

Board Charter

Victorian Funds Management Corporation (the "Corporation")

23 November 2016



Improving the future prosperity of Victoria

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1 Purpose of this charter

The purpose of this charter is to set out the functions and responsibilities of the board of directors of the Corporation (“**Board**”).

The Corporation is a body corporate established under the *Victorian Funds Management Corporation Act (1994)* (“**VFMC Act**”). The Corporation is subject to the general direction and control of the Treasurer and accordingly, the Board is accountable to the Treasurer¹ in respect of the performance by the Corporation of its functions.

2 Role and responsibilities of Board

2.1 Role

The role of the Board is to provide overall strategic guidance for the Corporation and effective oversight of management.

The Board must ensure that the Corporation fulfils its objectives and functions, delivers its services and that the activities of the Corporation comply with the VFMC Act, from which the Board derives its authority to act. The functions of the Corporation are described in section 8 of the VFMC Act. These functions include general funds management and financial services for clients as well as acting as trustee or manager of a trust (“**VFMC Trusts**”).

The Corporation is also subject to other legal and regulatory requirements, including the *Borrowing and Investment Powers Act 1987* (and all Treasurer Approvals and Orders in Council issued under that Act), *Financial Management Act 1994*, *Public Administration Act 2004* and the *Prudential Standard*. VFMC and the Centralised Investment Model 2016.

To achieve this role, the Board has reserved to itself the following specific responsibilities.

2.2 Responsibilities

The Board is responsible for:

- (a) appointing and removing the chief executive officer (“**CEO**”) with the approval of the Treasurer, including setting the terms and conditions of such appointment;
- (b) appointing and removing the corporation secretary;
- (c) setting the strategic direction and priorities of the Corporation, approving related strategic initiatives, plans, budgets and policies and approval of the corporate plan;
- (d) oversight of the Corporation’s investment philosophy and investment approach; and
- (e) review and approval of
 - (i) management’s development of client investment strategies in the form of client investment risk management plans or similar documents; and
 - (ii) management’s development of new investment products and new investment strategies that require the approval of the Treasurer;
- (f) the oversight of the Corporation including its control and accountability systems. Specifically, the Board will:
 - (i) approve a framework for the development, approval and implementation of policies and

¹ In turn, the Treasurer is responsible to the Parliament in respect of the performance by the Corporation of its functions.

procedures to ensure the Corporation's regulatory and other obligations are met;

- (ii) with the assistance and guidance of the Audit Risk and Compliance Committee establish appropriate and effective financial governance and oversight arrangements, approve and monitor the systems of risk management and internal controls and assessing and regularly reviewing through appropriate reporting and oversight that risk processes and internal control systems are in place;
 - (iii) approve the appointment of the internal auditor; and
 - (iv) with the assistance and guidance of the Audit Risk and Compliance Committee approve a control framework to ensure the Corporation implements policy frameworks under the Financial Management Act; and for the preparation and verification of certifications the Corporation is required to provide to clients, the Treasurer and the Department of Treasury and Finance including the process of notification of any significant breaches and material risk events;
- (g) reviewing and approving financial reports for the Corporation (including the separate reports prepared in respect of any VFMC Trust) and monitoring financial results on an ongoing basis;
 - (h) conducting an annual review of the Corporation's financial governance performance;
 - (i) keeping the Treasurer informed of the Corporation's activities and strategic issues with potential financial implications for the State;
 - (j) monitoring the performance of and implementation of corporate strategy by senior management and including the adequacy of resources;
 - (k) monitoring the investment performance of the Corporation including against agreed investment benchmarks for individual client portfolios; and
 - (l) approving the establishment of VFMC Trusts that may be established for the purpose of:
 - (i) facilitating the investment for and on behalf of clients in certain asset classes; or
 - (ii) taking advantage of opportunities in various investment markets.

3 Role and responsibilities of chairperson, chief executive officer and corporation secretary

3.1 Chairperson

The chairperson is an independent and non-executive director appointed by the Treasurer. The chairperson is responsible for:

- (a) convening meetings, including when requested by any director;
- (b) leading the Board in reviewing and discussing Board matters;
- (c) chairing Board meetings;
- (d) ensuring the efficient organisation and conduct of the Board's function;
- (e) briefing all directors in relation to issues arising at Board meetings;
- (f) facilitating effective contribution by all directors and monitoring Board performance;
- (g) promoting constructive relations between Board members and between the Board and management;

- (h) reviewing corporate governance matters with the corporation secretary and ensuring that governance matters are reported to the Board; and
- (i) establishing and overseeing the implementation of policies and systems for Board performance review and renewal.

