VFMC
Victorian Funds Management Corporation

Annual Report 2014-2015

Corporate Directory

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Insight. Foresight.

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About VFMC

VFMC was established under the Victorian Funds Management Act 1994. VFMC is a public authority and body corporate governed by an independent Board of Directors whose members are appointed by the Governor in Council. The Chair is appointed by the Treasurer.

VFMC's role is to provide investment and funds management services to Victorian public authorities in a commercially effective, efficient and competitive manner.

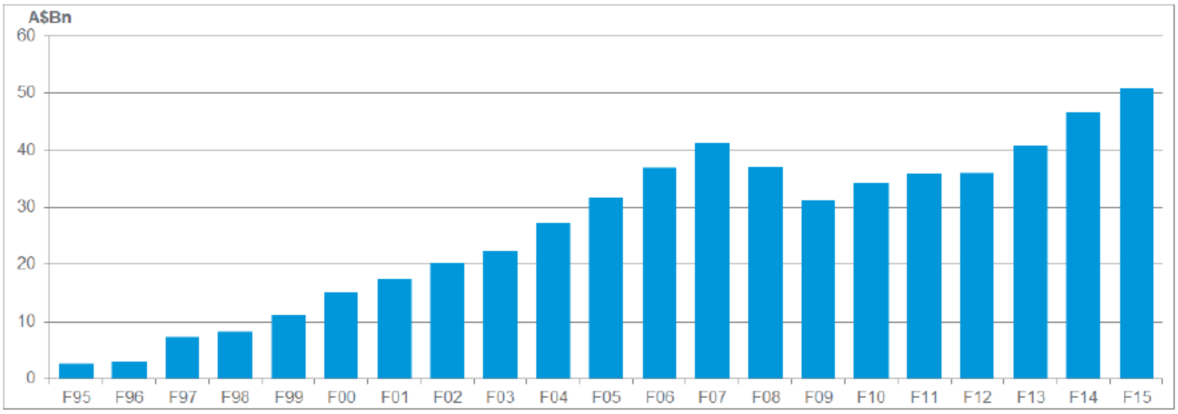
VFMC's mission is to:

- meet or exceed individual client risk adjusted investment objectives; and
- optimise long term returns on State assets with a risk profile in line with stakeholder risk tolerances.

VFMC's business approach supports its Vision Statement: To deliver exceptional long term investment outcomes for our clients by working as a collaborative organisation.

Funds managed

At 30 June 2015, VFMC managed $50.9 billion on behalf of its clients, an increase of $4.3 billion during the year.



VFMC's funds under management rise and fall with markets. Funds under management (FUM) are also impacted by client cash flows which have been negative in recent years due to the payment of pensions and retirement benefits. The decline from FY 2007 to FY 2009 was primarily driven by the large negative market returns associated with the global financial crisis - stronger market returns in recent years and investment outperformance are the primary drivers of the increased funds under management.

Clients

VFMC works with its clients to build,manage and monitor their investment portfolios. Clients are Victorian public sector and related organisations established under State legislation. Insurance funds represent approximately 54% of funds managed by VFMC with superannuation funds representing approximately 39% of funds managed. VFMC also manages funds for a range of public sector and not-for-profit institutions including hospitals and universities.

A total of $50.9 billion was managed by VFMC at 30 June 2015 on behalf of the following clients:

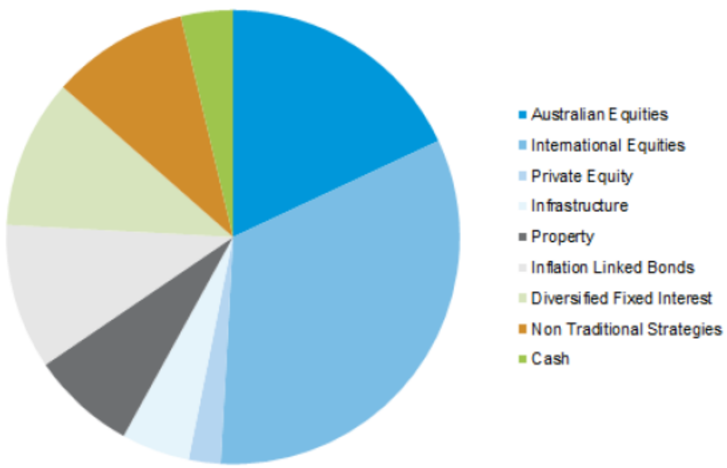
- Ballarat Health Services
- Consumer Affairs Victoria
- Department of Justice
- Environmental Protection Authority
- ESSSuper Accumulation Fund
- ESSSuper Defined Benefits Fund
- ESSSuper State Super Defined Benefits Fund
- LaTrobe University
- Metropolitan Fire and Emergency Services Board
- National Gallery of Victoria
- Peninsula Health
- Queen Elizabeth Centre
- Royal Children's Hospital
- Royal Women's Hospital
- Swinburne University
- Transport Accident Commission
- University of Melbourne
- Victorian Managed Insurance Authority
- Victorian Traditional Owners Trust
- Victorian WorkCover Authority

Clients are subject to a complex mix of demands for their services and community obligations. These influence their respective liability profiles and risk tolerances. Clients consider their requirements for income (or capital) based on these factors and decide on appropriate investment objectives.

Although each client is unique, they generally have investment objectives that have long term requirements. The chart below shows the proportion of investments allocated to each asset class at 30 June 2015, across the clients.

Asset Allocation (%)

30 June 2015



Report from the Chair

I am pleased to deliver my first report after being appointed as Chair of the VFMC Board by the Treasurer in June this year.

The investment performance of VFMC, as outlined later in this Annual Report, has continued to deliver well against the objectives of our clients. For the year ended 30 June 2015, VFMC delivered absolute performance of 11.69% and outperformed the relevant blended industry aggregate benchmark by 2.13%.

The financial results for the year include fee rebates to clients of $13 million compared to the previous year of $7.6 million, and a dividend to the State Government of $1.7 million which is consistent with 2013-2014. Profit after tax and after fee rebates for the year was $3.4 million.

The VFMC Board was joined in September 2014 by David Martine Secretary of the Department of Treasury and Finance. The Board has been joined in August 2015 by Elana Rubin and I welcome her to the Board.

I look forward to working with the Board and executive team to continue to deliver for our clients.

James MacKenzie
Chair

Report from the Chief Executive Officer

I am pleased to report on VFMC's outcomes and developments over the 2014-2015 year.

The primary objective of VFMC is to meet or exceed individual client investment objectives with a risk profile in line with stakeholder risk tolerances. At 30 June 2015 we managed $50.9 billion of investments on behalf of 20 Victorian public sector and related entities. This included new investments from three additional Victorian entities in June 2015.

During 2014-2015, VFMC continued its strong investment performance of recent years on both an absolute and relative basis. This has contributed to the delivery of longer term returns in line with the expectations of our clients. We continue to develop our clients' investment portfolios to position them for the desired risk and return outcomes over the longer term. We will be undertaking our triennial review of the portfolios with the Department of Treasury and Finance and our clients over the next 12 months.

VFMC's profitability has continued to increase, supported by fees based on higher FUM and a focus on cost management. A significant proportion of VFMC's profit is rebated to its clients.

We have now completed two years of a three year program to develop our business model and operations. During the year, we completed a number of important development initiatives that have improved our investment structures, technology platforms/capabilities, and selected products and services. It was announced in late May 2015 that following an extensive review of our operating model and an external tender process, VFMC would change its Custody and Administration provider. This change is planned to complete in the 2016-2017 year and will deliver high quality middle and back office solutions to enhance our client outcomes.

An important initiative carried out during the year was an independent review of our investment management fees. This review compared VFMC's fees with estimated fees of external managers assuming they had provided investment services to our clients through portfolios of similar size and complexity. It was pleasing to see that VFMC's fee levels are materially lower than market, giving further support to the Centralised Investment Model.

We continue with our objective to be at the forefront of risk management developments and, in addition to improving processes, systems and risk frameworks, all staff attended workshops designed to support decision making and risk culture. We will continue to build on these initiatives in 2015-2016.

VFMC has an engaged and professional workforce supported by initiatives to develop our technical and leadership capabilities as well as improving the overall working environment. The dedication and capability of our staff has delivered significant value for our clients.

I would like to thank the Board for their support of the executive and staff as we work together to continue the success of VFMC.

Warren Lee
Chief Executive Officer

Report of Operations

The investment results that VFMC clients receive depend on:

1. General market movements;
2. The investment outperformance generated by VFMC measured against accepted market benchmarks; and
3. Cost efficiency

VFMC clients' longer term objectives are broadly framed in terms of absolute targets, for example the Consumer Price Index (CPI) + 5% or Average Weekly Earnings (AWE) + 4% on a rolling five (or more) year basis.

VFMC endeavours to contribute to achieving those objectives for clients by outperforming the relevant market benchmarks in each asset class and in aggregate. VFMC's success or otherwise in outperforming those benchmarks is measured on a net of fees basis. Importantly, pursuit of that outperformance is also properly constrained by the risk guidelines that have been agreed with clients.

The investment management portfolios that VFMC constructs for its clients are designed to optimise returns within agreed risk parameters. In turn, each client is responsible for managing all aspects of its liabilities.

VFMC's 11.69% return for the year, net of fees and franking credits for superannuation clients, was 2.13% ahead of its blended aggregate benchmark return of 9.56%. All asset class strategies other than Private Equity outperformed their target benchmarks before fees over the one year period. There has been continued significant outperformance over the three years to 30 June of 1.82% per annum. With the strong market growth over this period, the aggregate return to DTF clients was 14.33% per annum net of fees and franking credits for superannuation clients. Over five years VFMC's results are also strongly positive in terms of both relative and absolute investment performance and over 10 years the returns are in line with long-run client objectives, but with limited benchmark outperformance.

VFMC results by asset class for one, three and five year periods are set out below on a gross (pre fees) basis alongside their relevant benchmark (Bmk) returns. Total portfolio results achieved by VFMC are shown both gross and net of fees and franking credits for superannuation clients. The value added across the one, three and five year periods exceeds management's target of 1% net of fees and franking credits for superannuation clients.

Asset Group	Asset Class	One Year		Three Years		Five Years	
		VFMC %	Bmk %	VFMC % pa	Bmk % pa	VFMC % pa	Bmk % pa
Equities	Australian Equities	7.50	5.61	16.65	14.72	11.48	9.45
	International Equities	19.68	16.87	23.34	21.80	16.36	15.12
	Private Equity	-1.68	8.92	10.52	15.91	13.52	10.13
Inflation Linked	Infrastructure	18.32	6.47	13.06	7.29	12.69	7.32
	Property	12.41	10.54	10.72	9.65	10.48	9.80
	Inflation Linked Bonds	7.06	6.44	7.13	4.45	8.91	7.86
Debt & Non Traditional Strategies	Diversified Fixed Interest	5.89	5.63	5.74	4.82	7.59	6.44
	Non Traditional Strategies	10.48	5.60	11.13	5.19	8.98	5.87
	Cash	2.85	2.60	3.18	2.86	3.88	3.65
	Strategy Overlay Positions	*0.19*		*0.14*			
Total VFMC (Gross)		12.09	9.60	14.77	12.53	12.03	10.31
Total VFMC (Net)*		**11.69**	**9.56**	**14.33**	**12.51**	**11.63**	**10.30**

** Net of fees and franking credits for superannuation clients*

The benchmarks chosen for each asset class reflect industry standards. The total fund benchmark comprises asset weighted asset class benchmarks. Benchmarks for each asset class are listed in the table below with the revised benchmarks implemented from 1 July 2014 highlighted in the second column – returns for periods greater than one year where the benchmark has changed are a blend of the two indices. Since the previous VFMC Annual Report, the UBS Bond Indices have been renamed AUSBOND and are now supplied by Bloomberg.

Report of Operations (Continued)

Asset Class	Original Benchmark	Revised Benchmark from 1 July 2014
Australian Equities	S&P / ASX300 Accumulation Index	
International Equities	MSCI AC World IMI Net AUD (50% hedged) Index	
Private Equity	S&P / ASX300 Accumulation Index	S&P / ASX300 Accumulation Index + 3% pa.
Infrastructure	CPI + 5%	
Property	Mercer / IPD Australian PPFI Index	Mercer / IPD Australian PPFI Index (1) (2)
Inflation Linked Bonds	Bloomberg AUSBOND Government Inflation Linked 0+ Yr Index	
Diversified Fixed Interest	Bloomberg AUSBOND Composite Bond	
Non Traditional Strategies	Bloomberg AUSBOND Bank Bill Index +2% pa	Bloomberg AUSBOND Bank Bill Index +3% pa.
Cash	Bloomberg AUSBOND Bank Bill Index	

Notes:

1. Total fund (Before Fees) is benchmarked against an asset weighted composite with the Mercer/IPD Australian Property Pooled Fund Gross as the property component.
2. Total fund (After Fees) is benchmarked against an asset weighted composite with he Mercer/IPD Australian Property Pooled Fund Net as the property component.

VFMC's asset allocation positioning added value in the 2014-2015 financial year, primarily as a result of its decision to remain overweight International Equities, again the best performing asset class for the year as measured by the above benchmarks. The size of that equity overweight varied over the course of the year, increasing initially and then reducing. More broadly, the degree of active positioning reduced over the period as equity valuations continued to rise and other valuations were impacted by the global chase for yield and availability of liquidity as a result of Quantitative Easing (QE). Being overweight cash in client portfolios over the period detracted value in an asset allocation sense given the strong total portfolio benchmark return for the financial year. However, as a long term investor, VFMC is comfortable with that decision and will continue to rebalance client portfolios away from assets that are becoming more expensive. VFMC clients benefited from our Australian dollar positioning during the year.

Cash exposures are actively managed to obtain performance whilst ensuring sufficient liquidity to meet client cash flow requirements. This was in addition to meeting currency hedge obligations as the Australian dollar declined (and the Australian dollar value of the overseas assets increased). Declining cash rates have impacted the levels of returns from this part of the portfolio but the actual returns achieved on cash balances remain strong relative to benchmark.

