



Annual Report 2019-2020



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Our clients



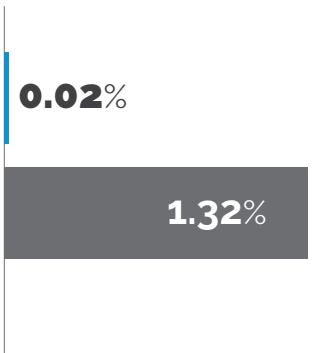
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2019-2020 Highlights

One year return

to 30 June 2020
vs benchmark
(net of fees)

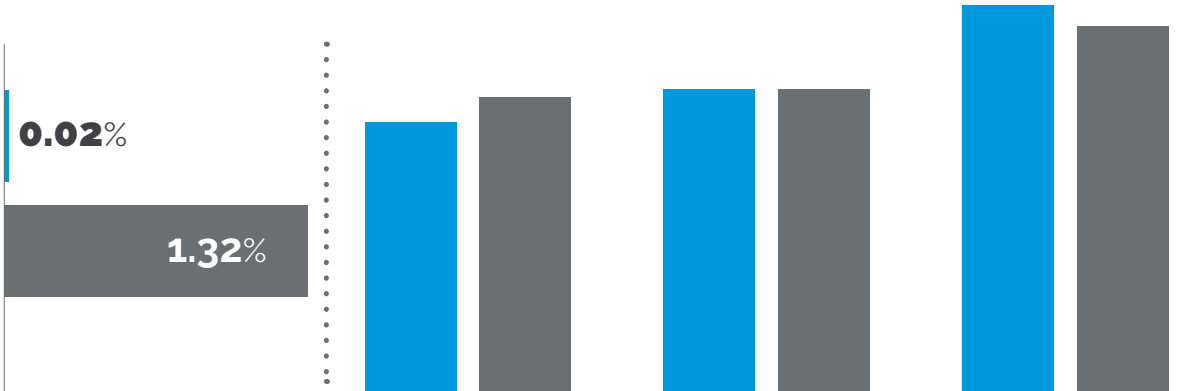


1yr p.a.

Long term 3, 5 and 7 year returns

vs benchmark (net of fees)

5.83% **6.38%** **6.50%** **6.50%** **8.35%** **7.91%**



3yrs p.a.

5yrs p.a.

7yrs p.a.

93% of our people proud to work at VFMC

↑ 10% on 2018-19

Celebrating Diversity & Inclusion

39% of our people born overseas

21% of our people studied overseas

Women in investment leadership

↑ **25%**

Funds Under Management

\$63.9bn

↓ \$200 million

New data and analytics platform build commenced



Pre-tax surplus

\$19.3m

100% of our people equipped to work remotely enabled by technology and digital tools

Our aspiration is to be an extraordinary team delivering market leading, long-term returns.

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 \$63.9 billion for 31 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 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 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).

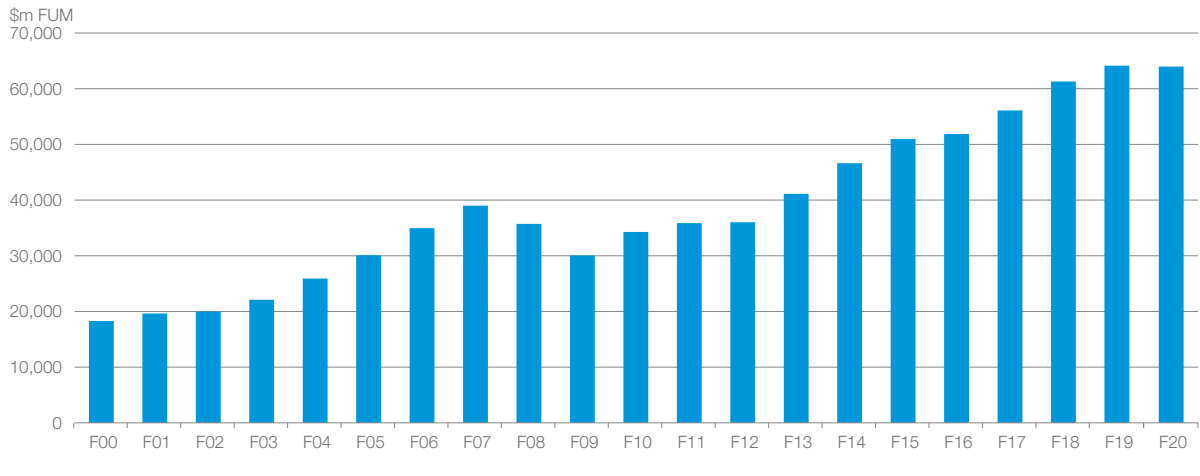
In addition to our Foundation CIM clients, VFMC is investment manager to 27 Victorian public authorities and related organisations with their own unique investment objectives, risk tolerances, time horizons and liquidity needs.

