

# Annual Report

2017-2018





**Victorian Funds Management Corporation**

ABN 27 691 254 157

**Office**

Level 13

101 Collins Street

Melbourne Victoria 3000

+61 3 9207 2900

[info@vfmc.vic.gov.au](mailto:info@vfmc.vic.gov.au)

[vfmc.vic.gov.au](http://vfmc.vic.gov.au)

**Corporation Secretary**

Florian Greene

**External Auditor**

Victorian Auditor-General's Office

Level 31

35 Collins Street

Melbourne, Victoria 3000

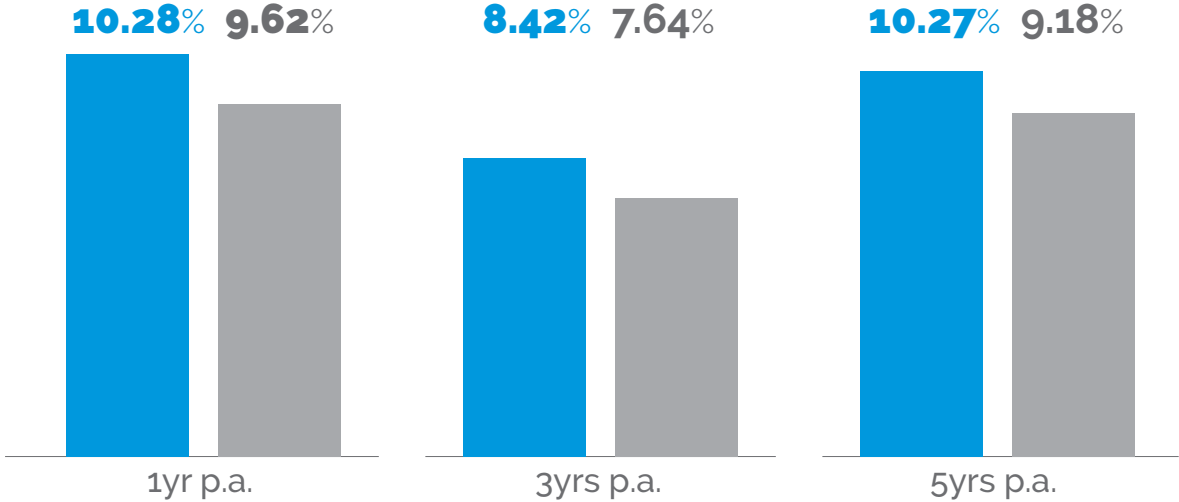
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# 2017-2018 Highlights


## VFMC investment returns

vs benchmark (net of fees )



<p>Funds Under Management</p> <p><b>\$61.3bn</b></p> <p>↑ \$5.2bn on 2016-2017</p>	<p>Clients</p> <p><b>30</b> </p> <p>↑ by 3 on 2016-2017</p>
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<p>Employees</p> <p><b>91</b> </p>	<p>an extraordinary team <b>delivering</b> market leading, long-term returns</p>
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<p>Pre-tax surplus</p> <p><b>\$20.5m</b></p>	<p>Return on capital</p> <p><b>34%</b> </p>
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## About VFMC

### The Victorian Funds Management Corporation (VFMC) is Victoria's investment specialist.

We are an open and transparent public authority responsible for investing for the benefit of Victorians. We manage funds of over \$61 billion for Victoria and 30 Victorian public authorities and related organisations.

VFMC was established under the *Victorian Funds Management Act 1994* (the Act). VFMC is governed by an independent Board of directors whose members are appointed by the Governor in Council. The Chair is appointed by the Treasurer.

#### Purpose

We're a diverse team who are united by a single purpose: Improving the future prosperity of Victoria.

#### Aspiration

We aspire to be an extraordinary team delivering market leading, long-term returns.

Successful delivery of these returns is measured on the basis of being:

- **Effective** – delivering against clients' long-term risk and return objectives.
- **Efficient** – providing value to clients at a cost less than they can individually achieve through similar providers globally.
- **Competitive** – delivering exceptional client experience and attracting top global talent.

VFMC aims to deliver an operating surplus and dividend payment to the Victorian State Government while ensuring sustainable, cost effective operations, ongoing reinvestment and a prudent balance sheet.

#### Clients

Four clients make up over 90% of our funds under management (FUM):

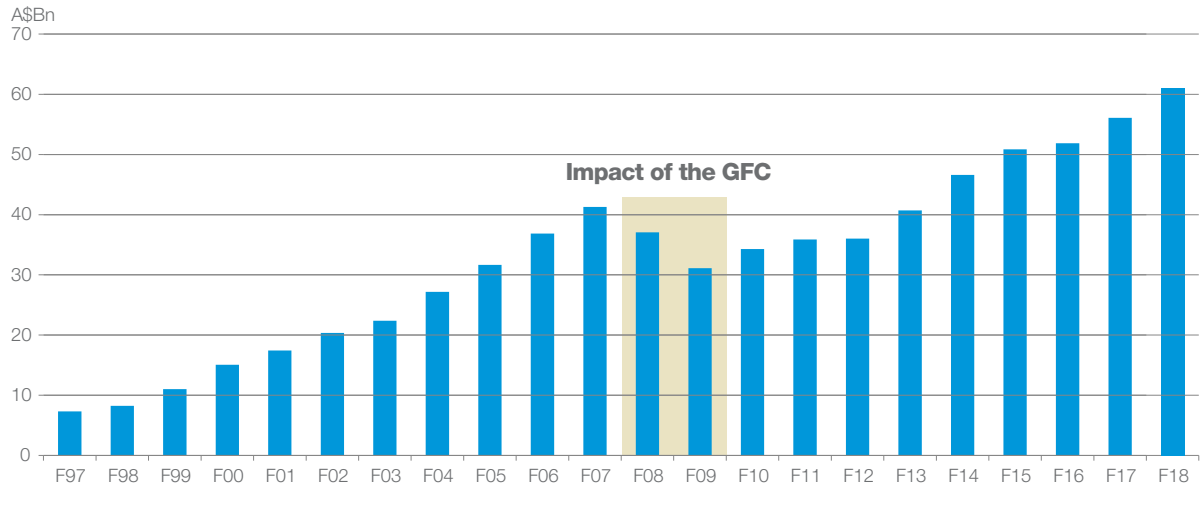


These clients, known as our Foundation clients, are required to invest in VFMC through the Victorian Government's Centralised Investment Model (CIM). In addition to our Foundation CIM clients, VFMC is investment manager to 26 Victorian public authorities and related organisations.

For a complete list of our clients see page 60.

## Funds Managed

In 2017-2018 VFMC delivered a return of 10.28% compared to the benchmark return of 9.62%, adding \$5.2 billion in FUM. VFMC's FUM rise and fall with markets.



## Services

Clients rely on us to manage investment risk, optimise portfolios and advise on developing assets. Our investment and related services include:

- Developing strategic asset allocations for our Foundation CIM clients.
- Designing and offering suitable products for our other public authorities and related organisations that utilise VFMC's scale benefits (these are predominantly invested in VFMC's multi strategy funds).
- Operational execution of investment strategies for Foundation CIM client portfolios.
- Offering investment guidance and consulting.
- Internal funds management.
- Selecting external fund managers and monitoring their performance.
- Proxy voting services.
- Monitoring of risk and compliance.

VFMC's portfolio construction draws on the strategic and asset allocation skills of the VFMC investment team. We build portfolios to achieve our clients' objectives using the benefits of scale, by providing access to opportunities and investment management expertise that may not otherwise be available to clients at a competitive cost. To do this we use a combination of in-house investment management and external fund managers. Our internal management is utilised where we have the capabilities to generate superior risk-adjusted performance net of fees. Approximately one third of VFMC's funds are managed internally.

VFMC provides clients with monthly updates and detailed quarterly performance reports. VFMC also facilitates the regular exchange of information with client boards and investment committees to provide insights regarding investments and broader global trends.

*VFMC is a long-term investor. Our three and five year returns were **8.42% p.a.** and **10.27% p.a.** net of fees, compared to the benchmark returns of **7.64% p.a.** and **9.18% p.a.***



*We're a diverse team united by a single purpose:  
**Improving the future prosperity of Victoria.***

## Strategic priorities

The 2020 Strategic Plan developed by VFMC outlines three focus areas:

### 1 Embedding strategic clarity

VFMC's strategic focus and mandate is confirmed as continuing to provide investment and funds management services for Victorian Public Authorities. This is reinforced by the clear statement of purpose: 'Improving the future prosperity of Victoria', and the long-term aspiration to be 'An extraordinary team delivering market leading, long-term returns'.

### 2 Building resilience in investment performance

The Strategic Plan recognises the need to build further resilience in investment performance through embedding constructive challenge into decision-making processes, amplifying the liability-informed approach with clients, further integrating the environmental, social and governance (ESG) framework, and upgrading investment risk capabilities through analytics.

### 3 Developing enabling capabilities

The Strategic Plan provides investment to deliver an uplift in capability in digital technology, data and analytics, leadership and talent bench strength. This will ensure the organisation remains relevant, contemporary and able to respond to ongoing market volatility.

## Investing responsibly

Effectively managing environmental, social and governance (ESG) risks and opportunities has long been integral to our investment processes and decision making. VFMC became a signatory to the UN-supported Principles for Responsible Investment (PRI) in 2007 and we are a member of the Investor Group on Climate Change (IGCC). Our approach is further detailed in this report and focuses on active ownership, integration, disclosure and continuous learning. Refreshing our ESG Governance Framework is a strategic initiative currently underway as part of our 2020 Strategic Plan.

## Our people

We aspire to be an extraordinary team delivering market leading, long-term returns within an environment that is inclusive, values diversity and innovative problem solving.

We strive to be a team that is known and respected as a leading asset manager, not just in Australia but beyond, with the intellectual curiosity to learn new and different ways of achieving individual and organisational goals.

Our People Strategy is a key enabler of the 2020 Strategic Plan focusing on leadership, diversity and inclusion, talent management and capability, organisational health, and performance and reward.

***Our purpose provides a focus  
for our people, their efforts and  
our priorities.***

# Report from the Chair and Chief Executive Officer

## With a contemporary and relevant strategy in place, 2018 has seen VFMC execute methodically and effectively on its 2020 Strategic Plan.

In parallel with the ongoing evolution of its strategic, investment and operational capabilities, VFMC has once again successfully navigated the complexities and uncertainties that continue to confront global economies, and delivered strong investment performance for clients that is well ahead of benchmarks.

This enduring commitment to clients and, ultimately, to improving the future prosperity of Victoria, has been underpinned by a team of innovative, dedicated and highly capable people.

### Investment and financial performance

Notwithstanding the continued uncertainty facing global investment markets, amplified by the unpredictable nature of ongoing geo-political events, investment markets remained relatively resilient. This was reflected in the strong absolute net of fee returns for the portfolio of 10.28% with a good contribution from all asset classes. Most pleasingly, on a relative basis, VFMC has delivered consistent outperformance over the short and longer term. For the 12 months to 30 June 2018, we out performed our benchmark by 0.66%. For three and five years, returns were 8.42% and 10.27%, ahead of benchmark by 0.78% and 1.09% respectively.

VFMC currently invests \$61.3 billion of funds for 30 clients across the insurance, superannuation, health, arts, education and services agencies of Victoria. During this year, we were delighted to welcome three new clients: Zoos Victoria, Shrine of Remembrance and Ballarat Cemeteries. We

look forward to them benefiting from the best ideas VFMC has to offer.

