system, rated investment options are assigned one of the following classifications:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Descriptions of the above classifications are provided in the Attachment (Ratings Methodology & General Disclosures). Section 7 summarises QSuper's approach to responsible investment.

Table 2: Responsible Investment (RI) Classifications

Single Sector	RI Classification
Australian Shares	**Traditional**
International Shares	**Traditional**
Cash	**Traditional**
Diversified	
Moderate	**Aware**
Balanced	**Aware**
Aggressive	**Aware**
Socially Responsible	**Integrated**

3. Summary

3.1 Business overview

QSuper is a public sector fund that became public offer in July 2017. It manages assets of about $107 billion (excluding defined benefit money) and has roughly 621,000 members with about $350 million in monthly net contributions.

The merger with Sunsuper is expected to be complete by the end of February 2022 with the combined $230 billion fund to be known as Australian Retirement Trust (ART). ART will be led by Bernard Reilly as CEO, supported by eleven senior executives – Ian Patrick (Chief Investment Officer), Charles Woodhouse (Deputy Chief Investment Officer), Anthony Rose (Chief Financial Officer), Karin Muller (Chief Member Officer), Dave Woodall (Chief Growth Officer), Anne Browne (Chief Risk Officer), Rod Greenaway (Chief Technology Officer), Teifi Whatley (Chief Strategy Officer), Deanne Wilden (General Counsel), Phil Fraser (Chief of QInsure), and Helen Jackson (Chief People Officer).

The QSuper brand will continue as part of ART and will remain the default super fund for Queensland core government employees.

The Trustee Board of QSuper (the Board) currently comprises eight directors: one independent Chair (Don Luke), three employer representatives (Mary-Anne Curtis, Michael Drew, and Sandra McCullagh) and four member representatives (Beth Mohle, Bruce Cowley, Shane Maxwell, and Kate Ruttiman).

Charles Woodhouse, the fund's Acting CEO (also CIO), heads a team of about 1,445 with almost all staff currently based in Brisbane. His Executive Committee currently comprises five senior executives: Jason Murray (Chief of Member Experience), Karin Muller (Chief Operating Officer), John Seccombe (Chief Financial Officer), Phil Fraser (Chief of QInsure) and Anne Browne (Chief Risk Officer).

In his role as CIO at QSuper, Charles heads a team of 50 investment professionals. While QSuper doesn't have a primary asset consultant, it employs specialist consultants, Townsend Group (owned by Aon) for real estate and Albourne for alternatives. It also appoints consultants on an ad-hoc basis for specific projects. Additionally, Fiona Trafford-Walker provides advice to the Investment Committee.

QSuper has a well-defined investment decision-making process that involves considerable interaction between the Trustee Board, Investment Committee (IC), and internal investment team. This report considers the roles of each of those parties.

3.2 Investment beliefs

QSuper believes that portfolio strategies should be related to risk. Diversification should be achieved by seeking an appropriate balance of risk factors and should be employed to reduce risk without sacrificing return. It should not be used solely as a means of reducing risk at the expense of return. QSuper describes its approach to managing diversified portfolios as 'risk-balanced'. In constructing its portfolios, QSuper is peer-unaware and focusses on managing absolute and member account balance risk.

QSuper believes that selecting the most efficient mix of betas is the main driver of portfolio diversification and that the risky asset weight should then be increased based on desired risk and return to provide a number of diversified investment options along the capital markets line. QSuper believes that assets with similar risk have similar long-term expected returns when valuations are around normal levels. However, these valuations of assets fluctuate over time and this principle may not hold even over the long time periods. Strategies should change dynamically to reflect this impact when it is material. QSuper believes that overall return and risk will be improved by holding significant exposures to international assets.

Compared to its peers, QSuper has a significantly lower allocation to listed equities (about 34% versus 54% for peers in its Balanced option). Historically, it has maintained a significant strategic allocation to long-duration bonds (15 years), which in isolation are risky assets. These bonds carry equity-like risk but are a better diversifier against equity market falls than traditional bonds. However, given the current low level of bond yields, QSuper has recognised that long-duration bonds won't provide the same level of diversification or return potential going forward so its bond portfolio duration has been reduced to seven years. While it has lowered the duration of its bond portfolio, QSuper continues to have conviction in a risk-balanced approach to managing its portfolios and a large exposure to unlisted assets to provide strong diversification benefits and return potential. It has also been broadening its investment exposures and levers available across and within asset sectors, by including additional strategies within commodities and private credit, introducing emerging markets bonds, a global put-write alternative risk premium strategy, and by adding emerging markets to its currency exposure.

3.3 Research

QSuper sources research primarily from its internal team supported by insights from data subscriptions, incumbent external investment managers and specialist consultant input. QSuper engages specialist property consultant, Townsend Group, for real estate investments and Albourne for alternatives. In addition, QSuper appoints consultants on an ad-hoc basis for specific projects.

The Investment Strategy team is responsible for assessing the initial asset class research, initiating any further research as appropriate, discussing it with QSuper's IC, and then determining the final target allocations. The Funds Management and Capital Markets teams are then responsible for implementing target allocations and policy positions within guidelines.

3.4 Strengths

QSuper's main strengths are:

- High-quality investment governance framework with the investment team having broad but appropriate delegation, which enables it to move promptly to take advantage of investment opportunities that may arise.
- Stable and high-quality internal investment team with a particularly strong Investment Strategy team.
- It has a particularly unique approach to managing volatility mainly through investing much less in equities and, up until recently, by maintaining a meaningful amount in long-duration bonds. This, along with a meaningful allocation to unlisted assets, has provided members with a smoother return stream than other leading superannuation funds since the implementation of its current investment strategy in 2010. However, given current low bond yields, long-duration bonds are not expected to provide the same diversification benefits or return potential going forward. Recognising this, QSuper has lowered its bond portfolio duration to about seven years and has been broadening its investment exposures and levers available across and within asset sectors, while continuing to have conviction in a risk-balanced approach to managing portfolios.
- Scale that allows for wide diversification
- The merger with Sunsuper is expected to provide further scale benefits but it will take time for these benefits to be realised. The merger will see QSuper have access to a broader group of investment expertise in the form of Sunsuper's investment team of about 45 investment professionals. Chant West will closely monitor the rationalisation of developments relating to the longer-term structure of the investment team as well as the merging of different investment beliefs.
- Strategic commitment to, and significant experience in, investing in unlisted assets
- Strategic partnerships with global best practice managers at non-market standard terms
- Strong long-term 'return for risk' outcomes for its members. Taking the Balanced option as an example, despite generally holding between 15% and 25% less in listed equities than peers over the past decade (over which share markets have performed particularly strongly), QSuper has been able to deliver performance that is in line with its peer-group median.

3.5 Issues

Issues that investors need to be aware of include:

- As discussed above, long-duration bonds, which have been a cornerstone of QSuper's investment strategy, are not expected to provide the same diversification benefits or return potential going forward given current bond yields. As mentioned above, the diversified options' bonds exposure now has a duration close to seven years with QSuper exploring other investment opportunities to provide further diversification benefits and additional sources of return.
- Given its absolute return focus, which has seen better 'return for risk' outcomes compared to other similar options, it has a lower peer-relative strategic allocation to shares (about 34% versus 54% for peers in its Balanced option) which means that QSuper's performance is likely to lag that of peers during periods when share markets perform strongly. This has been particularly the case since the COVID-induced market low point (end of March 2020) as markets have rallied sharply.
- QSuper's Aggressive option has a much lower allocation to growth assets compared to peers in Chant West's High Growth universe (70% versus 88%). Further, it maintains a significantly lower allocation to listed equities (43% versus 70% for peers). Indeed, that listed equities exposure is even lower than the average listed equities allocation within the Chant West Growth universe (54%). Members who actively choose to be invested in the Aggressive option have a greater tolerance for risk and given this option is QSuper's most aggressive diversified investment option, we believe a higher allocation to listed equities may be more appropriate.