VFMC also actively engages with a pipeline of prospective clients providing investment guidance and assistance with product selection from VFMC's suite of Multi Strategy Funds or more customised solutions for larger organisations.

For a complete list of our clients as at 30 June 2020 see page 73.

Funds Managed

In 2019-2020 VFMC delivered a return of 0.02% adding \$420 million in FUM. VFMC's FUM rises and falls with markets and client cash flows.



Services

Our clients expect us to manage investment risks and asset class allocations and optimise portfolio returns. Our investment and related services include:

- Developing asset allocations for Foundation CIM clients.
- Designing and offering suitable products for other public authorities and related organisations that utilise VFMC's scale benefits.
- Operational execution of investment strategies for Foundation CIM client portfolios.
- Offering investment consulting and guidance.
- Internal funds management.
- Selecting external fund managers and monitoring their performance.
- Proxy voting services.
- Monitoring of risk and compliance.
- Providing integrated investment stewardship (environmental, social and governance) services and advice.

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 38% 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 committees to provide insights regarding investments and broader global trends.

*VFMC is a long-term investor. Our seven and ten year returns were **8.35% p.a.** and **8.91% p.a.** net of fees. Our investment returns have exceeded Foundation CIM clients' long-term investment objectives.*

Strategic priorities

Current strategic plan

Our 2020 Strategic Plan has three focus areas:

1. Embedding strategic clarity
2. Building resilience in investment performance
3. Developing enabling capabilities

This plan has been predominantly delivered, providing VFMC with:

- a whole of portfolio investment approach
- a contemporary investment stewardship framework
- leadership capability development for our people
- improved investment risk analytics and insights
- an agile and collaborative work environment, and
- an upgraded technology platform.

The large data and analytics platform build, commenced in 2019-2020, will be carried forward and delivered over a number of years.

Beyond 2020

In the uncertain and volatile environment of 2020, VFMC commenced designing a refreshed strategic plan for beyond 2020. Our new strategic plan will build upon the momentum and capabilities developed within the current strategic roadmap. The new plan will be designed to enable VFMC to respond flexibly and adapt to the volatile environment.

Data and analytics program

During 2020, VFMC commenced building a new data and analytics platform and entered into a strategic partnership with BNY Mellon.

The platform is designed to integrate, store and analyse increasing volumes of complex data.

The new capabilities enabled by the platform will improve investment decision making by providing:

- deeper insights
- faster decisions
- improved visibility of risk, and
- a scalable platform to take advantage of new and emerging technologies into the future.

“ We wanted to centralise and enrich our data, uplift exposure intelligence and enhanced analytics, facilitate stronger governance and deliver enhanced reporting. ”

Lisa Gray, CEO of VFMC

“ As VFMC continues to grow and improve, it is vital they have the backing of a partner that understands the market as well as the tools needed to transform. ”

Tim Pallas, Victorian Treasurer

*96% of our people **understand how their work contributes** to VFMC's strategy.*

Report from the Chair and Chief Executive Officer

From Our Chair

We start our reflection on the year with a huge thank you to the people of VFMC.

In response to the challenges of COVID-19, the team has showcased the real value of the strategic investment in transformation over the last few years. The team's ability to rapidly move to 100% remote working and continue to deliver investment services for Victoria has been a testament to their adaptability, determination and spirit of generosity.

Not surprisingly, short-term investment outcomes for 2019-2020 were not as strong as we had strived for. However, over the longer term, returns are consistent with clients' objectives.