In Australian Equities, the portfolios delivered strong outperformance based on limited exposure to the falling iron ore price plus an overweight to stocks that benefit from a falling Australian dollar. For the year as a whole being underweight financials, particularly banks, reduced performance but this was offset by strong stock selection within the sector where insurers and asset managers performed strongly.

The International Equity portfolios delivered an even stronger year of outperformance. Emerging Markets in general underperformed Developed Markets as measured by MSCI benchmarks, but VFMC portfolios benefited substantially from an overweight to Chinese A-shares, which were up 107% in local currency terms for the year ended 30 June 2015 as measured by the CSI 300 Index. Although there was significant volatility in this market towards the end of the financial year, VFMC was able to manage that exposure and protect client positions.

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Report of Operations (Continued)

As was highlighted in the 2014 Annual Report, VFMC took advantage of strong demand in the market for secondary Private Equity interests to reduce client exposure to the asset class by approximately $600 milion in aggregate at overall pricing close to the then carrying value of those assets. This is part of a staged process of VFMC exiting this asset class.

The Infrastructure investment program has performed strongly in aggregate, helped by the continued maturation of infrastructure fund investments made in prior years and the high level of interest in this asset class globally. VFMC completed its review of the way it will manage this asset class going forward resulting in the divestment of its direct interests in two assets at prices approximating valuation. Ongoing exposure to this asset class by VFMC will be via a combination of fund commitments and co-investments alongside those funds. While underweight the Infrastructure asset class VFMC has significant outstanding fund commitments plus potential co-investments and believes that it is on track to achieve its target weight in an appropriate timeframe.

The Property portfolio delivered strong outperformance of its benchmark. That benchmark comprises a number of Australian-based property vehicles and is based on net of fee fund returns. Australian property experienced strong demand from investors, particularly from overseas, resulting in a compression in capitalisation rates that produced asset class returns that outperformed the underlying fundamentals and likely long-run returns from the asset class. Key to VFMC's results and ability to deploy capital selectively into the domestic market has been a number of pre-committed partnerships with other institutional investors in the office, industrial and retail sectors. These have VFMC's desired governance frameworks in place to ensure that all investments satisfy the necessary risk-adjusted investment criteria, plus other relevant standards, required.

The Inflation Linked Bond portfolios delivered a lower absolute return than in prior years but VFMC was able to continue to add value in this asset class through issue-specific credit exposure and effective interest rate exposure management. A continued favourable environment for credit also helped the Enhanced Cash strategy to deliver a strong result but VFMC has been looking to reduce exposure to liquid credit as this has become overvalued in the global pursuit of yield and could be subject to potential selling pressure if bigger funds receive widespread redemptions. The volatility in global bond markets, as reflected by the movements in bond yields, made the period a challenging one for active bond managers. In the core part of VFMC's Diversified Fixed Interest portfolios, VFMC's internally managed strategy delivered competitive results.

Overall the Non-Traditional Strategies portfolio outperformed its benchmark and delivered an aggregate return of 10.5% before fees and 8.9% after fees. In the Hedge Fund sub-portfolio the majority of our external managers performed well despite it being a challenging year for hedge funds in general as represented by the broad Fund Weighted Hedge Fund Research Index posting a USD return for the 12 months to 30 June 2015 of 2.4%. For the year to 30 June 2015 the Hedge Fund sub-portfolio outperformed its revised benchmark by 0.8% net of all fees.

The Opportunistic part of client portfolios within Non-Traditional Strategies, which again delivered positive net of fee returns over the period, continues to see increased emphasis as private debt remains one of the few areas where VFMC observes a good investment opportunity. The Life Settlements investment, also held for clients in this Non-Traditional part of the portfolio, delivered positive mid-teen net of fee returns for the financial year.

VFMC uses a combination of internal and external management across asset classes to deliver the desired long-term investment outcomes for clients net of fees and costs. Internal management is used for sub-portfolios within the Australian Equities, Fixed Income and Cash asset classes plus a Strategy overlay portfolio and International Equity enhanced core portfolio.

For the year ending 30 June 2015, six out of twelve internal strategies added value with one other in line with its benchmark. On a dollar-weighted basis, VFMC's internal management program outperformed a blended benchmark by approximately 1% over the past financial year while remaining within relevant risk guidelines. At 30 June 2015, 34% of VFMC's assets were managed internally.

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Report of Operations (Continued)

For the rest of the portfolio, VFMC engages and monitors external managers across the different asset classes. Taken together these external managers significantly outperformed their blended benchmark.

Remuneration arrangements

Following a review of VFMC's remuneration framework in 2013-2014, a new Single Incentive scheme (SI) was implemented from 1 July 2014. It seeks to reward employees based on performance at an organisational, business unit and individual level. Key Performance Indicators are used to measure performance at an individual level. This SI replaces both the Short Term Incentive (STI) and Long Term Incentive (LTI) schemes. The SI applies to all VFMC staff and is more consistent with a total remuneration philosophy within VFMC – that is, total remuneration (salary and incentives) being taken together in assessing and comparing total compensation in the relevant markets.

Owing to the deferred nature of the LTI scheme there is a two year transition period that completes on 30 June 2016. During this period, the remaining two LTI payments will accumulate and be paid out as they vest. In this transition period, the SI will be calculated taking into account the LTI payments and seeks to ensure a fair and reasonable approach to the total remuneration for any individual.

Annually the Board sets the maximum SI bonus pool and a SI deferral threshold. SI amounts payable above the threshold are split between immediate payment and payout over the following two year period. Eligibility for the deferred amounts requires staff to be in employment at the time of vesting. Deferred amounts under the SI are subject to clawback if deemed appropriate at the discretion of the Board.

The remaining 2015 and 2016 LTI schemes are determined solely by investment outcomes over a rolling three year period, combining investment outperformance against established industry benchmarks and the cumulative absolute performance of VMFC clients' portfolios over that period. These payments are limited to about one third of total staff and vest after three years. In essence, maximum payments of LTI are secured with investment outperformance of 200 bps net of fees. The unvested payments are affected by the overall performance of the VFMC investment portfolio.

All performance figures used in the determination of incentives are net of fees and franking credits for superannuation clients.

For 2014-2015, the net of fees investment outperformance against benchmark was 213 bps over one year and 182 bps over three years. This combined with strong overall business performance and the successful completion of a number of important development initiatives that have improved our investment structures, technology platforms and selected offers to our clients, has resulted in award of incentives of $12.9 million for 2014-2015. For the prior period, the total incentives awarded were $10.5 million.

These incentive amounts should be seen against the cumulative increase in the value of VFMC DTF clients' portfolios of 14.33% per annum net of fees and franking credits for superannuation clients for the three years to 30 June 2015. The value of investment outperformance compared with industry benchmarks delivered over the three year period is in excess of $2.3 billion to client portfolios. Over the past five years, the value of the outperformance increased to over $2.7 billion.

Report of Operations (Continued)

VFMC financial performance

In light of the growth in VFMC's funds under management to $50.9 billion and in conjunction with strong cost management practices, VFMC returned a pre-tax profit of $4.9 million in 2014-2015. This is above VFMC's target return on capital (ROC) of between 10% p.a. and 15% p.a. VFMC's capital position as at 30 June 2015 is $19 million. It has increased in accordance with the increase in FUM and continues to be at a level which the Board considers appropriate.

Taking future business needs into consideration and to the extent that VFMC has met its return on capital requirements, VFMC declared a client fee rebate for the 2015 financial year of $13 million. This rebate has been calculated on a consistent basis and recognises the clients' continued support of VFMC.

VFMC's balance sheet was largely unchanged. Net assets increased to $19 million in 2014-2015 from $17.3 million in 2013-2014. VFMC anticipates paying a dividend to the State of Victoria of $1.7 million, which would reduce net assets at 30 June 2015 to $17.3 million. This amount will be confirmed in the 2015-2016 year.

Key Financials for Financial Year	2014-2015 $ million	2013-2014 $ million	2012-2013 $ million
Pre-tax Profit	4.9	5.0	7.5
Net Assets	19.0	17.3	16.4
Client rebate	13.0	7.6	2.0
Dividend	1.7	1.7	2.6

Occupational Health and Safety

In line with VFMC's strategy the health and safety of employees is paramount. VFMC takes a proactive approach to managing its occupational health and safety (OH&S) responsibilities by delivering initiatives and programs such as:

- Ergonomic Assessments
- Employee Assistance Program
- Trained First Aid Officers
- Trained Fire Wardens
- Influenza Vaccinations
- Annual OH&S assessment conducted by an independent consultant

VFMC aims to continue with these initiatives to ensure we offer a safe working environment for all employees.

Details of Consultancies

In 2014-2015, VFMC continued to invest in the business through a number of strategic projects. To support the delivery of these projects four consultancies were utilised where the total fees payable to the consultants were $10,000 or greater. The total expenditure incurred during 2014-2015 in relation to these consultancies is $774,140 (2013-2014: $1,273,518). Details of individual consultancies can be viewed at www.vfmc.vic.gov.au.

In 2014-2015, there were no consultancies where the total fees payable to the consultants were less than $10,000.

Governance

VFMC's governance standards have been developed to provide clear and effective division of roles and responsibilities to better facilitate accountability and operational efficiency.

Through the VFMC Board Charter and Instrument of Delegation, there are delegations in place which specify responsibilities and accountabilities from government through to the management of investments. This governance framework is supported by Board committees, management committees, investment committees and risk management systems and controls.

The Victorian Funds Management Corporation Act 1994 (VFMC Act) established VFMC as a body corporate governed by an independent Board of Directors whose members are appointed by the Governor in Council.

The Act specifies that VFMC is subject to the general direction and control of the Treasurer and that any directions must be consistent with the objectives of the Corporation as specified in the VFMC Act. These objectives are that VFMC provides investment and funds management services to Victorian public authorities in a commercially effective, efficient and competitive manner.

Directions may relate to corporate performance measures but must not be in relation to an investment decision, dealing with property or the exercise of a voting right. Any direction must be published in the Government Gazette and VFMC Annual Report.

The Act specifies that the VFMC Board is responsible for the management of the affairs of VFMC and may exercise its powers including the power of delegation. The Act stipulates the Board must have at least four but no more than nine members. Directors are appointed by the Governor in Council with the Chair appointed by the Treasurer. Directors are appointed for terms not exceeding three years and are eligible to be reappointed.

The VFMC Board benefits from members with broad experience in asset management, the public sector and business. Potential conflicts need to be transparent, declared and managed. The Board also requires members with complementary skills.

The role and responsibilities of the Board are further detailed in the VFMC Board Charter. The Board's role is to provide overall strategic guidance for VFMC and effective oversight of management. It must ensure that VFMC fulfils its objectives and functions and that its activities comply with the VFMC Act.

The Board is responsible for:

- Appointing the CEO (with approval of the Treasurer) and the Corporation Secretary
- Approving the Corporate Plan
- Approving VFMC's investment philosophy and approach as well as client investment risk management plans designed to achieve individual client objectives
- Monitoring the performance and implementation of corporate strategy by senior management
- Monitoring the investment performance of the organisation and compliance with client investment risk management plans
- The oversight of VFMC including control and accountability systems
- Approving financial reports and monitoring financial results on an ongoing basis
- Approving all certifications provided to the Department of Treasury and Finance and clients

The Board has two standing committees – the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee. The Chair evaluates the performance of the CEO, who in turn evaluates the performance of the Executive Leadership Team. The performance of the Board as a whole is evaluated each year by its members. This review focuses on its effectiveness, performance of Committees and the adequacy of the Board Charter. A third party undertakes a triennial evaluation of the Board's performance.

Governance (continued)

Audit, Risk and Compliance Committee

Four of the Corporation's Directors are members of the Audit, Risk and Compliance Committee. The Committee is chaired by Mrs Catherine Walter. Meetings of the Committee are held five times a year or as required. The primary role of the Committee is to assist the Board on the oversight of the external financial reporting and financial statements and the risk management and control framework.

Nomination and Remuneration Committee

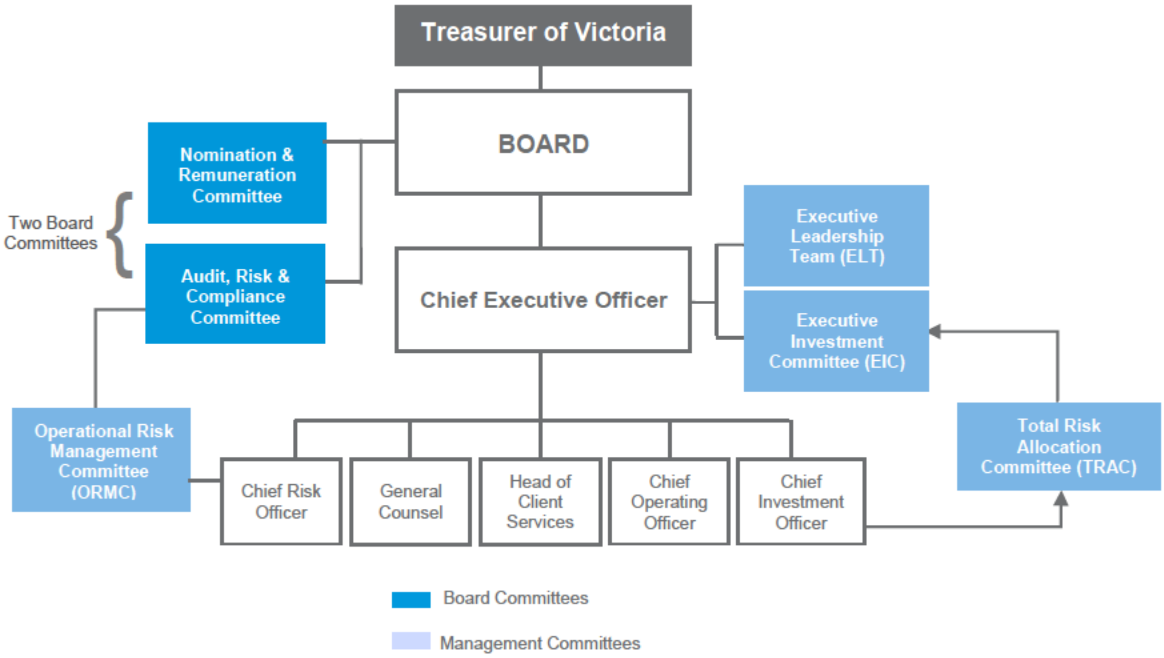
Four of the Corporation's Directors are members of the Nomination and Remuneration Committee. The Committee is chaired by Ms Elana Rubin and meets bi-annually, or as required. The primary role of the Committee is to assist and advise the Board on remuneration policies and practice for VFMC employees.