- While Chant West supports QSuper's restructuring of its Socially Responsible option based on its member surveys, we note that the portfolio doesn't have the same level of diversification across asset classes as its core diversified options. In particular, it has 23% allocated to unlisted property, to which there is a relatively high allocation to retail property, which has been facing headwinds for some time. However, QSuper expects its private equity and infrastructure exposures to grow over time through its bespoke Partners Group Gondwana mandates. The Socially Responsible option's performance relative to peers has been particularly disappointing over the year to September 2021, lagging the relevant Chant West Multi-Manager Survey medians (the Socially Responsible Growth and the broader Growth universes) by nearly 9%.

4. Manager & Asset Research

4.1 Resources and coverage

The internal team of 50 headed by Charles Woodhouse comprises five areas: Investment Strategy led by Damian Lillicrap, Funds Management led by Elizabeth Kumaru, Capital Markets led by Herbert Chang, Asset and Liability Management (ALM) led by Brnic van Wyk, and Policy & Governance led by Philip Greenheld. Table 3 lists staff in each of those teams. The table doesn't include support staff.

Table 3: Investment staff

Staff	Asset sector / role	Experience
Charles Woodhouse	CIO	34 /12
Strategy		
Damian Lillicrap	Head of Strategy	27 / 12
Andrew Morgan	Senior Portfolio Manager	26 / 7
Greg Hall	Senior Portfolio Manager	15 / 11
Alex Waschka	Senior Portfolio Manager	19 / 11
Jimmy Louca	Senior Portfolio Manager	19 / 4
Andrew Pech	Portfolio Manager	14 / 8
Pamela Dodd	Portfolio Analyst	8 / 4
Emily Fang	Senior Portfolio Manager	18 / 4
Chris Parfitt	Senior Portfolio Manager	14 / 7
Jon Gordon	Portfolio Manager	16 / 1
Katrina Hibberd	Portfolio Analyst	10 / 8
Matt Davis	Portfolio Analyst	17 / 3
Daniel Rigney	Portfolio Analyst	6 / 3
Darren O'Shea	Portfolio Analyst	14 / 3
Hossein Rad	Portfolio Analyst	14 / 4
Webster Chin	Portfolio Analyst	8 / 4
Fred Gibson	Portfolio Analyst	10 / 3
Jeffrey Lin	Portfolio Analyst	4 / 2
Stephen Conroy	Portfolio Analyst	12 / 1
Alex Vesel	Portfolio Analyst	1 / 1
Shruti Sood	Portfolio Support Analyst	1 / 1
Funds Management		
Elizabeth Kumaru	Head of Funds Management	24 / 12
Gavin Brearley	Senior Portfolio Manager	21 / 11
Raymond Chan	Senior Portfolio Manager	23 / 9
Adam Murphy	Senior Portfolio Manager	12 / 5
Hans Holmen	Senior Portfolio Manager	19 / 3
Brian Clapham	Portfolio Manager	14 / 11
Christine Tatum	Investment Analyst	17 / 7
Michael Pedler	Senior Portfolio Analyst	15 / 13
Alexander Byrne	Investment Analyst	2 / 1

Table 3: Investment staff (cont)

Staff	Asset sector / role	Experience
Capital Markets		
Herbert Chang	Head of Capital Markets	30 / 12
Dan Elder	Senior Portfolio Manager	26 / 7
Tony Kepczyk	Portfolio Manager	11 / 7
Damien Egan	Portfolio Manager	14 / 11
Andrew Feeney	Portfolio Manager	24 / 11
Rory O'Connor	Portfolio Manager	13 / 3
Phoebe Davidson	Analyst	7 / 7
Asset & Liability Management		
Brnic Van Wyk	Head of ALM	27 / 12
Kathryn Spragg	Manager, ALM Strategy	18 / 8
Xiaoye Zheng	ALM Strategist	13 / 3
Summer Hu	ALM Strategist	4 / 4
Matt Armstrong	Manager, Reporting and Monitoring	12 / 12
Daniel Marshall	Manager, Data Science	5 / 5
Jia Wang	ALM Analyst	1 / 1
Policy & Governance		
Philip Greenheld	Senior Manager	35 / 16
Chris Parks	Sustainable Investment Strategist	15 / 5
Hunter Page	Lead Sustainable Investment Strategist	20 / 3
James Cheetham	Sustainable Investment Analyst	11 / 11
Kate Griffin	Divisional Risk Manager	18 / 8

Note
Experience: years in the investment industry / years with QSuper Investments

The Investment Strategy team is responsible for driving QSuper's investment strategy, portfolio construction, capital markets research and analysis, asset allocation and currency decisions within delegated ranges, risk budgeting and researching new investments/asset sectors.

The Funds Management team is responsible for researching external managers as well as direct and co-investment opportunities. It also uses specialist consultants, Townsend Group for real estate and Albourne for alternatives, as well as other independent third-party inputs such as Green Street Advisors. The Funds Management team also has a deep relationship and strategic partnership with some of its key investment managers.

The Capital Markets team's primary responsibility is rebalancing asset and currency positions, maintaining appropriate levels of liquidity and implementing the Strategy team's active asset allocation decisions. It also has some direct portfolio management responsibilities – fixed interest completion portfolio (its bond trust), Australian inflation-linked bonds (Risk Hedge Asset Portfolios) and QSuper's cash portfolios, including the stand-alone Cash option.

The ALM team is responsible for setting policy for the initial and ongoing design of the QSuper Lifetime option (its MySuper default solution). This involves understanding the liabilities of the membership and using this to recommend cohorts or groups with relevant investment objectives and strategies for default members. Note that the QSuper Lifetime option is not covered in this report.

The Policy & Governance team is responsible for providing investment oversight and advice to the Board, IC and the QSuper Limited Executive on policy development, stakeholder management, administration, and oversight. It also has specific policy responsibilities including its QSuper's Sustainable Investment Policy.

4.2 Process

The Investment Strategy team designs each of the strategies for the diversified investment portfolios and underlying asset class portfolios. It then engages the Funds Management team to undertake the manager or asset search within set parameters. During the analysis of an external manager or asset search, there is ongoing dialogue between the Investment Strategy and Funds Management teams.

Funds Management may appoint and terminate external investment managers as well as approve direct investments and co-investments without requiring IC approval. However, Funds Management provides bi-annual reports to the IC on the profile and investment performance of external managers. In addition, updates are provided to the IC within the regular CIO Report, Annual Private Asset Policy reviews and annual deal team case study. This is supplemented by opportunities for individual managers to give presentations to the IC several times a year at the IC's request.

Any appointment or termination of an internally managed mandate requires approval from the IC. The Funds Management team has no involvement in the appointment or ongoing review of internal teams. This rests with the CIO, the Investment Committee, and supplementary assurance reviews.

Key to QSuper's success in building its unlisted asset exposures is the wide but appropriate delegation given to the Funds Management team. This has enabled QSuper to act promptly on attractive investment opportunities.

With both new manager appointments and investments in new assets, the Funds Management team coordinates QSuper's deal team, which includes specialist input from other areas within QSuper through representatives from Legal & Secretariat, Taxation Services, Group Finance, Investment Performance & Operations, and Group Risk & Compliance. This provides an important layer of governance.

Townsend Group is used primarily in the early stage of a property manager search to determine a long list of managers. QSuper's Funds Management team then undertakes site visits with potential managers, undertaking in-depth analysis to determine a short-list and subsequently the manager appointment. Townsend Group and GreenStreet Advisors are also used to provide independent data observations for individual real estate asset opportunities. Albourne is used by QSuper for alternatives manager searches and due diligence and from time to time may be used for specific strategy and policy-related projects.

5. Capital Markets Research

QSuper's capital markets research emanates from the Investment Strategy, team which is responsible for all QSuper's economic research, forecasts, scenario analysis and stress testing. Its Asset Factor Model is a tool that captures economic and asset risk/return forecasts to inform QSuper's Investment Scorecards and probabilities. The Investment Scorecards are management tools that reflect the Board's investment objectives, including return objectives, peer risk considerations, portfolio risk relative to QSuper's Balanced option, and portfolio performance in down markets. The Investment Strategy team also uses insights from external research providers – Absolute Strategy Research (ASR), Oxford Economics, Macro Research Board (MRB), Capital Economics, Bank Credit Analyst (BCA), Moody's, TS Lombard, Global Source Partners (GSP), Rosenberg Research, Stratfor, and a multitude of investment banks.

