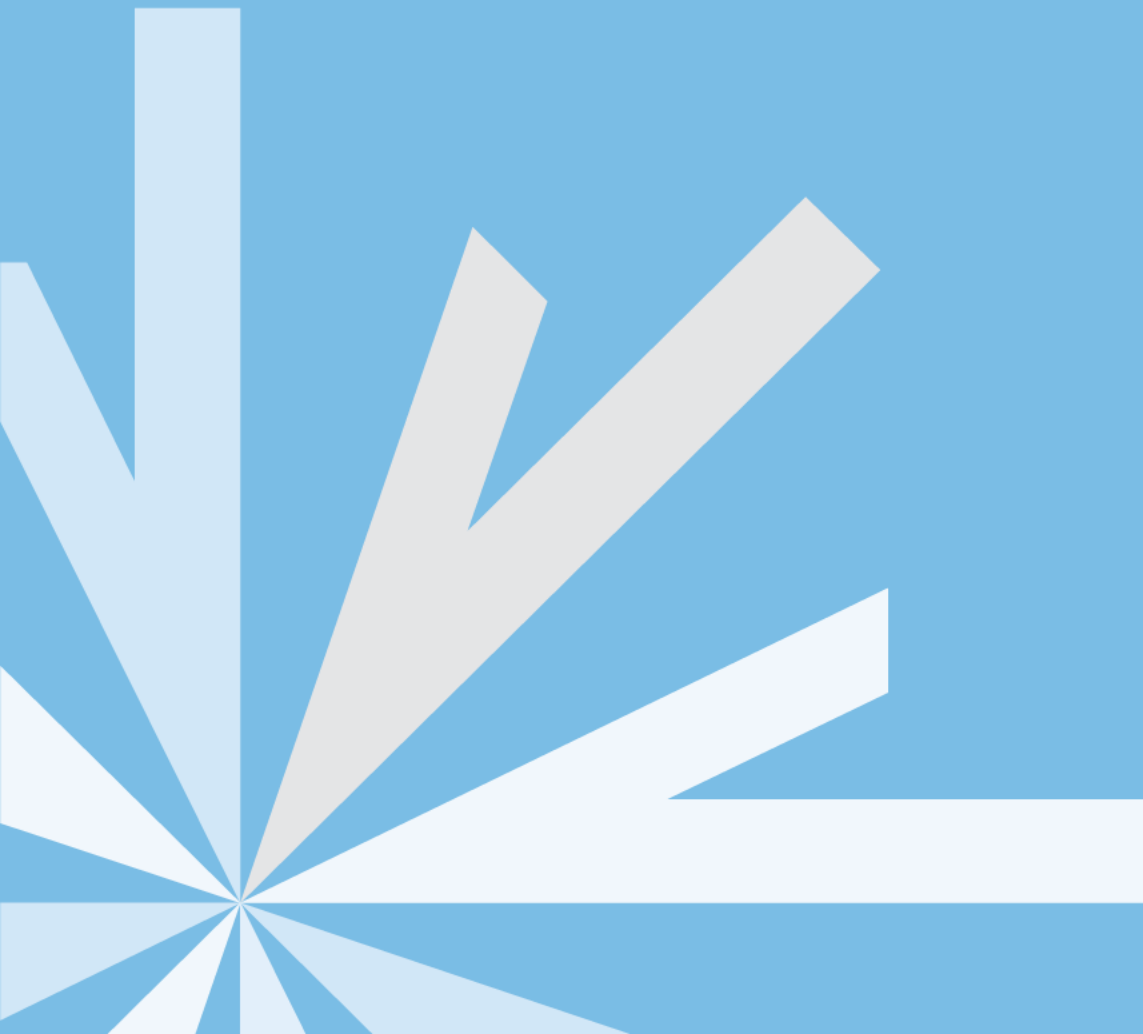




VFMC

Victorian Funds
Management Corporation

Annual Report
2015-2016



Corporate Directory

Victorian Funds Management Corporation ABN 27 691 254 157

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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.

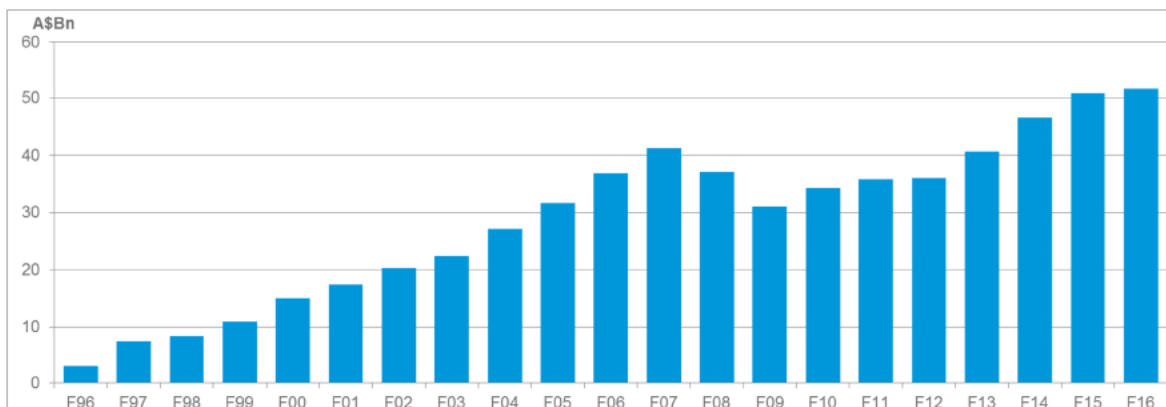
VFMC's mission is to:

- 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 2016, VFMC managed \$51.9bn on behalf of its clients – an increase of \$1bn during the year.



VFMC's funds under management (FUM) rise and fall with markets. FUM are also affected by client cash flows, which have been negative in recent years due to pension payments 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. More recently, stronger market returns and investment outperformance have been the primary drivers of the FUM increase.

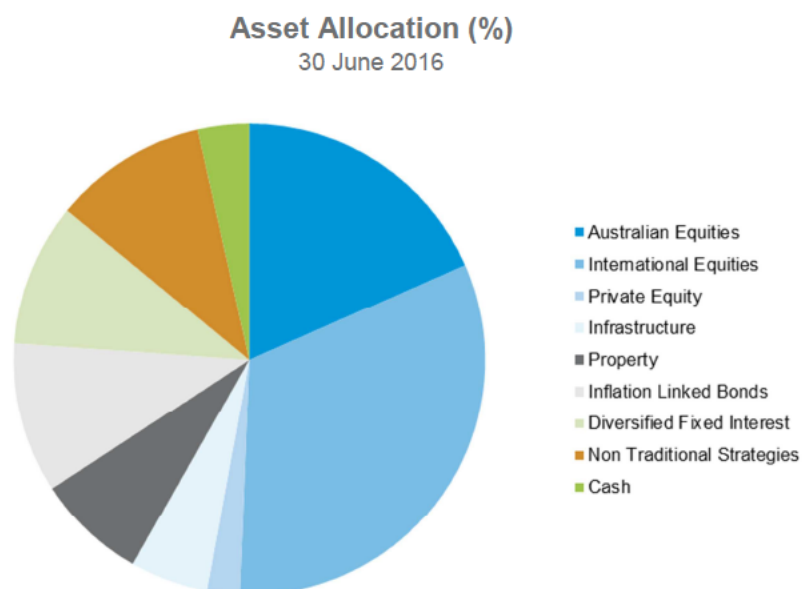
Clients

VFMC works closely 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 53% 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 \$51.9bn was managed by VFMC at 30 June 2016 on behalf of 25 clients (refer to page 57 for client list).

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 long-term investment objectives.

The chart below shows the proportion of investments allocated to each asset class at 30 June 2016, across the clients.



Report from the Chair and Chief Executive Officer

It is both a challenging and rewarding time to be leading VFMC as we navigate the complexities and uncertainties that confront global economies and investment markets. Despite global volatility, VFMC has delivered strong investment performance that is ahead of benchmarks. In parallel, we are in the final stages of a strategic initiative to transition to a new asset administration and custody provider. Our committed team of highly capable and engaged people ensures we are well placed to respond to the challenges ahead.

Investment and Financial Performance

Throughout 2015-2016, markets faced increasing uncertainty due to geo-political events and concerns over the diminishing effectiveness of central bank policies to stimulate the global economy. Compared to recent years, levels of return moderated considerably in many asset classes. Despite this, VFMC has been able to deliver consistent outperformance over the short and longer term. For the 12 months to 30 June 2016, we achieved a return of 3.49%; outperforming our benchmark by 0.4%. For three and five years, returns were 9.99% and 9.92%, and ahead of benchmark by 1.34% and 1.22% respectively.

VFMC currently invests \$51.9bn of funds for 25 clients across the insurance, superannuation, health, arts, education and services agencies of Victoria. During this year, we were delighted to welcome six new clients – Department of Environment Land Water and Planning, Holmesglen Institute, Melbourne Recital Centre, Royal Victorian Eye & Ear Hospital, Victorian Arts Centre Trust and Western Health. We look forward to them benefiting from the best ideas VFMC has to offer.

Prudent cost and risk management delivered a pre-tax surplus of \$10.6m in 2015-2016. This outcome enabled a payment of a dividend to the State Government of \$3.7m while still leaving VFMC with sufficient capacity to absorb what is likely to be a challenging operating environment over the next few years.

Our Progress

A major focus for this year has been the transition of administration and custody services to a new global service provider. Collateral management, “middle office” services and custody administration have been transitioned and are now operating with our new service provider. We have been pleased with the successful execution of this work and the collaboration amongst our strategic partners. During this year, we have also completed the triennial review of assets and liabilities for the Foundation Centralised Investment Model (CIM) clients.¹ This is an important step in ensuring the alignment of long term risk-adjusted investment objectives and outcomes.