The Board has delegated authority to the CEO and management to achieve the Corporation's objectives and perform its functions.

Corporation Structure

Corporation Structure

The diagram below shows the corporation structure and the relationships between the Treasurer, VFMC Board and VFMC management (and their key committees). It also shows the process for investment approvals.



The Board appoints the Chief Executive Officer (CEO) with the approval of the Treasurer and delegates authority to the CEO to achieve its objectives.

The CEO is supported by the Executive Leadership Team which meets regularly to discuss the operation of the business.

The Executive Investment Committee (EIC) comprises the CEO, Chief Investment Officer (CIO), Deputy CIO, Head of Client Services, Chief Operating Officer (COO), Chief Risk Officer (CRO) and General Counsel. It is chaired by the CEO and meets to discuss investment matters and to ensure that operational and compliance issues have been dealt with prior to implementing investment decisions.

Total Risk Allocation Committee (TRAC) is chaired by the CIO and comprises the Deputy CIO, and Heads of Strategy, Investment Risk, Equities, Debt and Absolute Returns, Infrastructure and Property.

The Operational Risk Management Committee (ORMC) is a business committee of VFMC which assists in fulfilling its statutory and regulatory responsibilities. It is chaired by the CRO and comprises the CEO, COO, General Counsel, CIO, Deputy CIO and the Head of Client Services. It provides management oversight of VFMC's operational risk and provides reports to the VFMC Board's Audit, Risk and Compliance Committee.

VFMC
Victorian Funds Management Corporation

Board of Directors

James MacKenzie
Chair
Appointed June 2015

Mr MacKenzie is an experienced Australian company director. Mr MacKenzie currently serves as a Director of Melco Crown Entertainment Ltd, Melco Crown (Philippines) Resorts Corporation, Maurice Blackburn and Chairman of accounting firm Shine Wing Australia.

Mr MacKenzie was previously Chairman of the Transport Accident Commission (TAC) and Worksafe Victoria, Managing Director of Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia, and TAC Chief Executive Officer. Mr MacKenzie has been a member of the COAG Business Advisory Forum. He was also previously a Director of VFMC.

In 2001 Mr MacKenzie was awarded the Centenary Medal for services to Public Administration.

Mr MacKenzie has a Bachelor of Business from Swinburne University. He is a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia.

Catherine Walter AM
Deputy Chair - First Appointed Director - August 2009
Acting Board Chair from January 2015 - June 2015
Chair of Audit, Risk and Compliance Committee

Mrs Walter is a solicitor and company director. She practised law for 20 years and was Managing Partner of one of the major law firms in Melbourne and thereafter a Commissioner for the City of Melbourne.

Mrs Walter has chaired and participated in government think tanks in the areas of education, the arts and corporate and financial regulation. For nearly 20 years she has been a non-executive director on Boards spanning the private sector, not-for-profit and government sectors and across a range of industries: resources and energy, funds management, banking, insurance, superannuation, telecoms, education, the arts and health services.

Mrs Walter is currently a Director of the Payment Systems Board, Australian Foundation Investment Company, Victorian Opera, Vic Forests and Walter & Eliza Hall Institute of Medical Research.

Mrs Walter holds a First Class Honours Degree in Law, a Masters Degree in Law and a Masters of Business Administration from the University of Melbourne. She is a Fellow of the Australian Institute of Company Directors.

Board of Directors (Continued)

John Fitzgerald

Director

Appointed January 2013

Mr Fitzgerald is a Specialist Advisor to KPMG on the infrastructure and government sectors. During 2014 and 2015 he was Acting Infrastructure Coordinator at Infrastructure Australia. He is also a Director on the Boards of the Port of Melbourne Corporation, the Barangaroo Delivery Authority and Chair of the ACT Government Capital Metro Agency, the NSW Government Steering Committee for the Sydney International Convention, Exhibition and Entertainment Precinct project and Assetco Management Pty Ltd. Prior Board positions included Director on the National Advisory Board of Infrastructure Partnerships Australia, Director Royal Melbourne Showgrounds Redevelopment Joint Venture and Executive Director Department of Treasury and Finance (Victoria) Executive Board.

Before September 2011 Mr Fitzgerald was a Deputy Secretary, Commercial Division, at the Victorian Department of Treasury and Finance.

Earlier, Mr Fitzgerald held senior management positions with PricewaterhouseCoopers, AIDC, Deutsche Bank and the Commonwealth Bank.

Mr Fitzgerald has a Master of Public Infrastructure (Research) - (First Class Honours), University of Melbourne; he is a Fellow of the Australian Institute of Company Directors and of the Institute of Public Administration Australia (Victoria).

Ray King

Director

Appointed January 2013

Mr King is Director of Sovereign Investment Research and was previously at Mercer Investments from July 2012 to June 2015 as the lead consultant on advisory assignments in alternative investments and overseeing manager research in private markets, excluding infrastructure, in Asia and Australia.

Mr King has previously worked for Towers Perrin and Industry Fund Services. He has also worked in the Victorian Department of Management and Budget from 1987 to 1990 as the Director of Financial Policy and Operations.

Mr King has an Honours Degree in Economics from Monash University. He was the foundation Chair of the Investment Management Consultants Association and was awarded a life membership of the Association for his services to the asset consulting industry in 2012.

David Martine

Director

Appointed September 2014

Mr Martine is Secretary of the Victorian Department of Treasury & Finance. He leads the Department providing economic, policy and service delivery advice to the Victorian Government.

Prior to this, Mr Martine worked as a senior executive in the Commonwealth public sector providing strategic advice to governments on a range of economic and other policy issues. He has extensive budget, finance, policy and organisational leadership experience, and has been involved in wide ranging strategic policy reform.

Mr Martine was educated in Melbourne and has an Honours Degree in Economics from Monash University. He completed his Masters of Business Administration in 2005.

Board of Directors (Continued)

Chris Pearce
Director
Appointed January 2013

Mr Pearce was appointed as Executive Director – Government and Not for Profit, Telstra Corporation Ltd in July 2010. Mr Pearce is Chairman of Global Voices and also a Director of Anglicare Victoria.

Prior to joining Telstra, Mr Pearce was a Member of the Parliament of Australia having been first elected as the Member for Aston in July 2001.

During his time in Parliament, Mr Pearce was appointed to the Ministry in 2004 as Parliamentary Secretary to the Treasurer and served in that position until November 2007. He also served as Shadow Minister for Financial Services, Superannuation and Corporate Law and to the Parliamentary Joint Committee on Corporations and Financial Services from 2008 until December 2009.

Prior to joining Parliament, Mr Pearce spent 21 years in senior business roles in the music, communications and IT industries and was the Australian and New Zealand Managing Director for one of the world's leading software companies.

Mr Pearce has a Business Degree from Monash University and an MBA from Deakin University and has completed a Management Development Program at the Mt. Eliza Australian Management College. He is a Fellow of the Australian Institute of Company Directors and an Associate Fellow of the Australian Marketing Institute. He has also been a Member of The Economist's CEO Forum and an Associate Fellow of the CEO Institute of Australia.

Elana Rubin
Director – Appointed August 2015
Chair of Nomination and Remuneration Committee

Ms Rubin has extensive experience in funds management, property and infrastructure. She is currently a Director of Mirvac, NAB Wealth life insurance, administration & investment subsidiary boards, Touchcorp and Transurban Queensland.

In 2013, Ms Rubin retired as the Chair of AustralianSuper, one of Australia's largest superannuation funds, and as a Director of TAL, the specialist life insurance company. She also recently retired from the Board of PPB Advisory, and the Federal Government's Infrastructure Australia Council & Climate Change Authority. Previous directorships include Chair of the Victorian WorkCover Authority, Director of the Victorian Transport Accident Commission, Chair of the Victorian Rail Track Corporation (VicTrack) and Director of Industry Super Property Trust.

Board of Directors (Continued)

Board Composition and Membership

Under Section 13 of the Victorian Funds Management Corporation Act 1994, the Directors shall be appointed by the Governor in Council, having regard to the expertise necessary for the Corporation to carry out its functions. The Treasurer shall appoint one of the Directors to be Chair of the Corporation.

The Board of Directors is responsible for oversight of the Corporation. This includes – but is not limited to – strategic planning, budgeting, investment process, risk management, fiduciary obligations and remuneration process.

Board Committees for Financial Year 2014-2015

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee assists the Board in meeting its corporate and statutory obligations. The role of this Committee is to monitor the financial reporting practices and accounting policies of VFMC, to monitor the effectiveness of the Corporation's internal controls, risk management and compliance strategies and to liaise with the internal and external auditors. Mrs Walter was appointed Committee Chair in May 2013. Whilst Mrs Walter was Acting Chair of VFMC Mr Fitzgerald chaired the ARCC.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee ensures the Corporation's remuneration policies and recruitment practices are consistent with the Corporation's strategic goals and human resource objectives.

Directors' Meetings

The number of Directors' meetings held during the financial year 2014-2015 and the number of meetings attended by each Director are:

Director	Board of Directors Meetings			Audit, Risk & Compliance Committee Meetings			Nomination & Remuneration Committee Meetings		
	No. Held	No. Eligible	No. Attend	No. Held	No. Eligible	No. Attend	No. Held	No. Eligible	No. Attend
J MacKenzie	-	-	-	-	-	-	-	-	-
J Fraser	3	3	3	-	-	-	-	-	-
C Walter	6	6	6	4	4	4	1	1	1
A Williams	5	5	5	3	3	3	-	-	-
C Pearce	6	6	6	4	4	4	1	1	1
J Fitzgerald	6	6	6	4	4	3	1	1	1
R King	6	6	6	-	-	-	1	1	1
D Martine	4	4	4	-	-	-	1	1	1
E Rubin	-	-	-	-	-	-	-	-	-

Mr Fraser retired as Chair in January 2015 and Ms Williams' term concluded in May 2015.
Mr MacKenzie's term commenced June 2015, Mr Martine's term commenced in September 2014 and Ms Rubin's term commenced in August 2015.

Board of Directors (Continued)

Directors' Benefits

No Director of the Corporation (other than disclosed below) has, since the end of the previous financial year, received or become entitled to receive, a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Directors shown in the financial statements) by reason of a contract made by the Corporation, with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial financial interest.

Independence and Related Parties

The Directors of VFMC are appointed by the Treasurer. The Board has agreed that conflicts of interest are addressed, where applicable, by Directors declaring their interests, absenting themselves from relevant discussions and abstaining from voting at VFMC's Board meetings.

All transactions with deemed related parties have been made on normal commercial terms and conditions. These related party transactions are detailed on pages 47 to 49 of this report.

Indemnification and Insurance of Directors and Officers

The Directors' and Officers' liability insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Corporation or a related body corporate) incurred in their position as Director or Officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The Corporation provides each Director with a Deed of Access to Documents.

Prudential Certification by the Board

The Board certifies to the Department of Treasury and Finance and its clients annually in relation to a number of prudential obligations.

VFMC Executive Investment Committee

Warren Lee
Chief Executive Officer

Mr Lee joined VFMC as Chief Executive officer in October 2012.

He was previously Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited (AXA). His career at AXA spanned 15 years with various senior management positions within AXA's Australian and Asian businesses. His prior roles included Chief Financial Officer for AXA Australia and New Zealand and preceding that Chief Operating Officer for AXA in Hong Kong.

Mr Lee holds a Bachelor of Commerce degree from the University of Melbourne and is a member of the Institute of Chartered Accountants in Australia.

Justin Pascoe
Chief Investment Officer

Mr Pascoe joined VFMC as Chief Investment Officer in September 2008.

He has over 20 years of industry experience in senior roles at asset management and asset consulting firms in Australia and the Asian region, where he lived for a total of 13 years. Prior to joining VFMC, Mr Pascoe was a Managing Director at Goldman Sachs based in their Hong Kong office. Previously he was Chief Investment Officer, Asia ex Japan with responsibility for equity, fixed income and multi-asset processes for State Street Global Advisors (Asia) Ltd.

Mr Pascoe has a Bachelor of Commerce degree from the University of Melbourne and received the Chartered Financial Analyst designation in 1996.

Brett Davidson
Chief Operating Officer

Mr Davidson was appointed to VFMC as Chief Operating Officer in September 2006. Prior to joining VFMC, Mr Davidson was Director and Chief Operating Officer, Merrill Lynch Investment Managers based in Melbourne.

His career at Merrill Lynch spanned 19 years where he worked in Business Management, Chief Operating Officer and Chief Financial Officer roles in and across Investment Banking, Capital Markets, Private Banking and Funds Management Divisions. These roles encompassed Finance, Operations, Client Servicing, Technology, Legal, Compliance and Human Resources in Merrill Lynch's global office network including London, Zurich, Singapore, Sydney and Melbourne.

Mr Davidson holds a Bachelor of Economics from the University of Adelaide and is a member of the Institute of Chartered Accountants in Australia.

VFMC
Victorian Funds Management Corporation

VFMC Executive Investment Committee (Continued)

Geoff Diamond
Head of Client Services

Mr Diamond joined VFMC in September 2013 having previously been Principal, Head of Institutional at Vanguard Investments Australia Ltd. In this role he was responsible for the development and implementation of Vanguard's Australian institutional business strategy, and a member of the Australian executive team.

He has over 15 years experience in asset management sales and client relationship management. Prior to joining Vanguard in 1997, he held senior FX trading roles for several major banks and gained experience in both local and offshore markets.