Strong investment performance and prudent cost management delivered a pre-tax surplus of \$20.5 million in 2017-2018. This outcome will enable payment of a dividend to the Victorian Government of \$7.2 million while still leaving VFMC with sufficient capacity to absorb what is likely to remain a challenging operating environment over the next few years.

### Strong strategic delivery

This year has been the first full year of implementing VFMC's 2020 Strategic Plan. The 2020 Strategic Plan has key focus areas of: 1) *embedding strategic clarity*, 2) *building resilience in investment performance*, and 3) *developing enabling capabilities*.

Supporting the *embedding of strategic clarity*, we refreshed our external communications, including updating our visual identity to be more reflective of our contemporary and innovative approach, and enhancing our client reporting.

There was significant focus on *building resilience in investment performance*, with a new ESG strategy that further integrates environmental, social and governance considerations into our investment decision-making processes. We enhanced our investment risk management capability, ensuring it keeps pace with the evolving complexities of global capital markets. A program aimed at continuously improving our investment approach commenced, ensuring that all elements of our



investment strategies are contemporary, relevant and sustainable. The formation of our Portfolio Management Group, which encompasses all of our portfolio-wide functions, will be critical to ensuring we have timely insight to support dynamic and enduring investment decisions.

Through *developing enabling capabilities*, we have shaped an IT Strategy and Roadmap that charts our uplift in digital and technology capabilities, including data and analytics. Our new leadership capability program, Propel, commenced with development experiences for leadership across all aspects of our organisation. This investment in our people capability will ensure the sustained performance of VFMC for its clients.

### Governance

We were delighted to welcome Maria Wilton to the VFMC Board. Maria has over thirty years' experience in the asset management and superannuation industries. Maria brings strong commercial and public sector experience to VFMC as well as contemporary investment management expertise and insight.

### People, capability and culture

The culture and capability of our organisation underpins the sustainable delivery of clients' objectives. This requires a culture that is innovative and inclusive, embraces constructive challenge, values diversity and fosters talent. During 2017-2018, focus was on leadership development throughout all VFMC teams, including enhancing our capability to generate new ideas and share insights, and providing stretch development opportunities for people to work across teams, and broaden their perspectives and capabilities. In parallel, we refreshed our workplace to enable contemporary digital tools and work practices to enhance our delivery to clients.

For the first time, we participated in the Victorian Government's People Matter Survey. This survey provides insight into the level of engagement and the extent to which people 'say, stay and strive' for the organisation's purpose, strategy, and priorities. Our engagement outcome of 78% was pleasing and reflects a focus on strategic alignment, client focus and valuing people.

### Future direction

Our focus into 2019 will blend the navigation of challenging investment markets and delivery of long-term outperformance with execution of key strategic plan initiatives. Our optimism about the future is anchored in our diverse, capable Board complemented by a talented and committed VFMC team. We truly thank them for their hard work, continuous challenge, and belief in our enduring purpose.



A handwritten signature in dark ink, appearing to read 'James MacKenzie'.

**James MacKenzie**  
Chair

A handwritten signature in dark ink, appearing to read 'Lisa Gray'.

**Lisa Gray**  
Chief Executive Officer

# Operational Performance



# Investment philosophy and performance

VFMC aspires to deliver market leading, long-term returns for its clients. To support this, VFMC has a clear investment philosophy and approach.

## Investment philosophy

VFMC is focused on understanding and delivering to its clients' investment objectives. Our clients are central to our philosophy.



### Whole of Portfolio Approach

Portfolios are best managed efficiently as a whole, rather than simply a sum of parts.

### Diversification

Effective diversification leads to better risk adjusted outcomes.

### Risk is Multi-Dimensional

Consideration should be given to a holistic range of risks and opportunities to help ensure long-term success.

### Long-Term Horizon

A long-term horizon provides material advantages in generating better absolute and relative investment outcomes.

### Active Management

A well-structured investment process and robust analytical systems combined with the right skills and experience can deliver above market returns.

### Team and Culture

VFMC aspires to be an extraordinary team delivering market leading, long-term returns.

## Investment objectives

When partnering with us to manage their investments, clients first set their objectives.

VFMC then works with its clients to design portfolios that have the asset mix that best meets the investment objective, risk tolerance and other relevant constraints. Each client is responsible for managing its own liabilities.

While each client is unique, portfolios are generally designed to deliver absolute returns in the order of 2–5.5% in excess of inflation (CPI) or average weekly earnings (AWE) per annum over rolling 3–10 year periods, depending on client risk profile.

VFMC aims to achieve its clients' investment objectives by outperforming the relevant market benchmark in each asset class and in aggregate. VFMC's performance against those benchmarks is measured net of fees.

Client investment outcomes therefore depend on both:

- general market movements, and
- VFMC's ability to deliver outperformance in excess of the appropriate benchmarks.

## Liability informed investing

VFMC is a liability informed investor. In constructing portfolios for our Foundation CIM clients we take into account their forecast future liabilities (insurance and pension payments) and seek to reduce the long-term cost to the State of Victoria of funding those liabilities.

Our approach balances an awareness of specific client liability obligations with a primary focus on meeting clients' long-term return objectives. This allows VFMC greater flexibility in investments compared to taking a strict liability matching approach, which would constrain it to investing only in securities designed to mimic clients' liability profiles, such as assets which increase in line with inflation.

**Internal and external funds management**

VFMC uses a mix of internal and external management across asset classes. The decision to utilise internal or external management is considered case-by-case, based on an assessment of whether there is a cost effective, competitive advantage gained from investing internally.

Internal management is undertaken for sub-portfolios within the Australian equities, international equities, fixed interest, property and cash asset classes, as well as a strategy overlay portfolio.

Each asset class is managed by a VFMC team that is responsible for undertaking detailed research and due diligence on investment opportunities.

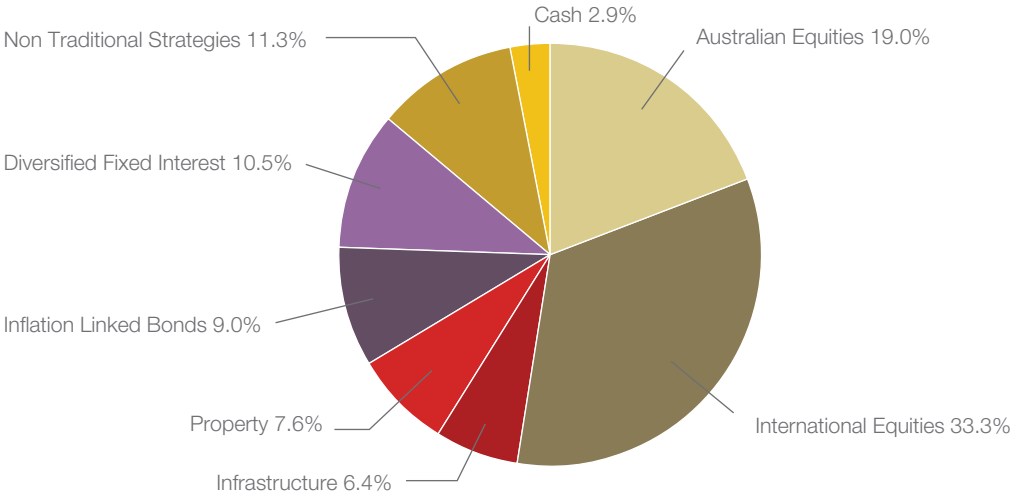
**Asset allocation**

Our clients are subject to a complex mix of requirements 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.

VFMC then sets a strategic asset allocation (SAA) designed to account for the clients' long-term investment objectives, liabilities and risk tolerances.

The chart below shows the breakdown of investments allocated to each asset class at 30 June 2018, across the four Foundation CIM clients.

**Asset allocation**



## 2017-2018 investment returns

For the 2017-2018 financial year, VFMC's Foundation CIM client portfolio returned 10.28% net of fees against a benchmark of 9.62%, an outperformance of 0.66%. Our three and five year returns are also above the benchmarks, with outperformance of 0.78% and 1.09% respectively. This illustrates how, over the longer term, VFMC has delivered returns well in excess of clients' objectives and has achieved substantial outperformance of agreed benchmarks.

The strongest contributors to outperformance last financial year were Australian equities, inflation linked bonds and infrastructure. The absolute performance of property at nearly 12% was also very strong, although slightly below benchmark.

International equities and diversified fixed interest underperformed their respective benchmarks last financial year but both asset classes have been positive contributors to outperformance over the long term.

## Asset class returns against benchmark

Below are the net of fees results by asset class alongside relevant benchmark (Bmk) returns for one, three and five year periods.

Total portfolio results achieved by VFMC are shown net of fees (and excluding franking credits for superannuation clients). The value added over five years exceeds management's target of 1% net of fees.

	1 Year			3 Years			5 Years		
	VFMC % p.a.	Bmk % p.a.	over/under	VFMC % p.a.	Bmk % p.a.	over/under	VFMC % p.a.	Bmk % p.a.	over/under
<b>Equities</b>									
Australian Equities	14.22	13.24	0.98	10.26	9.14	1.11	10.99	9.99	1.00
International Equities	13.05	13.56	(0.52)	9.21	9.75	(0.53)	13.47	13.44	0.03
<b>Inflation Linked</b>									
Infrastructure	10.90	7.29	3.61	13.76	6.78	6.98	13.44	6.97	6.46
Property	11.84	11.94	(0.10)	12.70	12.21	0.49	11.79	11.19	0.60
Inflation Linked Bonds	5.28	4.03	1.25	3.27	2.87	0.40	5.63	4.71	0.92
<b>Debt &amp; Absolute Returns</b>									
Diversified Fixed Interest	2.61	3.09	(0.47)	3.53	3.41	0.11	4.59	4.38	0.20
Non Traditional Strategies	7.14	4.84	2.30	6.70	4.98	1.72	8.11	5.05	3.07
Cash	1.97	1.78	0.19	2.21	1.95	0.27	2.46	2.22	0.23
<b>Total Fund (Gross)</b>	<b>11.16</b>	<b>9.67</b>	<b>1.49</b>	<b>9.17</b>	<b>7.69</b>	<b>1.48</b>	<b>10.97</b>	<b>9.22</b>	<b>1.75</b>
<b>Total Fund (Net)</b>	<b>10.28</b>	<b>9.62</b>	<b>0.66</b>	<b>8.42</b>	<b>7.64</b>	<b>0.78</b>	<b>10.27</b>	<b>9.18</b>	<b>1.09</b>

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% p.a.
Infrastructure	CPI + 5% p.a.
Property	Mercer / IPD Australia Core Wholesale PFI Net
Inflation Linked Bonds	Bloomberg AusBond Government Inflation Linked 0+ Yr Index
Diversified Fixed Interest	Bloomberg AusBond Composite Bond 0+ Yr Index
Non Traditional Strategies	Bloomberg AusBond Bank Bill Index + 3% p.a.
Cash	Bloomberg AusBond Bank Bill Index

The benchmarks chosen for each asset class reflect industry standards and were most recently assessed as part of the 2016 review of assets and liabilities for Foundation CIM clients. The total portfolio benchmark comprises a capital-weighted blend of the asset class benchmarks. Benchmarks for each asset class are listed in the table above.