Respectful challenge, innovation and continuous improvement are vital to the sustainability of our organisation. At VFMC, we are well placed to navigate emergent global challenges due to our highly committed and capable team. We were delighted with an uplift in employee engagement from 86% to 89%. This result is ahead of the Global High Performing Norm.

Governance and Leadership

The board continues to evolve ensuring it has the right focus and mix of skills and experience to effectively conduct its oversight and guidance role for VFMC. In October 2015, Alice Williams resumed her appointment to the board. Paula Benson and Lisa Gay also joined the board in May 2016. We will benefit greatly from their experience across investment management, financial services, and corporate responsibility. During the year, Ray King and Chris Pearce concluded their terms as directors. They played important roles in guiding VFMC over the last few years and we thank them for their commitment and contribution.

¹ ESSSuper, Transport Accident Commission, Victorian Managed Insurance Authority and WorkSafe

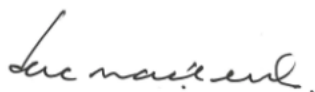
Report from the Chair and Chief Executive Officer (continued)

This year also saw a seamless CEO transition from Warren Lee, who concluded his three year term in October 2015, to Lisa Gray who commenced on 1 February 2016. We thank Warren for his leadership in building core foundations and establishing a robust platform for scalable growth. VFMC is particularly indebted to Justin Pascoe, our CIO, who graciously assumed the Acting CEO role and ensured the organisation continued with confidence during this transition period.

Future Direction

Having delivered strong investment performance, built a stable platform and further strengthened our relationships with clients and stakeholders, it is now time for us to consider the next evolution of VFMC. Under Lisa's leadership we have embarked on a 'strategic refresh' which will ensure we are well placed to navigate a set of challenging and uncertain global and market conditions, including a sustained low return environment, and to play our role in the future well-being of our clients and the State of Victoria.

Our optimism about the future is anchored in our diverse, capable board complemented by an experienced and committed VFMC team. We truly thank them for their hard work, continuous challenge, and belief in our enduring purpose.



James MacKenzie
Chair



Lisa Gray
Chief Executive Officer

Report of Operations

VFMC endeavours to achieve key objectives for its clients by outperforming the relevant market benchmarks in each asset class and in aggregate. Client investment results depend on general market movements, cost efficiency and VFMC's capacity to deliver investment outperformance against accepted market benchmarks.

Longer term objectives for clients are determined by absolute targets such as the Consumer Price Index (CPI) plus 5% or average weekly earnings (AWE) plus 4% on a rolling five (or more) yearly basis. VFMC's capacity to outperform those benchmarks is measured net of fees. Investment portfolios are designed to optimise long-term expected returns within the risk parameters agreed to by clients. In turn, each client is responsible for managing all associated liabilities.

In 2016, VFMC updated clients and the Department of Treasury and Finance (DTF) on its triennial analysis of long-term Strategic Asset Allocations to meet Foundation CIM client objectives.

Net of fees (and franking credits for superannuation clients), VFMC's 3.49% return for the year ending 30 June 2016 was 0.4% ahead of its blended aggregate benchmark return of 3.09%. Absolute returns were lower than in previous years, reflecting an overall environment of lower returns and increased volatility.

The value added by VFMC was also lower than in recent years, impacted by challenging conditions particularly in international equity and fixed interest markets. This is consistent with the experience of many other investors globally, with strong absolute and relative return contributions for VFMC clients coming from infrastructure and property.

In the medium term, returns and outperformance exceeded VFMC targets. Over the three years to 30 June, the aggregate return to Foundation CIM clients was 9.99% per annum, net of fees and franking credits. This represents value added of 1.34% per annum above the agreed target. Over five years, VFMC's results were also very positive for relative and absolute investment performance, with a return of 9.92% p.a. and value added of 1.22% p.a.

Report of Operations (continued)

As a result of the impact of the global financial crisis period, returns over ten years were below long term client objectives, with only modest benchmark outperformance. Below are the gross (pre-fee) results by asset class alongside relevant benchmark (Bmk) returns for one, three and five-year periods.

Asset Group	Asset Class	One Year		Three Years		Five Years	
		VFMC %	Bmk %	VFMC % pa	Bmk % pa	VFMC % pa	Bmk % pa
Equities	Australian Equities	3.1	0.87	9.31	7.7	9.35	7.2
	International Equities	-2.74	-1.47	12.32	11.88	12.45	11.78
	Private Equity	9.39	4.26	9.58	10.01	11.25	8.58
Inflation Linked	Infrastructure	19.23	6.27	15.85	6.93	13.90	6.86
	Property	14.52	13.36	12.41	11.11	10.98	10.36
	Inflation Linked Bonds	4.66	4.51	7.81	6.51	8.15	7.3
Debt & Non Traditional Strategies	Diversified Fixed Interest	6.57	7.02	6.57	6.24	7.19	6.74
	Non Traditional Strategies	5.83	5.24	9.65	5.17	8.73	5.5
	Cash	2.45	2.24	2.79	2.51	3.35	3.1
	<i>Strategy Overlay Positions</i>	<i>0.03</i>		<i>0.09</i>			
Total VFMC Portfolio (Net)*		3.49	3.09	9.99	8.65	9.92	8.69

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

Total portfolio results achieved by VFMC are shown net of fees (and franking credits for superannuation clients). The value added across the three and five year periods exceeds management's target of 1% net of fees and franking credits.

The benchmarks chosen for each asset class reflect industry standards and were assessed as part of the review of assets and liabilities for Foundation CIM clients. The total portfolio benchmark comprised gross weighted, asset class benchmarks and net benchmark for property..

Benchmarks for each asset class are listed in the table below.

Asset Class	Benchmark
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 + 3% pa
Infrastructure	CPI + 5%
Property	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 +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 the Mercer/IPD Australian Property Pooled Fund Net as the property component.

Report of Operations (continued)

Investment Performance Commentary

VFMC uses a mix of internal and external management across asset classes to deliver long-term investment outcomes (net of fees and costs) for clients. Internal management is undertaken for sub-portfolios within the Australian equities, fixed interest and cash asset classes as well as a strategy overlay portfolio and an international equity enhanced core portfolio. At 30 June 2016, approximately a third of VFMC's assets were managed internally.

The limited active positioning of VFMC's asset allocation in 2015-2016 reflected the uncertain environment. Nonetheless, clients benefitted from reduced exposure to the Australian dollar, which declined against the US dollar over the financial year despite significant volatility.

Cash

Cash exposures are actively managed for performance and to maintain cash flow liquidity required by clients. Cash flow requirements were higher than in previous years. Currency hedge obligations were also met as the Australian dollar declined and the relative value of overseas assets increased. Declining cash rates affected returns from this part of the portfolio but actual returns on cash balances remained strong relative to the benchmark.

Australian Equities

In Australian Equities, the portfolios delivered strong outperformance by being underweight the Australian Banks, who raised substantial equity capital during the period. VFMC participated as a sub-underwriter of this equity to generate enhanced returns for clients. Small cap stocks outperformed large caps for the first time in five years.

International Equities

International Equity portfolios were less strong, underperforming against benchmarks in developed markets and small caps. MSCI benchmarks indicated that developed markets outperformed emerging markets, although VFMC investment results in emerging markets were higher than benchmark. VFMC also appointed new international equity managers during the year to help diversify the manager roster.

Infrastructure

The Infrastructure investment portfolio again performed strongly in aggregate. It was buoyed by the ongoing maturation of infrastructure fund investments made in previous years and the high level of global interest in this asset class.

VFMC will continue its exposure via a mix of fund commitments and co-investments. Despite being underweight, the infrastructure asset class has significant future fund commitments plus potential co-investments. For this reason, VFMC believes it is on track to achieve its target weighting.

Report of Operations (continued)

Property

The Property portfolio strongly outperformed its benchmark, which comprises Australian-based funds and is based on net-of-fee returns. Australian property continued to be in demand from investors, particularly those overseas. This caused a compression in capitalisation rates, which generated returns that outperformed the underlying fundamentals and likely long-run returns from the asset class. Certain pre-committed partnerships with other institutional investors in the office, industrial and retail sectors were key to VFMC's results and its ability to selectively deploy capital in the domestic market. These partnerships, with their associated governance structures, ensured all investments satisfied necessary risk-adjusted investment criteria and other relevant standards.

Global Bond Markets

The Diversified Fixed Interest and Inflation – Linked Bond portfolios delivered strong absolute returns as bond yields fell to record lows (including negative yields in some international markets). Credit markets were volatile over the year and exposure to global credit markets was the key cause of the under performance of the Diversified Fixed Interest portfolio. Internally managed bond portfolios modestly outperformed their respective benchmarks.

Non-Traditional Strategies

The Non-Traditional Strategies portfolio performed in line with its benchmark at an overall level but the outcomes from its component sub-portfolios were mixed. The fund-weighted Hedge Fund Research Index (HFRX) reflected the challenging year for the sector in general. Nonetheless, while the hedge fund sub-portfolio lagged its 'cash plus' benchmark, it still posted a positive return. VFMC's hedge fund portfolio returned 3.3% net of fees compared to an Australian dollar return on the HFRX Global Hedge Fund Index (All Strategies) of -2.4%. The opportunistic part of client portfolios again delivered positive net of fee returns (4.7%), as private debt remained a good investment opportunity. The Life Settlements portfolio delivered a 9.3% net-of-fee return.

Multi-Strategy Funds

VFMC manages three multi-strategy funds for clients across capital stable, balanced and growth asset mixes. Client investments in these funds totalled almost \$700 million, with most in VFMC's Capital Stable Fund.