Mr Diamond holds a Senior Associate (SA Fin), FINSIA.

Andrew Elliott
Deputy Chief Investment Officer

Mr Elliott joined VFMC in April 2007 from Deutsche Asset Management (Australia) Limited (RREEF Infrastructure) where he was a Director in infrastructure funds management. He has 25 years experience in asset management and legal roles.

He jointly led the VFMC Private Markets team covering unlisted infrastructure, property and private equity prior to becoming Deputy CIO in 2008 and continues to oversee unlisted investments as part of his current role. He has extensive experience in unlisted investments including deal origination, review, execution and ongoing portfolio management.

Mr Elliott formerly sat on the boards of Epic Energy, Yallourn Energy, Australia Pacific Airports Corporation and Port of Geelong and currently sits on the board of Utilities of Australia. He holds a Bachelor of Laws (Hons) and a Bachelor of Commerce from the University of Melbourne.

Kerrie Howard
General Counsel, Corporation Secretary

Ms Howard was appointed Head of Legal and Compliance of VFMC in April 2007. Prior to this she spent 14 years at BlackRock Investment Management (Australia) Limited (previously Merrill Lynch Investment Managers) where she was General Counsel and Company Secretary, responsible for risk, compliance and legal issues as well as various audit matters.

Ms Howard has an extensive background in financial services and holds a Bachelor of Arts and LLB (Monash) and received her MBA from RMIT.

Bryony Hayes
Chief Risk Officer

Ms Hayes was appointed as Chief Risk Officer in October 2013. Prior to this she spent five years at Hastings Funds Management as Head of Risk and Compliance, covering both listed and unlisted infrastructure funds. Ms Hayes also spent six years at Capital Group in London in various compliance and operational roles.

Prior to this she had legal roles both in law firms and at the Victorian Court of Appeal and Supreme Court of Victoria. She holds a BA / LLB (Hons) from La Trobe University.

Key Performance Indicators

During the 2014-2015 financial year, VFMC applied the key performance indicators as agreed in the 2014-2015 Corporate Plan to assess performance.

1. Client portfolio performance versus benchmark

VFMC manages the majority of the State's assets available to it under the terms of the VFMC Act. At 30 June 2015, VFMC had 20 individual clients with FUM of $50.9 billion.

As indicated below, VFMC clients' longer term objectives are broadly framed in terms of absolute targets, for example the Consumer Price Index (CPI) + 5% or Average Weekly Earnings (AWE) + 4% on a rolling five to ten year basis.

VFMC endeavours to contribute to achieving those objectives for clients by outperforming the relevant market benchmarks in each asset class and in aggregate. VFMC's success or otherwise in outperforming those benchmarks is measured on a net of fees basis. Importantly, pursuit of that outperformance is also properly constrained by the risk limits that have been agreed with clients.

The process starts with client objectives, which are set in terms of long term real return targets and risk tolerances defined by changes in the funding ratio. VFMC's mandate is to implement clients' investment portfolios to achieve these long term real return targets within accepted risk tolerances. Clients understand that their objectives will not be achieved in all periods and reflect this by setting a probability with which the objectives should be met. The table below sets out the multi-year performance and stated long term objective for each Department of Treasury and Finance client:

Individual Client Performance versus stated objective for periods ending 30 June 2015

Client	Objective Horizon (years)	Performance Net of Fees % pa	Target Return per Objective % pa	Investment Objective	Probability of objective being achieved
VWA	5	11.57	6.5	AWE +4% pa over rolling five year periods	60%
TAC	10	7.40	7.58	CPI (Me b)+ 5% pa over rolling ten year periods	60%
VMIA	10	6.94	6.92	AWE +3.5% pa over rolling ten year periods	50%
SSF	10	7.25	8.17	CPI (Aust) +5.5% pa over rolling ten year periods	65%
ESSSuper DB	7	7.36	7.31	CPI (Aust) +5% pa over rolling seven year periods	65%

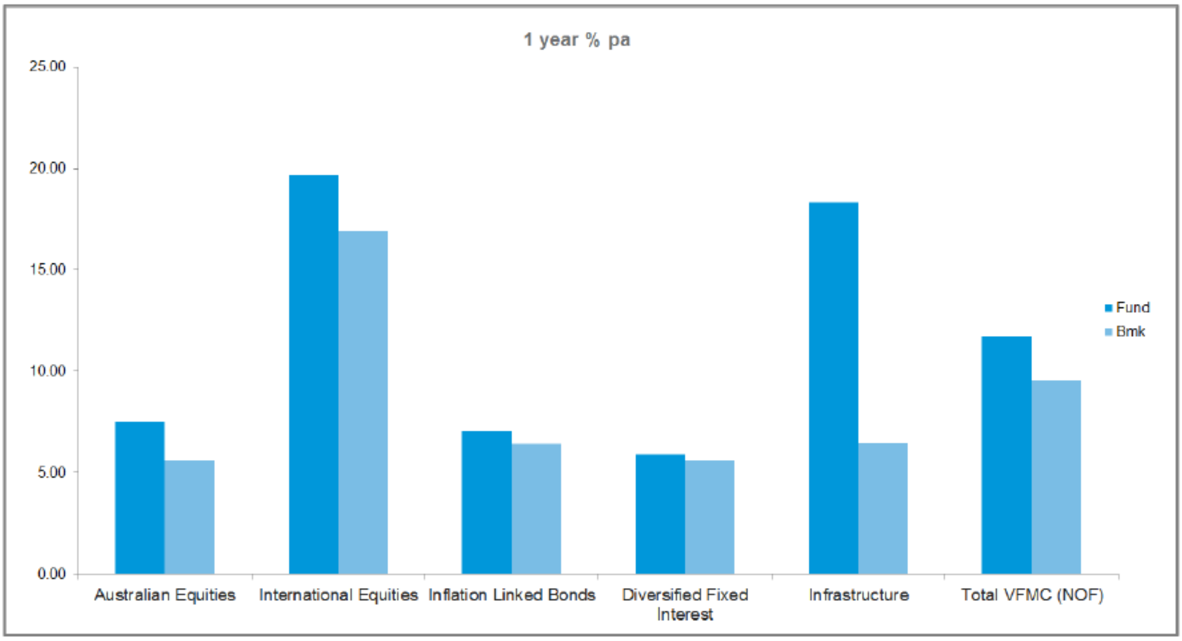
During the 2013 IRMP review, a number of clients extended the horizons of their respective investment objectives to better reflect the nature of their liabilities. Although there has been a substantial recovery in markets from the depths of the financial crisis and the absolute levels of returns are continuing to improve, the cumulative annualised return delivered remains below objective for two clients with longer investment horizons. These longer term multi-period results remain impacted by the extreme effects of the global financial crisis which began in 2008.

Key Performance Indicators (Continued)

2. Whole of State performance versus benchmark

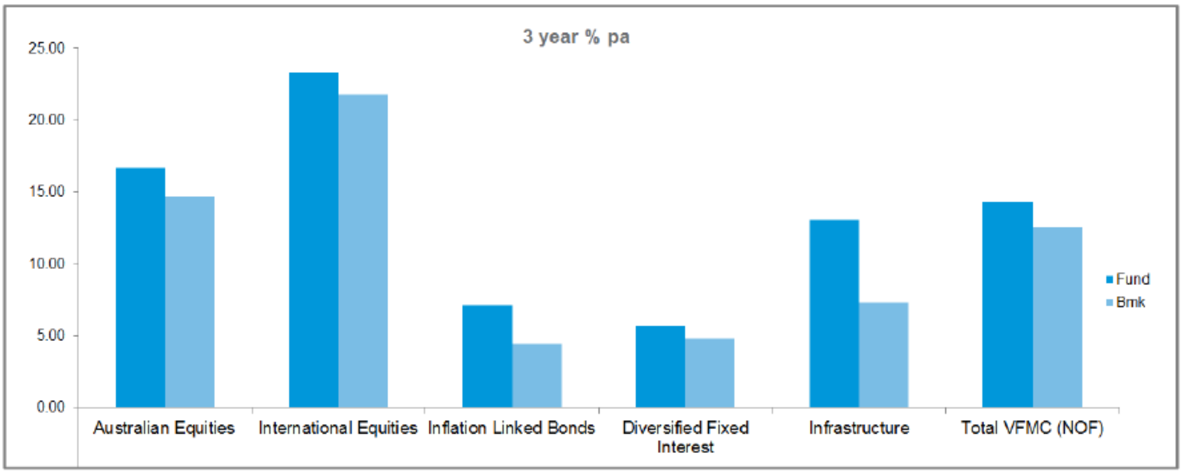
VFMC performance relative to benchmark for Department of Treasury and Finance clients in aggregate has been strongly positive over the 2014-2015 financial year with a return of 12.09% (gross of fees) and 11.69% (after fees and franking credits for superannuation clients). This was 2.49% ahead of benchmark gross of fees and 2.13% net of fees and including franking credits for superannuation clients.

The following charts show major asset class returns (Fund) against the relevant benchmarks (Bmk) over one, three and five years ended 30 June 2015.

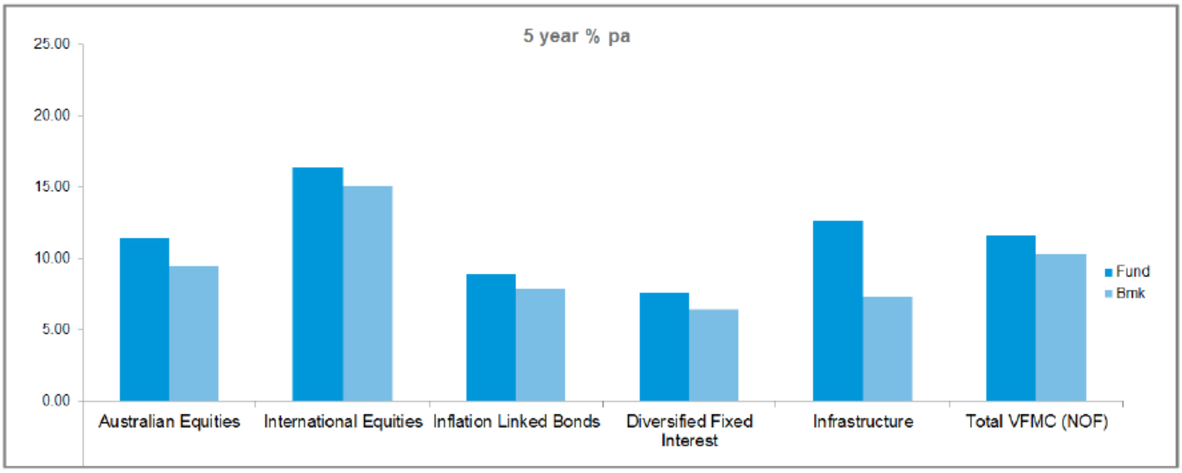


Key Performance Indicators (Continued)

Relative to long-term client objectives (approximated by a CPI +5% target) the three year total return results of 14.33% (net of fees and franking credits for superannuation clients) are ahead of target.



The five year returns are also ahead of benchmark.



Key Performance Indicators (Continued)

3. Client and stakeholder satisfaction

VFMC responds to feedback it receives from DTF clients and DTF. A Client Survey was conducted in early 2014, seeking feedback from client Boards, management and DTF to identify areas of strength and areas for possible improvement. The survey covered Strategy and Leadership, Investment Returns, Cost and Risks, Asset Liability Work, Service and Communications, ESG and Proxy Voting. VFMC has been working to improve on the positive survey result (7.94% on a ten scale) and plans a Client Survey "pulse" check in the second half of 2015 to measure progress.

Client investment forums continued in 2014-2015. These forums covered various areas of investments during the year.

Clients and Department of Treasury and Finance all received their monthly and quarterly reports within the agreed timetables.

4. Staff engagement

VFMC continues to be committed to the development of staff and over the past 12 months has implemented a number of development initiatives focused on delivering a performance culture of personal accountability. In particular leadership, change management and risk culture programs were provided to staff.

VFMC reported a positive employee engagement result of 86% in its last independent engagement survey and is implementing a number of actions to support this positive level of engagement into the future.

5. Efficiency

VFMC aims to provide services to clients at cost levels which are competitive with the broader funds management industry.

Centralising client investments via VFMC delivers the State and clients a material aggregate fee benefit. This was confirmed via a benchmarking exercise undertaken by an independent global consultant in 2015 where VFMC's fees were shown to be materially lower than external managers. This review compared VFMC's fees with estimated fees of external managers assuming they had provided investment services to our clients through portfolios of similar size and complexity.

6. Profit and return on capital

VFMC operates with an objective of generating a target return on capital (ROC) of between 10% p.a. and 15% p.a. These returns can be used to fund necessary investment in the business, make dividend payments to the State and maintain capital reserves to meet possible operational needs. As agreed with DTF, any excess returns, as determined by VFMC, will be rebated to clients on an annual basis.

VFMC's pre-tax profit for the year to 30 June 2015 was $4.9 million after a significant rebate of fees to clients. This is above VFMC's target rate of return.

7. Operational risk

VFMC's internal control framework aims to ensure there are no significant breaches of Government legislation, policies, guidelines and the requirements under the Prudential Standard.

For the year ended 30 June 2015, there were no significant breaches.

Annual Financial Report

For the year ended 30 June 2015

VFMC
Victorian Funds Management Corporation

Statement of Comprehensive Income for the financial year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Revenue			
Management fee revenue	2	167,894	140,665
Client rebates	2	(12,950)	(7,570)
Performance fee revenue	2	14,684	9,923
Total fee revenue		169,628	143,018
Other revenue	2	488	757
		170,116	143,775
Expenses			
Portfolio management and custodian expenses	3	119,121	94,488
Employee benefit expenses	3	29,256	30,180
Depreciation and amortisation expenses	3	391	396
Other expenses	3	16,413	13,728
		165,181	138,792
Profit before income tax		4,935	4,983
Income tax expense	4	1,493	1,505
Profit after tax		3,442	3,478
Comprehensive result		3,442	3,478

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes included on pages 32 to 58.