In the absence of the chairperson, the person appointed by the Treasurer as deputy chairperson, will act as chairperson.

3.2 Chief Executive Officer

The CEO is responsible for:

- (a) corporate and financial management of VFMC including achieving financial sustainability and financial management compliance;
- (b) establishing and maintaining an effective internal control system;
- (c) instilling a culture built on trust and integrity;
- (d) identifying and implementing systems to manage risk;
- (e) providing annual assurance to the Audit Risk and Compliance Committee as required under the Standing Directions of the Minister for Finance;
- (f) hiring, retention and management of all staff including consulting with the Board in relation to the appointment or termination of a Chief Finance Officer
- (g) engaging an appropriately skilled and motivated investment team capable of delivering:
 - (h) client investment objectives
 - (i) maintaining appropriate policies and procedures;
 - (j) maintaining client relationships; and
- (k) establishing strong interaction with the Department of Treasury and Finance.

3.3 Corporation Secretary

The corporation secretary acts as secretary of the Board, attending all meetings of the Board as required. The corporation secretary is accountable to the Board through the chairperson on all corporate governance matters.

The corporation secretary is responsible for:

- (a) organising Board meetings and director attendance;
- (b) ensuring that all Board-specific policies adopted by the Board are provided to, or made readily accessible to, all directors of the Corporation;
- (c) monitoring compliance with Board-specific policy and procedures;
- (d) coordinating the completion and despatch of the Board agenda and briefing materials;
- (e) preparing minutes of meetings and resolutions of the Board and taking these to the chairperson for approval and circulation;
- (f) circulating minutes from committee meetings to the Board;
- (g) coordinating the despatch to directors of circular resolutions and recording the response from

directors on such resolutions; and

- (h) safekeeping and use of the official seal of the Corporation as approved by the Board.

4 Delegations of authority

4.1 Delegation to committees

The Board, by instrument under official seal, may delegate responsibility to committees to consider certain issues in further detail and then report back to and advise the Board.

Standing committees established by the Board will adopt charters setting out the authority, responsibilities, membership and operation of the committee. There are currently two standing committees:

- (a) Audit, Risk and Compliance Committee; and
- (b) People Committee.

The Corporation may establish other committees from time to time to consider other matters of special importance.

Directors are entitled to attend committee meetings and have access to committee papers. Directors who wish to attend a meeting of a committee of which they are not a member are required to provide prior notification to the chairperson of the committee. Directors who wish to access the papers of a committee of which they are not a member may do so from the Directors' electronic library or through the corporation secretary.

Committees will maintain minutes of their meetings and are entitled to obtain professional or other advice in order to effectively carry out their proper functions. The chairperson of each committee will report back on the committee meetings to the Board at the next full Board meeting.

4.2 Delegation to CEO and management

Except for those responsibilities reserved to itself in this charter, the Board has delegated to the CEO the power to do all things necessary or convenient to be done for or in connection with or as incidental to the achievement of the Corporation's objectives or the performance of its functions. This delegation is subject to the imposition of specific limits in respect of certain matters.

The sub-delegation of these powers by the CEO is not permitted under the VFMC Act. Consequently, the Board has also delegated certain powers to key executive officers. These delegations are more restricted than those delegated to the CEO.

Delegations of authority to the CEO and key executive officers are set out in the Internal Management Delegations instrument. This instrument is maintained by the corporation secretary and will be reviewed by the Board as appropriate from time to time.

5 Membership

5.1 Composition and size

The VFMC Act stipulates the size of the Board and provides that there can be no less than four and no more than nine directors, as the Treasurer determines. The directors are appointed by the Governor in Council, having regard to the expertise necessary for the Corporation to carry out its functions.

It is intended that the Board should comprise a majority of independent directors and the determination of independence will be made in the appointment process by the Treasurer.

The Treasurer appoints one of the directors to be chairperson of the Corporation and one of the directors to be deputy chairperson.

5.2 Appointment and re-election of directors

Each director is appointed by the Governor in Council for a term, not exceeding three years although a director is eligible for re-appointment.