Report of Operations (continued)

Remuneration Arrangements

VFMC's Single Incentive (SI) remuneration framework offers performance-based rewards at an organisation, function and individual level. Implemented on 1 July 2014 after a comprehensive review, the SI is consistent with a market approach to total remuneration (fixed and variable pay). The SI replaced the short-term incentive and long-term incentive (LTI) programs. The final LTI program (LTI6) was fully vested at 30 June 2016.

The LTI program was determined solely by investment outcomes over a rolling three-year period, combining investment outperformance against established industry benchmarks and the cumulative absolute performance of VFMC clients over that period. These payments were limited to about one third of total employees and vested after three years.

Each year the board sets the maximum SI incentive pool and 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 individuals to be employed with VFMC when payment is made. Deferred amounts under the SI are subject to clawback (if appropriate and at board discretion).

Annual performance figures are used to determine the pool of incentives.

In 2015-2016, the net of fees investment outperformance against benchmark was 40 bps over one year and 134 bps over three years. Compared to previous years, VFMC's performance was less strong due to the current low-return environment. As a result, VFMC's total incentive pool of \$9.6m was \$3.3m less than in the preceding year.

VFMC anticipates market volatility will affect its ability to provide similar outperformance for clients in the next 12 months.

VFMC Financial Performance

VFMC returned a pre-tax surplus of \$10.6m in 2015-2016. This result was consistent with FUM growth to \$51.9bn and effective cost management practices. It was also above VFMC's target return on capital of between 10 and 15% per annum. VFMC's capital position as at 30 June 2016 was \$24.7m and continues at a level appropriate to board expectations.

Net assets increased from \$19m in 2014-2015 to \$24.7m in 2015-2016. An anticipated dividend payment to the State of Victoria of \$3.7m would reduce net assets at 30 June 2016 to \$21m. This amount will be confirmed in the 2016-2017 year. In order to ensure VFMC has sufficient capacity to absorb what is likely to be a challenging operating environment over the next few years, no client rebate was declared in 2016.

Key Financials for Financial Year	2015-2016 \$ million	2014-2015 \$ million	2013-2014 \$ million
Pre-tax Surplus	10.6	4.9	5.0
Net Assets	24.7	19.0	17.3
Client rebate	-	13.0	7.6
Dividend	3.7	1.7	1.7

Report of Operations (continued)

Occupational Health and Safety

In line with VFMC's commitment as a responsible employer and a member of the Public Sector, the health and safety of VFMC employees continued to be paramount in 2015-2016. VFMC took a proactive approach to managing its occupational health and safety (OH&S) obligations by delivering initiatives and programs including:

- Annual OH&S assessment conducted by an independent consultant, with results presented to the Operational Risk Management Committee and Audit, Risk and Compliance Committee.
- New employee induction on OH&S responsibilities.
- Regular ergonomic assessments.
- Externally-trained first aid officers.
- Externally-trained fire wardens.
- Provision of influenza vaccinations.
- Employee Assistance Program facilitated by an external provider.
- Online OH&S training for all employees.

Details of Consultancies and Information and Communication Technology expenditure

In 2015-2016, VFMC continued to invest in the business by finalising various strategic initiatives and initiating a 'strategic refresh'. Five consultancies were used to support the delivery of these projects, with total fees of \$10,000 or more payable to consultants. Related annual expenditure was \$1,495,130 (compared to \$774,140 in 2014-2015). No consultancies were engaged where total fees payable were less than \$10,000. For details of individual consultancies, visit www.vfmc.vic.gov.au.

VFMC's information and communication technology expenditure of \$6,561,000 included \$5,018,000 for business as usual (BAU) expenses and \$1,543,000 for non-BAU operational expenditure.

Governance

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

Delegations in place through the VFMC Board Charter and Instrument of Delegation specify responsibilities and accountabilities, from governance to investment management. The governance framework is supported by board, management and investment committees, and risk management systems and controls.

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 states 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 performance and implementation of corporate strategy by senior management.
- Monitoring investment performance of the organisation and compliance with client investment risk management plans.
- 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 delegated authority to the CEO and management to achieve the Corporation's objectives and perform its functions.

A third party undertakes a regular evaluation of the board's performance. This review focuses on its effectiveness, performance of the board and its committees.

The board has two standing committees: the Audit, Risk and Compliance Committee and the People Committee.

Governance (continued)

Audit, Risk and Compliance Committee

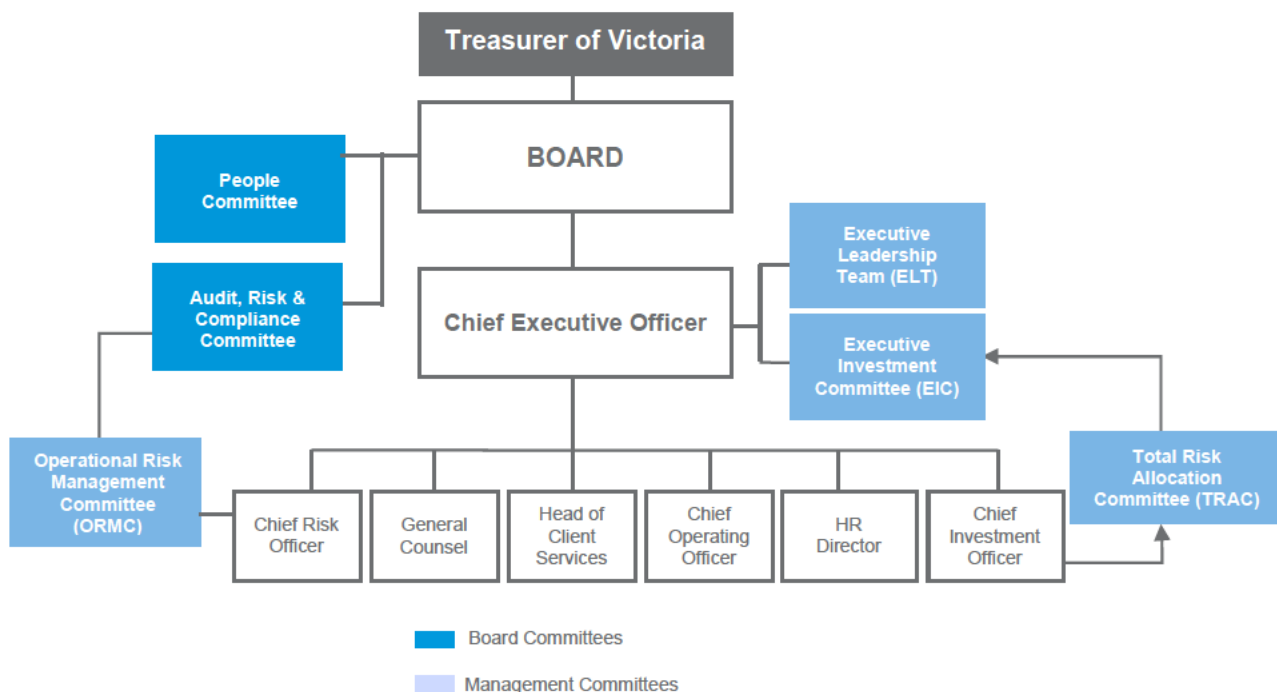
Five directors are members of the Audit, Risk and Compliance Committee, which is chaired by Catherine Walter. Meetings are held five times a year or as required. The committee's primary role is to assist the board with the oversight of external financial reporting and financial statements, and the risk management and control framework.

People Committee

Four directors are members of the People Committee, which is chaired by Elana Rubin. The committee meets at least bi-annually or more often as required. Its primary role is to help the board address succession planning, remuneration, training and development, organisational culture and diversity. The performance of the CEO is also evaluated by this committee.

Corporation Structure

The diagram below shows the corporation structure and the relationships between The Treasurer, Mr Timothy Pallas MP, VFMC board and VFMC management (and their key committees).



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 ensure operational and compliance issues are dealt with before investment decisions are implemented.

The 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. TRAC is responsible for reviewing and approving new investment proposals.

The Operational Risk Management Committee (ORMC) is a VFMC management committee that helps fulfil the organisation's statutory and regulatory responsibilities. It is chaired by the CRO and comprises the CEO, COO, General Counsel, CIO, Deputy CIO, Head of Client Services and HR Director. It provides management oversight of VFMC's operational risk and reports to the VFMC board's Audit, Risk and Compliance Committee.

Board of Directors

James MacKenzie

Chair

Appointed June 2015

James MacKenzie is an experienced Australian company director. He currently serves as President of the Victorian Arts Centre Trust, director of Building Queensland, Melco Crown Entertainment and Maurice Blackburn Lawyers.

James 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. He has been a member of the COAG Business Advisory Forum and a previous director of VFMC.

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

In 2001, he was awarded the Centenary Medal for services to Public Administration.

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

Catherine 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.

She is currently a director of the RBA's Payment Systems Board, Australian Foundation Investment Company and Vic Forests, and was previously a director of ASX, National Australia Bank and Orica and Chair of Equisuper, Australian Synchrotron and Federation Square.

Catherine holds a first class honours Bachelor of Laws, a Master of Laws and a Master of Business Administration from the University of Melbourne. She is a Fellow of the Australian Institute of Company Directors.

Paula Benson

Director

Appointed May 2016

Paula Benson is a leading corporate affairs professional and non-executive director with almost 20 years' experience in financial services, media, resources, infrastructure and the education sector.

She was recently Executive General Manager Corporate Affairs at National Australia Bank and has held senior roles in business and the media including General Manager, Corporate Responsibility, National Australia Bank, General Manager Corporate Affairs at Alcoa of Australia, Manager Public Affairs RMIT University and Producer of A Current Affair, Channel 9.

Paula is the Chair of Ovarian Cancer Australia and a former director of the Port of Melbourne Corporation, the Royal Women's Hospital Foundation and Regional Arts Victoria. She holds a Master of Arts in Journalism from the University of Technology, Sydney and a Bachelor of Arts from the University of New South Wales.