Statement of Financial Position as at 30 June 2015

	Notes	2015 $'000	2014 $'000
Current Assets			
Cash and cash equivalents	15(a)	14,143	20,108
Trade and other debtors	5	55,632	39,125
Income tax refundable	4	1,060	-
Prepayments and other assets	6	2,187	1,611
Total Current Assets		73,022	60,844
Non-Current Assets			
Trade and other debtors	5	3,205	2,656
Property, plant and equipment	7	527	690
Intangible assets	8	589	22
Deferred tax assets	4	10,602	8,898
Total Non-Current Assets		14,923	12,266
Total Assets		87,945	73,110
Current Liabilities			
Trade and other payables	9	47,257	33,596
Income tax payable	4	-	1,391
Provisions	10	14,940	13,331
Total Current Liabilities		62,197	48,317
Non-Current Liabilities			
Provisions	10	5,811	6,726
Deferred tax liabilities	4	962	795
Total Non-Current Liabilities		6,773	7,521
Total Liabilities		68,970	55,838
Net Assets		18,975	17,272
Equity			
Contributed Equity		5,000	5,000
Retained Profits		13,975	12,272
Total Equity		18,975	17,272

The Statement of Financial Position should be read in conjunction with the accompanying notes included on pages 32 to 58.

Statement of Changes in Equity for the financial year ended 30 June 2015

	$'000	$'000	$'000
	Contributed Equity	Retained Earnings	Total
1 July 2013	5,000	11,404	16,404
Profit after tax	-	3,478	3,478
Dividends paid	-	(2,610)	(2,610)
30 June 2014	5,000	12,272	17,272
	Contributed Equity	Retained Earnings	Total
1 July 2014	5,000	12,272	17,272
Profit after tax	-	3,442	3,442
Dividends paid	-	(1,739)	(1,739)
30 June 2015	5,000	13,975	18,975

The Statement of Changes in Equity should be read in conjunction with the accompanying notes included on pages 32 to 58.

Statement of Cash Flows for the financial year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from trade debtors, fees and other debtors		190,123	176,768
Payments to creditors and employees		(179,545)	(157,943)
GST paid		(9,021)	(8,655)
Income tax paid		(5,481)	(5,070)
Interest received		423	590
Other income		65	167
Net cash flows from / (used in) operating activities	15(b)	(3,436)	5,857
Cash flows from investing activities			
Payments for property, plant and equipment		(126)	(126)
Payments for intangibles		(665)	-
Net cash flows used in investing activities		(791)	(126)
Cash flows from financing activities			
Dividends paid	19	(1,739)	(2,610)
Net cash flows used in financing activities		(1,739)	(2,610)
Net increase / (decrease) in cash and cash equivalents		(5,965)	3,121
Cash and cash equivalents at the beginning of the financial period		20,108	16,987
Cash and cash equivalents at end of financial year	**15(a)**	**14,143**	**20,108**

The Statement of Cash Flows should be read in conjunction with the accompanying notes included on pages 32 to 58.

Notes to the Financial Statements

1. Statement of Significant Accounting Policies

(a) Corporate information

The financial report of Victorian Funds Management Corporation (VFMC) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 18 August 2015.

VFMC was established under the Victorian Funds Management Corporation Act 1994 (the Act), proclaimed on 19 July 1994, and commenced operations on 20 July 1994 following a contribution of initial capital of $5,000,000.

The Act established VFMC as a body corporate governed by an independent Board of Directors whose members are appointed by the Governor in Council.

The Act specifies that VFMC is subject to the general direction and control of the Treasurer and that any directions must be consistent with the objectives of the Corporation as specified in the Act. These objectives are that VFMC provides investment and funds management services to Victorian public authorities in a commercially effective, efficient and competitive manner.

(b) Statement of compliance

The general purpose Financial Statements of VFMC have been drawn up in accordance with the financial reporting provisions of the Financial Management Act 1994 (FMA), applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Accounting Interpretations.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other event is reported. All accounting policies are consistent with the prior year.

VFMC has been designated as a 'for profit' entity pursuant to the FMA and consequently does not apply those AASB standards that are applicable to 'not for profit' entities.

(c) Basis of preparation

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

The Financial Statements have been prepared on a historical cost basis, except for any item that is measured at fair value for which further information is contained in Note 20(g). The financial report is presented in Australian dollars and all values are rounded to the nearest thousand. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

The financial report complies with Australian Accounting Standards as issued by AASB and International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB).

<u>New and amended standards and interpretations</u>

VFMC has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2014:

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

Other amendments apply for the first time as at 1 July 2014. However, they do not impact the financial statements of VFMC. The adoption of the standards or interpretations is described below:

Continued

(c) Basis of preparation (continued)

Application of AASB 2013-3 does not have a direct impact on the measurement and recognition of amounts in the financial report. Additional disclosures, where required, are provided in the individual notes relating to the non-financial assets.

Summarised below are Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2015:

Reference	Title	Summary	Application date of standard	Impact on Entity financial report	Application date for Entity
AASB 9	Financial Instruments	AASB 9 is a new standard which replaces AASB 139. AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2018	VFMC have undertaken an assessment and do not believe this will have any impact on VFMC's financial report.	1 July 2018
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate.	1 January 2016	VFMC have undertaken an assessment and do not believe this will have any impact on VFMC's financial report.	1 July 2016
AASB 15	Revenue from Contracts with Customers	In December 2014, the AASB issued a new standard for the recognition of revenue. Once applied or effective, AASB 15 will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts which covers construction contracts. AASB 15 is based on the notion that revenue is recognised when control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards.	1 January 2017	These amendments may impact the timing of initial recognition and subsequent measurement of revenue in VFMC's financial report.	1 July 2017

Continued

(c) Basis of preparation (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity financial report	Application date for Entity
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Imitative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.	1 January 2016	These amendments are only expected to affect the presentation of VFMC's financial report and will not have a direct impact on the measurement and recognition of amounts in the financial report.	1 July 2016

Estimates and assumptions

VFMC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key assumptions concerning the future and other key sources of estimation at reporting date, are described below.

Performance fee revenue

Accrued performance fee revenue is measured as the present value of management's best estimate of the performance fee when it is considered probable that the fee will be received. The estimate of the fee is based on a probability factor, which is determined using historical performance returns as the likelihood of out-performance being met. No long-term performance fee is recognised in the first year of a long-term period, while 50% is recognised in the second year and 100% in the final year.

Long-term incentive expense

A liability for long-term incentives is recognised, being performance against quantitative measures, and is measured as the present value of management's best estimate of the likely level of investment out-performance and therefore the expected future payments to eligible participants. The cost of the benefits is attributed to the period in which the services are rendered that give rise to the obligation. Probability factors are adopted in recognising the long-term incentive expense. In the first year of a long-term program, 50% of the expense is recognised, while 75% is recognised in the second year and 100% in the final year. The final LTI vests at 30 June 2016. Further information on long-term incentives is provided in Note 13(d).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Significant management judgement is required to determine the amount of deferred tax balances, based on the likely timing and the level of future taxable profits.

Continued

(c) Basis of preparation (continued)

Property, plant and equipment
The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Provisions – Long service leave
A liability for long service leave is recognised, and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service (greater than six years are classified as current liabilities).

Fair value of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these techniques are taken from observable markets where possible but where this is not feasible, a degree of judgement is required in establishing fair values.

Unconsolidated structured vehicles
VFMC has no financial interest in any of the Trusts and entities it manages other than the receipt of management fees for services provided as Trust Manager. Total fees earned by VFMC during the year for the management of the Trusts were $14,394,750 (2014: $10,270,320).

The net assets of the Trusts and entities VFMC manages are not directly available to meet any liabilities incurred by VFMC acting in its own right. VFMC is governed by the Act and is under the control and direction of the Treasurer. Management have concluded that VFMC is acting in the capacity as Agent for the Trusts and therefore does not need to consolidate the assets and liabilities of the Trusts and entities it manages. Further details on the Trusts are in Note 14.

(d) Cash and cash equivalents
For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks and highly liquid investments in money market instruments, having a term to maturity, from the date of purchase, of 90 days or less.

(e) Foreign currency
Both the functional and presentational currency of VFMC is Australian dollars. Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency payables at balance date are translated at exchange rates at balance date.

(f) Taxation
Income Taxes
VFMC is exempt from Federal Income Tax under Section 24AM of the Income Tax Assessment Acts 1936 and 1997 (as amended). VFMC is however required under the State Owned Enterprises Act 1992, to pay Income Tax as determined under the National Tax Equivalent Regime.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax credits and unused tax losses can be utilised.

Continued

(f) Taxation (continued)

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(g) Property, plant and equipment

All non-financial physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Determining the fair value of non-financial physical assets is at directors' discretion. In accordance with the fair value hierarchy, these assets are classified as level 3 for fair value purposes.

For the accounting policy on impairment of non-financial physical assets, refer to impairment of non-financial assets under Note 1(i).

Non-financial physical assets are measured at fair value on a cyclical basis, in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. A full revaluation normally occurs when fair value assessments indicate material changes in values. Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased as a result of a revaluation) are recognised in 'other economic flows – other comprehensive income', and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense (other economic flows) in the net result.

Net revaluation decrease is recognised in 'other economic flows – other comprehensive income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in 'other economic flows – other comprehensive income' reduces the amount accumulated in equity under the asset revaluation surplus.
Revaluation increases and decreases relating to individual assets in a class of property, plant and equipment, are offset against one another in that class but are not offset in respect of assets in different classes. The asset revaluation surplus is not transferred to accumulated funds on derecognition of the relevant asset.

Plant and equipment are depreciated over their estimated useful lives using the straight-line method. The expected useful lives of these assets are in the range of 1-5 years.

Notes to the Financial Statements

Continued

(g) Property, plant and equipment (continued)

The cost of leasehold improvements is capitalised as an asset and depreciated over the shorter of the remaining term of the lease or the estimated useful life of the improvements. Leasehold improvements held at the reporting date are being depreciated over 5-10 years.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal with such impairment losses recognised in the Statement of Comprehensive Income. There has been no change to the estimated useful lives of plant and equipment and improvements to leasehold properties over the financial year.

(h) Intangibles

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the entity.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life by using the straight-line method and are tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets held at reporting date are being amortised over three years. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. There has been no change to the estimated useful lives over the financial year.

Intangible assets with indefinite useful lives are tested for impairment annually as such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

VFMC conducts an annual review for impairment and if any indication of impairment exists, an estimate of the intangible asset's recoverable amount is calculated. At reporting date, VFMC does not have any intangible assets with indefinite useful lives.

(i) Impairment

The Corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Continued

(i) Impairment (continued)
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(j) Provisions
Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Expected future payments are discounted using interest rates on Commonwealth Government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(k) Commitments
Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of a note (refer Note 11) at their nominal value and inclusive of the GST payable.

(l) Employee benefits
Liabilities for annual leave expected to be settled wholly within 12 months are recognised as short-term employee benefits and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Liabilities for annual leave not expected to settled wholly within 12 months are recognised as long-term employee benefits and are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and experience of benefits taken.

The components of the annual leave liability are measured at:

- nominal value – component that VFMC expects to settle within 12 months; and
- present value – component that VFMC does not expect to settle within 12 months.

A liability for long service leave is recognised, and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service (greater than six years are classified as current liabilities).

The components of the current long service leave liability (unconditional) are measured at:

- nominal value – component that VFMC expects to settle within 12 months; and
- present value – component that VFMC does not expect to settle within 12 months.

The nominal and present values have been calculated by using a long service leave model supplied by the Department of Treasury and Finance. Any gain or loss following revaluation of the present value of non-current long service leave liability is recognised as a transaction for which is then recognised in the Statement of Comprehensive Income.

Continued

(l) Employee benefits (continued)

From 1 July 2014, a new single incentive plan that seeks to reward employees based on performance at an organisational, business unit and individual level, has been implemented. This will replace the short-term and long-term incentive (LTI) plans with the final LTI grant vesting on 30 June 2016.

A liability for short-term incentives is measured in full and recognised at reporting date.

A liability for long-term incentives is recognised, being performance against quantitative measures, and is measured as the present value of the expected future payments and the cost of the benefits is attributed to the period in which the services are rendered that give rise to the obligation. Further information on long-term incentives is provided in Note 13(d).

Liabilities for employee benefits are reported inclusive of on-costs such as payroll tax and superannuation guarantee payable where appropriate.

Any contributions made to the superannuation funds are charged against the Statement of Comprehensive Income when due.

Expected future payments are discounted using interest rates on Commonwealth Government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(m) Dividends

In accordance with the State Owned Enterprises Act 1992, VFMC is required to pay the Victorian State Government a dividend out of retained profits as determined by the Treasurer in consultation with the Board of VFMC. The distribution policy set by the Treasurer is approximately 50% of after-tax profits. In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, a provision for dividends will only be recognised at the reporting date where the dividends have been determined or declared.

(n) Leases

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and these represent amounts due for services supplied by VFMC prior to the end of the financial year. All current receivables are non-interest bearing and settlement terms are up to 30 days from the invoice date. Non-current receivables are performance fees, initially recognised as the present value of fees earned for out-performance against agreed-upon benchmarks. Further details on performance fees are given in Notes 1(c) and 1(q). Services are only supplied to government related entities and no allowance is made for doubtful debts.

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Continued

(p) Trade and other payables
Trade and other payables are carried at amortised cost and represent liabilities for services provided to VFMC prior to the end of the financial year and which are unpaid. All payables are non-interest bearing and are paid within the settlement conditions applicable to each provider of goods and/or services.

(q) Revenue recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefit will flow to VFMC and the revenue can be reliably measured.

Management fee revenue represents revenue received and receivable from clients in relation to the provision of investment and funds management services including custody and administration services. It is recognised monthly based on monthly funds under management (FUM).

Interest revenue is recognised at the effective rate prevailing at the time on the amount deposited.