Table 4 summarises QSuper's core investment beliefs.

Table 4: Core investment beliefs

Overview	QSuper believes that fund strategies should be related to risk. Diversification should be achieved by seeking an appropriate balance of risk factors and should be employed to reduce risk without sacrificing return. It should not be used solely as a means of reducing risk at the expense of return.
Asset allocation	QSuper believes that selecting the most efficient mix of betas is the main driver of portfolio diversification and that the risky asset weight should then be increased based on desired risk and return to provide a number of diversified investment options along the capital markets line. QSuper believes that assets with similar risk have similar long-term expected returns when valuations are around normal levels. However, these valuations of assets fluctuate over time and this principle may not hold even over long time periods. Strategies should change dynamically to reflect this impact when it is material. QSuper believes that overall return and risk will be improved by holding significant exposures to international assets. Compared to its peers, QSuper has a significantly lower allocation to listed equities (about 34% versus 54% for peers in its Balanced option). Historically, it has maintained a significant strategic allocation to long-duration bonds (15 years) which in isolation are risky assets. These bonds carry equity-like risk but are a better diversifier against equity market falls than traditional bonds. However, given the current low level of bond yields, QSuper has recognised that long-duration bonds won't provide the same level of diversification or return potential going forward so its bond portfolio duration has been reduced to 7 years. While it has lowered the duration of its bond portfolio, QSuper continues to have conviction in a risk-balanced approach to managing its portfolios and continues to have a large exposure to unlisted assets to provide strong diversification benefits and return potential. It has also been broadening its investment exposures and levers available across and within asset sectors.
Dynamic asset allocation	QSuper takes dynamic asset allocation (DAA) positions within permissible ranges as risk/return expectations change via a disciplined, quantitative, contrarian and fundamentals-based DAA framework. The DAA process is driven by fundamental valuations with the aim to manage price risk in portfolios, holding less of an asset when it is expensive and more when it is cheap. It builds positions gradually within ranges as valuations evolve and aims to be at the edges of ranges when valuations are at extremes.
Currency policy	QSuper believes that under appropriate market conditions, holdings in select foreign currency, independent of any underlying assets, may improve portfolio risk or return. In the absence of such perceived benefits, foreign currency exposure resulting from offshore investing should be hedged to reduce uncertainty in the return stream.
Active vs passive	QSuper believes that alpha is accessible but not reliably across the board for all asset classes.
Sector Portfolio Construction	QSuper believes that non-cap-weighted equity and bond structures exhibit superior risk-adjusted returns to cap-weighted portfolios.

6. Portfolio Management

6.1 Resources

QSuper's internal investment team is responsible for both research and portfolio management (see Manager & Asset Research for details of internal investment staff). This includes making recommendations to the Investment Committee (IC) on each investment option's risk and return objectives, asset allocation, currency policy, and portfolio structure.

The Fund has an experienced IC with experience in economic policy and investment in alternative assets. The IC, which meets approximately six times a year with workshops or additional meetings as required, comprises four members from the Board – Don Luke (Chair), Michael Drew, Beth Mohle and Sandra McCullagh and one independent member – Chris Condon. The IC also retains Fiona Trafford-Walker as an advisor.

6.2 Process

QSuper's Board is responsible for approving investment objectives and investment strategy at the fund and investment option level, and monitors whether the investment objectives are being met. This includes QSuper's investment beliefs, its investment objective scorecards and delegations, as well as the asset allocation ranges (both PDS and operational).

All investment options (diversified and single sector) are reviewed annually, addressing individual investment option scorecards, investment objectives, strategies, and other key investment-related matters (liquidity, fees, and standard risk measures). A number of comprehensive cohort reviews, including membership analytics, strategy, performance monitoring and attribution analysis, are provided to the IC, with summaries provided to the Board.

The IC provides investment guidance to the Board and is responsible for approval of the investment framework (alpha/beta management), intra-asset class guidelines, dynamic asset allocation positions that fall outside the operational range but within the PDS range, strategic risk management overlays, guidelines for any of QSuper's active management programs, policy implementation guidelines, manager selection guidelines, and the appointment of any internally managed strategy. All decisions approved by the IC require endorsement by the Board.

QSuper's investment team, through the Investment Strategy team, can make dynamic asset allocation decisions within set operational ranges. An Investment Strategy Report is prepared in advance of each IC meeting, covering the outlook for the economy and individual asset classes as well as recording all recent DAA decisions. This is supplemented by a biannual Investment Strategy Report, which contains information including performance relative to long-term objectives, current asset allocations, and projected performance against scorecard objectives.

As mentioned in Section 5, QSuper uses its Asset Factor Model to inform its Investment Scorecards and probabilities. It is a yield-based financial asset scenario-generating tool used to model asset prices and inform the composition of QSuper's diversified investment options, to generate its standard risk measures, and to forecast measures used in formulating its Lifetime (MySuper) strategy. The asset factor model is driven by macroeconomic factors using Monte Carlo simulation with a judgement overlay to produce internally consistent and economically plausible outcomes across all asset classes.

To inform its DAA decision-making, the Investment Strategy team uses a custom-built, holistic portfolio positioning tool that adopts a systematic approach guided by economic views, valuations, asset class ranges, and betas. It takes into account daily valuation changes, unlisted asset weights, and currency movements. The portfolio positioning tool recommends active asset allocation positions. However, a judgement overlay is also applied. In addition to analysing the value added from decisions, the Investment Strategy team records and tracks the opportunity cost of recommendations that it chose not to implement.

The Capital Markets team is responsible for implementing QSuper's investment strategy and managing investment risk. This includes rebalancing QSuper's portfolios towards desired asset allocations, managing foreign currency exposures to targets, maintaining optimal liquidity levels to meet ongoing financial obligations, and efficiently allocating capital to existing and new investments. Where it makes sense, several portfolios are internalised and managed by the Capital Markets team, providing agility in implementation and fee savings. The Capital Markets team currently manages about a third of QSuper's investments.

Managing liquidity risk is a key part of QSuper's investment process. The Capital Markets team is responsible for the measurement, monitoring, and management for the Fund and each of its investment options. It ensures that the Fund operates within the Board's liquidity risk appetite and that investment portfolios have adequate liquidity levels to sufficiently meet ongoing cashflow obligations.

Key elements of QSuper's liquidity management process are:

- The maintenance of cash flow projections for expected cash flow obligations/commitments
- Rigorous stress-testing at the investment option level to assess liquidity requirements under extreme circumstances
- Placing individual assets on a liquidity ladder to indicate the ease with which these assets can be liquidated
- Internal policy that outlines the response to severe disruption to QSuper's ability to meet some or all of its obligations in a timely manner and at a reasonable cost.

7. Approach to Responsible Investment

QSuper has established a responsible investment policy in the form of its Sustainable Investment Policy, which was approved in 2017. A Merged Fund Sustainable Investment Policy and a separate Climate Change Policy has been approved by the joint Board and will take effect post SFT. These Policies will be made publicly available on the ART website.

QSuper has three staff who are fully dedicated to sustainable investment strategy and analysis. They currently report to Philip Greenheld (Senior Manager, Policy & Governance), who also spends a significant proportion of his time on responsible investment matters. QSuper lags other large superannuation funds on responsible investment initiatives but has made meaningful progress recently. Once the merger with Sunsuper is complete, the combined entity, Australian Retirement Fund (ART), will be better resourced, with seven staff fully dedicated to responsible investment.

QSuper is not a PRI signatory, although Sunsuper has been a PRI Signatory since 2013. Collaborative initiatives will be reviewed as fit-for-purpose post SFT.

QSuper believes that engagement with companies can enhance long-term, sustainable returns for its members. It generally prefers engagement to divestment in managing ESG risk and achieving change. As engagement is resource-intensive, requiring in-depth research and analysis, QSuper's engagement activities with Australian companies have been outsourced to ACSI. For international companies, QSuper delegates engagement activities to its global equities manager, State Street. QSuper attends ACSI meetings with the ten largest Australian listed holdings in its portfolios.