Board of Directors (continued)

John Fitzgerald

Director

Appointed January 2013

John Fitzgerald is a Specialist Advisor to KPMG on the infrastructure and government sectors and was recently interim CEO 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 Canberra Transport Light Rail Project Board and Assetco Management Pty Ltd.

His previous board positions include director on the National Advisory Board of Infrastructure Partnerships Australia and executive director Department of Treasury and Finance (Victoria) (DTF) Executive Board. John was a Deputy Secretary, Commercial Division, at DTF, and previously held senior management positions in the banking industry.

He has a Master of Public Infrastructure – Research (First Class Honours) from the University of Melbourne, and is a Fellow of the Australian Institute of Company Directors and the Institute of Public Administration Australia (Victoria).

Lisa Gay

Director

Appointed May 2016

Lisa Gay is a prominent legal and compliance professional with over 20 years' experience. She is a director of Koda Capital, a member of the Council of Trustees of the National Gallery of Victoria, Deputy Chair of the Indigenous Land Corporation, a director of National Indigenous Pastoral Enterprises, and Chair of Voyages Indigenous Tourism Australia. From 1990 to 2010, Lisa was General Counsel and Managing Director of the Goldman Sachs Group Australia and its predecessor JBWere and Son.

She was Chair of the Australian Securities and Investment Commission's Markets Disciplinary Panel (which hears disciplinary matters against market participants for breaches of the market integrity rules) from its establishment in 2010 to July 2016. Past non-executive roles include Chairman of Flora & Fauna International Australia Pty Ltd, member of the ASIC Markets Supervision Advisory Panel, and ASX Disciplinary Tribunal and Trustee for the Victorian Trust for Nature.

David Martine

Director

Appointed September 2014

David 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.

Before this, David 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 was involved in wide ranging strategic policy reform.

David is a director of Treasury Corporation Victoria and a member of the Infrastructure Victoria Board.

He has a Bachelor of Economics (Honours) from Monash University and completed a Masters of Business Administration in 2005.

Board of Directors (continued)

Elana Rubin

Director

Chair of People Committee

Appointed August 2015

Elana Rubin has extensive experience in funds management, property and infrastructure. She is currently a director of Mirvac, MLC Life and Administrator Board and asset management, Touchcorp, LaunchVic and Transurban Queensland.

In 2013, Elana retired as the Chair of AustralianSuper, one of Australia's largest superannuation funds. Previous directorships include Infrastructure Australia, PPB Advisory, TAL Insurance, Climate Change Authority, Transport Accident Commission, ISPT, Chair of Victorian Rail Track Corporation and Chair of Worksafe (Vic).

Elana is a Fellow of the AICD, Finsia, and AIM. She is a member of the AICD Victorian Council and on the board of Committee for Melbourne.

Alice Williams

Director

Appointed May 2008

Alice Williams has over 25 years senior management and board level experience in the corporate and government sectors, specialising in investment management, corporate advisory and equity fundraising. Alice was formerly a director of NM Rothschild and Sons (Australia) Limited, director of Strategy and Planning for Ansett Australia Holdings Limited and a Vice President at JP Morgan Australia. She also held management positions with Elders Finance Group, Hong Kong Bank of Australia Limited and Citibank NA in London.

Other non-executive directorships include Barristers Chambers Limited, Cooper Energy, Foreign Investment Review Board, Djerrivarrh Investments, Equity Trustees, Guild Group, Defence Health and Port of Melbourne Corporation. Alice was a council member for the Cancer Council of Victoria and is a member of the Felton Bequest Committee.

Alice was director of AirServices Australia, State Trustees Limited, Telstra Sale Company Limited, Chair STL Australia Foundation, Chair of the 2004 Wheat Marketing Review Panel, part-time Commissioner for the Victorian Competition and Efficiency Commission, director Australian Accounting Standards Board, and director Western Health.

She has a Bachelor of Commerce from the University of Melbourne, and is a Fellow of the Australian Institute of Company Directors, CPA, CFA and ASFA AIF.

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 strategic planning, budgeting, investment process, risk management, fiduciary obligations and remuneration process. The board of directors comprises five women and three men.

Directors' Meetings

The number of directors' meetings, and those attended by each director, in the 2015-2016 financial year are set out below:

Director	Board of Directors Meetings			Audit, Risk & Compliance Committee Meetings			People Committee Meetings		
	No. Held	No. Eligible	No. Attend	No. Held	No. Eligible	No. Attend	No. Held	No. Eligible	No. Attend
J MacKenzie	8	8	8	4	4	4	5	5	5
C Walter	8	8	8	4	4	4	5	1	1
P Benson	8	1	1	-	-	-	5	1	1
J Fitzgerald	8	8	7	4	4	4	5	1	1
L Gay	8	1	1	-	-	-	-	-	-
R King	8	5	5	4	1	1	5	2	2
D Martine	8	8	7	-	-	-	5	4	4
C Pearce	8	5	4	4	2	2	5	1	1
E Rubin	8	7	7	-	-	-	5	4	4
A Williams	8	5	5	4	3	3	-	-	-

*Mr Pearce and Mr King's terms expired in January 2016.
Ms Benson and Ms Gay commenced their terms in May 2016.*

Board of Directors (continued)

Directors' Benefits

Since the end of the previous financial year, no director of the Corporation (other than disclosed below) has 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 Governor in Council. 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 page 51 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 by a person in their position as a Director or Officer of the Corporation unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

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 Leadership Team

Lisa Gray

Chief Executive Officer

Lisa Gray joined VFMC as Chief Executive Officer in February 2016.

Her career spans over 25 years predominantly in financial services having held various executive roles at NAB, MLC, Plum Financial Services and AXA. She is business leader capable of delivering outstanding commercial outcomes. Lisa's signature strength is strategic execution achieved by blending the power of communication with a unifying purpose to create self-sustaining organisations. She brings a unique combination of applying data insights, analytics and strategic intuition to make courageous, transformational decisions that deliver strong commercial results. She has been a director of companies spanning financial services, health and education sectors.

Lisa has a Bachelor of Town and Regional Planning with First Class Honours from the University of Melbourne, a Graduate Diploma in Management from RMIT, a Masters of Business Administration from the University of Melbourne, and an AMP from Insead, France. She is also a Graduate of the Australian Institute of Company Directors and a winner of the Telstra Business Women's Award (medium-sized enterprises) and the Rupert Murdoch Fellowship for Leadership and Management.

Justin Pascoe

Chief Investment Officer

Justin 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. Before joining VFMC, Justin was a Managing Director at Goldman Sachs based in its 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.

Justin 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

Brett Davidson was appointed to VFMC as Chief Operating Officer in September 2006. Before joining VFMC, he was Director and Chief Operating Officer, Merrill Lynch Investment Managers in Melbourne.

Brett's 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.

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

VFMC Executive Leadership Team (continued)

Geoff Diamond

Head of Client Services

Geoff 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.

Geoff has over 15 years experience in asset management sales and client relationship management. Before joining Vanguard in 1997 he held senior FX trading roles for several major banks and gained experience in both local and offshore markets. He holds a Senior Associate (SA Fin), FINSIA.

Andrew Elliott

Deputy Chief Investment Officer

Andrew 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 over 25 years experience in asset management and legal roles.

He jointly led the VFMC Private Markets team covering unlisted infrastructure, property and private equity before 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.

Andrew 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

Kerrie Howard was appointed Head of Legal and Compliance of VFMC in April 2007. Before 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.

Kerrie 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

Bryony Hayes was appointed as Chief Risk Officer in October 2013. Before 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.

Before 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.

VFMC Executive Leadership Team (continued)

Helen Newall **HR Director**

Helen Newall was appointed HR Director, VFMC in December 2012. Before her appointment at VFMC she held several senior executive roles in a number of ASX listed companies including AMP Limited, AXA Asia Pacific Holdings, Cap Gemini Ernst & Young and professional services with Ernst & Young Consulting and Corrs Chambers Westgarth.

Helen's career has been characterised by delivering business results through the creation of value, capacity building, and mentoring and coaching senior executives. She holds a Masters of Strategic Human Resource Management from Deakin University.

Key Performance Indicators

During the 2015-2016 financial year, VFMC applied the key performance indicators as agreed in the 2015-2016 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 2016, VFMC had 25 individual clients with FUM of \$51.9bn.

As indicated below, VFMC clients' longer term objectives are broadly framed in terms of absolute targets, such as the Consumer Price Index (CPI) plus 5% or average weekly earnings (AWE) plus 4% on a rolling five to 10 year basis.

VFMC endeavours to achieve these objectives for clients by outperforming the relevant market benchmarks in each asset class and in aggregate. VFMC's capacity to outperform those benchmarks is measured on a net-of-fees basis.