Performance fee revenue is derived over both the one year and three year terms, calculated as out-performance against agreed-upon benchmarks. It is measured as the present value of management's best estimate of the fee to be charged at the reporting date. The estimate of the fee is based on the probability factor, which is determined using historical performance returns as the likelihood of out-performance being met. Performance fees are accrued monthly and charged to clients at the end of the performance period.

(r) Portfolio management / custodian fees
These expenses are calculated and recognised on a monthly basis in accordance with the contractual obligations in place between VFMC and its service providers.

(s) Fee rebates
Fee rebates to clients are recognised on an accrual basis. In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, a provision for fee rebates will only be recognised at the reporting date where the rebates have been determined.

(t) Contributed capital
Contributed capital is recognised at the fair value of the consideration received by VFMC.

Notes to the Financial Statements

Continued

	2015 $'000	2014 $'000
2. Revenue		
Management fee revenue	167,894	140,665
Client rebates	(12,950)	(7,570)
Performance fee revenue	14,684	9,923
Total fee revenue	169,628	143,018
Interest revenue - Cash at bank	394	373
- Short term deposit	29	217
Other	65	167
Total other revenue	488	757
Total	170,116	143,775

	2015 $'000	2014 $'000
3. Expenses		
Portfolio management and custodian expenses	119,121	94,488
Salary and related expenses	28,894	29,806
Directors' fees	362	374
Total employee benefit expenses	29,256	30,180
Depreciation of property, plant & equipment	292	277
Amortisation of intangible	99	119
Total depreciation and amortisation expenses	391	396
IT expenses	4,523	3,352
Legal expenses	1,316	1,101
Consultancy and professional fees	1,511	2,218
Market data and research	2,719	2,049
Rental and outgoings	900	911
Insurance	744	741
Audit fees	83	81
Strategic development costs	2,496	1,446
Other administration expenses	2,121	1,829
Total other expenses	16,413	13,728
Total	165,181	138,792

Continued

	2015 $'000	2014 $'000
4. Income Tax		
(a) Income tax expense		
The major components of income tax expense are:		
Statement of Comprehensive Income		
Current income tax charge	3,029	3,860
Deferred income tax – relating to origination and reversal of temporary differences	(1,536)	(2,355)
Income tax expense reported in the Statement of Comprehensive Income	1,493	1,505
(b) The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:		
Accounting profit before tax from continuing operations	4,935	4,983
Prima facie tax calculated at 30%	1,481	1,495
Non-deductible expenses	12	10
Income tax attributable to profit from continuing operations	1,493	1,505
Income tax payable / (refundable)	(1,060)	1,391
Deferred tax assets	10,602	8,898
Deferred tax liabilities	962	795
Deferred tax assets at 30 June relates to the following:		
- salary and related expenses	6,135	5,923
- client rebates	3,885	2,271
- capital deductions	106	102
- fixed assets	375	461
- others	101	141
Total	10,602	8,898
Deferred tax liabilities at 30 June relates to the following:		
- deferred performance fee income	962	795
Total	962	795

Continued

	Notes	2015 $'000	2014 $'000
5. Trade and Other Debtors			
Current			
Trade debtors	20(g)	4,387	4,740
Accrued management fees	20(g)	50,641	33,217
Receivables from VFMC Trusts*	20(g)	604	1,168
Total		55,632	39,125

** Includes reimbursement for expenses incurred on the Trusts' behalf.*

	Notes	2015 $'000	2014 $'000
Non-Current			
Accrued management fees	20(g)	3,205	2,656
Total		3,205	2,656

6. Prepayments and other assets

	2015 $'000	2014 $'000
Prepayments	1,330	1,168
Projects – Work in progress	735	395
Other assets	122	48
Total	2,187	1,611

7. Property, Plant and Equipment

	2015 $'000	2014 $'000
Leasehold premises improvements at cost	1,822	1,822
Less: Accumulated depreciation	(1,552)	(1,371)
	270	451
Furniture, fittings and equipment at cost	1,444	1,314
Less: Accumulated depreciation	(1,187)	(1,075)
	257	239
Total fair value	527	690

Notes to the Financial Statements

Continued

	Notes	2015 $'000	2014 $'000
7. Property, Plant and Equipment (continued)			
Reconciliation			
Leasehold premises improvements			
Carrying amount at beginning		451	601
Additions		-	42
Depreciation expenses		(181)	(192)
		270	451
Furniture, fittings and equipment			
Carrying amount at beginning		239	241
Additions		129	83
Depreciation expenses		(111)	(85)
		257	239
Total		527	690

8. Intangible assets

	2015 $'000	2014 $'000
Computer software at cost	6,683	6,017
Less: Accumulated amortisation	(6,094)	(5,995)
Total fair value	589	22
Reconciliation		
Carrying amount at beginning	22	141
Additions	666	-
Amortisation expenses	(99)	(119)
Total	589	22

9. Trade and Other Payables

	2015 $'000	2014 $'000
Current		
Trade creditors	3,776	2,856
Accrued management fees	43,462	30,519
Australian Taxation Office (GST)	19	220
Total	47,257	33,595

Continued

	2015 $'000	2014 $'000
10. Provisions		
Current		
Unconditional annual leave		
expected to settle within 12 months(1)	426	242
expected to settle after 12 months(1), (2)	893	928
Unconditional long service leave(1), (2)	1,406	931
Unconditional incentives(1)	11,898	10,913
Other provisions	317	317
Total	14,940	13,331
Non-Current		
Long service leave	956	1,083
Incentives	4,855	5,643
Total(1), (2)	5,811	6,726

(1) *Inclusive of payroll tax*
(2) *Amounts are measured at present values*

(a) Movement in provisions

	2015 $'000 Incentives
Opening Balance	**16,556**
Additional provisions recognised	11,066
Reductions arising from payments	(10,913)
Unwind of discount and effects of changes in the discount rate	88
Reductions resulting from re-measurement or settlement without cost	(44)
Closing Balance	**16,753**
Current	11,898
Non-Current	4,855
	16,753

Notes to the Financial Statements

Continued

	2015 $'000	2014 $'000

11. Commitments

Lease rental commitment
VFMC has entered into commercial office and office equipment leases. These leases have an average life between one and seven years. There are no restrictions placed upon the lessee by entering into these leases.

Commitments in relation to operating leases are payable as follows:

	2015 $'000	2014 $'000
Not later than one year	1,104	1,186
Later than one year, but not later than five years	819	1,924
Total	1,923	3,110

** The figures presented above are exclusive of GST*

Information Technology commitment
VFMC has entered into Data Centre and Information Technology managed services agreements. These agreements have an average life between three and five years.

Commitments in relation to managed services are payable as follows:

	2015 $'000	2014 $'000
Not later than one year	2,014	1,551
Later than one year, but not later than five years	3,789	5,803
Total	5,803	7,354

** The figures presented above are exclusive of GST*

12. Superannuation Information

Names of Schemes
Various complying superannuation funds as nominated by employees. VFMC's default superannuation fund is Australian Super. There are no defined benefit plans.

	2015 $'000	2014 $'000
VFMC, on behalf of its employees, contributed the following amounts in accordance with the Superannuation Guarantee Charge Act (1992). (Note there are no outstanding contributions at year end.)	1,274	976
Total	1,274	976

Continued

13. Responsible Persons, Remuneration of Executives and Other Personnel

AASB 124 *Related Party Disclosures* removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies and simplifies the definition of a related party. In accordance with the Ministerial Directions issued by the Minister for Finance under the FMA, the following disclosures are made regarding responsible persons for the reporting period.

(a) Names

The names of each person who held a position of responsible person at any time during the financial year and until the date of this report are as follows:

The Minister,
The Honourable Timothy Pallas, Treasurer from 4 December 2014
The Honourable Michael O'Brien, Treasurer to 3 December 2014

The Directors,

Mr J MacKenzie	(Chairperson, Appointed 23 June 2015)
Mr J Fraser	(Chairperson, Resigned: 14 January 2015)
Mrs C Walter	(Deputy Chairperson; Acting Chairperson, 15 January 2015 to 22 June 2015)
Ms A Williams	(Appointment Concluded: 15 May 2015)
Mr J Fitzgerald	
Mr C Pearce	
Mr R King	
Mr D Martine	(Appointed: 23 September 2014)
Ms E Rubin	(Appointed: 4 August 2015)

Chief Executive Officer,
Mr W Lee

(b) Related party transactions

Transactions during the year between VFMC, its clients and service providers have been undertaken on normal commercial terms and conditions.

Conflicts of interest are overcome where applicable by directors declaring their interests and abstaining from voting at VFMC's Board meetings, and where appropriate excusing themselves from the meeting.

VFMC may enter into commercial arrangements with parties related to VFMC directors. These arrangements are conducted in the ordinary course of business and are entered into under normal commercial terms and conditions.

The remuneration of the Minister(s) is reported in the financial report of the Department of Treasury and Cabinet.

The former Chairperson, Mr J Fraser, was Chairman of UBS Global Asset Management (UBS). VFMC utilises UBS in the delivery of investment management services. VFMC has funds managed by UBS of $1,240,792,833 (2014: $1,464,427,029) and has paid / payable management fees of $1,466,271 (2014: $1,477,496). VFMC has utilised UBS funds management services since 1996. This predates Mr J Fraser's involvement with VFMC.

Notes to the Financial Statements

Continued

13. Responsible Persons, Remuneration of Executives and Other Personnel (continued)

Mrs C Walter ceased as a member of Marsh and McLennan Companies' (MMC) Advisory Board effective 1 December 2013. VFMC utilises MMC's insurance broking services. VFMC has paid professional service fees to Marsh of $77,000 in 2015 (2014: $77,000). VFMC engage Mercer, an MMC company, given their industry specific expertise, to assist with various scenario modelling exercises and fee benchmarking surveys. VFMC paid professional service fees to Mercer of $320,061 in 2015 (2014: $248,966).

Mr R King is a former Partner with Mercer having departed Mercer on 30 April 2015. VFMC utilise Mercer's industry specific expertise to assist with various scenario modelling exercises and fee benchmarking surveys. VFMC paid professional service fees to Mercer of $320,061 in 2015 (2014: $248,966).

Mr J Fitzgerald is an Advisor with KPMG (however was on leave of absence from KPMG for the period whilst he was acting Infrastructure Australia Coordinator). VFMC engage KPMG for valuation services for a number of unlisted trusts to which VFMC is trustee and KPMG is also appointed by DTF as Prudential Supervisor of VFMC. VFMC paid professional service fees to KPMG of $1,046,778 in 2015 (2014: $160,292).

Mr C Pearce is Executive Director – Government and Not for Profit, Telstra Corporation Ltd (Telstra). VFMC utilises Telstra mobile telephone services. VFMC paid service fees to Telstra of $117,426 in 2015 (2014: $123,471).

Mr D Martine joined Department of Treasury and Finance (DTF) as Secretary in April 2014 and was appointed Director of Treasury Corporation of Victoria (TCV) in May 2014. During the year VFMC paid a dividend to DTF of $1,739,000 (2014: $2,610,000). VFMC generated interest income of $28,516 (2014: $26,482) from its cash holdings with TCV. VFMC has investments in Guaranteed Bill Index Deposits (GBID) managed by TCV of $1,000,000 at 30 June 2015 (2014: $1,000,000). On behalf of its clients, VFMC invests funds with TCV periodically, with GBID of $1,026,098,716 held at 30 June 2015 (2014: $933,300,026). Accordingly, VFMC clients earn interest income at prevailing market rates on normal commercial terms and conditions. In addition on behalf of its clients, VFMC, as investment manager, invested in the debt securities issued by TCV of $271,821,204 (2014: $244,917,509).

Ms E Rubin is a Director of MLC Life and Administration Board who's ultimate parent entity is National Australia Bank Limited (NAB). VFMC utilises NAB in the delivery of custody and administration services and has paid / payable custody fees of $12,764,562 (2014: $11,380,666). VMFC has utilised NAB's custody and administration services since 1994. This predates Ms E Rubin's appointment to the VFMC Board.

The former Director, Ms A Williams is a Director of Equity Trustees Ltd, which is the Responsible Entity (RE) for a number of managed funds. On behalf of its clients, VFMC invests in managed investment schemes of which Equity Trustees Ltd are RE. The Investment Manager of the scheme appoints the RE, and has appointed Equity Trustees Ltd independent of VFMC. VFMC has funds invested of $40,934,986 (2014: $100,704,778) and has paid / payable management fees of $241,766 (2014: $377,553). A portion of these management fees is payable by the Investment Manager of the scheme to the RE.

As the investment manager for its clients, VFMC invested in the following debt securities used in Victorian Public-Private Partnerships: a) Royal Children's Hospital in Melbourne. At 30 June 2015, VFMC clients held investments in this debt security of $1,251,753,341 (2014: $1,232,553,799); and b) Royal Women's Hospital in Melbourne. At 30 June 2015, VFMC clients held investments in this debt security of $4,772,768 (2014: $45,837,754). These debt securities are valued by an independent third party, income is being received and the transactions were undertaken on normal commercial terms and conditions.

Continued

13. Responsible Persons, Remuneration of Executives and Other Personnel (continued)

VFMC, as trustee of the VFMC Trusts as listed in Note 14, outsources certain management services and the custodial function to external service providers. All costs associated with the external management services and custodial services are paid for by VFMC and are either charged directly to unitholders or charged back to the VFMC Trusts on normal commercial terms and conditions. Trust receivables as at 30 June 2015 were $604,397 (2014: $1,168,091). Management fees are paid on a monthly basis. Total fees received by VFMC during the year for the management of the VFMC Trusts were $14,394,750 (2014: $10,270,320).

(c) Compensation of Responsible Persons

The number of responsible persons (includes Directors and the Chief Executive Officer), their base and total remuneration during the reporting period are shown in the table below. Base remuneration is exclusive of short-term and long-term incentives, long-service leave, redundancy, relocation and retirement benefits paid or payable.