A director may resign in writing delivered to the Treasurer. A resigning Director shall provide to the Chairman and/or Treasurer any concerns on resignation.

5.3 Conduct of directors

Independent judgment

All directors must bring an independent judgment to bear on Board decisions. That is, directors must be free from any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment or be perceived to do so.

The Board will regularly assess the independence of each director in light of the interests disclosed by them. Each director must provide the Board with all relevant information for this assessment.

Dealing with conflicts of interest

Under the VFMC Act:

- (a) if a director has a direct or indirect pecuniary interest in a matter being considered by the Board; and
- (b) the interest may conflict with the proper performance of the director's duties;

the director must disclose the nature of the interest, as soon as practicable at a Board meeting at which the director must not be present or take part in a decision regarding the director's interests.

The disclosure must be recorded in the minutes of the meeting. The Board has in place a policy dealing with directors' actual or potential conflicts of interest and the disclosure of directors' conflicts takes place in accordance with this policy.

Fulfilment of duties

Directors must at all times act in accordance with all legal and statutory requirements. Without limitation to their other duties and obligations, certain statutory duties are set out in section 22 of the VFMC Act and section 79 of the Public Administration Act. In broad terms, these duties include:

- (a) a duty to act honestly;
- (b) a duty to act with integrity;
- (c) a duty to act in a financially responsible manner;
- (d) a duty to exercise a reasonable degree of care and diligence;
- (e) a duty to avoid making improper use of information gained by virtue of their position; and
- (f) a duty not to make improper use of their position.

6 Board process

6.1 Meetings

All Board meetings will be conducted in accordance with the VFMC Act.

Directors are committed to collective decision making, but have a duty to question and raise any issues of concern to them. Matters are to be debated openly and constructively amongst the directors. Individual directors must utilise their particular skills, experience and knowledge when discussing matters at Board meetings. Director's concerns that cannot be resolved during the course of collective decision making will be recorded by the Corporation Secretary in the minutes of meeting.

Directors must keep Board discussions and resolutions confidential, except where they are required to be disclosed.

All directors are generally expected to prepare adequately, attend and participate at each Board meeting. Non-executive directors will periodically meet without executive directors or management present.

The Board may request or invite management or external consultants to attend Board meetings, where necessary or desirable.

The Board may conduct meetings or determine matters by telephone or video conference.

6.2 Minutes

Draft minutes shall be prepared by the Corporation Secretary promptly following the meeting for review by the Chairman. Thereafter, the draft minutes are to be circulated to all directors. The draft minutes shall be tabled at the next Board meeting for final review and approval.

6.3 Board Resolutions without Meeting

If the directors (other than any director absent from Australia when the other directors sign) sign a document containing a statement that the directors are in favour of a resolution, the matter shall be considered to have been at a meeting held on the day the document is signed or the day the last director signs the document.

For those purposes the requirement to sign can be satisfied if an identifying electronic communication is used.

6.4 Independent Professional Advice

Following consultation with the chairperson, directors may seek independent professional advice at the Corporation's expense. Generally, this advice will be available to all directors.

6.5 Access to management

The directors have complete and open access to management following consultation with the chairperson and CEO.

6.6 Board Evaluation

The Board will annually undertake a Board performance evaluation. The Board will engage a third party at least once every three years to undertake an external Board evaluation.

The Board will formally review the performance and membership of the Audit Risk and Compliance Committee at least once every three years.

6.7 Director Induction and Ongoing Education

The Corporation Secretary working with the Chairman and CEO will arrange an induction schedule for new directors to assist them in understanding their responsibilities and the operational environment of VFMC.

Directors are encouraged to regularly update their skills and knowledge.

7 Review and publication of charter

The Board is responsible for reviewing this charter to determine its appropriateness to the needs of the Corporation from time to time. The charter may be amended by resolution of the Board.

The charter is available on the Corporation's website and the key features are published in the annual report.

The primary role of the Committee is to assist the Board in carrying out the following functions:

- (a) oversight of the integrity of the Corporation's external financial reporting and financial statements²;
- (b) the appointment and performance of the internal auditor;
- (c) the review of audit reports from the external auditor;
- (d) review and oversight of operational risk management and internal controls; and
- (e) oversight of the policies and procedures for ensuring compliance with relevant legal and regulatory requirements.

² References to financial reporting and financial statements in this charter include the Corporation's annual accounts and the VFMC trusts financial statements.