## Year in review

### Australian Equities

It was a strong year for the Australian equity market and the VFMC portfolio significantly outperformed the S&P/ASX 300 Accumulation Index. Value was added in most sectors, with stock selection in Consumer Staples, Health Care and Telecommunications being the primary driver. Being underweight to Banks also contributed positively but was offset by performance in other financials.

### International Equities

Global equity markets delivered strong returns for the financial year. Global small caps significantly outperformed developed markets and emerging markets. The VFMC International Equity portfolio outperformed in developed markets. This was largely driven by the allocation to, and selection within, Financials and Consumer Staples. This

was offset by underperformance in emerging markets and small caps where the value style remained out of favour and stock selection detracted for specific managers.

### Infrastructure

The VFMC Infrastructure portfolio delivered strong absolute and relative performance. GDP exposed infrastructure assets, including airports and ports, benefited from global economic growth. Commodity prices supported energy exposed asset valuations, particularly US energy transport assets such as gas pipelines. Investor appetite for the asset class remained strong while interest rates increased in some jurisdictions. However, valuers' concerns around increased regulatory and political uncertainty weighed on certain regulatory exposed asset returns.

### Property

The Property portfolio performed in line with its benchmark and continued a post-GFC trend of delivering double digit total returns. Domestic property markets exhibited strength via strong demand from local and global investors, together with a further tightening of capitalisation rates. Market outperformance was most evident in the office sector and, more specifically, Sydney



***We aspire to deliver market leading long-term returns, drawing on our unique investment approach, tailored portfolios, asset mix and sustainable outlook.***

and Melbourne. VFMC clients have benefited from continued exposure to a number of well performing partnerships in the office, retail and industrial sectors.

### **Global Bond markets**

The Diversified Fixed Interest and Inflation Linked Bond portfolios delivered returns of 2.6% and 5.3% respectively. This was notwithstanding the low interest rate environment that persists and a backdrop of rising US cash and fixed interest rates. The Diversified Fixed Interest portfolio lagged the benchmark return due to underperformance in several of the externally managed allocations. The Inflation Linked Bond portfolio outperformed significantly. This was driven by a range of active strategies, particularly those relating to interest rate management.

### **Non Traditional Strategies**

The Non Traditional Strategies portfolio comprises three sub-strategies: Hedge Funds, Insurance Linked and Opportunistic. The portfolio outperformed its benchmark overall, with all three sub-strategies contributing to a positive result. The best performing of these was Opportunistic, where private debt continued to deliver positive returns.

The performance of Hedge Funds was mixed at manager level but in aggregate positive. Macro and quantitative hedge funds lagged those with a focus on security-specific trades. Within Insurance Linked, the Life Settlements portfolio delivered strong returns while catastrophe risk investments were slightly negative due to losses caused by US hurricanes and wild fires in late 2017.

### **Cash**

Cash exposures are actively managed for performance and to provide liquidity as required. Historically low cash rates continued to affect absolute returns from this part of the portfolio but returns relative to the benchmark remain strong.

### **Multi Strategy Funds**

VFMC manages three multi strategy funds for a majority of clients who are not Foundation CIM clients across capital stable, balanced and growth asset mixes. Client investments in these funds totalled over \$1.5 billion at 30 June 2018, with most in VFMC's Capital Stable Fund. The multi strategy funds invest in Australian equities, international equities, global bonds and cash.

# Investing responsibly

## Effectively managing environmental, social and governance (ESG) issues has long been integral to our investment processes.

Our approach to ESG is governed by our ESG Investment Policy. VFMC became a signatory to the UN-supported Principles for Responsible Investment (PRI) in 2007 and we are a member of the Investor Group on Climate Change (IGCC).

### Our approach to ESG integration

We integrate ESG into our investment process through active ownership, integration, disclosure and continuous learning.

**Active ownership** – we exercise voting rights at company meetings and engage with investee companies, fund managers and policy makers on material ESG issues, including climate change.

### Exclusions

VFMC prefers to engage with companies to address material ESG risks and opportunities and generally avoids investment exclusions. In certain circumstances, after comprehensive assessment of the economic, reputation, legal and fiduciary requirements, client concerns, materiality and risk and return issues associated with the investment, VFMC may decide to apply an exclusion.

VFMC has exclusions in place for tobacco manufacturers and cluster munitions. We view these investments as incompatible with our purpose of improving the future prosperity of Victoria.

**Integration** – we consider material ESG issues in the selection, management and monitoring of investments.

**Disclosure** – we encourage the development of ESG-related standards for use by investee companies and other assets, and disclose VFMC's ESG activities to clients and other stakeholders.

**Continuous learning** – we actively seek to expand our understanding of material ESG issues affecting the portfolio and stay informed on emerging trends.

### How we integrate ESG into our investment decision-making

ESG integration aims to improve risk adjusted returns by managing ESG alongside other investment factors. At VFMC we look for both ESG risks and ESG opportunities across all asset classes. Examples of ESG risks may include:

- **Environmental:** stranded assets in a carbon-constrained policy landscape and poor management of potential environmental risks.
- **Social:** human rights, community relations, social licence, and workplace health and safety.
- **Governance:** board composition, executive remuneration and appropriate enterprise risk management.

ESG opportunities can include targeted investment in new products and services that are attractive on investment grounds and can also be designed to reduce ESG risk.



## Participation in the ESG investment community

VFMC is a signatory to the Principles of Responsible Investing and an active participant of the following PRI Advisory Committees:

- Fixed Income
- Infrastructure
- Macroeconomic Risks.

VFMC is a member of the Investor Group on Climate Change which aims to encourage government policies and investment practices that address the risks and opportunities of climate change.

## Refreshing our ESG Governance Framework

As part of the 2020 Strategic Plan, VFMC undertook a refresh of the ESG Governance Framework in 2017. The refresh identified several areas of focus, including:

- Building ESG and climate change into our investment philosophy.
- Building an ESG Governance Framework for more effectively identifying and addressing ESG risks and opportunities.

- Committing to an approach that more consistently and transparently assesses and progresses ESG integration in the portfolio.

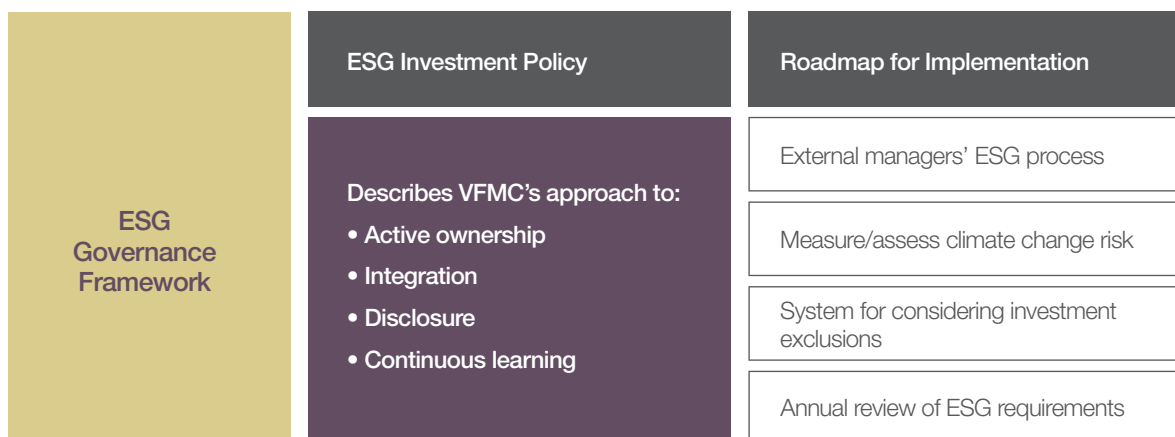
## Climate Change

### Making our portfolio more resilient to the risks of climate change

VFMC is undertaking a portfolio-wide assessment of climate change risks against different climate change scenarios. The assessment will examine the return expectations of each asset class under each scenario over 10 and 20 years.

The next step of our integration framework is to incorporate the climate change scenario return outcomes into our strategic asset allocation process. By doing so we hope to make the investment portfolio more resilient to the risks of climate change and thereby improve the long-term return profile for our clients.

### VFMC's refreshed ESG Governance Framework



# Our clients

VFMC works closely with clients to build, manage and monitor their investment portfolios.

Our clients are the State of Victoria, and Victorian public sector and related organisations established under state legislation.

## Investing for the benefit of Victoria

We manage funds for 30 Victorian public authorities and related organisations. This year we welcomed Zoos Victoria, Shrine of Remembrance and Ballarat Cemeteries into the investment portfolio. For a complete list of our clients see page 60.

The chart below shows the breakdown of funds invested by client type as at 30 June 2018.

The returns we generate from clients' investment portfolios contribute to the public authorities and related organisations that support the health and wellbeing, insurance needs, retirement outcomes and cultural life of Victorians.

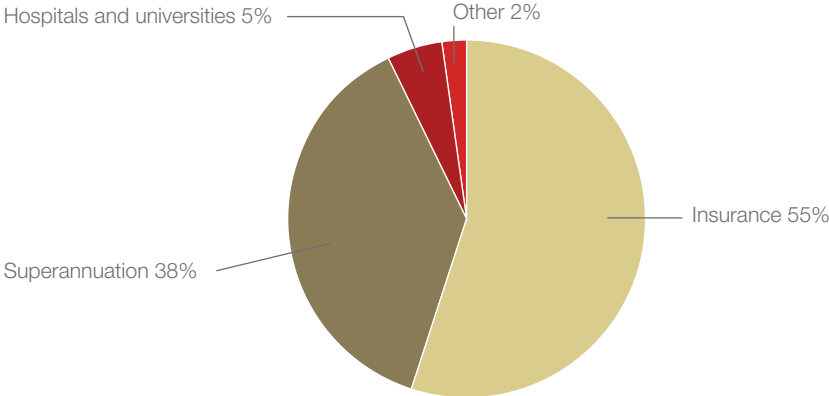
## Refreshing VFMC's strategic communications

VFMC's 2020 Strategic Plan identified the need for an external communication strategy to:

- Better articulate and support VFMC's desired reputation and brand position.
- Support VFMC in delivering an exceptional client experience and attracting top global talent.

Our process for developing the communications strategy included testing our thinking about VFMC's communications and visual identity with clients, key stakeholders and our people. The review identified improvements to our visual identity to ensure it reflected the value and benefits provided to clients and stakeholders, as well as supporting the community positions of our clients. Our updated external communications strategy includes a clear reputational market positioning, a refreshed visual identity and a targeted stakeholder communications plan.

### FUM allocation by client type



## What our clients say

When refreshing our brand we asked clients what they most value from VFMC. Here's what we heard:

“ Returns at or better than elsewhere.

They understand the risk, the State's perspective.