The transformation of VFMC that has been building over the last few years has been very pleasing. The refresh in capability, investment in new technologies and leadership uplift, has enabled many innovations in investment strategy and processes, strategic data and analytics initiatives and cultural evolution. This foresight and commitment to transformation has ensured VFMC is well placed to identify and respond to the emerging uncertainty and opportunities.

Governance and oversight

It has been a year of significant challenge and learning as the VFMC Board has remained agile and adapted its governance to reflect the changing external environment and its impact on the investment and operational challenges confronting the management team.

During the initial crisis period of the pandemic the Board increased its oversight, meeting on at least a weekly basis. We were encouraged by the team's leadership, transparency and adaptiveness

as they prioritised the health and wellbeing of people without any compromise to their focus and delivery for clients.

Our annual Board and Committee Effectiveness Review was well timed to capture insights and reflections from our governance through 'normal' business cycles and through the early phase of the pandemic. While pleased with the review outcomes, we remain alert to emerging challenges and open to new ways of thinking.

In March 2020, Paula Benson left the Board to broaden her financial services executive career. We thank Paula for her many contributions, particularly her focus on culture and investment stewardship.

Our future

On the strong foundations of the current strategic plan, VFMC is putting in place a set of strategic responses that will enable adaptability in line with uncertain and evolving global health and economic conditions.

I thank my fellow directors for being generous with their expertise and insight throughout the year. I acknowledge the talent, innovativeness and resilience of the VFMC people under the transformational leadership of CEO Lisa Gray and her executive team.

As we look to the future, we are well placed to re-imagine VFMC in a 'living with COVID' world.

From Our Chief Executive Officer

Under remarkable circumstances, VFMC successfully progressed its transformation across all aspects of our investment portfolio, technology, operations and culture and capability. During 2020, we effectively managed client investment portfolios through an exceptionally difficult market environment while supporting our people working remotely and dealing with the related personal challenges.

Thank you to every person at VFMC. Your diligence, flexibility and care for each other has ensured we remain strong and purposeful in providing our investment services for Victoria.

Investment and financial performance

With a year that has seen highs and lows through stoppages to global economic activity aimed at containing the spread of COVID-19, a net of fees return of 0.02% was a solid outcome. While in the short term returns were below benchmarks, longer-term outcomes were ahead of clients' objectives and relative benchmarks. For three, five, seven and ten years, returns were 5.83%, 6.50%, 8.35% and 8.91% respectively.

Solid portfolio performance and effective cost management enabling ongoing investment in technology, analytics and people capability delivered a pre-tax surplus of \$19.3 million. This strong financial outcome will enable payment of a dividend to the Victorian Government of \$6.7 million while leaving VFMC with a strong balance sheet and liquidity position to operate in an uncertain environment.

VFMC currently invests \$63.9 billion of funds for 31 Victorian public authorities. During 2019-2020

we were delighted to welcome three new clients – Corangamite Shire Council, Municipal Association of Victoria and Portable Long Service Authority.

Evolutionary transformation

VFMC has continued to deliver its broad reaching transformation agenda outlined in the 2020 Strategic Plan. As part of the triennial review of Foundation CIM client portfolios, we re-positioned asset allocation and liquidity settings, implemented new asset classes and currency strategies, and established innovative new practices. A new 'Fire Drill' process was developed to ensure timely decision making and communication in crisis periods when investment markets are stressed and changing rapidly. The Cycle-Aware Asset Allocation approach was a new element added to enable episodic adjustments in response to early and late business cycle risks and opportunities.

We continued to augment our role as a responsible investor and active steward of our clients' capital. This has involved engagement with companies and fund managers and integration of environment, social and governance risks into our investment decision making. During the year, we created a new role of Head of Investment Stewardship which reports directly to our Chief Investment Officer. While work in this area is never finished, we are energised by our progress.

Digital and technology capabilities were enhanced with upgrades to technology infrastructure and cyber-security. New digital workplace tools optimising collaboration, innovation and distributed working were rolled out and fully embraced with the move to 100% working remotely due to the pandemic.

Our strategic investment in data and analytics capabilities saw us partner with BNY Mellon to implement their world class enterprise data management platform and tools. This will enable deeper and broader insights across the entire portfolio resulting in faster, optimised investment decisions for our clients.