Income Band	Total Remuneration		Base Remuneration	
	2015 No.	2014 No.	2015 No.	2014 No.
$Nil to $9,999	2	1	2	1
$40,000 to $49,999	1	-	1	-
$50,000 to $59,999	3	5	3	5
$60,000 to $69,999	1	-	1	-
$80,000 to $89,999	1	-	1	-
$110,000 to $119,999	-	1	-	1
$490,000 to $499,999	-	-	-	1
$500,000 to $509,999	-	-	1	-
$900,000 to $909,999	-	1	-	-
$950,000 to $959,999	1	-	-	-
Total numbers	9	8	9	8
Total amount	$1,322,341	$1,283,919	$872,862	$879,761

In accordance with Financial Reporting Direction 21B of the FMA, VFMC has included the remuneration of the CEO with Directors as responsible persons.

Continued

13. Responsible Persons, Remuneration of Executives and Other Personnel (continued)

(d) Compensation of Executive Officers

The number of executive officers in key management positions (excluding the Chief Executive Officer), other than responsible persons, and their base and total remuneration during the reporting period are shown in the table below. Base remuneration is exclusive of short-term and long-term incentives, long-service leave, redundancy, relocation and retirement benefits paid or payable. These are included in total remuneration.

Income Band	Total Remuneration		Base Remuneration	
	2015 No.	2014 No.	2015 No.	2014 No.
$Nil to $9,999	-	-	-	1
$130,000 to $139,999	-	1	-	-
$200,000 to $209,999	-	-	-	1
$220,000 to $229,999	-	-	-	1
$280,000 to $289,999	-	-	1	-
$290,000 to $299,999	-	1	-	-
$300,000 to $309,999	-	-	-	1
$310,000 to $319,999	-	-	-	1
$320,000 to $329,999	-	-	2	-
$330,000 to $339,999	-	-	1	-
$340,000 to $349,999	-	-	-	1
$360,000 to $369,999	-	1	-	-
$370,000 to $379,999	-	-	1	-
$400,000 to $409,999	1	-	-	-
$550,000 to $559,999	1	-	-	-
$580,000 to $589,999	-	-	1	-
$590,000 to $599,999	-	-	-	1
$600,000 to $609,999	1	1	-	-
$660,000 to $669,999	-	1	-	-
$670,000 to $679,999	1			
$990,000 to $999,999	-	1	-	-
$1,120,000 to $1,129,999	1	-	-	-
$1,750,000 to $1,759,999	-	1	-	-
$1,930,000 to $1,939,999	1	-	-	-
Total numbers	6	7	6	7
Total annualised employee equivalent	6	5.5	6	5.5
Total amount (excluding non-vested long-term incentives)	$5,299,522	$4,819,164	$2,220,730	$1,971,042
Total of long-term incentives (non-vested and at risk)	$2,219,538	$3,472,759	-	-

Continued

13. Responsible Persons, Remuneration of Executives and Other Personnel (continued)

(d) Compensation of Executive Officers (continued)

Long-Term Incentive Plan

From 1 July 2014, a new single incentive plan that seeks to reward employees based on performance at an organisational, business unit and individual level, has been implemented. This will replace the STI and LTI plans with the final LTI grant vesting on 30 June 2016.

Executive Officers and investment professionals are eligible to participate in the LTI. Directors are ineligible. The LTI is payable if net of fees investment outcomes exceed benchmark over a rolling three year period. Investment out-performance is capped at two percent. Staff that leave the organisation within a plan's three year period forgo their entitlement. The non-current component of the LTI is at risk until it vests.

VFMC calculates a provision for each program to reflect the current estimate accruing for payment of LTI based on the achievement of relevant benchmarks. The provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The estimate of the expenditure is based on the probability factor, which is determined using historical performance returns. The discount rates used to determine the present value are the interest rates on Commonwealth Government securities at balance date.

Depending on the vintage of the program and the timeframe for potential payment, the LTI is either recognised as a current or non-current liability. The expense is recognised in the period to which the services are provided. Movements in returns (and benchmarks) can impact on the estimate of LTI payable in any one year given the rolling nature of the provision over the three year life cycle.

(e) Payments to other personnel
There are no contractors charged with significant management responsibilities (2014: Nil).

(f) Remuneration for Responsible Persons and Executive Officers

	2015 $'000	**2014 $'000**
Short-term employee benefits (including short-term incentives and vested long-term incentives)	6,599	6,053
Other long-term benefits (including long-term incentives at risk)	755	3,522
Total	7,354	9,575

Further details on employee benefits are provided in Note 1(l).

Continued

14. Assets and Liabilities of VFMC Trusts for which Corporation is Trustee

In the course of its fund management activities, VFMC establishes investment trusts that comprise investments of various kinds, tailored to meet certain investors' requirements. These trusts meet the definition of structured entities as their purpose is to hold assets on behalf of beneficiaries. The Corporation's interest in trusts are generally restricted to a management fee, the value of which is based on the funds under management within the Trusts and recovery of certain costs. VFMC's financial statements do not include the assets and liabilities of the VFMC Trusts which are used as investment products for clients.

VFMC's interest in trusts is generally restricted to unpaid fees at period end which is based on the value of the Trust assets. During the year ended 30 June 2015, fees earned were $14,394,750 and unpaid fees were $2,649,127. The Corporation has no other risk exposure to the Trusts.

Financial support provided or to be provided to unconsolidated structured entities
The Corporation has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to unconsolidated structured entities in the future. The net assets of the Trusts are not directly available to meet any liabilities incurred by VFMC acting in its own right. VFMC will generally only be liable for the liabilities of the Trusts if it has committed a breach of its fiduciary duties.

Below is a list of Trusts for which VFMC acts as trustee as at 30 June 2015 in addition to a list of Companies for which VFMC personnel are involved as Directors as at 30 June 2015.

<u>Board of Directors as trustees:</u>

VFMC Balanced Fund
VFMC Capital Stable Fund
VFMC Cash Trust
VFM Emerging Markets Trust
VFMC Enhanced Cash Trust
VFMC ESSS Private Equity Trust 2004
VFMC ESSS Private Equity Trust 2006
VFMC ESSS Private Equity Trust 2007
VFMC Equity Trust 1
VFMC Equity Trust 2
VFMC Fixed Income Trust
VFM   Global Small Companies Trust
VFMC Growth Fund
VFMC Inflation Linked Bond
VFMC Insurance Strategies Trust
VFMC International Equity Trust 1
VFMC International Equity Trust 2
VFMC Investment Trust I
VFMC Investment Trust II
VFMC Investment Trust IV
VFMC Opportunistic Strategies Trust
VFMC Yield Optimised Dividend Accumulator Trust (formerly known as VFMC Australian Shares Trust)

<u>Management involved as Directors:</u>

North Queensland Pipeline No.1 Pty Ltd
North Queensland Pipeline No.2 Pty Ltd
Queensland Pipeline Pty Ltd
Queensland Pipeline Pty Ltd

Continued

14. Assets and Liabilities of VFMC Trusts for which Corporation is Trustee (continued)

No insurance premiums are paid for out of the assets of the Trusts in regards to insurance cover provided to either the officers of VFMC or the auditors of the Trusts. So long as the officers of VFMC act in accordance with the Trusts' Constitutions and the applicable Law, the officers remain indemnified out of the assets of the Trusts against losses incurred while acting on behalf of the Trusts. The auditors of the Trusts are in no way indemnified out of the assets of the Trusts.

The VFMC Trusts are not subject to the financial reporting provisions of the FMA and as such are not tabled in Parliament. However, each unitholder is an entity subject to the FMA and the purpose of their investment in the Trusts and their exposure to underlying securities forms part of the annual report of each unitholder, which is tabled in Parliament by the responsible minister.

15. Notes to the Statement of Cash Flows

(a) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand, cash at bank and short-term fixed interest investments of VFMC. These items represent cash and cash equivalents used in the day-to-day management of VFMC's cash position. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2015 $'000	2014 $'000
Cash at bank	13,137	13,097
Short term deposits	1,006	7,011
Total Cash and Cash Equivalents	14,143	20,108

(b) Reconciliation of profit from operating activities after income tax to net cash flows from operating activities

Profit from continuing operations after income tax	3,442	3,478
Adjustments for non-cash income and expense items:		
Depreciation of property, plant & equipment	292	278
Amortisation of intangible	99	119
Changes in assets and liabilities:		
Increase in receivables and other debtors	(19,540)	(1,035)
Increase in payables and other provisions	12,271	3,017
Net Cash Flows from operating activities	(3,436)	5,857

Notes to the Financial Statements

Continued

16. Funds Under Management

Funds managed by VFMC in either a trust or a discrete capacity are not included in investments in the Statement of Financial Position, but amount to $50.9bn as at 30 June 2015 (2014: $46.6bn). These funds are managed on behalf of the following clients:

- Ballarat Health Services
- Consumer Affairs Victoria
- Department of Justice and Regulation
- Environmental Protection Authority
- ESSSuper Accumulation Fund
- ESSSuper Defined Benefits Fund
- ESSSuper State Super Defined Benefits Fund
- LaTrobe University
- Metropolitan Fire and Emergency Services Board
- National Gallery of Victoria
- Peninsula Health
- Queen Elizabeth Centre
- Royal Children's Hospital
- Royal Women's Hospital
- Swinburne University
- Transport Accident Commission
- University of Melbourne
- Victorian Managed Insurance Authority
- Victorian Traditional Owners Trust
- Victorian WorkCover Authority

17. Segment Information

AASB 8 Operating Segments requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. VFMC operates in one segment being the investment and funds management industry, providing these services to Victorian public authorities.

18. Auditor Remuneration

	2015 $'000	**2014 $'000**
Fees receivable by VAGO for the audit of VFMC	83	81
Total	83	81

VAGO did not provide any other services other than the audit of the financial statements.

Continued

19. Capital Management

VFMC's objective is to provide investment and fund management services to participating bodies and the State in a commercially effective, efficient and competitive manner. VFMC requires an adequate capital base to meet core operational requirements, support reinvestment in the business, meet possible operational losses and meet the Government's dividend requirements.

The Directors believe the business is scalable over time and will continue to operate efficiently without the need for further capital injections. VFMC's capital consists of shareholders' contributed equity and retained earnings with no external debt. The directors' believe the current capital base is adequate.

During 2014-2015 VFMC paid a $1,739,000 dividend to the Department of Treasury and Finance (2014: $2,610,000).

VFMC does not have any externally imposed capital requirements.

20. Financial Risk Management Objectives and Policies

VFMC's principal financial instruments comprise cash, short-term deposits, receivables, other financial assets, investments and payables. The main risks arising from VFMC's financial instruments are credit risk, liquidity risk and market price risk (currency risk and interest rate risk).

a) Credit risk

Credit risk arises from the financial assets of VFMC, which comprise cash and cash equivalents, trade and other receivables. The exposure to credit risk arises from the potential default of a counter party on their contractual obligations resulting in financial loss to VFMC.

Credit risk associated with VFMC's receivables is minimal because significant receivables are either with other government entities or with the Trusts, which are managed by VFMC. As such no impairment provision has been recognised for these receivables. Credit risk in relation to receivables is also monitored by reviewing the ageing of receivables on a monthly basis. All receivables are non-interest bearing and standard business terms apply.

In relation to VFMC's investments, VFMC trades only with recognised creditworthy third parties. Cash balances are maintained with Westpac Banking Corporation and short-term deposits are held with Treasury Corporation of Victoria – these entities have an AA or better credit rating.

The carrying amount of financial assets recorded in this financial report represents VFMC's maximum exposure to credit risk at the reporting date.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. Of the receivables balance, $86,647 are past due but not impaired (2014: $Nil).

Continued

20. Financial Risk Management Objectives and Policies (continued)

(b) Liquidity risk

Liquidity risk is the risk that VFMC will have insufficient liquidity to meet its obligations as they fall due. All payables are non-interest bearing and standard settlement terms apply. This risk is managed by regularly monitoring liquid reserves and obligations falling due and through holding of cash and only short-term deposits.

VFMC's only financial liabilities are payables which are all contracted to be settled within 30 days after balance date (2014: 30 days).

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for VFMC comprises two types of risk: market interest rates (interest rate risk) and foreign exchange rates (currency risk).

(d) Interest rate risk

Interest rate risk is the risk that the market value of VFMC's investments will be adversely affected by fluctuations in interest rates. VFMC's exposure to interest rate risk and the effective return on its financial assets and liabilities is summarised below:

Interest Rate Exposure – 2015

	Variable Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
Cash	13,137		13,137
Short Term Deposits	1,006		1,006
Receivables:			
- Trade receivables		4,387	4,387
- Accrued management fee income		53,846	53,846
- Receivables from VFMC Trusts		604	604
Payables			
- Trade creditors and other payables		(3,776)	(3,776)
- Accrued management fees		(43,462)	(43,462)
Net Financial Assets	**14,143**	**11,600**	**25,743**

Interest Rate Exposure – 2014

	Variable Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
Cash	13,097		13,097
Short Term Deposits	7,011		7,011
Receivables:			
- Trade receivables		4,740	4,740
- Accrued management fee income		35,873	35,873
- Receivables from VFMC Trusts		1,168	1,168
Payables			
- Trade creditors and other payables		(2,856)	(2,856)
- Accrued management fees		(30,519)	(30,519)
Net Financial Assets	**20,108**	**8,406**	**28,514**

Continued

20. Financial Risk Management Objectives and Policies (continued)

(e) Interest rate sensitivity

A sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year, and held constant throughout the reporting period.

A 50 basis point (0.5%) increase in interest rates (or discount rates) is used as this is what management believes to be the possible change in interest rates over the next 12 months following the balance date, based on Australian forecast economic data (this was consistent with the prior period).

These movements are attributable to VFMC's exposure to variable interest rates on its cash holdings.

At reporting date, if interest rates had been 50 basis points higher or lower during the period and all other variables were held constant, VFMC's (pre-tax) net profit would have been impacted as follows:

- 50 basis points higher: increase in profit and net assets of $68,699 (2014: $103,586 increase)
- 50 basis points lower: decrease in profit and net assets of $68,699 (2014: $103,586 decrease)

(f) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate, because of changes in foreign exchange rates. VFMC operates within Australia, however, VFMC does engage offshore fund managers to manage clients' funds, and the fees payable to these managers are charged in local currencies.