The process starts with client objectives, which are set in terms of long term real return targets and risk tolerances. 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 Foundation CIM client:

Individual Client Performance versus stated objective for periods ending 30 June 2016

Client	Objective Horizon (years)	Performance Net of Fees % pa	Target Return per Objective % pa	Investment Objective	Probability of objective being achieved
VWA	5	9.76	6.41	AWE +4% pa over rolling five year periods	60%
TAC	10	6.30	7.36	CPI (Me b)+ 5% pa over rolling ten year periods	60%
VMIA	10	5.82	6.70	AWE +3.5% pa over rolling ten year periods	50%
SSF	10	5.95	7.90	CPI (Aust) +5.5% pa over rolling ten year periods	65%
ESS Super DB	7	10.32	7.29	CPI (Aust) +5% pa over rolling seven year periods	65%

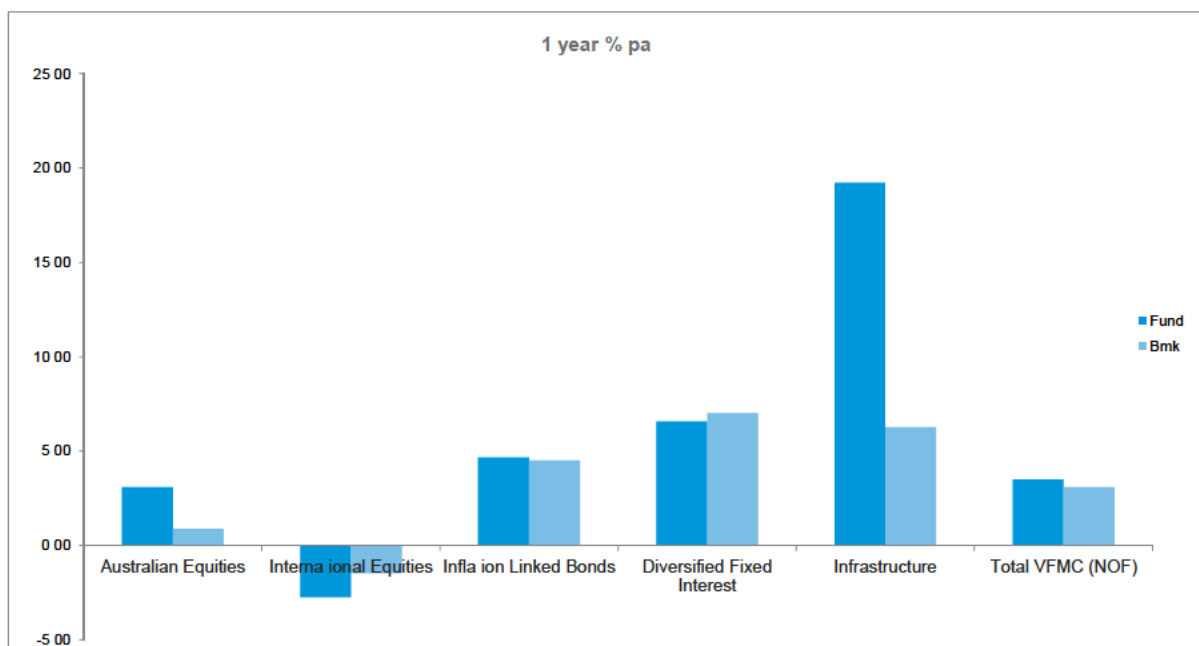
Although there has been a substantial recovery in markets from the depths of the financial crisis, the cumulative annualised return delivered remains below objective for three clients with longer investment horizons. These longer term multi-period results remain impacted by the extreme effects of the global financial crisis which began in 2008.

Key Performance Indicators (continued)

2. Whole of State performance versus benchmark

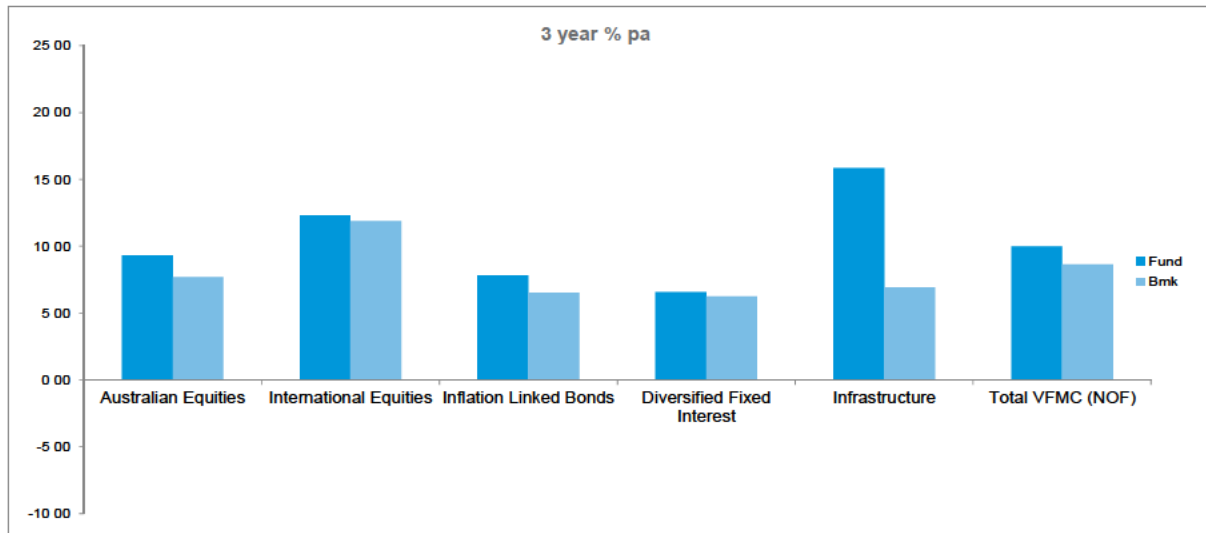
VFMC performance relative to benchmark for Foundation CIM clients in aggregate for the 2015-2016 financial year was 3.82% (gross of fees) and 3.49% after fees (and franking credits for superannuation clients). This was ahead of benchmark by 0.69% and 0.40%, respectively.

The following charts show major asset class returns against the relevant benchmarks (Bmk) over one, three and five years ended 30 June 2016.

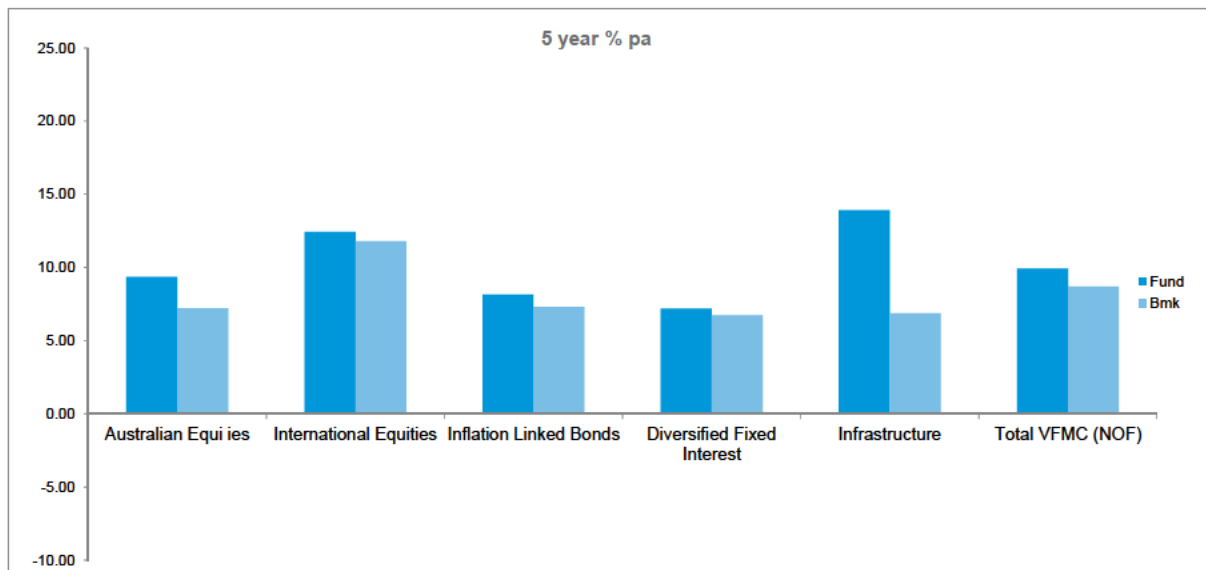


Key Performance Indicators (continued)

Relative to long-term client objectives (approximated by a CPI +5% target), the three year total return results of 10% per annum (after fees and franking credits for superannuation clients) are ahead of benchmark.



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 clients and DTF. A Client Satisfaction Survey 'pulse' check was conducted in the second half of 2015 to encourage feedback from client boards and management to identify areas of strength and areas for improvement. The survey covered strategy and leadership, investment returns, cost and risks, asset liability work, service and communications, ESG and proxy voting. Survey results show VFMC clients are more satisfied compared to the 2014 client survey responses, with an overall rating of 8.25 (compared to 7.94 in 2014). Client investment forums continued in 2015-2016. These forums provide clients with more detail on VFMC's approach to investing and our economic and market views.

Clients and DTF all received their monthly and quarterly reports within agreed timeframes.

4. Staff engagement

VFMC continues to be committed to the development of all employees. Over the past 12 months, development initiatives have focused on building a high performance culture, personal accountability, risk and ethical leadership, and team forums to practice and grow through leading. VFMC participated in Willis Towers Watson Employee Engagement survey during the year, reporting an engagement score of 89% (compared to 86% in the 2012-13 survey).

The 2015-2016 results for VFMC are significantly ahead of the Global High Performing Norm and Australian National Norm for companies who participate in this survey.

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 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. Surplus and return on capital

VFMC operates with an objective of generating a target return on capital (ROC) of between 10 and 15% per annum. 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.

VFMC's pre-tax surplus for the year to 30 June 2016 was \$10.6m. This was 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 2016, there were no significant breaches.

Subsequent Events

No significant events have occurred since the end of the reporting period.



VFMC

Victorian Funds
Management Corporation

Annual Financial Report
For the year ended 30 June 2016





Comprehensive operating statement for the financial year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Income from transactions			
Management fee revenue	2	158,807	167,894
Client rebates	2	-	(12,950)
Performance fee revenue	2	7,282	14,684
<i>Total fee revenue</i>		166,089	169,628
Other income	2	438	488
Total income from transactions		166,527	170,116
Expenses from transactions			
Portfolio management and custodian expenses	3	108,834	119,121
Employee benefit expenses	3	25,418	29,199
Depreciation and amortisation expenses	3	828	391
Other expenses	3	20,787	16,413
Total expenses from transactions		155,867	165,124
Net surplus from transactions		10,660	4,992
Other economic flows included in net surplus			
Net loss arising from revaluation of long service leave		(46)	(57)
Net surplus from operations before tax		10,614	4,935
Income tax expense	4	3,188	1,493
Net surplus after tax		7,426	3,442
Comprehensive result		7,426	3,442

The comprehensive operating statement should be read in conjunction with the notes to the financial statements.