QSuper uses proxy advisers, ACSI and CGI Glass Lewis, for voting decisions relating to Australian and international companies, respectively.

QSuper's investment team reports to its IC at each IC meeting on all ESG-related matters and provides the Board with a Sustainable Investment Report twice a year.

QSuper takes into consideration each external manager's approach to ESG integration. It maintains ESG dashboards to provide the Funds Management team and the IC with greater transparency on the key ESG metrics that are measured and monitored by its external managers at both the portfolio and corporate levels. With external non-discretionary private market mandates, QSuper takes into consideration ESG risks when assessing individual assets.

We believe QSuper's engagement program with listed companies, as well as the assessment of and engagement with external managers with regards to their ESG integration and stewardship practices, which currently lag major super fund peers, will benefit from increased resources through the merger with Sunsuper.

QSuper has made a net zero emissions by 2050 commitment and intends to integrate physical and transition risks from climate change into its investment strategy. In line with this strategy, it took steps in 2021 to materially reduce its carbon emissions in its listed equities smart beta strategy. There will be further refinement of the equities portfolio to meet QSuper's targets.

QSuper has also developed its own tool, ORCA, which analyses climate change risk and identifies transition and physical risk exposures, as well as opportunities, across its unlisted asset sub-sectors under different scenarios.

Within the equities exposure of its core diversified portfolios (Lifetime (MySuper), Moderate, Balanced, and Aggressive) and its stand-alone Australian and International Shares options, QSuper excludes companies involved in the manufacturing of tobacco products and does not directly invest in companies involved in the manufacturing of cluster bombs and landmines.

QSuper also offers its Socially Responsible option, which was redesigned in July 2020 partly in response to a member survey. The option has a dual objective. In addition to achieving its return target, its objective is to make a positive impact on the members' preferred environmental and social issues while avoiding assets with negative consequences. However, Chant West notes that the impact-related objective could be made more explicit in QSuper's PDS. In addition to having the same exclusions mentioned above, this option has materiality-based exclusions on companies deriving revenue from fossil fuels, gambling, and adult entertainment. Further detail on the portfolio structure of the Socially Responsible option is included in the next section, Section 8 (Portfolio Structure).

In our classification system, rated investment options are assigned one of the following classifications:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Chant West has assigned a Responsible Investment Classification of Aware for QSuper's core diversified portfolios (Aggressive, Balanced and Moderate).

For QSuper's Socially Responsible option, a Classification of Integrated has been assigned. While we take the view that the majority of the portfolio is managed under an impact framework, the remainder, which represents a meaningful proportion of the portfolio, has a materially lower level of consideration to ESG incorporation.

Section 2 shows our Responsible Investment Classifications for all investment options rated in this report.

8. Portfolio Structure

8.1 Diversified options

Table 5 shows the actual asset allocations at September 2021 for QSuper's four diversified choice options – Moderate, Balanced, Socially Responsible, and Aggressive options.

Table 5: Diversified choice options – risk / return objectives, SAAs, and key statistics

Asset sector	Moderate	Balanced	Socially Responsible	Aggressive
Risk / return objectives [1]				
CP+	2.5%	3.5%	3.5%	4.5%
Over rolling periods of	3 years	10 years	5 years	10 years
Chance of a -ve annual return	0.5 to 1 time in 20 yrs	2 to 3 times in 20 yrs	3 to 4 times in 20 yrs	3 to 4 times in 20 yrs
Actual Asset Allocation (%)				
Equities				
Australian	3.0	7.1	0.4	9.1
International	12.3	26.5	37.2	33.4
Private Markets				
Private Equity	2.7	6.9	1.7	6.9
Real Estate	4.1	5.8	22.8	5.8
Infrastructure	7.2	12.2	0.5	12.2
Other Alternatives	2.9	4.0	1.9	2.6
Commodities	0.9	1.8	0.3	0.7
Fixed Interest	11.7	23.5	25.1	22.0
Cash	55.2	12.2	10.1	7.3
Total	100	100	100	100
Key Statistics				
Growth / defensive assets [2]	32 / 68	63 / 37	64 / 36	70 / 30
Active / passive growth assets [3]	17 / 15	29 / 34	26 / 38	27 / 43
Active / passive defensive assets	10 / 58	20 / 17	20 / 16	21 / 9
Active / passive overall [3]	27 / 73	49 / 51	46 / 54	48 / 52
Internal / external	59 / 41	31 / 69	31 / 69	21 / 79
Listed / unlisted assets [4]	86 / 14	75 / 25	75 / 25	75 / 25
Currency exposure [5]	7.5	15.1	14.9	18.0

Notes

1. Return objectives are after fees and tax
2. Defensive assets include 100% of cash and fixed interest as well as 50% of absolute return and 25% of other alternatives, both of which are included within 'Other Alternatives'
3. 'Passive' includes market cap and smart beta exposures
4. Unlisted assets include private equity, real estate and infrastructure
5. Currency exposure represents % of the total portfolio

(a) Additional information on the Socially Responsible option

In line with the results of a member survey, QSuper completely restructured its Socially Responsible option in July 2020. Previously the option was entirely invested through the AMP Capital Ethical Leaders Balanced Fund. However, it is now managed internally, with QSuper applying the risk-balanced approach it adopts across its core diversified options. Underlying asset class exposures are managed through a combination of external managers and in-house management. As mentioned in Section 7 (Approach to Responsible Investment), the Socially Responsible option has two primary objectives – to provide returns at least 3.5% per annum above inflation and to make a positive impact on the members' preferred environmental and social issues while avoiding assets with negative consequences.

Detail on the underlying asset class exposures for the Socially Responsible option are in Section 8.2. As is the case with QSuper's core diversified options, this option excludes companies involved in the manufacturing of tobacco products and does not directly invest in companies involved in the manufacturing of cluster bombs and landmines. It also has materiality-based exclusions on companies deriving revenue from fossil fuels, gambling, and adult entertainment. It also actively seeks investments in assets that align with member-expressed ESG outcomes (clean energy, education, waste reduction and recycling, etc.) and create positive impact (considered to 'benefit stakeholders' or 'contribute to solutions'). Outcomes are measured against the UN's Sustainable Development Goals and the Impact Management Project framework.

8.2 Sector portfolios

The broad structure of the fund's asset sector portfolios is summarised below. This section includes the underlying details of the underlying asset sector portfolios that the core diversified options and Socially Responsible option invest in.

(a) Global listed equities

In managing the diversified portfolios' equities exposure, QSuper aims to capture global equity market beta and deliver superior risk-adjusted returns compared with a global market capitalisation portfolio by producing similar returns, lower volatility, and improved downside event outcomes. QSuper seeks diversification by balancing exposures across countries, sectors, factor/styles and stocks. It does this mainly via a smart beta approach. QSuper's strategy team constructs a portfolio within set country ranges which it provides to MSCI for distribution to State Street as an index. State Street effectively implements the portfolio constructed by QSuper. The portfolio is rebalanced on a quarterly basis or as deemed appropriate. At September 2021, 94% of the core diversified options' global listed equities exposure was through this portfolio with the residual invested in put-write strategy managed by Neuberger Berman.

QSuper views global listed equities as a single asset class incorporating both Australian (currently 23%) and international equities (currently 77%). Additionally, rather than classifying countries as developed or emerging, QSuper constructs its portfolio through exposures to core (Australia, US, UK, France, and Germany) and non-core (potentially any other country or region, notably Latin America, Asia, and non-core Europe). The split between core and non-core is currently 67%/33%.

The smart beta approach is applied to Australia, US, UK, France, and Germany. For other countries, a market capitalisation index approach is used. This is also managed by State Street.

For the Socially Responsible option, 94% of the listed equities exposure is also managed by State Street, tracking the MSCI ACWI Sustainable Impact Index. The residual is invested in a put-write strategy managed by Neuberger Berman.

QSuper's stand-alone Australian Shares and International Shares options are invested in capitalisation-weighted passive portfolios managed by State Street. They seek to match the S&P/ASX 200 Accumulation Index and MSCI World Ex Australia Index Hedged A$, respectively, on an after fees and tax basis.