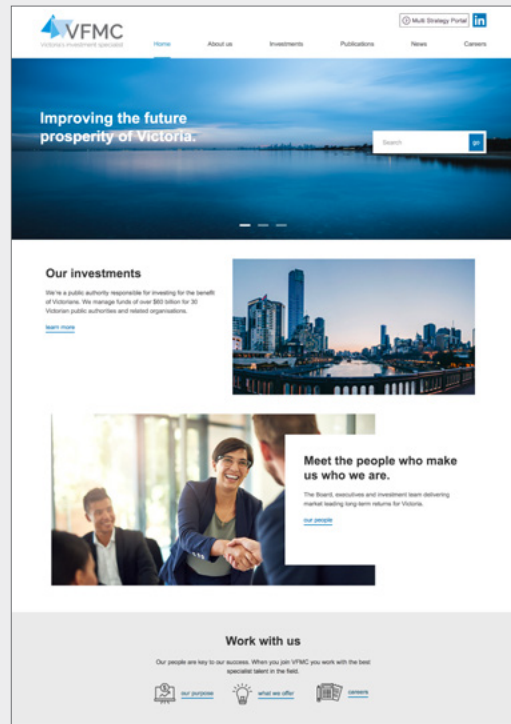
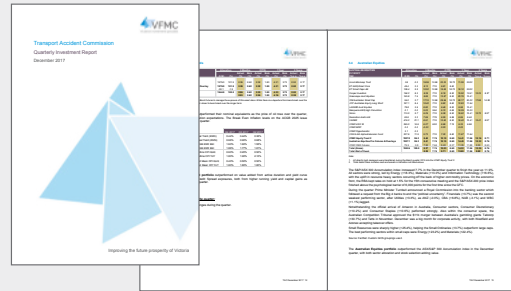
Prudence. High quality governance framework. Help with stakeholder management.

Sense of partnership. Stake in each other's success. Professional.

Service. Flexibility. Able to speak to someone. Good reporting.”

At VFMC we're always listening to our clients. This helps us better deliver on our underlying purpose of improving the future prosperity of Victoria.

## New look for VFMC



Launched January 2018

# Our people

We foster an environment that is inclusive and values diversity and innovative problem solving.

## Our team at 30 June 2018

Employment Status	Female	Male	TOTAL
Permanent: Full-Time	29	55	84
Permanent: Part-Time	4	–	4
Fixed Term: Full-Time	1	1	2
Fixed Term: Part-Time	1	–	1
<b>TOTAL</b>	<b>35</b>	<b>56</b>	<b>91</b>

### Building strategic capability

The last twelve months have seen VFMC commit to:

1. Enhancing our systems and processes with the implementation of an integrated people and finance system.
2. Developing technical breadth across the organisation.
3. Building momentum in our individual and collective leadership capability.

### Creation of our new Portfolio Management Group

The creation of our new Portfolio Management Group (PMG) illustrates how we are aligning our structure and capability with our aspiration to deliver market leading, long-term returns.

We created the PMG in August 2017 to enhance our whole of portfolio capabilities, focus on our overall asset mix and create deeper understanding of associated investment risks.

The new PMG model connects our six core investment capabilities of strategic asset allocation, strategy, investment risk, implementation, dealing and ESG, and integrates these with our asset class focus.

Bringing together these functions provides greater focus on the single biggest determinant of total portfolio performance – the overall asset mix. It also creates a forum to discuss investments that sit across different asset class boundaries, provides full integration of risk assessment in determining asset class positions and incorporates other whole of portfolio functions, such as ESG.

The PMG model supports a regular review of asset classes, improved portfolio/risk analytics and an uplift in ESG integration, offering clients a more holistic portfolio experience with improved integration and efficiencies in how the portfolio is built.

The new operating model enables collective thinking across all our investment teams and facilitates new ways of working and connecting. It supports an engaged, high performing team that:

- Drives innovation and solutions to deliver better outcomes for clients.
- Brings team skills and resources together to leverage capabilities.
- Encourages learning and growth.

### Building breadth of capability

Historically, the funds management industry has valued technical skills and specialisation, often leading people to narrow career paths within one asset class or sub-group within an asset class.

At VFMC we know that people need a broad range of experiences and challenges to develop them to optimise their potential contribution and career choices. That is why our development opportunities include job rotation, secondment and lateral moves.

#### Michael

Portfolio Manager

In 2017 Michael was seconded from the external manager sub-group to lead the restructuring of our internal management sub-group. Here is what he says about that experience:

“ Twenty years’ experience in managing external fund managers – ten of them with VFMC – have exposed me to a number of different ways of investing. Bringing that experience into the restructure of our internal funds management allowed me to select

the best ideas I’ve seen externally and customise them to how VFMC operates to really leverage our key competitive advantage which is our long-term investment horizon.

This was a great opportunity to lead and build a team, to integrate the internal management team into the overall investment strategy of VFMC and to broaden my own skillset. It created new challenging roles in internal funds management as well as opportunities for others to step up.

VFMC trusted me and supported me to get on and deliver, which is a great thing.





***Our focus for the year ahead will be to continue to develop our talent, and build our leadership capabilities.***

## Remuneration arrangements

VFMC's Single Incentive (SI) remuneration framework offers performance-based rewards at an organisational, functional and individual level.

Each year the VFMC Board sets the maximum SI pool and SI deferral threshold. SI amounts payable above the threshold consist of an immediate payment and a deferred component paid out over the following two-year period.

To be eligible for the payment of deferred amounts individuals must be employed with VFMC when the payment is made. Deferred amounts under the SI are subject to clawback (if appropriate and at Board discretion).

Investment outperformance over one and three years is used to determine the pool of incentives.

## Workplace health and safety

As a responsible employer and a member of the Victorian Public Sector, VFMC is committed to the health and safety of all VFMC employees. VFMC embraces a proactive approach to identifying and managing its workplace health and safety (WHS) responsibilities by delivering initiatives and programs including:

- A workplace fit out, including ergonomic sit to stand workstations, designed to create an environment that fosters collaboration and enhances employee wellbeing.
- An annual WHS audit conducted by an independent assessor. Results are presented to VFMC's Operational Risk Management Committee, as well as to the Board's People Committee.
- A WHS induction program for all new employees.
- External training and accreditation for first aid officers.
- External training for fire wardens.
- Access to an Employee Assistance Program.
- Access to Family Violence Leave for employees.

During the reporting year, no compensation claims were made and there were no work related medical incidents causing injury.

## Meet our Executive Leadership Team

The CEO is supported by the Executive Leadership Team (ELT) which meets regularly to drive the operation of the business.

### Lisa Gray

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Chief Executive Officer (CEO)

Joined February 2016

Lisa's career spans over 30 years predominantly in financial services having held various executive roles at NAB, MLC and AXA. She is an exceptional 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 driven insights and strategic intuition to make courageous, transformational decisions that deliver strong commercial results.

Lisa is a winner of the Telstra Business Women's Award for medium-sized enterprises and the prestigious Rupert Murdoch Fellowship for Leadership and Management.

Lisa holds a Bachelor of Town & Regional Planning (Hons) (University of Melbourne), Graduate Diploma in Management (RMIT), MBA (University of Melbourne/Columbia University) and AMP (INSEAD). She is a graduate of the Australian Institute of Company Directors.

### Russell Clarke

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Chief Investment Officer

Joined May 2017

Russell is responsible for overseeing the investment management of more than \$60 billion FUM.

Russell joined VFMC from Mercer where he was the Global CIO (Mainstream Assets) since 2011 and CIO (Pacific) since 2003. This saw him overseeing all discretionary equity, listed property, fixed income and multi-asset portfolios worldwide. He was specifically responsible on a day-to-day basis for all portfolios based in the Pacific region. Russell also chaired the Mainstream Assets Global Investment Committee and Global Strategic Research Committees. Prior to this, he spent six years at Mercer Australia as an investment consultant and head of Investment Research.

Russell also gained many years of investment and financial services experience working as manager of the investment research function for one of Australia's largest superannuation funds, UniSuper, and as head of Investment Performance Analytics for a major fund manager.

Russell holds a Bachelor of Economics from Macquarie University. He is a fellow of the Institute of Actuaries of Australia and a Senior Associate of the Financial Services Institute of Australasia. Russell has lectured and tutored in investment subjects for both organisations.

## **Sally Collins**

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**Chief Operating Officer**

**Joined May 2017**

Sally joined VFMC with more than 20 years' experience in financial services with NAB, CBA and AXA.

Her more recent roles have been as General Manager Business Management/COO for both MLC's Wealth business and NAB's Business Bank.

Sally brings to VFMC deep operations and services experience across investment operations, business performance, risk management and transformation. Her recent focus has been leading multiple functions to deliver improvements across customer experience, investment processes, first line risk management, data and analytics, and technology enabled transformation.

Sally holds a Bachelor's degree and Graduate Diploma in Psychology and a Diploma in Financial Planning. She is a member of the Australian Institute of Company Directors and a non-executive director of Autism Awareness Australia.

## **Geoff Diamond**

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**Head of Client Services**

**Joined September 2013**

Geoff has over 20 years' experience in asset management sales and client relationship management.

Prior to joining VFMC Geoff was 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.

Prior to joining Vanguard in 1997, he held senior FX trading roles for several major banks and gained experience in both local and offshore markets.

Geoff holds a Senior Associate (SA Fin), FINSIA.

## **Bryony Hayes**

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**Chief Risk Officer**

**Joined October 2013**

Prior to joining VFMC, Bryony spent five years at Hastings Funds Management as Head of Risk and Compliance, covering both listed and unlisted infrastructure funds.

Bryony also spent six years at Capital Group in London in various compliance and operational roles. Prior to this, she had legal roles in several law firms and at the Victorian Court of Appeal and Supreme Court of Victoria.

Bryony holds a Bachelor of Arts and a Bachelor of Law (Hons).



## **Helen Newall**

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HR Director

Joined December 2012

Prior to Helen's appointment she held several senior human resource roles in a number of enterprises, including AMP Limited, AXA Asia Pacific Holdings, Cap Gemini, Ernst & Young and Corrs Chambers Westgarth.

Helen's career has been shaped by delivering exceptional business results through the creation of value, capability building, mentoring and coaching of senior executives.

Helen holds a Masters of Strategic Human Resource Management from Deakin University.

## **ELT rotating member**

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Every six months, we rotate a senior member of the investment team on to the ELT. For the 2017-2018 financial year Andrew Elliott was the senior representative.

## **Andrew Elliott**

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Deputy Chief Investment Officer

Joined April 2007

Andrew 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 prior to becoming Deputy CIO in 2008 where he continues to oversee unlisted investments. He has extensive experience in unlisted investments including deal origination, review, execution and ongoing portfolio management.

Prior to joining VFMC, Andrew was with Deutsche Asset Management (Australia) Limited (RREEF Infrastructure), where he was a director in infrastructure funds management. He formerly sat on the boards of Epic Energy, Yallourn Energy, Australia Pacific Airports Corporation and Port of Geelong. Andrew holds a Bachelor of Laws (Hons) and a Bachelor of Commerce from the University of Melbourne.

## Meet our Board

We have a Board of Directors appointed by the Governor in Council, with the Chair and Deputy Chair appointed by the Treasurer.

### James MacKenzie

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Chair

Appointed June 2015

James MacKenzie is an experienced Australian company director. He currently serves as President of the Victorian Arts Centre Trust and Chairman of Development Victoria and Slater and Gordon 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

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Deputy Chair

Appointed August 2009

Acting Board Chair January – June 2015

Chair of Audit, Risk and Compliance Committee until 8 May 2018

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 and Australian Foundation Investment Company. Catherine 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

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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.

Paula has held senior roles in business and the media including: Executive General Manager Corporate Affairs at National Australia Bank (NAB); General Manager, Corporate Responsibility, NAB; 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 Trustee of the Melbourne Convention and Exhibition Trust. She is 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.

### **John Fitzgerald**

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**Director**

**Appointed January 2013**

John Fitzgerald is a Non-Executive Chairman of Evolution Rail Pty Ltd, Suburban Land Agency (ACT), InfraNexus Management Pty Ltd and Canberra Transport Light Rail and a director on Barangaroo Delivery Authority. Previously he was a specialist advisor to KPMG on the infrastructure and government sectors and interim CEO at Infrastructure Australia.