Balance sheet as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Financial assets			
Cash and cash equivalents	15(a)	15,916	14,143
Trade and other debtors	5	52,921	58,837
Income tax refundable	4	4,434	1,060
Prepayments and other assets	6	639	2,187
Deferred tax assets	4	5,309	10,602
Total financial assets		79,219	86,829
Non-financial assets			
Property, plant and equipment	7	406	527
Intangible assets	8	1,168	589
Total non-financial assets		1,574	1,116
Total assets		80,793	87,945
Liabilities			
Trade and other payables	9	39,553	47,257
Provisions	10	15,870	20,751
Deferred tax liabilities	4	690	962
Total liabilities		56,113	68,970
Net assets		24,680	18,975
Equity			
Contributed equity		5,000	5,000
Accumulated surplus		19,680	13,975
Net worth		24,680	18,975

The balance sheet should be read in conjunction with the notes to the financial statements.



Statement of changes in equity for the financial year ended 30 June 2016

	\$'000	\$'000	\$'000
	Contributed Equity	Accumulated Surplus	Total
1 July 2014	5,000	12,272	17,272
Net surplus after tax	-	3,442	3,442
Dividends paid	-	(1,739)	(1,739)
30 June 2015	5,000	13,975	18,975
	Contributed Equity	Accumulated Surplus	Total
1 July 2015	5,000	13,975	18,975
Net surplus after tax	-	7,426	7,426
Dividends paid	-	(1,721)	(1,721)
30 June 2016	5,000	19,680	24,680

The statement of changes in equity should be read in conjunction with the notes to the financial statements.



Cash flow statement for the financial year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from trade debtors, fees and other debtors		198,260	190,124
Payments to creditors and employees		(184,683)	(179,545)
GST paid		(7,694)	(9,021)
Income tax paid		(1,541)	(5,481)
Interest received		373	423
Other income		65	65
Net cash flows from / (used in) operating activities	15(b)	4,780	(3,435)
Cash flows from investing activities			
Payments for property, plant and equipment		(203)	(126)
Payments for intangibles		(1,083)	(665)
Net cash flows used in investing activities		(1,286)	(791)
Cash flows from financing activities			
Dividends paid	19	(1,721)	(1,739)
Net cash flows used in financing activities		(1,721)	(1,739)
Net increase / (decrease) in cash and cash equivalents		1,773	(5,965)
Cash and cash equivalents at the beginning of the financial period		14,143	20,108
Cash and cash equivalents at end of financial year	15(a)	15,916	14,143

The cash flow statement should be read in conjunction with the notes to the financial statements.

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 2016 was authorised for issue in accordance with a resolution of the directors on 18 August 2016.

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 (AAS) 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. Unless otherwise stated, 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 accounting preparation and measurement

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 comprehensive operating statement presentation has been changed in the current year and comprises two components, being 'net surplus from transactions' and 'other economic flows included in net surplus'. The sum of the two represents the net surplus. The net surplus is equivalent to profit or loss derived in accordance with AASs.

The balance sheet presentation has been changed in the current year and assets and liabilities are presented in liquidity order with assets aggregated into financial and non-financial assets. Current and non-current assets and liabilities are disclosed in the notes, where relevant.

Where necessary, comparatives have been restated, reclassified and repositioned for consistency with current year disclosures.

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.

Notes to the financial statements

1. Statement of significant accounting policies (continued)

(c) Basis of accounting preparation and measurement (continued)

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).

VFMC has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015:

AASB 117 *Leases*

AASB 110 *Events after the Reporting Period*

AASB 107 *Statement of Cash Flows*

Other amendments apply for the first time as at 1 July 2015. However, they do not impact the financial statements of VFMC. The adoption of the standards or interpretation is described below:

The amendments within AASB 117 *Leases* does not result in a change in the measurement and recognition of amounts in the financial report.

Application of AASB 110 *Events after the Reporting Period* and AASB 107 *Statement of Cash Flows* does not have a direct impact on the disclosures within the financial report.

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 2016:

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	The assessment has indicated this will not 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 <i>Property Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> 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	The assessment has indicated this will not have any impact on VFMC's financial report.	1 July 2016



Notes to the financial statements

1. Statement of significant accounting policies (continued)

(c) Basis of accounting preparation and measurement (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity financial report	Application date for Entity
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 2018	These amendments may impact the timing of initial recognition and subsequent measurement of revenue in VFMC's financial report.	1 July 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	Amends the measurement of trade receivables and the recognition of dividends.	1 January 2017	The assessment has indicated this will not have any impact on VFMC's financial report.	1 July 2017
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative 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
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 January 2018	This will defer the application to 2018-19.	1 July 2018

Notes to the financial statements

1. Statement of significant accounting policies (continued)

(c) Basis of accounting preparation and measurement (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity financial report	Application date for Entity
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	This Standard amends AASB 15 to clarify some key requirements.	1 January 2018	The assessment has indicated there will be no significant impact other than the impact noted in AASB 15.	1 July 2018
AASB 16	Leases	Introduces the recognition of most operating leases (which are not currently recognised) on balance sheet.	1 January 2019	The assessment has indicated this will have a marginal impact on VFMC's financial report and will cause net debt to marginally increase.	1 July 2019

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.

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.

Notes to the financial statements

1. Statement of significant accounting policies (continued)

(c) Basis of accounting preparation and measurement (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 balance sheet 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.

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 balance sheet and cash flow statement, 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

Notes to the financial statements

1. Statement of significant accounting policies (continued)

(f) Taxation (continued)

which the deductible temporary difference and the carry-forward of unused tax credits and unused tax losses can be utilised.

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 balance sheet.

Cash flows are included in the cash flow statement 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

Non-financial physical assets acquired are measured initially at cost. Following initial recognition, these assets are carried at cost less any accumulated depreciation 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. 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).

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, which is consistent with the prior year.



Notes to the financial statements

1. Statement of significant accounting policies (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, which is consistent with the prior year.

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 comprehensive operating statement. 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. In accordance with the fair value hierarchy, these assets are classified as level 3 for fair value purposes.

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.

Notes to the financial statements

1. Statement of significant accounting policies (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 exclusive 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 be 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 & Finance. Any gain or loss following revaluation of the present value of non-current long service leave liability is recognised in the 'net surplus from transactions', except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised in the net result as an other economic flow.

Notes to the financial statements

1. Statement of significant accounting policies (continued)

(l) Employee benefits (continued)

On 1 July 2014, a single incentive plan that rewards employees based on performance at an organisational, business unit and individual level, was implemented.

The components of the liability for incentives 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.

Any contributions made to the superannuation funds are charged against the comprehensive operating statement 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.

On-costs such as payroll tax are recognised separately from the provision for employee benefits.

(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 comprehensive operating statement 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 carried at amortised cost 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 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.

Notes to the financial statements

1. Statement of significant accounting policies (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 equity

Contributed equity is recognised at the fair value of the consideration received by VFMC.



Notes to the financial statements

	2016 \$'000	2015 \$'000
2. Revenue		
Management fee revenue	158,807	167,894
Client rebates	-	(12,950)
Performance fee revenue	7,282	14,684
<i>Total fee revenue</i>	<u>166,089</u>	<u>169,628</u>
Interest revenue - Cash at bank	351	394
- Short term deposit	22	29
Other	65	65
<i>Total other revenue</i>	<u>438</u>	<u>488</u>
Total revenue	<u>166,527</u>	<u>170,116</u>
3. Expenses		
Portfolio management and custodian expenses	108,834	119,121
Salary and related expenses	25,010	28,837
Directors' fees	408	362
<i>Total employee benefit expenses</i>	<u>25,418</u>	<u>29,199</u>
Depreciation of property, plant & equipment	324	292
Amortisation of intangible	504	99
<i>Total depreciation and amortisation expenses</i>	<u>828</u>	<u>391</u>
IT expenses	5,931	4,523
Market data and research	3,416	2,719
Consultancy and professional fees	1,798	1,810
Rental and outgoings	953	900
Legal expenses	758	1,316
Insurance	935	744
Audit fees	93	83
Strategic development costs*	5,176	2,496
Office administration	547	531
Other expenses	1,180	1,291
<i>Total other expenses</i>	<u>20,787</u>	<u>16,413</u>
Total expenses	<u>155,867</u>	<u>165,124</u>

* Included within this is \$3,625,000 (2015: \$582,000) incurred to transition custody and administration services to a new provider.