(b) Fixed interest

The fixed interest strategy within QSuper's diversified portfolios reflects QSuper's unique approach to managing portfolio risk. To maintain its desired weight to risky assets in its diversified portfolios, historically it has maintained a significant strategic allocation to long-duration bonds (15 years). These bonds carry equity-like risk but are a better diversifier against equity market falls than traditional bonds. However, given the current low level of bond yields, QSuper has recognised that long-duration bonds won't provide the same level of diversification or return potential going forward so its bond portfolio duration has been reduced to seven years. The core fixed interest portfolio uses a combination of physical bonds and futures and will occasionally include some inflation-linked bonds or credit.

QSuper's Capital Markets team manages all fixed interest futures and Australian inflation-linked bonds, while JP Morgan manages all physical sovereign bond exposures, credit derivatives, and US inflation-linked bonds.

For the Socially Responsible option, the fixed interest exposure is predominantly through QSuper's core fixed interest strategy (81%) with the remaining 19% invested in a green bonds portfolio managed by BlackRock.

(c) Real estate

QSuper's core diversified options and Socially Responsible option invest in the same real estate portfolio.

QSuper believes that direct real estate is a scalable asset class that offers true diversification from listed equities and a linkage to CPI inflation without sacrificing the probability of achieving other scorecard objectives. QSuper's $5.1 billion real estate portfolio consists of approximately 49% Australian and 51% international assets. QSuper acknowledges that Australian real estate represents a strong match to its objectives given its direct linkage to Australian inflation, but over the longer term, QSuper seeks to diversify geographic exposure.

QSuper uses leading global managers to source and operate the assets with a preference to invest through non-discretionary, separately managed mandates, where QSuper retains approval over acquisitions and divestments. The portfolio comprises QIC Australian retail (45%), QIC Australian Office (4%), CIM Group – Value Add US (22%), Invesco – US (21%), AEW – Europe (6%) and Jamestown – US (2%). QSuper's exposure to the QIC Australian Property Fund (retail) (45%) is through a discretionary fund, but the remaining 56% of the portfolio is managed via non-discretionary mandates to enable QSuper to focus on specific types of assets that offer a high probability of meeting stated objectives.

The portfolio has approximately 48% invested in retail property and 44% in office assets, with the residual spread across multi-family and industrial assets. Additional acquisitions will seek to diversify sector exposures.

(d) Infrastructure

In managing its core diversified options' exposure, QSuper believes that direct infrastructure is a scalable asset class that offers true diversification from listed equities and a linkage to CPI inflation without sacrificing the probability of achieving other scorecard objectives. The $10.5 billion infrastructure portfolio holds approximately 59% Australian assets and 23% European assets, with the remaining 18% spread across the USA and the rest of the world. Within Australia, QIC and Global Investment Partners (GIP) have non-discretionary separately managed mandates operating mostly core assets across industry sectors. QSuper invests in international assets through various GIP Funds and co-investments and has separately managed accounts with Alinda in the UK and QIC in the US. Overall, QIC accounts for 45% of the portfolio, GIP 39%, and Alinda 16%. Total directly held assets account for 92% of the infrastructure portfolio.

The portfolio is mostly made up of core assets totalling approximately 54%. Transport assets dominate with 74% of total assets – 33% in airports (16% regulated), 30% in seaports, and another 11% in toll roads, car parks, and railway assets. The remaining 26% is invested in energy utilities, including regulated and contracted assets across the globe.

The Socially Responsible option's infrastructure exposure is currently entirely through Partners Group via the Gondwana Infrastructure mandate, which invests directly into assets controlled by Partners Group as well as infrastructure funds managed by other investment managers. The mandate currently holds two direct assets, allocated 92% to Europe and 8% to North America. From a sector perspective, the mandate is allocated 92% to Social Infrastructure and 8% to Renewable Energy.

(e) Private equity

QSuper's core diversified options' private equity exposure consists of 98% international investments, primarily the US and Europe, and 2% Australian investments. Buyout strategies account for the majority of the portfolio (89%) with small allocations to growth (6%), venture (3%) and special situations (2%). From a sector perspective, the portfolio's primary exposures are consumer (30%), technology (20%) and healthcare (17%). Partners Group manages 96% of QSuper's portfolio. Partners Group's mandate is a global mandate spanning primary, secondary, and direct equity investments. QSuper also co-invests alongside Partners Group, which has been an increasing focus of the fund – this now accounts for 13% of the portfolio. The remainder of QSuper's private equity portfolio (4%) is invested with QIC in a global fund-of-funds mandate. However, this mandate is winding down.

The Socially Responsible option's private equity exposure is currently entirely through Partners Group via the Gondwana Private Equity mandate, which invests directly into assets controlled by Partners Group as well as private equity funds managed by other investment managers. The mandate currently holds three direct assets and one fund interest allocated 100% to North America. From a sector perspective, the mandate is allocated 60% to healthcare, 30% to business services, and 10% to technology.

(f) Alternatives

The Alternatives portfolio within QSuper’s diversified portfolios is opportunistic in nature, comprising a range of asset sectors that display materially different risk and return characteristics from equities, unlisted assets, and bonds. Approved strategies within the Alternatives asset sector include risk parity, multi-asset carry, multi-asset class momentum, endowments, alpha, timber, and private credit. At 30 September 2021, the exposure was split across momentum (53%), global private credit (33%), alpha (8%) and endowments (6%). It should be noted that the endowments investments have been in wind-down mode since 2015.

(g) Commodities

The Commodities asset class consists of two strategies. A risk-balanced commodities exposure intends to provide protection from periods of unexpected inflation while seeking to deliver a return stream in excess of cash investments over the long-term. The exposure is through two managers – First Quadrant (81%) and QIC (19%). In July 2020, a precious metals strategy managed by QIC was added to provide protection in periods when equities and possibly bonds experience large drawdowns. The strategy is intended to provide some of the diversification previously provided by high-duration bonds now that yields are at such low levels.

(h) Cash

The cash exposure in QSuper’s diversified portfolios, which is managed internally, has a high level of liquidity with the bulk of proceeds available within three months with minimal risk of capital loss. QSuper’s diversified portfolios are permitted to invest up to 25% of their cash exposure in international markets, subject to liquidity and market conditions.

The stand-alone Cash option is managed by QSuper’s Capital Markets team. It invests purely in domestic cash and seeks to match the Bloomberg AusBond Bank Bill Index after fees and tax.

Table 6 lists the underlying managers in QSuper's diversified portfolios at 30 September 2021.

Table 6: Investment managers – 30 September 2021

Asset sector	Manager	Actual % of sector	Style
Equities	SSgA	94	Smart beta / passive
	Neuberger Berman	6	Global equity put write
SR Equities	SSgA	94	Impact / passive
	Neuberger Berman	6	Global equity put write
Fixed Interest	QSuper	85	Global fixed income
	JP Morgan	15	Global fixed income
SR Bonds	QSuper	81	Global fixed income
	BlackRock	19	Green bonds / passive
Real Estate	Australia (49%)		
	QIC	49	Retail office
	US (45%)		
	Invesco	22	Core
	CIM	21	Value add
	Jamestown	2	Value add
	Europe (6%)		
	AEW	6	Core plus / value add
Infrastructure	Australia (59%)		
	QIC	41	n.a.
	GIP	18	n.a.
	International (41%)		
	GIP	21	n.a.
	Alinda	16	n.a.
	QIC	4	n.a.
SR Infrastructure	Partners Group (Gondwana)	100	Global
Private Equity	Partners Group	96	Global
	QIC	4	Fund-of-funds
SR Private Equity	Partners Group (Gondwana)	100	Global
Alternatives	Graham	53	Momentum
	Partners Group	17	Private credit
	ADM	12	Private credit
	Bridgewater	8	Alpha
	Bain Capital	4	Private credit
	Other	6	n.a.
Commodities	First Quadrant	81	Balanced risk
	QIC	19	Precious metals
Cash	QSuper	95	Cash
	SSgA	5	Cash

Note
Manager allocations are based on total fund data. The percentage split between managers for some asset classes varies across each investment option.