His previous board positions include the Port of Melbourne Corporation, Infrastructure Partnerships Australia and the Sydney Convention Exhibition and Entertainment Centre Project. 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**

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**Director**

**Appointed May 2016**

**Chair of Audit, Risk and Compliance Committee from 8 May 2018**

Lisa Gay is a highly regarded legal and compliance professional with financial services experience in funds management, investment banking and stockbroking. She is a non-executive director of Computershare Limited and Koda Capital, and a member of the Council of Trustees of the National Gallery of Victoria.

Lisa was formerly Deputy Chair of the Indigenous Land Corporation, Chair of Voyages Indigenous Tourism Australia and Chair of the Australian Securities and Investment Commission's Markets Disciplinary Panel. From 1990-2010, Lisa was General Counsel and Managing Director of the Goldman Sachs Group Australia and its predecessor JBWere & Son.

### **David Martine**

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**Director**

**Appointed September 2014**

David Martine is Secretary of the Victorian Department of Treasury and 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.

## **Elana Rubin**

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**Director**

**Appointed August 2015**

**Chair of People Committee**

Elana Rubin has extensive experience in funds management, property, infrastructure and insurance. She is currently the Chair of Victorian Managed Insurance Authority (VMIA) and is a director of Mirvac, AfterPay Touch Group and Slater and Gordon Lawyers, and several unlisted organisations in the infrastructure, finance and insurance sectors.

Previous directorships include Chair of AustralianSuper, director of LaunchVic, MLC (Life and Administration and Asset Management), Infrastructure Australia, PPB Advisory, TAL Insurance, Climate Change Authority, Transport Accident Commission, ISPT, Chair of Victorian Rail Track Corporation and Chair of Worksafe (Vic). She recently retired from the AICD Victorian Council and the Committee for Melbourne.

Elana is a Fellow of the Australian Institute of Company Directors, Finsia and IML, and is a member of Chief Executive Women.

## **Alice Williams**

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**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, Djerriwarrh Investments, Equity Trustees and Defence Health. 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, Guild Group, Port of Melbourne Corporation, 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.

### **Maria Wilton**

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**Director**

**Appointed December 2017**

Maria Wilton has a thirty year history in the investment industry with leadership experience in asset management and superannuation.

Maria is a Member of the Board of Governors of the CFA Institute and Deputy Chair of Infrastructure Victoria. She is Chair of the Industry Advisory Board of the Australian Centre for Financial Studies, Chair of the National Diversity Committee and a Member of the Advocacy Council of the CFA Societies Australia.

Maria is a Fellow of the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

Maria is the former Managing Director and Chair of Franklin Templeton Investments Australia and Senior Director of International Advisory Services, a role she held for 12 years. She was also previously a board member of the Financial Services Council and a Trustee director of AGEST and Emergency Services and State Super. She has also been a director of Melbourne Water, the Transport Accident Commission, the National Breast Cancer Foundation and Victoria Legal Aid (VLA).

Maria holds a Bachelor of Economics from the University of Tasmania and is a Chartered Financial Analyst (CFA) Charterholder.

# Governance

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

The VFMC Board Charter and Instrument of Delegation specify responsibilities and accountabilities, from governance to investment management. The governance framework is monitored by the Board and executed by management committees, and the risk management and control framework.

The *Victorian Funds Management Corporation Act 1994* (the Act) specifies that VFMC is subject to the general direction and control of the Treasurer and that any direction given 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 and the State 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 that 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. Each Director is appointed for a

term not exceeding three years and is eligible to be reappointed.

The VFMC Board members have broad experience in asset management, the public sector and business.

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 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 annually and monitoring financial results on an ongoing basis.
- Approving all certifications provided to the Department of Treasury and Finance and to VFMC's clients.

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

The Board is regularly evaluated by an independent third party. This review focuses on its effectiveness and performance.

**VFMC’s structure**

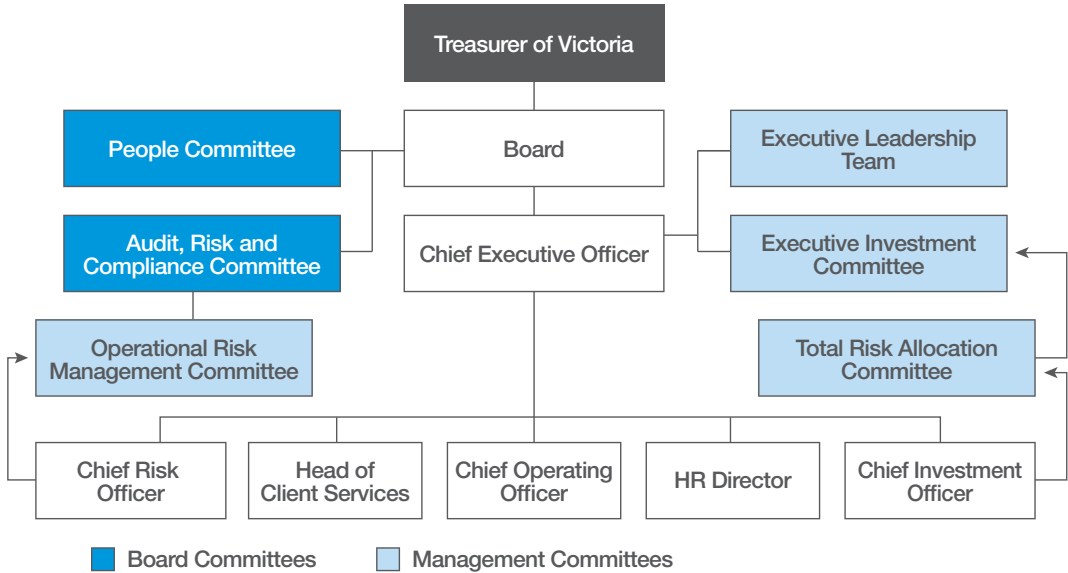
The diagram below shows VFMC’s structure and the relationship between the Treasurer, Mr Tim Pallas MP, the VFMC Board, and the CEO and VFMC Executive Leadership Team.

**Audit, Risk and Compliance Committee**

The Audit, Risk and Compliance Committee comprises six directors and until 8 May 2018 was chaired by Catherine Walter and thereafter by Lisa Gay. Meetings are held at least four 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.

**Organisational structure**



## People Committee

The People Committee comprises four directors and is chaired by Elana Rubin. The Committee meets at least twice a year or more often as required.

Its primary role is to help the Board address succession planning, remuneration, capabilities, organisational culture and diversity. The performance of the CEO is also evaluated by this Committee.

## Directors' and Committee meetings

The number of meetings held during 2017-2018 and those attended by each Director are set out at right.

Director	Board of Directors Meetings		
	No. Held	No. Eligible	No. Attended
James MacKenzie	7	7	7
Catherine Walter	7	7	7
Paula Benson	7	7	7
John Fitzgerald	7	7	7
Lisa Gay	7	7	7
David Martine	7	7	5
Elana Rubin	7	7	7
Alice Williams	7	7	7
Maria Wilton	7	3	3

Director	Audit, Risk and Compliance Committee Meetings		
	No. Held	No. Eligible	No. Attended
James MacKenzie	6	6	6
Catherine Walter	6	6	6
John Fitzgerald	6	6	6
Lisa Gay	6	6	6
Alice Williams	6	6	6
Maria Wilton	6	1	0

Director	People Committee Meetings		
	No. Held	No. Eligible	No. Attended
James MacKenzie	7	7	7
Paula Benson	7	7	7
David Martine	7	7	7
Elana Rubin	7	7	7



## 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 55 and 56 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.

## Key performance indicators

During the 2017-2018 financial year, VFMC applied the following key performance indicators as agreed with the Department of Treasury and Finance to assess performance.

### Client portfolio versus benchmark

VFMC manages the majority of the State's assets available to it under the terms of the VFMC Act. At 30 June 2018, VFMC had 30 individual clients with FUM of \$61.3 billion.

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 three to ten 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.

With financial markets having recovered from the global financial crisis, for the first time since, all four clients have now exceeded their individual respective cumulative annualised long-term investment objectives.

### Individual Client Performance versus stated objective for periods ending 30 June 2018

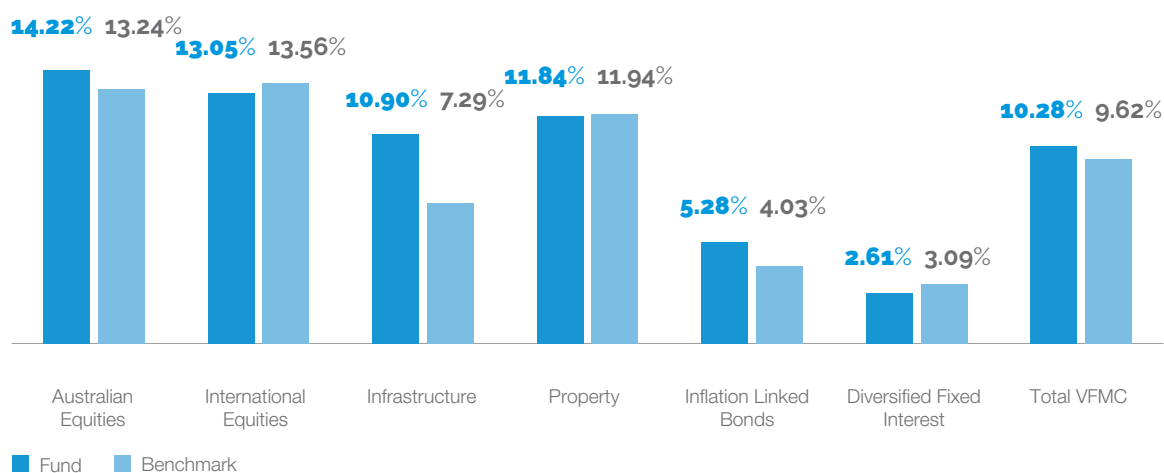
Client	Objective Horizon (years)	Performance Net of Fees % p.a.	Target Return per Objective % p.a.	Investment Objective	Probability of minimum objective being achieved
VWA	5	10.11	6.44	AWE +4% p.a. over rolling five year periods	60%
TAC	10	7.87	7.23	CPI (Melb) +5% p.a. over rolling ten year periods	60%
VMIA	10	7.45	7.00	AWE +3.5% p.a. over rolling ten year periods	50%
ESSSuper SSF	10	7.64	7.62	CPI (Aust) +5.5% p.a. over rolling ten year periods	65%
ESSSuper DB	7	10.08	6.87	CPI (Aust) +5% p.a. over rolling seven year periods	65%

## Whole of State performance versus benchmark

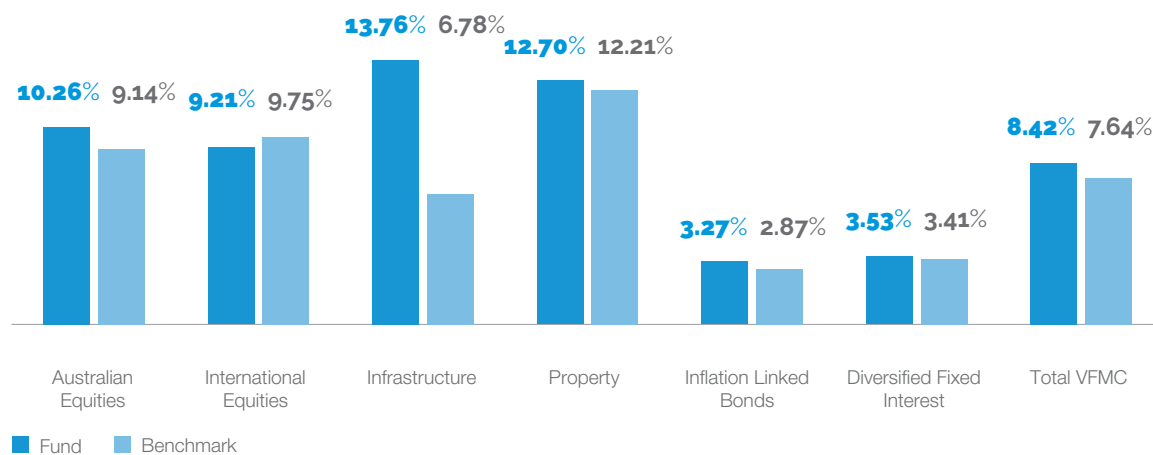
The following charts show major asset class returns against the relevant benchmarks over one, three and five years ended 30 June 2018.