Notes to the financial statements

	2016 \$'000	2015 \$'000
4. Income tax		
(a) Income tax expense		
The major components of income tax expense are:		
Comprehensive operating statement		
Current income tax charge / (benefit)	(1,832)	3,029
Deferred income tax – relating to origination and reversal of temporary differences	5,020	(1,536)
Income tax expense reported in the comprehensive operating statement	3,188	1,493
(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	10,614	4,935
Prima facie tax calculated at 30%	3,184	1,481
Non-deductible expenses	4	12
Income tax attributable to net surplus from operations	3,188	1,493
Income tax refundable	(4,434)	(1,060)
Deferred tax assets	5,309	10,602
Deferred tax liabilities	690	962
Deferred tax assets at 30 June relates to the following:		
- salary and related expenses	4,673	6,135
- client rebates	-	3,885
- capital deductions	99	106
- fixed assets	335	375
- others	202	101
Total deferred tax assets	5,309	10,602
Deferred tax liabilities at 30 June relates to the following:		
- deferred performance fee income	690	962
Total deferred tax liabilities	690	962

Notes to the financial statements

	Notes	2016 \$'000	2015 \$'000
5. Trade and other debtors			
Current			
Trade debtors	20(g)	1,197	4,387
Accrued management and performance fees	20(g)	48,793	50,641
Receivables from VFMC Trusts*	20(g)	632	604
Total current		50,622	55,632
<i>* Being reimbursement for expenses incurred on the Trusts' behalf.</i>			
Non-current			
Accrued management and performance fees	20(g)	2,299	3,205
Total trade and other debtors		52,921	58,837
6. Prepayments and other assets			
Current			
Prepayments		564	1,330
Other assets		75	122
Total current		639	1,452
Non-current			
Projects – Work in progress		-	735
Total prepayments and other assets		639	2,187
7. Property, plant and equipment			
Non-current			
Leasehold premises improvements		1,822	1,822
Less: Accumulated depreciation		(1,709)	(1,552)
		113	270
Furniture, fittings and equipment		1,642	1,444
Less: Accumulated depreciation		(1,349)	(1,187)
		293	257
Total fair value		406	527



Notes to the financial statements

	2016	2015
	\$'000	\$'000
7. Property, plant and equipment (continued)		
Reconciliation		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	270	451
Depreciation	(157)	(181)
	<u>113</u>	<u>270</u>
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	257	239
Additions	203	129
Depreciation	(167)	(111)
	<u>293</u>	<u>257</u>
Total property, plant and equipment	<u>406</u>	<u>527</u>
8. Intangible assets		
Non-current		
Computer software at cost	7,766	6,683
Less: Accumulated amortisation	(6,598)	(6,094)
Total fair value	<u>1,168</u>	<u>589</u>
Reconciliation		
Carrying amount at beginning	589	22
Additions	1,083	666
Amortisation	(504)	(99)
Total intangible assets	<u>1,168</u>	<u>589</u>
9. Trade and other payables		
Current		
Trade creditors	2,948	3,776
Accrued management and performance fees	36,519	43,462
Australian Taxation Office (GST)	86	19
Total trade and other payables	<u>39,553</u>	<u>47,257</u>



Notes to the financial statements

	2016 \$'000	2015 ¹ \$'000
10. Provisions		
Current		
Unconditional annual leave		
expected to settle within 12 months	374	406
expected to settle after 12 months	928	852
Unconditional long service leave		
expected to settle within 12 months	46	45
expected to settle after 12 months	1,896	1,297
Unconditional incentives	9,741	11,347
Provisions for on-costs		
expected to settle within 12 months	494	572
expected to settle after 12 months	137	104
Provision for operational risks	317	317
Total current	13,933	14,940
Non-current		
Long service leave	525	912
Incentives	1,322	4,630
On-costs (payroll tax)	90	269
Total non-current	1,937	5,811
Total provisions	15,870	20,751

*Comparatives have been restated and reclassified, where necessary, to conform to presentation in the current year
Amounts expected to settle after 12 months are measured at present values*

(a) Movement in provisions

	Incentives	On-costs	Operational risks	Total
	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
Opening balance	16,753	945	317	18,015
Additional provisions recognised	6,047	345	-	6,392
Reductions arising from payments	(11,776)	(571)	-	(12,347)
Unwind of discount and effects of changes in the discount rate	81	4	-	85
Reductions resulting from re-measurement or settlement without cost	(42)	(2)	-	(44)
Closing balance	11,063	721	317	12,101

Notes to the financial statements

	2016	2015
	\$'000	\$'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. In 2016, VFMC extended the accommodation lease for an additional five year term.

Commitments in relation to operating leases are payable as follows:

Not later than one year	1,061	1,104
Later than one year, but not later than five years	4,847	819
Total commitments	5,908	1,923

* 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:

Not later than one year	2,000	2,014
Later than one year, but not later than five years	1,789	3,789
Total commitments	3,789	5,803

* 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 AustralianSuper. There are no defined benefit plans.

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.)

	1,340	1,274
Total contributions	1,340	1,274

Notes to the financial statements

13. Responsible persons, remuneration of executives and other personnel

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,
Mr Timothy Pallas, Treasurer

The Directors,

Mr J MacKenzie	(Chairperson)
Ms P Benson	(Appointed: 17 May 2016)
Mrs C Walter AM	
Mr J Fitzgerald	
Ms L Gay	(Appointed: 17 May 2016)
Mr D Martine	
Ms E Rubin	(Appointed: 4 August 2015)
Ms A Williams	(Appointed: 13 October 2015)
Mr C Pearce	(Appointment concluded: 28 January 2016)
Mr R King	(Appointment concluded: 28 January 2016)

Chief Executive Officer,

Ms L Gray	(Appointed: 1 February 2016)
Mr J Pascoe	(Appointed: Acting CEO from 15 October 2015 to 31 January 2016)
Mr W Lee	(Resigned: 14 October 2015)

(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 Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from www.parliament.vic.gov.au/publications/register-of-interest.

Notes to the financial statements

13. Responsible persons, remuneration of executives and other personnel (continued)

(b) Related party transactions (continued)

The Australian Accounting Standards Board has extended the scope of AASB 124 Related Party Disclosures to include not-for-profit public sector entities from 1 July 2016. The amendments made to AASB 124 provided clarification of key management personnel (KMP) in the public sector context and this has resulted in the identification of the portfolio minister(s) as a KMP and the remaining Cabinet ministers as related parties for for-profit public sector entities which is a change from previous disclosures.

VFMC has prepared the related party disclosures for the year based on reasonable enquiries made by management in relation to the portfolio minister(s) and their related parties and the information available to the organisation, with the transition to a full implementation of AASB 124 and any applicable financial reporting directions from 2016-17 onwards.

The former Director, Mr C Pearce was Executive Director – Government and Not for Profit, Telstra Corporation Ltd (Telstra). VFMC utilises Telstra mobile telephone services. VFMC paid service fees to Telstra of \$89,840 (2015: \$117,426).

Mr D Martine is Secretary, Department of Treasury & Finance (DTF) and a Director of Treasury Corporation of Victoria (TCV). During the year VFMC paid a dividend to DTF of \$1,721,000 (2015: \$1,739,000). VFMC generated interest income of \$22,169 (2015: \$28,516) 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 2016 (2015: \$1,000,000). On behalf of its clients, VFMC invests funds with TCV periodically, with GBID of \$238,391,430 held at 30 June 2016 (2015: \$1,026,098,716). Accordingly, VFMC clients earn interest income at prevailing market rates on normal commercial terms and conditions.

Ms E Rubin is a director of MLC Life and Administrator Board whose 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 \$12,939,369 (2015: \$12,764,562). VFMC has utilised NAB's custody and administration services since 1994. This predates Ms E Rubin's appointment to the VFMC Board.

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 had funds invested of \$359,592,014 (2015: \$375,555,382) and has paid / payable management fees of \$4,363,269 (2015: \$3,997,772). A portion of these management fees is payable by the Investment Manager of the scheme to the RE.

Ms L Gay is a Member of the Council of Trustees of National Gallery of Victoria (NGV). NGV is a client of VFMC, and at 30 June 2016 had FUM invested of \$70,116,165 (2015: \$68,704,435). All fees are charged on normal commercial terms and conditions.

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 2016, VFMC clients held investments in this debt security of \$1,264,511,260 (2015: \$1,251,753,341); and b) Royal Women's Hospital in Melbourne. At 30 June 2016, VFMC clients held investments in this debt security of \$1,841,520 (2015: \$4,772,768). 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.

VFMC utilises the insurance services of Victorian Managed Insurance Authority (VMIA), a client and related government entity. VFMC paid premiums to VMIA of \$73,709 (2015: Nil) and the policies were undertaken on normal commercial terms and conditions.

Notes to the financial statements

13. Responsible persons, remuneration of executives and other personnel (continued)

(b) Related party transactions (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 2016 were \$632,464 (2015: \$604,397). Management fees are paid on a monthly basis. Total fees received by VFMC during the year for the management of the VFMC Trusts were \$16,223,119 (2015: \$14,394,750).

(c) Compensation of responsible persons

The number of responsible persons (includes Directors, the Chief Executive Officer (CEO) and any person acting as CEO while the position is vacant), 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	
	2016 No.	2015 No.	2016 No.	2015 No.
\$Nil to \$9,999	3	2	3	2
\$30,000 to \$39,999	2	-	2	-
\$40,000 to \$49,999	1	1	1	1
\$50,000 to \$59,999	3	3	3	3
\$60,000 to \$69,999	-	1	-	1
\$80,000 to \$89,999	-	1	-	1
\$110,000 to \$119,999	1	-	-	-
\$120,000 to \$129,999	1	-	1	-
\$130,000 to \$139,999	-	-	1	-
\$180,000 to \$189,999	1	-	1	-
\$220,000 to \$229,999	-	-	1	-
\$390,000 to \$399,999	1	-	-	-
\$500,000 to \$509,999	-	-	-	1
\$950,000 to \$959,999	-	1	-	-
Total numbers	13	9	13	9
Total amount	\$1,117,818	\$1,322,341	\$963,737	\$872,862

In accordance with Financial Reporting Direction 21B of the FMA, VFMC has included the remuneration of the CEO, and acting CEO (for the period 15 October 2015 to 31 January 2016) with Directors as responsible persons.