8.3 Manager changes

Table 7 shows the manager changes since June 2020.

Table 7: Manager changes since June 2020

Date of Change	Sector	Manager Hired	Manager Terminated
June 2020	SR Option	-	AMP Capital Ethical Leaders Balanced
June 2020	SR Equities	SSgA	-
June 2020	SR Bonds	BlackRock	-
June 2020	SR Private Equity	Partners Group (PG Life)	-
October 2020	Alternatives	Bain (private credit)	-
December 2020	Equities	Neuberger Berman	-
May 2021	SR Infrastructure / Private Equity	Partners Group (Gondwana)	-
August 2021	SR Private Equity	Partners Group (Gondwana)	-
October 2021	Real Estate	Brookfield Real Estate	-

9. Performance

9.1 Diversified options

Table 8 shows the performance of four QSuper diversified options over several periods to September 2021. To illustrate absolute risk, it shows the five-year standard deviation. The table compares fund performance with the median of a universe of multi-manager funds. The figures in brackets in both tables represent excess returns relative to the Chant West Multi-Manager Median.

Some caution should be taken when comparing the performance of QSuper's diversified options with peers because of its peer-unaware investment strategy. QSuper maintains a unique approach to managing risk and aims to provide members with a smoother return stream than peers so, with its significantly lower allocation to listed equities, QSuper's performance will tend to lag peers during periods when share markets perform strongly. This is particularly the case since the COVID-induced market low point (end of March 2020) as markets have rallied sharply.

The performance of QSuper's diversified options has been behind peers over one, three and five years to September 2021. However, in the case of the Aggressive, Balanced, and Moderate options, performance has generally been in line with peers over seven and ten years. Taking the Balanced option as an example, despite generally holding between 15% and 25% less in listed equities than peers over the past decade (over which share markets have performed particularly strongly), QSuper has been able to deliver performance that is in line with its peer-group median. This has been due to the strong performance of its long-duration fixed interest portfolio and its relatively higher allocation to unlisted infrastructure and private equity, which have performed strongly.

Table 8: Choice diversified options – returns to September 2021 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Std Dev
Aggressive (70/30)	15.5 (-6.5)	8.4 (-0.7)	8.7 (-1.3)	9.2 (-0.3)	10.9 (+0.1)	5.5
Multi-Manager Median	22.0	9.1	10.0	9.5	10.8	8.0
Objective	7.5	6.3	6.3	6.2	6.3	-
Balanced (63/37)	13.3 (-4.5)	7.6 (-0.2)	7.4 (-1.1)	8.2 (+0.1)	9.3 (+0.0)	4.6
Multi-Manager Median	17.8	7.8	8.5	8.1	9.3	6.5
Objective	6.5	5.3	5.3	5.2	5.3	-
Socially Responsible (64/36)	9.0 (-8.8)	5.9 (-2.8)	7.0 (-1.7)	6.5 (-1.2)	8.2 (-0.9)	6.8
Multi-Manager Median	17.8	7.8	8.5	8.1	9.3	6.5
Multi-Manager SR Median	17.8	8.7	8.7	7.7	9.1	7.0
Objective	6.5	5.3	5.3	5.2	5.3	-
Moderate (32/68)	6.4 (-1.1)	4.2 (-0.4)	4.3 (-0.4)	4.8 (-0.1)	5.7 (+0.0)	2.3
Multi-Manager Median	7.5	4.6	4.7	4.9	5.7	3.1
Objective	5.5	4.3	4.3	4.2	4.3	-

Notes

1. Returns are net of investment fees and tax. Standard deviation is over five years
2. Multi-Manager Median refers to the relevant Chant West Performance Survey Media
3. Even though the Aggressive option currently has a 70% growth asset allocation, we have compared its performance to our High Growth category (81% to 95% growth assets) as QSuper defines this as the most appropriate risk category for peer-group comparison

Chart 1 shows the rolling 12-month returns within the 10-year period to September 2021 for the Balanced option and the Chant West Multi-Manager median. The chart shows that QSuper provides a smoother return journey when compared to peers. Chart 2 shows the rolling 12-month excess returns relative to the Chant West Multi-Manager median over the same period.

Chart 1: QSuper Balanced – rolling 12-month returns

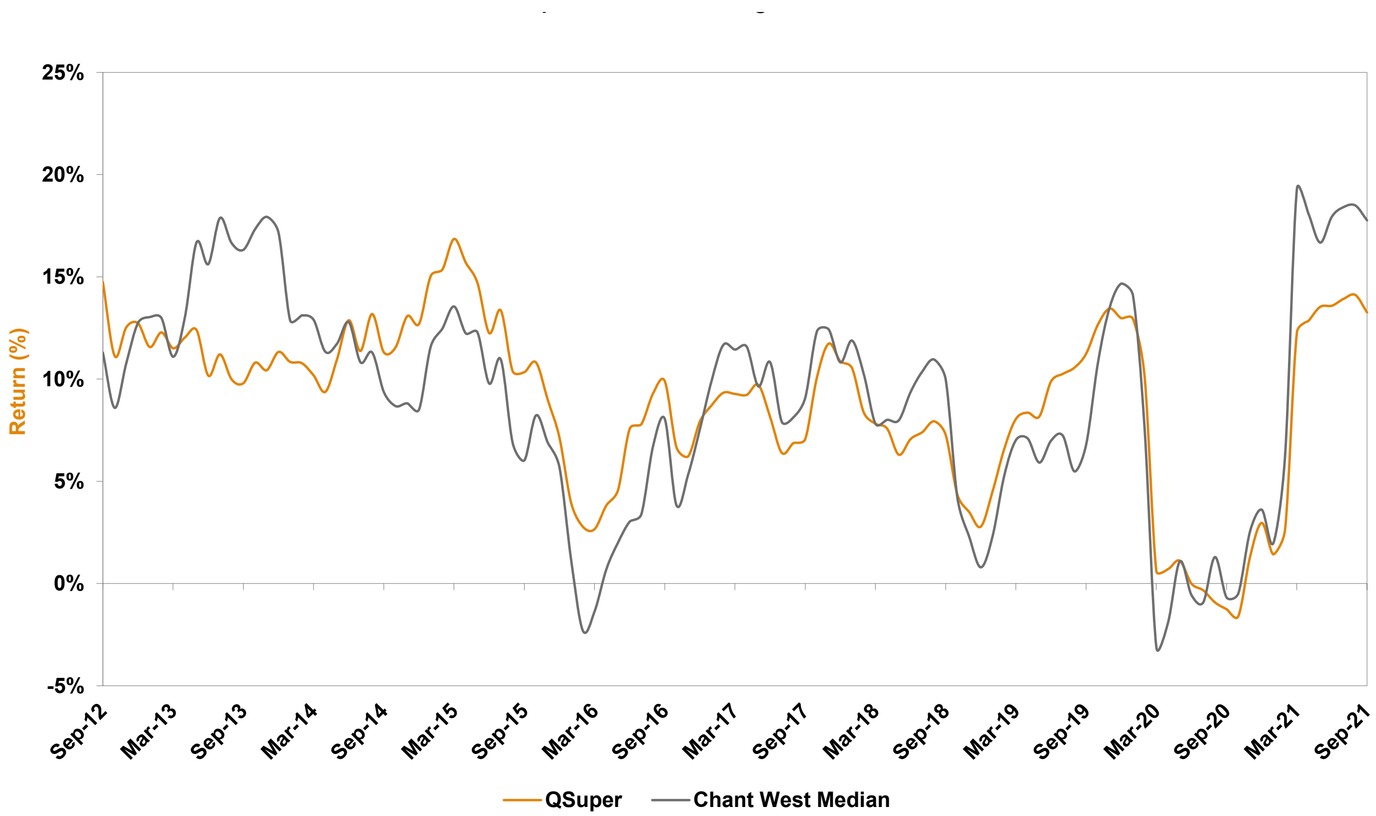
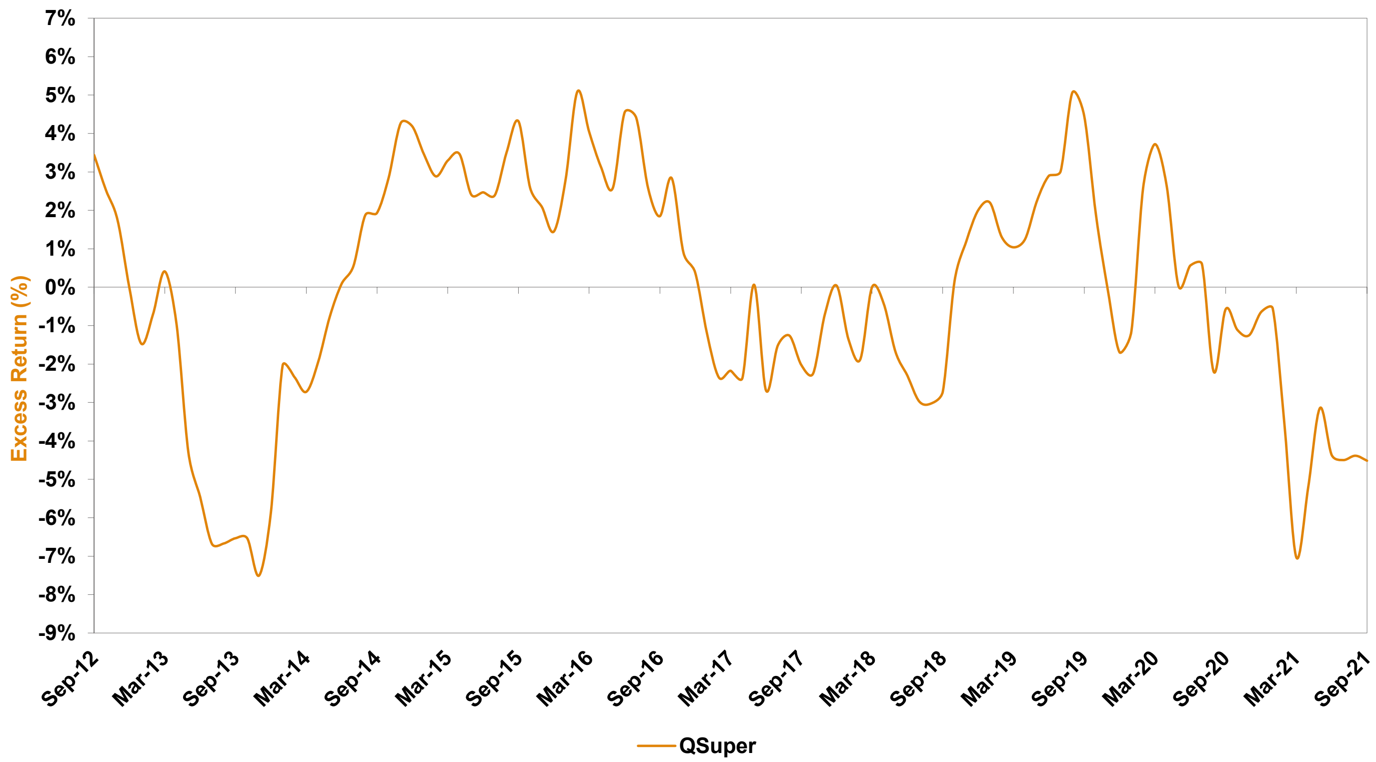