Resilience of our people

Few could have predicted the wide-ranging challenges and novel experiences we continue to face in 2020 due to COVID-19. Through this time, the health and well-being of our people has been paramount. At each stage, they have shown

resilience, leadership and humanity. Our people have felt supported and informed; appreciating the balance struck between directness and honesty and optimism for an exciting future that we can shape together.

Measuring the value of the investment in people's development is often difficult. In 2020, the leadership 'dividend' has been clear through the trust, optimism and seamless delivery for our clients in remarkable circumstances.

We close the year with a 'shout out' to the people of VFMC – thank you!



A handwritten signature in dark ink that reads "James MacKenzie".

James MacKenzie

Chair

A handwritten signature in dark ink that reads "Lisa Gray".

Lisa Gray

Chief Executive Officer

Investment Management



Investment philosophy

Our enduring purpose is to improve the future prosperity of Victoria.
 Our investment philosophy underpins our investment decisions.

Investment philosophy

VFMC has a long-term approach to delivering 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 and build portfolios that meet their investment objective, risk tolerance and other relevant constraints. Each client is responsible for managing its own liabilities.

While each Foundation CIM client is unique, portfolios are generally designed to deliver absolute returns in the order of 4.0-5.25% in excess of inflation (CPI), average weekly earnings (AWE) or Wage Price Index (WPI) per annum over rolling 7–10 year periods, depending on the client risk profile.

VFMC aims to achieve its clients' investment objectives by outperforming the relevant market benchmark in each asset class and in aggregate, through the design of strategic asset allocation for each portfolio and implementing active asset management. VFMC's performance against those benchmarks is measured net of fees.

Clients' long-term investment outcomes therefore depend on both:

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

VFMC, while designing bespoke solutions for the Foundation CIM clients, also uses its scale and capabilities to manage pooled investment funds for our Multi Strategy clients.

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 combination of internal and external management across asset classes. Our internal management capabilities are utilised where we have the capabilities to generate superior risk-adjusted performance net of fees. Internal management is undertaken for sub-portfolios within the Australian equities, international equities, fixed interest and cash asset classes, as well as Dynamic and Cycle Aware Asset Allocation programs.

We also partner with external investment managers who execute investment strategies and make active investment decisions on our behalf.

Our external managers represent a range of trusted, specialist investment organisations who understand our investment strategy and collaborate closely with us to implement innovative investment ideas.

A whole of portfolio approach

We believe that portfolios are best managed efficiently as a whole, rather than simply a sum of the parts. We build portfolios to achieve our clients' objectives by using our benefits of scale, and providing access to opportunities and investment management expertise that may otherwise not be available to clients at a competitive cost. When constructing our clients' portfolios we work as one team taking into account long and medium-term investment opportunities and challenges. This approach enables VFMC to respond to market conditions dynamically by ensuring it considers all risks in our decision-making process.

Managing currency

As long-term investors, we look across the globe for the best available investment opportunities. By investing in international assets, returns are exposed to currency fluctuations.

When designing portfolios, we evaluate the suitable level of strategic foreign currency exposure to balance return and diversification benefits, rather than allowing this exposure to be shaped solely by the currency of underlying investments. VFMC then uses currency hedging to manage these exposures as needed.

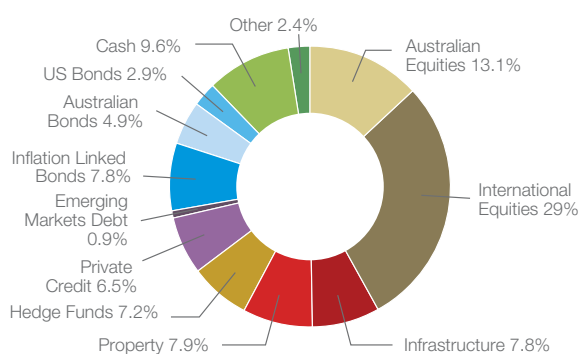
Asset allocation

Our clients have a diverse mix of community obligations and provide a wide range of services to their stakeholders. 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 designed to meet each client's long-term investment objectives, liabilities and risk tolerances.

The chart and tables on this page show the breakdown of investments allocated to each asset class at 30 June 2020 across the five Foundation CIM clients and the Multi Strategy Funds respectively.