The AUD equivalent of fund manager fees is on-charged to clients, therefore VFMC bears no foreign currency risk on these fees.

(g) Fair values

Management have assessed that the carrying amounts of cash and cash equivalents, prepayments and other assets, and trade and other payables, approximate their fair value due to the short-term nature of these instruments. The fair value of trade and other debtors is based on the discounted cash flow technique. Significant inputs in applying this technique include discount rates used.

Set out below, is a comparison by class, of the carrying amounts and fair value of VFMC's financial instruments, other than those with carrying amounts that are reasonable approximations of fair value:

	Carrying amount		Fair value	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Financial assets				
Trade and other debtors	58,837	41,781	58,775	41,716
Total	58,837	41,781	58,775	41,716

Continued

20. Financial Risk Management Objectives and Policies (continued)

(g) Fair values (continued)

The following table illustrates the level in the fair value hierarchy in which fair value measurements are categorised for financial assets.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are based on observable market data (unobservable inputs).

		Fair value measurement at end of reporting period - June 2015			
		$'000	$'000	$'000	$'000
Assets measured at fair value as at 30 June 2015	Notes	Level 1	Level 2	Level 3	Total
- Trade and other debtors	5	-	-	58,775	58,775
		-	-	58,775	58,775

		Fair value measurement at end of reporting period - June 2014			
		$'000	$'000	$'000	$'000
Assets measured at fair value as at 30 June 2014	Notes	Level 1	Level 2	Level 3	Total
- Trade and other debtors	5	-	-	41,716	41,716
		-	-	41,716	41,716

Performance fees receivable are included in Trade and other debtors, and whose value is determined based on the discounted cash flow technique, have been classified as Level 3. VFMC has no Level 1 or Level 2 assets or liabilities measured at fair value for the current year and prior year.

21. Subsequent Events to Balance Date

No significant events have occurred since the end of the reporting period which would impact on the financial position of VFMC disclosed in the Statement of Financial Position as at 30 June 2015 or on the results and cash flows of the VFMC for the year ended on that date.

Statement by Chair and Management

We hereby certify that:

1. the accompanying financial statements have been prepared in accordance with Standing Direction 4.2 of the Financial Management Act 1994, applicable financial reporting directions, Australian Accounting Standards, and comply with International Financial Reporting Standards and other mandatory professional reporting requirements;

2. the accompanying Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and accompanying notes present fairly the financial transactions for the financial year ended 30 June 2015 and the financial position as at 30 June 2015;

3. as at the date of signing these financial statements, we are not aware of any circumstances that would render any particulars included in the statements misleading or inaccurate; and

4. the Director's authorised the attached financial statements for issue on 18 August 2015.

JAMES MACKENZIE	**WARREN LEE**	**BRETT DAVIDSON**
Chairperson	Chief Executive Officer	Chief Operating Officer

Dated: 18 August 2015

VAGO
Victorian Auditor-General's Office

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INDEPENDENT AUDITOR'S REPORT

To the Directors, Victorian Funds Management Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2015 of the Victorian Funds Management Corporation which comprises the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by chair and management has been audited.

The Directors' Responsibility for the Financial Report

The Directors of the Victorian Funds Management Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the Directors also state that the financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditing in the Public Interest

Auditor-General's Report (continued)

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Opinion

In my opinion:

1. the financial report presents fairly, in all material respects, the financial position of the Victorian Funds Management Corporation as at 30 June 2015 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards and the financial reporting requirements of the *Financial Management Act 1994*
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

MELBOURNE
19 August 2015

John Doyle
Auditor-General

General Compliance Information

This section includes disclosures required by the Financial Management Act 1994 and the Victorian Funds Management Act 1994.

Incorporation and Ministerial Responsibility

The Corporation was established under the Victorian Funds Management Corporation Act 1994 (the Act), proclaimed on 19 July 1994, and commenced operations on 20 July 1994 following a contribution of initial capital of $5,000,000.

The Corporation is subject to the general direction and control of the Treasurer of Victoria.

Constitution, objectives, functions, powers and accountability

Constitution of the corporation

The establishment of the Corporation is specified in section 5 of the Act.

1. There is established a body by the name “Victorian Funds Management Corporation”.
2. The Corporation:
   a) is a body corporate with perpetual succession;
   b) has an official seal;
   c) may sue and be sued;
   d) may acquire, hold and dispose of real and personal property; and
   e) may do and suffer all acts and things that a body corporate may by law do and suffer.
3. All courts must take judicial notice of the seal of the Corporation affixed to a document and, until the contrary is proved, it must presume that it was duly affixed.
4. The official seal of the Corporation must be kept in such custody as the Corporation directs and must not be used except as authorised by the Corporation.

Objectives, functions, powers and duties of the corporation

The Corporation’s objectives as stated in section 6 of the Act, are to:

a) provide investment and funds management services to participating bodies and the State;

b) provide its services in a commercially effective, efficient and competitive manner.

The functions of the Corporation are contained in section 8 of the Act, part of which is reproduced below.

General Compliance Information (Continued)

The functions of the Corporation are:

a) as principal or agent, to manage funds of a participating body or the State;

b) to provide, or to arrange for the provision of, funds management or other financial services for, and financial advice to, participating bodies and the State;

c) to act as trustee;

d) to act as manager of a trust;

e) to carry out functions or provide such financial or other services in relation to financial assets of a participating body or the State as the Treasurer determines by notice in writing given to the Corporation;

f) to carry out such other functions as are conferred on it by this or any other Act.

As soon as possible after giving a notice under section (e) above, the Treasurer must cause a copy of the notice to be published in the Government Gazette.

The powers of the Corporation are contained in section 9 of the Act, part of which is reproduced below:

1. For the purpose of achieving its objectives and performing its functions, the Corporation:
   a) may enter into contracts for the provision of funds management and related financial services;
   b) may subscribe for or otherwise acquire, deal with and hold and dispose of, units in a trust;
   c) has the powers conferred on it by the Borrowing and Investment Powers Act 1987;
   d) may acquire real or personal property for use by the Corporation;
   e) may sell, mortgage or grant a lease of property held by the Corporation;
   f) may do all other things necessary or convenient to be done for or in connection with, or as incidental to, the achievement of its objectives or the performance of its functions.

2. Without limiting the generality of sub-section (1), but subject to the general direction of the Treasurer, the Corporation may:
   a) be a member of a body corporate, association, partnership, trust or other body;
   b) form, or participate in the formation of, a body corporate, association, partnership, trust or other body;
   c) enter into a joint venture with another person or persons.

Freedom of information Act 1982

Under section 39 of the Act, the Corporation is not eligible to be declared an agency or prescribed authority within the meaning of the Freedom of Information Act 1982.

Victorian Industry Participation Policy

During 2014-2015, there were no contracts commenced or completed to which the Victorian Industry Participation Policy Act 2003 applied.

General Compliance Information (Continued)

Disclosures pursuant to the Protected Disclosures Act 2012 (formerly the Whistleblowers Protection Act 2001)

The *Protected Disclosures Act 2012* encourages and facilitates people in making disclosures of (i) improper conduct by public officers and public bodies; (ii) detrimental action taken in reprisal. It also provides protection to people who make such disclosures and who suffer detrimental action in reprisal for those disclosures. Further, it provides for the confidentiality of the content of those disclosures and the identity of the person making those disclosures.

VFMC does not tolerate corrupt or improper conduct by employees, nor the taking of reprisals against those who come forward to disclose such conduct.

VFMC will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure.

VFMC encourages the reporting of known or suspected incidences of improper conduct or detrimental actions.

During 2014-2015, there were no disclosures or investigations of improper conduct or detrimental actions made by employees to VFMC or the Independent Broad-based Anti-Corruption Commission (IBAC).

Information Available on Request

To the extent applicable, the following information has been prepared by the Corporation and is available to the relevant Minister upon request:

a) declarations of pecuniary interests duly completed by all relevant officers;

b) details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary;

c) details of publications produced by the Corporation about the Corporation and the places where the publications can be obtained;

d) details of changes in prices, fees, charges, rates and levies charged by the Corporation;

e) details of any major external reviews carried out on the Corporation;

f) details of major research and development activities undertaken by the Corporation

g) details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;

h) details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the corporation and the services it provides;

i) details of assessments and measures undertaken to improve the occupational health and safety of employees;

j) a general statement on industrial relations within the Corporation and details of time lost through industrial accidents and disputes;

k) a list of major committees sponsored by the Corporation, the purposes of each committee and the extent to which the purposes have been achieved; and

l) details of all consultancies and contractors including:

    i. consultants/contractors engaged;
    ii. services provided; and
    iii. expenditure committed to for each engagement.

General Compliance Information (Continued)

Staff Performance and Professional Development

On an annual basis each member of staff, in consultation with their manager, sets his or her objectives for the coming year. These objectives must be relevant to their role and aligned with those of the Corporation. Progress is reviewed throughout the year and more formally at mid and at the end of year performance cycle. At the conclusion of the performance year each employee is evaluated determining the extent to which they will participate in the Corporation's incentive schemes.

Staff are actively encouraged to maintain their professional development to help them achieve their objectives. VFMC is not bound by the provisions of the Public Sector Management and Employment Act 1998 and its human resources policies are sympathetic to the provisions of that act. VFMC is an equal opportunity employer.

The Corporation's employment details at 30 June 2015 are as follows:

Employment Status	Males	Females	Total	Males	Females
Permanent – Full time	50	26	76	65%	35%
Permanent – Part time	1	3	4	25%	75%
TOTAL	**51**	**29**	**80**	**63%**	**37%**

ANNUAL RISK MANAGEMENT ATTESTATION

VICTORIAN FUNDS MANAGEMENT CORPORATION (VFMC)

(For the period 1 July 2014 to 30 June 2015)

I certify that VFMC has complied with the *Ministerial Standing Direction 4.5.5 – Risk Management Framework and Processes*. The VFMC Audit Risk and Compliance Committee verifies this.

For and on behalf of VFMC

James MacKenzie - Chair

Dated: 2 September 2015

Disclosure Index

The Annual Report of VFMC is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of VFMC's compliance with statutory disclosure requirements.

Legislation	Requirement	Complete
Report of Operations		
Charter & Purpose		
FRD 22F	Manner of establishment and relevant Ministers	✓
FRD 22F	Purpose, functions, powers and duties	✓
FRD8C	Departmental objectives, indicators and outputs	✓
FRD22F	Initiatives and key achievements	✓
FRD 22F	Nature and range of services provided	✓
Management and Structure		
FRD 22F	Organisational structure	✓
Financial and other information		
FRD 8C, SD 4.2(k)	Performance against output performance measures	✓
FRD 8C	Budget portfolio outcomes	✓
FRD 10	Disclosure index	✓
FRD 12A	Disclosure of major contracts	N/A
FRD 15B	Executives officer disclosures	N/A
FRD 22F	Employment and conduct principles	✓
FRD 22F	Occupational health and safety policy	✓
FRD 22F	Summary of financial results for the year	✓
FRD 22F	Significant changes in financial position during the year	✓
FRD 22F	Major changes or factors affecting performance	✓
FRD 22F	Subsequent events	✓
FRD 22F	Application and operation of Freedom of Information Act 1982	N/A
FRD 22F	Compliance with building and maintenance provisions Building Act 1993	N/A
FRD 22F	Statement of National Competition Policy	N/A
FRD 22F	Application and operation of the Protected Disclosures Act 2012	✓
FRD 22F	Application and operating of the Carers Recognition Act 2012	N/A
FRD 22F	Details of consultancies over $10,000	✓
FRD 22F	Details of consultancies under $10,000	✓
FRD 22F	Statement of availability of other information	✓
FRD 24C	Reporting of office-based environmental impacts	N/A
FRD 25B	Victorian Industry Participation Policy disclosures	✓
FRD 29A	Workforce Data disclosures	✓

Disclosure Index (Continued)

Other requirements under Standing Directions 4.2

SD 4.5.5	Risk management compliance attestation	✓
SD 4.5.5.1	Ministerial Standing Direction 4.5.5.1 compliance attestation	
SD 4.2(g)	Specific information requirements	✓
SD 4.2(j)	Sign-off requirements	✓

Financial Report

Financial Statements required under Part 7 of the FMA

SD 4.2(a)	Statement of Changes in Equity	✓
SD 4.2(b)	Operating Statement	✓
SD 4.2(b)	Balance Sheet	✓
SD 4.2(b)	Cash Flow Statement	✓

Other requirements under Standing Directions 4.2

SD 4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	✓
SD 4.2(c)	Compliance with Ministerial Directions	✓
SD 4.2(d)	Rounding of amounts	✓
SD 4.2(c)	Accountable officer's declaration	✓
SD 4.2(f)	Compliance with Model Financial Report	✓

Other disclosures as required by FRDs in notes to the financial statements

FRD 9A	Departmental disclosure of administered assets and liabilities	N/A
FRD 11A	Disclosure of ex-gratia payments	N/A
FRD 13	Disclosure of parliamentary appropriations	N/A
FRD 21B	Disclosures of Responsible Persons, Executive Officers and Other personnel	✓
FRD 102	Inventories	N/A
FRD 103F	Non-financial physical assets	✓
FRD 104	Foreign currency	✓
FRD 106	Impairment of assets	✓
FRD 107	Investment properties	N/A
FRD 109	Intangible assets	✓
FRD 110	Cash flow statements	✓
FRD 112D	Defined benefit superannuation obligations	N/A
FRD 113	Investment in subsidiaries, jointly controlled entities and associates in separate financial statements	N/A
FRD 114A	Financial Instruments – General Government Entities and public non-financial corporations	✓
FRD 119A	Transfers through contributed capital	N/A

Legislation
Victorian Funds Management Corporation Act 1994
Protected Disclosures Act 2012
Victorian Industry Participation Policy Act 2003
Financial Management Act 1994
Freedom of Information Act 1982
Carers Recognition Act 2012