For all three periods, VFMC's investment performance has outperformed the relevant benchmarks.

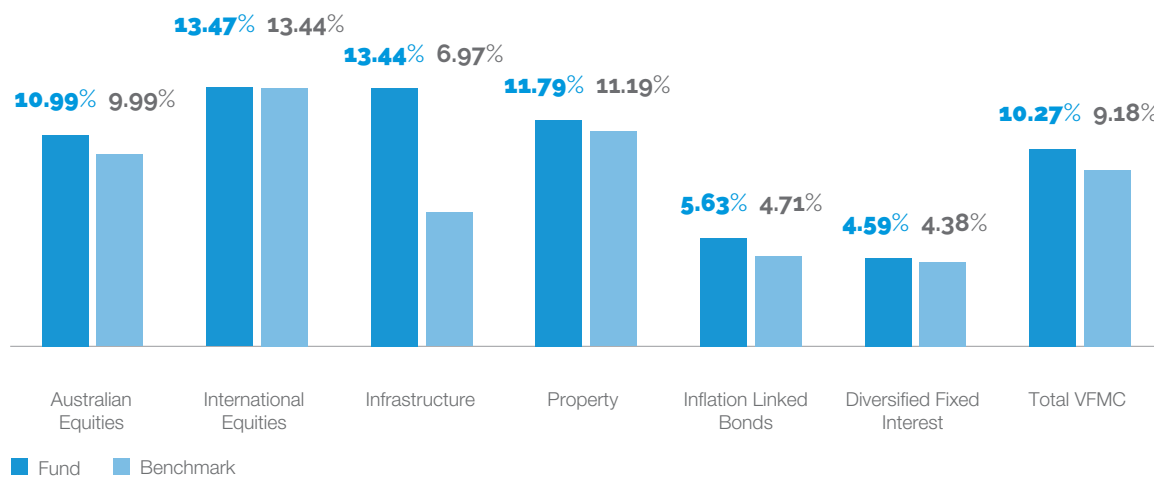
### 1 year % p.a.



### 3 year % p.a.



5 year % p.a.



### Client and stakeholder satisfaction

VFMC actively seeks and responds to feedback it receives from clients and the Department of Treasury and Finance.

In the second half of 2017, we conducted a Client Satisfaction Survey in which we asked client boards and management to identify our strengths 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 the aggregate ‘relative effectiveness’ score dropped from 8.34 to 7.93.

This reflects a marginally lower relative effectiveness rating in some topics excluding investment returns, risk and costs compared to the previous year. These ratings show where our

clients have increased their expectations and provide valuable guidance for VFMC on where to best invest time and effort with the aim of lifting client satisfaction.

### Employee engagement

2018 is the first year VFMC participated in the People Matter Survey sponsored by the Victorian Public Sector Commission. The results from the survey were pleasing, with a 78% engagement score. Areas where VFMC was well ahead of benchmarks include Learning and Development, Diversity and Inclusion, Change Management and Wellbeing.

Participating in the survey provided VFMC with additional insights that will help us better understand and measure current levels of engagement by:

- providing us with the ability to compare ourselves with the broader public sector, and
- assisting us in identifying key areas of focus in line with our organisational purpose.

## Efficiency

VFMC aims to provide services to clients at a cost which is 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. We conduct benchmarking every three years and our next review is due in 2018-2019.

## 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 Government and maintain capital reserves to meet possible operational needs.

VFMC's return on capital was above the target for the year to 30 June 2018. Refer to page 38 for financial performance details.

## 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 2018 there were no significant breaches.

## Subsequent events

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

## Financial performance

### Operating surplus

VFMC returned a pre-tax surplus of \$20.5 million in 2017-2018. This result was consistent with FUM growth to \$61.3 billion and effective cost management practices.

### Return on capital

VFMC's return on capital was 34% and the capital position increased from \$34.0 million in 2016-2017 to \$41.9 million as at 30 June 2018.

An anticipated dividend payment to the State of Victoria of \$7.2 million would reduce net assets at 30 June 2018 to \$34.7 million. This amount will be confirmed in the 2018-2019 year.

For further information refer to our financial statements on pages 40 to 63.

### Expenditure on consultancies and major contracts

In 2017-2018 VFMC continued to invest in the business by commencing the execution of the 2020 Strategic Plan. Six consultancies, where total fees were in excess of \$10,000, were used to support the delivery of projects, with annual expenditure of \$1,134,000. This compares to an expenditure in 2016-2017 of \$1,807,000. In addition, one consultancy was engaged where total fees payable were less than \$10,000.

For details of individual consultancies, visit [vfmc.vic.gov.au](http://vfmc.vic.gov.au).

VFMC's information and communication technology expenditure of \$7,247,000 included \$6,648,000 for business as usual (BAU) expenses and \$599,000 for non-BAU expenditure. In comparison the 2016-2017 figures were \$4,890,000 for information and communication technology expenditure, \$4,807,000 for BAU expenses and \$83,000 for non BAU expenses. The increased expenditure in 2017-2018 was in line with the execution of the strategic plan.

### Key financials

	2017-2018 \$ million	2016-2017 \$ million	2015-2016 \$ million
Pre-tax surplus	20.5	18.7	10.6
Net assets	41.9	34.0	24.7
Client rebate	–	–	–
Dividend paid	6.5	3.7	1.7

# Annual Financial Report

for the year ended  
30 June 2018



## Comprehensive operating statement for the financial year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Income from transactions</b>			
Management fees		179,393	173,267
Performance fees		9,978	12,599
Other income		617	416
<b>Total income from transactions</b>		<b>189,988</b>	<b>186,282</b>
<b>Expenses from transactions</b>			
Portfolio management and custodian expenses	4	119,204	118,715
Employee benefit expenses	4	28,723	29,829
Depreciation and amortisation expenses	4	801	913
Other expenses	4	20,720	18,175
<b>Total expenses from transactions</b>		<b>169,448</b>	<b>167,632</b>
<b>Net surplus from transactions</b>		<b>20,540</b>	<b>18,650</b>
<b>Other economic flows included in net surplus</b>			
Net gain / (loss) arising from revaluation of long service leave		28	40
<b>Net surplus from operations before tax</b>		<b>20,568</b>	<b>18,690</b>
Income tax expense	5	6,180	5,624
<b>Net surplus after tax</b>		<b>14,388</b>	<b>13,066</b>
<b>Comprehensive result</b>		<b>14,388</b>	<b>13,066</b>

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



## Balance sheet

as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Financial assets</b>			
Cash and cash equivalents	14(a)	36,658	26,713
Trade and other debtors	6	65,139	63,788
Prepayments and other assets		356	2,285
Deferred tax assets	5	6,649	5,317
<b>Total financial assets</b>		<b>108,802</b>	<b>98,103</b>
<b>Non-financial assets</b>			
Property, plant and equipment	7(a)	485	255
Leasehold Improvements – work in progress	7(b)	1,805	–
Intangible assets		189	787
<b>Total Non-financial assets</b>		<b>2,479</b>	<b>1,042</b>
<b>Total assets</b>		<b>111,281</b>	<b>99,145</b>
<b>Liabilities</b>			
Trade and other payables	8	47,293	46,522
Provisions	9	18,999	15,237
Income tax payable		2,281	2,769
Deferred tax liabilities	5	820	584
<b>Total liabilities</b>		<b>69,393</b>	<b>65,112</b>
<b>Net assets</b>		<b>41,888</b>	<b>34,033</b>
<b>Equity</b>			
Contributed equity		5,000	5,000
Accumulated surplus		36,888	29,033
<b>Net worth</b>		<b>41,888</b>	<b>34,033</b>

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 2018

	\$'000	\$'000	\$'000
	Contributed Equity	Accumulated Surplus	Total
<b>1 July 2016</b>	5,000	19,680	24,680
Net surplus after tax	–	13,066	13,066
Dividends paid	–	(3,713)	(3,713)
<b>30 June 2017</b>	<b>5,000</b>	<b>29,033</b>	<b>34,033</b>
	Contributed Equity	Accumulated Surplus	Total
<b>1 July 2016</b>	5,000	29,033	34,033
Net surplus after tax	–	14,388	14,388
Dividends paid	–	(6,533)	(6,533)
<b>30 June 2018</b>	<b>5,000</b>	<b>36,888</b>	<b>41,888</b>

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 2018

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from trade debtors, fees and other debtors		189,949	202,289
Payments to creditors and employees		(155,921)	(180,229)
GST paid		(8,166)	(9,050)
Income tax refunded / (paid)		(7,764)	1,465
Interest received		547	326
Other income		70	91
Net cash flows from operating activities	14(b)	18,715	14,892
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(433)	(76)
Payments for intangibles		–	(306)
Payments for leasehold improvements		(1,804)	–
Net cash flows used in investing activities		(2,237)	(382)
<b>Cash flows from financing activities</b>			
Dividends paid	17	(6,533)	(3,713)
Net cash flows used in financing activities		(6,533)	(3,713)
<b>Net increase in cash and cash equivalents</b>		9,945	10,797
Cash and cash equivalents at the beginning of the financial period		26,713	15,916
<b>Cash and cash equivalents at end of financial year</b>	<b>14(a)</b>	<b>36,658</b>	<b>26,713</b>

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

# Notes to the financial statements

## 1. General information

The financial report of Victorian Funds Management Corporation (VFMC) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 16 August 2018. The Board has the power to amend and reissue the financial statements.

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.

## 2. Application of new and revised accounting standards

### (a) New and revised accounting standards effective for the current year

In the current year, no new or revised accounting standards have become mandatory which are applicable to VFMC. Other amendments do apply for the first time as at 1 July 2017, however, they do not impact the financial statements of VFMC.

### (b) New and revised accounting standards issued but not yet effective

Summarised below are Australian Accounting Standards (AAS) 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 2018.

#### **AASB 9 *Financial Instruments***

AASB 9 applies for reporting periods commencing on or after 1 January 2018. It is a new standard issued to replace AASB 139 *Financial Instruments: Recognition and Disclosure*. This standard provides new principles on the classification and measurement of financial assets and liabilities including the calculation of provisions for impairment.

The application of this standard is not expected to have a material impact on VFMC's financial statements.