Chart 2: QSuper Balanced – rolling 12-month excess returns



9.2 Single-sector portfolios

Table 9 below summarises the performance of QSuper's single-sector options, comparing them against their objectives, which are market indices adjusted for tax. The returns shown for QSuper's investment options are net of investment fees and tax. However, the objectives for each option are after tax but before fees, so performance relative to objectives is understated.

Although the market indices used as objectives are reflected gross of fees, QSuper's International Shares option has outperformed its objective over all periods shown to September 2021. The performance of the Australian Shares option has been slightly below its objective over most periods shown. Diversified Bonds and Cash options have performed ahead of their objectives.

Table 9: Choice single sector options – returns to September 2021 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Tracking Error
Australian Shares	27.9	9.3	10.1	9.4	10.8	0.3
Objective	27.7	9.6	10.4	9.6	11.0	-
International Shares	26.2	11.5	12.8	11.0	13.5	0.5
Objective	25.1	10.7	12.1	10.6	13.2	-
Cash	0.0	0.8	1.2	1.4	1.8	0.0
Objective	0.0	0.7	1.0	1.3	1.8	-

Notes

1. Returns for QSuper's options are net of investment fees and tax but objectives are based on market indices below that are shown net of tax but gross of fees. Tracking error is over three years.
1. Market index for Australian Shares is the S&P/ASX 200 Accumulation Index.
2. Market index for International Shares is the MSCI World Ex Australia Index.
3. Market index for Diversified Bonds is 40% Bloomberg AusBond Composite Bond Index / 30% Citi World Government Bond Index Hedged A$ / 30% World Broad Investment Grade Bond Corporate Index 1-10 years Hedged A$.
4. Market index for Cash is the Bloomberg AusBond Bank Bill Index.

Chant West

Attachment

Ratings Methodology and General Disclosures

1. Ratings Methodology

Our multi-manager ratings, which represent the views of Chant West formulated on the basis of the ratings methodology described below, include an overall rating for the product issuer and separate ratings for each of its products (investment options) covered in our report.

Our overall investment capability rating refers to the issuer's ability to construct investment options that represent industry best practice, and have a high likelihood of achieving their stated risk/return objectives and delivering strong peer-relative outcomes. By industry best practice, we mean portfolios that focus on generating superior long-term investment outcomes for super fund members as opposed to those that are overly focused on short-term business risks. Those portfolios typically reflect the issuer's 'best ideas'.

Our overall investment capability ratings range from 5 Apples, our highest rating, to 1 Apple, our lowest rating. These ratings are in full apple increments. The full range and their descriptions are set out in the table below.

Description of overall investment capability ratings

Overall Rating	Rating
5 Apples	Highest quality
4 Apples	High quality
3 Apples	Fair quality
2 Apples	Low quality
1 Apple	Lowest quality

In addition to the overall investment capability rating, this report assigns ratings for individual investment options available to super fund members. The ratings of individual investment options may differ from the overall investment capability rating as they assess the specific characteristics of each portfolio. Our ratings assess the ability of the issuer to construct well-diversified portfolios, select and combine managers, and incorporate the issuer's best investment ideas into the portfolio. Our ratings do not assess the underlying investment managers. The table below summarises the ratings definitions for our individual investment option ratings where 'half apple' increments are applied.

Investment option ratings definitions

Investment option rating	Definition
5 Apples – Highly Recommended	Chant West believes that the investment option has a very high probability of meeting its stated investment objectives and is likely to deliver strong peer-relative outcomes over the long-term. The strategy scores highly across each of Chant West's key areas of assessment.
4.5 Apples – Recommended / 4 Apples – Recommended	Chant West believes that the investment option has a high probability of meeting its stated investment objectives and is likely to deliver competitive peer-relative outcomes over the long-term. The strategy scores highly across each of Chant West's key areas of assessment. We believe that investment options with a 4.5 apples rating are likely to deliver superior outcomes to those with a 4 apples rating.
3.5 Apples – Approved / 3 Apples – Approved	Chant West believes that the investment option should produce outcomes consistent with its stated investment objectives, albeit we have identified areas for potential improvement across Chant West's key areas of assessment and/or believe that its long-term peer-relative investment outcomes may lag investment options with our Highly Recommended or Recommended ratings. We believe that investment options with a 3.5 apples rating are likely to deliver superior outcomes to those with a 3 apples rating.
Under Review	The investment option rating has been temporarily suspended pending investigation of material issues by Chant West.

For diversified (multi-asset) investment options, a Chant West rating takes into account seven criteria: portfolio structure & design (25%), investment governance (15%), capital markets research (15%), manager research & asset research (15%), past performance (15%), portfolio management team (10%) and portfolio risk management and systems (5%). We determine a score for each of these criteria and then weight them to provide an overall rating. The criteria and weightings we use have been developed over a period of 22 years and reflect our considerable experience in evaluating multi-manager investment options.