Notes to the financial statements

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	
	2016 No.	2015 No.	2016 No.	2015 No.
\$260,000 to \$269,999	-	-	1	-
\$280,000 to \$289,999	-	-	-	1
\$300,000 to \$309,999	1	-	1	-
\$310,000 to \$319,999	-	-	1	-
\$320,000 to \$329,999	-	-	1	2
\$330,000 to \$339,999	-	-	1	1
\$360,000 to \$369,999	-	-	1	-
\$370,000 to \$379,999	-	-	-	1
\$400,000 to \$409,999	-	1	-	-
\$410,000 to \$419,999	1	-	-	-
\$420,000 to \$429,999	-	-	1	-
\$550,000 to \$559,999	-	1	-	-
\$560,000 to \$569,999	1	-	-	-
\$580,000 to \$589,999	1	-	-	1
\$600,000 to \$609,999	1	1	-	-
\$670,000 to \$679,999	-	1	-	-
\$860,000 to \$869,999	1	-	-	-
\$1,120,000 to \$1,129,999	-	1	-	-
\$1,550,000 to \$1,559,999	1	-	-	-
\$1,930,000 to \$1,939,999	-	1	-	-
Total numbers	7	6	7	6
Total annualised employee equivalent	6.9	6	6.9	6
Total amount (excluding non-vested long-term incentives)	\$4,923,403	\$5,299,522	\$2,354,367	\$2,220,730
Total of long-term incentives (non-vested and at risk)	-	\$2,219,538	-	-

Notes to the financial statements

13. Responsible persons, remuneration of executives and other personnel (continued)

(d) Compensation of executive officers (continued)

Incentive Plan

On 1 July 2014, a single incentive plan that rewards employees based on performance at an organisational, business unit and individual level, was implemented.

(e) Payments to other personnel

There are no contractors charged with significant management responsibilities (2015: Nil).

(f) Remuneration for responsible persons and executive officers

	2016 \$'000	2015 \$'000
Short-term employee benefits (including short-term incentives and vested long-term incentives)	6,011	6,599
Other long-term benefits (including long-term incentives at risk)	30	755
Total	6,041	7,354

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

Notes to the financial statements

14. Assets and liabilities of VFMC trusts for which VFMC 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 2016, fees earned were \$16,223,119 (2015: \$14,394,750) and unpaid fees were \$1,432,571 (2015: \$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 2016.

Board of Directors as trustees:

- 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

Notes to the financial statements

14. Assets and liabilities of VFMC trusts for which VFMC 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 cash flow statement

(a) Cash and cash equivalents

For the purpose of cash flow statement, 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 cash flow statement is reconciled to the related items in the balance sheet as follows:

	2016 \$'000	2015 \$'000
Cash at bank	14,910	13,137
Short term deposits	1,006	1,006
Total cash and cash equivalents	15,916	14,143

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

Net surplus from operations after income tax	7,426	3,442
<u>Adjustments for non-cash income and expense items:</u>		
Depreciation of property, plant & equipment	324	292
Amortisation of intangible	504	99
<u>Changes in assets and liabilities:</u>		
Decrease / (Increase) in receivables and other debtors	12,824	(19,539)
(Decrease) / Increase in payables and other provisions	(16,298)	12,271
Net cash flows from / (used in) operating activities	4,780	(3,435)

Notes to the financial statements

16. Funds under management

Funds managed by VFMC in either a trust or a discrete capacity are not included in investments in the balance sheet, but amount to \$51.9bn as at 30 June 2016 (2015: \$50.9bn). These funds are managed on behalf of the following clients:

- Ballarat Health Services
- Consumer Affairs Victoria
- Department of Justice & Regulations
- Department of Environment Land Water & Planning
- Environment Protection Authority
- ESSSuper Accumulation Fund
- ESSSuper Defined Benefits Fund
- ESSSuper State Super Defined Benefits Fund
- Holmesglen Institute
- Melbourne Recital Centre Public Fund
- Metropolitan Fire and Emergency Services Board
- National Gallery of Victoria
- Peninsula Health
- Western Health
- Queen Elizabeth Centre
- Royal Children's Hospital
- Royal Women's Hospital
- Royal Victorian Eye and Ear Hospital
- Swinburne University
- Transport Accident Commission
- University of Melbourne
- Victorian Arts Centre Trust
- 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

	2016 \$'000	2015 \$'000
Fees receivable by VAGO for the audit of VFMC	93	83
Total audit fees	93	83

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

Notes to the financial statements

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 2015-2016 VFMC paid a \$1,721,000 dividend to the Department of Treasury & Finance (2015: \$1,739,000).

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, \$1,028,950 are past due but not impaired (2015: \$86,647).



Notes to the financial statements

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 (2015: 30 days) and are all non-interest bearing.

(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 – 2016

	Weighted Average Interest Rate	Variable Interest Rate \$'000	Non-Interest Bearing \$'000	Total \$'000
Cash	1.75%	14,910		14,910
Short Term Deposits	2.21%	1,006		1,006
Receivables:				
- Trade receivables			1,197	1,197
- Accrued management and performance fee income			51,092	51,092
- Receivables from VFMC Trusts			632	632
Payables				
- Trade creditors and other payables			(2,948)	(2,948)
- Accrued management and performance fees			(36,519)	(36,519)
Net Financial Assets		15,916	13,454	29,370

Interest Rate Exposure – 2015

	Weighted Average Interest Rate	Variable Interest Rate \$'000	Non-Interest Bearing \$'000	Total \$'000
Cash	2.00%	13,137		13,137
Short Term Deposits	2.57%	1,006		1,006
Receivables:				
- Trade receivables			4,387	4,387
- Accrued management and performance fee income			53,846	53,846
- Receivables from VFMC Trusts			604	604
Payables				
- Trade creditors and other payables			(3,776)	(3,776)
- Accrued management and performance fees			(43,462)	(43,462)
Net Financial Assets		14,143	11,600	25,743

Notes to the financial statements

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.

At reporting date management have determined, 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 \$73,340 (2015: \$68,699 increase)
- 50 basis points lower: decrease in profit and net assets of \$73,340 (2015: \$68,699 decrease)

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

(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, 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Financial assets				
Trade and other debtors	52,921	58,837	52,885	58,775
Total	<u>52,921</u>	<u>58,837</u>	<u>52,885</u>	<u>58,775</u>

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 balance sheet as at 30 June 2016 or on the results and cash flows of the VFMC for the year ended on that date.

Statement by Director and Management

We hereby certify that:

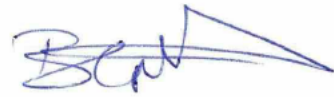
1. the accompanying financial statements have been prepared in accordance with Direction 4.2 of the Standing Directions of the Minister for Finance under the Financial Management Act 1994, applicable financial reporting directions, Australian Accounting Standards, including interpretations and other mandatory professional reporting requirements;
2. the accompanying Comprehensive operating statement, Balance sheet, Statement of changes in equity, Cash flow statement and accompanying notes present fairly the financial transactions for the financial year ended 30 June 2016 and the financial position as at 30 June 2016;
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 Directors authorised the attached financial statements for issue on 18 August 2016.



CATHERINE WALTER AM
Director



LISA GRAY
Chief Executive Officer



BRETT DAVIDSON
Chief Operating Officer

Dated: 18 August 2016



Auditor-General's Report

VAGO

Victorian Auditor-General's Office

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INDEPENDENT AUDITOR'S REPORT

To the Directors, Victorian Funds Management Corporation

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the Victorian Funds Management Corporation which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by director and management.

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 and fair presentation 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, I and my 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 2016 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
24 August 2016

Dr Peter Frost
Acting 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 2015-2016, 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 2015-2016, 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)

Compliance with the Carers Recognition Act 2012

VFMC has taken all practical measures to comply with its obligations under the Act. These include:

- a) ensuring our staff have an awareness and understanding of the care relationship principles set out in the Act; and/or
- b) considering the carer relationships principles set out in the Act when setting policies and providing services.

Staff Performance and Professional Development

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

Employees are actively encouraged to maintain their professional leadership development to assist in delivering against their performance objectives. VFMC is not bound by the provisions of the Public Sector Management and Employment Act 1998, although its human resources policies are sensitive to that act. VFMC is an equal opportunity employer.

The Corporation's employment details as at 30 June 2016 are as follows:

Employment Status	Males	Females	Total	Males	Females
Permanent – full time	53	26	79	67%	33%
Permanent – part time	1	0	1	100%	0%
TOTAL	54	26	80	67%	33%

Risk Management Attestations



ANNUAL RISK MANAGEMENT ATTESTATION
VICTORIAN FUNDS MANAGEMENT CORPORATION (VFMC)

(For the period 1 July 2015 to 30 June 2016)

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



Chairman

Dated: 12 September 2016

Disclosure Index

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

Legislation	Requirement	Page reference
Report of Operations – FRD Guidance		
Charter & Purpose		
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FRD 10A	Disclosure index	32
FRD 12A	Disclosure of major contracts	N/A
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FRD 22G	Compliance with building and maintenance provisions <i>Building Act 1993</i>	N/A
FRD 22G	Statement of National Competition Policy	N/A
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FRD 22G	Disclosure of government advertising expenditure	N/A
FRD 22G	Disclosure of ICT expenditure	11
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FRD 9A	Departmental Disclosure of Administered Assets and Liabilities by Activity	N/A
FRD 11A	Disclosure of Ex gratia Expenses	N/A
FRD 13	Disclosure of Parliamentary Appropriations	N/A
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FRD 103F	Non-Financial Physical Assets	
FRD 110	Cash Flow Statements	
FRD 112D	Defined Benefit Superannuation Obligations	N/A
Legislation		
<i>Victorian Funds Management Corporation Act 1994</i>		
<i>Protected Disclosure Act 2012</i>		
<i>Victorian Industry Participation Policy Act 2003</i>		
<i>Financial Management Act 1994</i>		
<i>Freedom of Information Act 1982</i>		
<i>Carers Recognition Act 2012</i>		