#### **AASB 15 *Revenue from Contracts with Customers***

AASB 15 applies for reporting periods commencing on or after 1 January 2018. AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under AASB 15, an entity recognises revenue when (or as) a performance obligation, as specified in the goods or services contract, is satisfied.

## Notes to the financial statements

For VFMC, the implementation of this standard will impact the timing of revenue recognition for performance fees over long-term periods. Long-term performance fee periods commence at 1 July each year for a period of three years. VFMC currently recognises this revenue across the term of the contract based on historical experience. Under AASB 15, this revenue will now be recognised only where it is highly probable that the revenue is not subject to reversal. This is expected to be closer to the end of the measurement period.

VFMC will present the change of this accounting policy in the June 2019 financial statements. The operating statement will reflect the new policy for performance fee recognition in the results for the 2019 financial period. A disclosure on the impact of the change and the revised policy will be provided in the 2019 notes to the financial statements.

The additional standards noted below have been issued to be effective in line with AASB 15 and will take effect for reporting periods commencing on or after 1 January 2018. The impact of these is not expected to be material except as noted for AASB 15 above.

*AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15*  
*AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15*  
*AASB 2016-3 Amendments to Australian Accounting Standard – Clarifications to AASB 15*

### **AASB 16 Leases**

AASB 16 applies for reporting periods on or after 1 January 2019. AASB 16 will supersede the current lease guidance including AASB 117 *Leases*. AASB 16 distinguishes leases and service

contracts on the basis of whether an identified asset is controlled by a customer. The AASB 16 principle replaces the distinctions of operating leases and finance leases, with a model where right-of use assets and corresponding lease liabilities are recorded on the balance sheet for all leases, except for short-term leases and leases of low value assets.

For VFMC, the implementation of this standard will result in the lease of office space being recognised as a right-of use asset and lease liability.

## 3. Significant accounting policies

### **(a) Statement of compliance**

VFMC has been designated as a 'for profit' entity pursuant to the Financial Management Act 1994 (FMA). The general purpose Financial Statements of VFMC have been drawn up in accordance with the financial reporting provisions of the FMA, applicable AAS and other authoritative pronouncements of the AASB and Accounting Interpretations.

### **(b) Basis of accounting preparation and measurement**

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 18 (h). The financial report is presented in Australian dollars and all values are rounded to the nearest thousand.

The comprehensive operating statement comprises two components, being 'net surplus from transactions' and 'other economic flows

## Notes to the financial statements

included in net surplus'. The sum of the two represents the net surplus. The net surplus is equivalent to profit or loss derived for the year.

The balance sheet presentation is 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.

### **(c) Critical accounting judgements and key sources of estimation uncertainty**

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.

#### ***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.

Performance fee revenue is derived over both one year and three year terms, calculated as out-performance against agreed-upon benchmarks. 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.

#### ***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.

#### ***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.

#### ***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.

# Notes to the financial statements

## 4. Expenses

	2018 \$'000	2017 \$'000
Portfolio management and custodian expenses	119,204	118,715
Salary and related expenses	28,216	29,350
Directors' fees	507	479
<i>Total employee benefit expenses</i>	28,723	29,829
IT expenses	5,692	4,890
Market data and research	3,266	3,006
Investment risk management	1,238	1,189
Consultancy and professional fees	2,227	1,517
Rental and outgoings	1,259	994
Legal expenses	614	537
Insurance	853	846
Audit fees	95	85
Strategic development costs	3,774	3,031
Office administration	522	563
Other expenses	1,180	1,517
<i>Total other operating expenses</i>	20,720	18,175
Depreciation of property, plant and equipment	202	226
Amortisation of intangible	599	687
<i>Total depreciation and amortisation expenses</i>	801	913
<b>Total expenses</b>	<b>169,448</b>	<b>167,632</b>

### Portfolio management and custodian expenses:

These expenses are calculated and recognised on a monthly basis in accordance with the contractual obligations in place between VFMC and its service providers.

### 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.

# Notes to the financial statements

## 5. Income tax

	2018 \$'000	2017 \$'000
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(a) Income tax expense

The major components of income tax expense are:

**Comprehensive operating statement**

Current income tax charge / (benefit)	7,278	3,905
Deferred income tax – relating to origination and reversal of temporary differences	(1,098)	(113)
Deferred income tax – relating to utilisation of prior year losses	–	1,832
<b>Income tax expense reported in the comprehensive operating statement</b>	<b>6,180</b>	<b>5,624</b>

(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	20,568	18,690
Prima facie tax calculated at 30%	6,170	5,607
Non-deductible expenses	10	17
<b>Income tax attributable to net surplus from operations</b>	<b>6,180</b>	<b>5,624</b>

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 tax assets at 30 June relates to the following:

- salary and related expenses	5,612	4,499
- capital deductions	252	334
- fixed assets	357	310
- others	428	174
<b>Total deferred tax assets</b>	<b>6,649</b>	<b>5,317</b>

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

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.



## Notes to the financial statements

	2018 \$'000	2017 \$'000
Deferred tax liabilities at 30 June relates to the following:		
- deferred performance fee income	820	584
<b>Total deferred tax liabilities</b>	<b>820</b>	<b>584</b>

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

## 6. Trade and other receivables

	2018 \$'000	2017 \$'000
<b>Current</b>		
Management fees and trade receivables	61,886	61,311
Receivables from VFMC Trusts*	521	529
Total current	62,407	61,840
<b>Non-current</b>		
Accrued management and performance fees	2,732	1,948
<b>Total trade and other receivables</b>	<b>65,139</b>	<b>63,788</b>

\* Being reimbursement for expenses incurred on the Trusts' behalf.

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.

Services are only supplied to government related entities and no allowance is made for doubtful debts.

# Notes to the financial statements

## 7. Property, plant and equipment

### (a) Property, plant and equipment held on the fixed asset register

	2018 \$'000	2017 \$'000
<b>Non-current</b>		
Leasehold premises improvements	1,823	1,823
Less: Accumulated depreciation	(1,818)	(1,809)
	5	14
Furniture, fittings and equipment	2,150	1,717
Less: Accumulated depreciation	(1,670)	(1,476)
	480	241
<b>Total fair value</b>	<b>485</b>	<b>255</b>
<b>Reconciliation</b>		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	14	113
Depreciation	(9)	(99)
	5	14
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	241	293
Additions	432	76
Depreciation	(193)	(128)
	480	241
<b>Total property, plant and equipment</b>	<b>485</b>	<b>255</b>

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.

The cost of existing 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 of 5-10 years.

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.

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. 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.

### (b) Leasehold Improvements – Work in Progress

Work in progress relating to lease improvements are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Lease improvement work in progress as at 30 June 2018 was \$1,805,000 (30 June 2017: Nil).

## Notes to the financial statements

### 8. Trade and other payables

	2018 \$'000	2017 \$'000
<b>Current</b>		
Accrued management and performance fees	43,347	43,850
Australian Taxation Office (GST)	67	318
Trade creditors and other payables	2,772	2,093
Total current	<b>46,186</b>	<b>46,261</b>
<b>Non-current</b>		
Lease incentives	1,107	261
Total non-current	1,107	261
<b>Total trade and other payables</b>	<b>47,293</b>	<b>46,522</b>

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. 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.

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.

# Notes to the financial statements

## 9. Provisions

	2018 \$'000	2017 \$'000
<b>Current</b>		
Unconditional annual leave		
expected to settle within 12 months	401	359
expected to settle after 12 months	611	827
Unconditional long service leave		
expected to settle within 12 months	185	17
expected to settle after 12 months	1,775	2,142
Unconditional incentives	7,570	5,607
Provisions for on-costs		
expected to settle within 12 months	455	291
expected to settle after 12 months	263	144
Provision for operational risks	287	317
Total current	11,547	9,704
<b>Non-current</b>		
Long service leave	265	293
Incentives	6,665	4,984
Provision for On-costs	522	256
Total non-current	7,452	5,533
<b>Total provisions</b>	<b>18,999</b>	<b>15,237</b>

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.

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 the expected future wage and salary levels and experience of benefits taken.

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 the expected future wage and salary levels, experience of employee departures and periods of service (greater than six years are classified as current liabilities). The nominal and present values have been calculated by using a long service leave model supplied by the Department of Treasury and Finance. Any gain or loss following revaluation of the present value of non-current long service leave liability is recognised 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 another economic flow.

# Notes to the financial statements

## 10. Commitments

### *Lease rental commitment*

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

Commitments in relation to operating leases are payable as follows:

	2018 \$'000	2017 \$'000
Not later than one year	1,022	984
Later than one year, but not later than five years	4,461	3,923
Later than five years	4,709	–
<b>Total commitments</b>	<b>10,192</b>	<b>4,907</b>

*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:

	2018 \$'000	2017 \$'000
Not later than one year	894	895
Later than one year, but not later than five years	–	894
<b>Total commitments</b>	<b>894</b>	<b>1,789</b>

*The figures presented above are exclusive of GST*

### *Leasehold improvements commitments*

VFMC entered into contracts for office fit-out works, as part of the 'Reboot\_13' project. The delivery of this work was in progress as at the year end. The works completed amounting to \$1,805,000 (2017: nil) was capitalised during the year (under leasehold improvements – work in progress). The remaining portion of the contractual value is presented as commitments as listed below.

Commitments in relation to leasehold improvements are payable as follows:

	2018 \$'000	2017 \$'000
Not later than one year	1,278	–
<b>Total commitments</b>	<b>1,278</b>	<b>–</b>

*The figures presented above are exclusive of GST*

# Notes to the financial statements

## 11. Superannuation information

### Names of schemes

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

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.

	2018 \$'000	2017 \$'000
VFMC contributions	1,472	1,388
<b>Total contributions</b>	<b>1,472</b>	<b>1,388</b>

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

## 12. Responsible persons, remuneration of executives and other personnel

### (a) Responsible persons

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.

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)

Mrs C Walter AM

Ms P Benson

Mr J Fitzgerald

Ms L Gay

Mr D Martine

Ms E Rubin

Ms A Williams

Ms M Wilton (appointed 12 December 2017)

#### Chief Executive Officer

Ms L Gray

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.

The compensation detailed above excludes the salaries and benefits the Treasurer receives. The Treasurer's remuneration and allowances

## Notes to the financial statements

Income Band	Total Remuneration		Base Remuneration	
	2018 No.	2017 No.	2018 No.	2017 No.
\$Nil to \$9,999	1	1	1	1
\$30,000 to \$39,999	1	–	1	–
\$40,000 to \$49,999	–	–	–	–
\$50,000 to \$59,999	6	6	6	6
\$110,000 to \$119,999	–	–	–	–
\$120,000 to \$129,999	–	–	–	–
\$130,000 to \$139,999	1	1	1	1
\$180,000 to \$189,999	–	–	–	–
\$220,000 to \$229,999	–	–	–	–
\$390,000 to \$399,999	–	–	–	–
\$540,000 to \$549,999	–	–	1	1
\$950,000 to \$959,999	1	1	–	–
Total numbers	10	9	10	9
Total amount	\$1,482,379	\$1,440,880	\$1,071,822	\$1,030,323

is set by the Parliamentary Salaries and Superannuation Act 1968 and is reported within the Department of Parliamentary Services' Financial Report.

### (b) Related party transactions

VFMC is a wholly owned and controlled entity of the State of Victoria. Management fees and performance fees income recognised by VFMC arise as a result of funds managed on behalf of VFMC's clients, which are predominantly Victorian public authorities.