We apply a different rating methodology for single-sector options: manager research & asset research (25%), portfolio structure & design (25%), portfolio management team (15%), past performance (15%), investment governance (10%), portfolio risk management & systems (5%) and capital markets research (5%).

A key aspect of our ratings is that we focus on the issuer's investment governance regime, the quality of the internal investment team, the quality of the primary investment consultant where applicable, and the structure of the investment portfolios. Investment beliefs and processes as well as the quality and integrity of the people involved, are more important to us than past performance.

Our ratings are based on information that is either publicly available or is provided directly to us by the issuers themselves. Issuers review our report for the accuracy of the information, but we do not have the information audited or independently verified.

All overall multi-manager ratings, and therefore the spread of multi-manager ratings we have given, are published on our website (www.chantwest.com.au).

2. Responsible Classification System

Interest in Responsible Investing (RI) has increased materially in both product numbers and traction in recent years. While Zenith Group, including Chant West, believes that the increase in RI strategies is broadly a positive, we have observed that defining how investment managers and superannuation funds incorporate these practices into their methodologies is an industry challenge.

Zenith Group believes that individual investors are best positioned to determine the portfolios that are most closely aligned to their beliefs and values. By creating additional tools to further identify an investment option's approach to RI, we believe that investors will be able to make more well-informed investment decisions.

To this end, Zenith Group believes that the first step in providing clients with increased RI insights is to create a robust classification system across managed funds and superannuation investment options. The aim is to create a uniform framework where investors can broadly understand how the investment manager or superannuation fund addresses RI themes and issues in their investment process.

There are five tiers within our RI framework. All investment options rated by Chant West receive an RI classification, noting that classifications are investment option-specific and do not extend to the broader organisation level of a superannuation fund.

Responsible investment classification descriptions

RI Category	Description
Traditional	Seeks to achieve a stated investment outcome with little to no regard for RI factors.
Aware	Seeks to achieve a stated investment outcome with consideration of a broad range of factors, including RI.
Integrated	Seeks to achieve a stated investment outcome, with formal consideration of RI factors that materially alter the product's permitted universe and portfolio allocations.
Thematic	Seeks to achieve an investment outcome with an explicit RI objective by investing in themes or assets specifically related to sustainability.
Impact	Targets investments aimed at generating a positive, measurable social and environmental impact alongside a financial return.

Investment options in the Aware category broadly consider both RI factors and issuer engagement, but typically do so in a less structured and informal way.

Integrated investment options utilise RI as a key component of their security selection and portfolio construction approach. In addition, detailed and transparent issuer engagement is also treated as a fundamental component of the investment management process.

The Thematic and Impact categories are extensions of the Integrated classification, with both required to display a robust assessment of RI issues and formal engagement to be considered for progression. Thematic investment options invest specifically in themes or assets related to sustainability such as renewable energy, sustainable agriculture or affordable housing. While having many commonalities with Thematic investment options, Impact funds must also be aimed at generating a positive, measurable impact alongside a financial return with full transparency.

Our RI classification involves an assessment of three broad indicators:

- Does an investment strategy take into account RI and if so, to what extent is this embedded in the investment process?
- Are superannuation funds acting as active owners of securities?
- What is the extent to which formalised policies and procedures govern the integration of RI issues for the investment option?

To generate these outcomes, we rely on information derived during meetings with superannuation funds as part of our due diligence process as well as the provision of formal documentation from superannuation funds. We may also use external information from sources such as Principals for Responsible Investment (PRI). Classifications reflect an absolute view, not a peer-relative assessment.

The classification framework is underpinned by a set of principles which are overseen by an internal Responsible Investment Committee. We also use our role working right across the industry with a wide range of stakeholders to inform this framework and ensure it remains robust and relevant.

For more details on our RI classifications, please refer to our Responsible Investment Framework which can be found here.

3. Scope and expertise

Chant West was established in 1997 as a specialist provider of superannuation research and consultancy services. We conduct research on most of the leading superannuation products in Australia. This research is highly regarded in the industry and is purchased by most of Australia's leading superannuation product issuers and financial adviser groups. In July 2020, Chant West was purchased by Zenith CW Pty Ltd which is part of the Zenith Group. Chant West operates as Authorised Representative of Zenith Investment Partners.

Some product issuers (currently 11) commission us to rate their multi-manager investment products. We have provided this service since 2006. We also rate about 250 superannuation and pension products included in our research. This requires us to have a thorough understanding of their investments (which accounts for 45% of our overall evaluation). To understand the funds' investments, we require them to complete an investment governance questionnaire and provide us with key investment policy documents and copies of regular reporting. We also conduct extensive research on all leading asset consulting firms in Australia that consult to these funds. We publish investment performance surveys on a monthly basis and asset allocation surveys on a quarterly basis. Where we rate multi-manager investment products, we meet with the product issuer at least once a year and review all significant asset allocation and sector review documents.

Mano Mohankumar, Senior Investment Research Manager, has been involved in the financial services industry for over 21 years and has been with Chant West for 15 years. He is responsible for setting the firm's investment research agenda, leading the investment ratings process and having responsibility for all investment surveys. He has a Bachelor of Economics from the University of Western Sydney and a Master of Commerce from the University of New South Wales.

Jordan Davies, Associate Research Analyst, has been involved in the financial services industry for three years and joined Chant West in October 2020. He is involved in the firm's investment and superannuation research including ratings and product research. He has a Bachelor of Economics and Finance (Majoring in Economics and Finance) from the University of Wollongong.

Ian Fryer, General Manager – Chant West, has been involved in the superannuation industry for about 25 years and has been with Chant West for 17 years. He has overall responsibility for the firm's research and consulting services. Ian is a qualified actuary (AIAA) and has a range of actuarial, administration and consulting experience. He has a Bachelor of Science (Hons) from Sydney University, a Master of International Relations from Macquarie University and a Master of Arts (Theology) from the Australian College of Theology.

4. Coverage and filters

Chant West only rates the multi-manager investment products of product issuers that request this service (currently 11). We rate the products of most leading retail institutions and implemented asset consultants in Australia. We also rate the investment products of several not-for-profit funds. We do not rate single manager investment products. As such, in rating multi-manager products, we are not expressing an opinion on the underlying investment managers.

5. Conflicts management

Where a product issuer commissions us to rate its multi-manager investment options, we charge a fixed fee for this service. This creates a potential conflict of interest as our rating might be influenced by (a) the fee we receive for the service and (b) any revenue we receive where the product issuer buys research from us.

Our overall approach to managing these conflicts of interest is to have a robust and transparent ratings process that is undertaken by senior experienced staff and appropriately peer reviewed.

In addition, our conflicts management policy includes the following measures:

- We disclose whether a multi-manager rating report has been commissioned by a product issuer.
- We charge a fixed fee for a multi-manager rating report pursuant to a written engagement with the product issuer. This fee is not dependent on the report findings / ratings or any other services that may be provided to the product issuer.
- Apart from the fixed fee, we receive no other benefits for the report from the product issuer. However, we may receive fees for providing other research services, where applicable this is outlined below.
- Our agreement with product issuers obliges them to provide all necessary information for the purposes of the report / rating.
- We publish all ratings (regardless of the outcome).
- We have documented conflicts management arrangements that include back testing procedures to test integrity of our product issuer ratings.
- The product issuer reviews our report for the accuracy of the information but is otherwise not involved in the preparation of the report.
- Our staff remuneration is not connected to revenue generated from research reports or ratings.
- No one staff member is responsible for the entirety of the research or testing in connection with the preparation of a report or determination of a rating.
- We disclose any material interests in the products being rated. These interests must be approved in accordance with our internal processes.
- Where applicable, non-material interests are disclosed in relation to analyst holdings.

5.1 Associations & Relationships

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. As at the date this report was issued, an associated entity of either the Issuer or Investment Manager relevant to this report is; or has been, a subscriber to Chant West research and/ or data services or the services of its related entities, within the past 12 months. Conflict management arrangements are in place where Chant West or its related entities provides research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy.

For more details on our conflicts management processes, please refer to our Conflicts of Interest Policy which can be found at www.chantwest.com.au.

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