VFMC has prepared the related party disclosures for the year based on reasonable enquiries made by management in relation to the responsible persons and their related parties and the information available to the organisation.

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.

Mr J MacKenzie is President of Victorian Arts Centre Trust (VACT). VACT is a client of VFMC and at 30 June 2018 had Funds Under Management (FUM) invested of \$14,126,775 (2017: \$12,787,963). All fees are charged on normal commercial terms and conditions.

Mr D Martine is Secretary, Department of Treasury and Finance (DTF) and a Director of Treasury Corporation of Victoria (TCV). During

## Notes to the financial statements

the year VFMC paid a dividend to DTF of \$6,533,000 (2017: \$3,713,000). VFMC generated interest income of \$17,685 (2017: \$23,153) 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 2018 (2017: \$1,000,000). On behalf of its clients, VFMC invests funds with TCV periodically, with GBID of \$3,228,726 held at 30 June 2018 (2017: \$3,209,010). Accordingly, VFMC clients earn interest income at prevailing market rates on normal commercial terms and conditions.

Ms E Rubin is a director of Victorian Managed Insurance Authority (VMIA). VMIA is a client of VFMC and at 30 June 2018 had FUM invested of \$2,715,653,802 (2017: \$2,381,288,297). All fees are charged on normal commercial terms and conditions.

Ms A Williams is a director of Victorian Funds Management Corporation (VFMC), which, on behalf of clients, invests in various managed investment schemes, some of which have an EQT Group subsidiary company as responsible entity. Ms A Williams is a director of Equity Trustees Ltd, a subsidiary of EQT Group. In her role as director of VFMC, Ms A Williams was not actively involved in investment selections or the appointment of the subsidiary company as responsible entity to managed investment schemes in which VFMC invested. 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 \$429,487,568 (2017: \$380,511,670) and has paid/payable management fees of \$5,368,595 (2017:

\$4,332,238). 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 2018 had FUM invested of \$87,538,608 (2017: \$78,284,383). All fees are charged on normal commercial terms and conditions.

As the investment manager for its clients, VFMC invested in debt securities used in Victorian Public-Private Partnerships. At 30 June 2018, VFMC clients held investments in Royal Children's Hospital's debt security totalling \$1,212,131,487 (2017: \$1,207,643,085) and Royal Women's Hospital's debt security totalling \$1,862,760 (2017: \$1,818,140).

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 incurred premiums to VMIA of \$828,652 (2017: \$824,999) and the policies were undertaken on normal commercial terms and conditions.

VFMC, as trustee of the VFMC Trusts as listed in Note 13, 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 unit holders or charged back to the VFMC Trusts on normal commercial terms and conditions. Trust receivables as at 30 June 2018



## Notes to the financial statements

were \$521,368 (2017: \$525,566). Management fees are paid on a monthly basis. Total fees earned by VFMC during the year for the management of the VFMC Trusts were \$21,560,233 (2017: \$18,695,653).

### (c) Remuneration of executive officers

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers	Total remuneration	
	2018 \$	2017 \$
Short-term employee benefits	3,270,965	3,594,710
Other long-term benefits	23,433	31,927
Termination benefits	–	141,374
<b>Total remuneration</b>	<b>3,294,398</b>	<b>3,768,011</b>
<b>Total number of executives</b>	<b>6</b>	<b>9</b>
<b>Total annualised employee equivalents</b>	<b>5.8</b>	<b>6.3</b>

## Notes to the financial statements

### 13. 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 is 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 2018, fees earned were \$21,560,233 (2017: \$18,695,653) and unpaid fees were \$1,425,948 (2017: \$1,666,432). 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.

Following is a list of Trusts for which VFMC acts as trustee as at 30 June 2018.

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 Trust  
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

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 unit holder 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 unit holder, which is tabled in Parliament by the responsible minister.

# Notes to the financial statements

## 14. Notes to the cash flow statement

### (a) Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement are reconciled to the related items in the balance sheet as follows:

	2018 \$'000	2017 \$'000
Cash at bank	35,654	25,709
Short-term deposits	1,004	1,004
Total cash and cash equivalents	36,658	26,713

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

	2018 \$'000	2017 \$'000
Net surplus from operations after income tax	14,388	13,066
<b>Adjustments for non-cash income and expense items:</b>		
Depreciation of property, plant and equipment	202	227
Amortisation of intangible	599	687
<b>Changes in assets and liabilities:</b>		
Decrease/(Increase) in receivables and other debtors	579	(12,265)
Increase in payables and other provisions	2,947	13,177
Net cash flows from operating activities	18,715	14,892

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 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.

# Notes to the financial statements

## 15. 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 \$61.3 billion as at 30 June 2018 (2017: \$56.1 billion). These funds are managed on behalf of the following clients:

- Ballarat General Cemeteries Trust
- Ballarat Health Services
- CenITex
- Consumer Affairs Victoria
- Department of Environment, Land, Water and Planning
- Environment Protection Authority
- ESSSuper Accumulation Fund
- ESSSuper Defined Benefits Fund
- ESSSuper State Super Defined Benefits Fund
- Holmesglen Institute
- Latrobe Regional Hospital
- Melbourne Recital Centre
- Metropolitan Fire and Emergency Services Board
- National Gallery of Victoria
- Peninsula Health
- Queen Elizabeth Centre
- Royal Children's Hospital
- Royal Women's Hospital
- Shrine of Remembrance
- Social Housing Growth Fund
- State Library Victoria
- The Royal Victorian Eye and Ear Hospital
- Transport Accident Commission
- University of Melbourne
- Victoria Managed Insurance Authority
- Victorian Arts Centre Trust
- Victorian Traditional Owners Trust
- Western Health
- Worksafe Victoria
- Zoos Victoria

# Notes to the financial statements

## 16. Auditor remuneration

	2018 \$'000	2017 \$'000
Fees paid or payable to Victorian Auditor-General's Office (VAGO) for the audit of VFMC	95	85
<b>Total audit fees</b>	<b>95</b>	<b>85</b>

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

## 17. Capital management

VFMC's objective is to provide investment and fund management services to participating bodies and the Victorian state government 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. VFMC's capital consists of shareholders' contributed equity and retained earnings with no external debt. The Directors believe the current capital base is adequate.

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 surpluses. During 2017-2018 VFMC paid a \$6,533,000 dividend to the Department of Treasury & Finance (2017: \$3,713,000).

VFMC does not have any externally imposed capital requirements.

# Notes to the financial statements

## 18. 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 counterparty on their contractual obligations resulting in financial loss to VFMC.

Credit risk associated with VFMC's receivables is minimal because 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, Nil are past due (2017: Nil).

### (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 short-term deposits only.

VFMC's only financial liabilities are payables which are all contracted to be settled within 30 days after balance date (2017: 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) Operational risk

Operational risk is the risk of indirect or direct loss to VFMC resulting from inadequate or failed internal processes (including any outsourced processes), people and systems or from external events. This includes legal risk but excludes strategic and reputational risks.

Operational risk is monitored with incidents documented in a risk and breach register. Significant operational risk incidents are required to be reported to the Board, Prudential Supervisor and Department of Treasury and Finance.

# Notes to the financial statements

## (e) Interest rate risk

Interest rate risk is the risk that the market value of VFMC's financial position will be adversely affected by fluctuations in interest rates. VFMC's exposure to interest rate risk arises from cash and cash equivalent holdings of \$36.7 million (2017: \$26.7 million), trade and other receivables of \$65.1 million (2017: \$63.8 million) and trade and other payables of \$47.3 million (2017: \$46.5 million). The weighted average interest rate for cash during the reporting period was 1.5% and the annual interest rate applied to the term deposit was 1.96%.

Interest rate risk is managed by maintaining conservative levels of cash and cash equivalent holdings and by monitoring aged receivables and payables.

## (f) 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 has 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) operating surplus would have been impacted as follows:

- 50 basis points higher: increase in surplus of \$183,000 (2017: \$134,000 increase)
- 50 basis points lower: decrease in surplus of \$183,000 (2017: \$134,000 decrease)

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

## (g) 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.

## (h) 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.

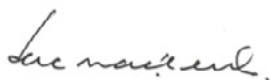
## 19. Subsequent events to balance date

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 2018 or on the results and cash flows of the VFMC for the year ended on that date.

## Statement by the Chair and Management

We hereby certify that:

- the accompanying financial statements have been prepared in accordance with Direction 5.2 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;
- 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 2018 and the financial position as at 30 June 2018;
- 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
- the Directors authorised the attached financial statements for issue on 16 August 2018.



James MacKenzie  
Chair



Lisa Gray  
Chief Executive Officer



Maurice Petrilli  
Head of Finance

Dated 16 August 2018



## Independent Auditor's Report

### *To the Directors of the Victorian Funds Management Corporation*

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<b>Opinion</b>	<p>I have audited the financial report of the Victorian Funds Management Corporation (the Corporation) which comprises the:</p> <ul style="list-style-type: none"><li>• balance sheet as at 30 June 2018</li><li>• comprehensive operating statement for the year then ended</li><li>• statement of changes in equity for the year then ended</li><li>• cash flow statement for the year then ended</li><li>• notes to the financial statements, including significant accounting policies</li><li>• Statement by the Chair and Management.</li></ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
<b>Basis for opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's responsibilities for the audit of the financial report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Directors's responsibilities for the financial report</b>	<p>The Directors of the Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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## Auditor-General's report (continued)

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**Auditor's responsibilities for the audit of the financial report** As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

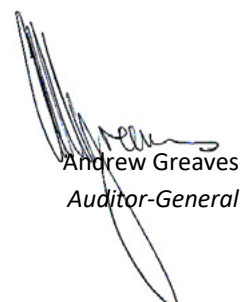
As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Corporation's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors
- conclude on the appropriateness of the Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

---

MELBOURNE  
20 August 2018



Andrew Greaves  
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.

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 or investment 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.

## General compliance information (continued)

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, investment 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 this and any other Act;
  - d) 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, and is not eligible to be declared to be, an agency or prescribed authority within the meaning of the Freedom of Information Act 1982.

### Victorian Industry Participation Policy

During 2017-2018, there were no contracts commenced or completed to which the Victorian Industry Participation Policy Act 2003 applied.

### 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 and (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 protection of 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 reprisal action against those who have come forward to disclose such conduct.

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

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 any person who is the subject of a disclosure.

VFMC is not aware of any disclosures made to the Independent Broad-based Anti-Corruption Commission (IBAC) by or about VFMC employees, or of any investigations of improper conduct in relation to VFMC employees.

## General compliance information (continued)

### Information Available on Request

To the extent applicable, the following information 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.

### Compliance with the Carers Recognition Act 2012

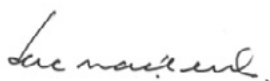
VFMC has taken all practical measures to comply with its obligations under the Act. These include:

- a) ensuring our people 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.

## Risk management attestations

I, James MacKenzie, on behalf of the Responsible Body, certify that the Victorian Funds Management Corporation has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.

For and on behalf of VFMC

A handwritten signature in black ink, appearing to read 'James MacKenzie'.

Chair

Dated 16 August 2018

## Disclosure index

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

Legislation	Requirement	Page reference
<b>Report of Operations – FRD Guidance</b>		
<b>Charter and Purpose</b>		
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FRD 8D	Performance against output performance measures	34
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FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	N/A
FRD 22H	Compliance with building and maintenance provisions <i>Building Act 1993</i>	N/A
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FRD 22H	Details of consultancies over \$10,000	38
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