Foundation CIM clients' asset allocation



Multi Strategy Fund asset allocation

VFMC Capital Stable Fund	Actual (%)
Australian Equities	9
International Equities	9
Australian Bonds	18
US Bonds (Currency hedged)	8
Australian Credit	10
Emerging Markets Debt (50% Currency Hedged)	4
Cash	42

VFMC Balanced Fund	Actual (%)
Australian Equities	23
International Equities	23
Australian Bonds	20
US Bonds (Currency hedged)	8
Australian Credit	9
Emerging Markets Debt (50% Currency Hedged)	3
Cash	14

VFMC Growth Fund	Actual (%)
Australian Equities	33
International Equities	33
Australian Bonds	13
US Bonds (Currency hedged)	7
Australian Credit	5
Emerging Markets Debt (50% Currency Hedged)	2
Cash	7

Investment stewardship

VFMC seeks to be a responsible investor and an active steward of our clients' capital.

In support of our investment stewardship activities, we have an overarching Environment, Social and Governance (ESG) Investment Policy which guides our approach. VFMC is also a member of, and participates in, a number of key collaborative initiatives such as the UN-supported Principles for Responsible Investment (PRI), the Investor Group on Climate Change (IGCC), the Global Real Estate Sustainability Benchmark (GRESB) and, as of 2020, the Climate Action 100+. In conducting our investment stewardship activities, VFMC welcomes the opportunity to engage with its clients regarding issues that are of importance to them. This ensures that we maintain an awareness of key issues of concern and, where possible, to translate this into our investment stewardship work.

Our approach to investment stewardship

We aim to improve risk-adjusted returns by being an active steward of our clients' capital and managing ESG risks alongside other investment factors. Our approach to investment stewardship is based on four key pillars.

Active ownership – we engage with investee companies, fund managers and policy makers regarding material ESG issues, and we exercise our voting rights at company meetings.

Integration – we seek to consider ESG risks and opportunities across all asset classes in the selection, management and monitoring of investments.

Major ESG projects – we undertake a range of dedicated ESG projects to ensure that we

Exclusions

VFMC seeks to integrate ESG factors into its investment decision-making process and prefers to influence positive change via our active ownership and collaborative initiatives. However, in some circumstances, after comprehensive assessment of economic, reputation, legal and fiduciary requirements, client concerns, materiality and risk, VFMC may occasionally decide to apply an exclusion.

VFMC currently has exclusions in place for the manufacture of tobacco and cluster munitions. Ultimately, there is no way in which to use these products responsibly and no amount of engagement can make these products safe.

maintain current knowledge of key ESG issues and practices (such as impact investing and the UN Sustainable Development Goals), enhance our understanding of important risks (such as climate risk) and meet legislative compliance obligations (such as modern slavery).

Collaboration and information sharing – we work with our peers and other stakeholders across the investment industry to drive positive change at a market wide systemic level. We also seek to share information and exchange knowledge to ensure that we remain across all key ESG issues and emerging trends.

VFMC is a member of the
Global Real Estate Sustainability
Benchmark

Following the release of the 2019 Global Real Estate Sustainability Benchmark (GRESB), VFMC conducted deep engagement with its unlisted property managers.

GRESB is an investor-driven organisation that assesses the sustainability performance of real asset sector portfolios and assets, such as property and infrastructure. Importantly, the GRESB results provide the basis for investors to engage with underlying fund managers regarding their ESG performance and initiatives that have been completed over the year.

VFMC conducted deep engagement with its unlisted property managers on four key themes:

- GRESB 2019 results
- climate change resilience (including net zero targets)
- energy supply strategy
- modern slavery.

In addition, energy and waste management and other social community initiatives were examined.

Based on this work, VFMC presented its findings at the GRESB Masterclass in November 2019. At the conclusion of this exercise, we felt comfortable that our property managers have a robust approach in place regarding ESG risk management.

Climate change

As Victoria's investment specialist, VFMC works hard at ensuring that it's across key and emerging risks that may impact our clients. Climate change is one of these risks.

VFMC recognises the need to keep global temperature rises this century to well below 2 degrees celsius above pre-industrial levels, to limit the negative impacts on society, the environment and the economy.

We also support the importance of an equitable transition to a low-carbon economy that is aligned with the overarching concept of sustainable development.

VFMC's investment portfolio will likely be impacted in different ways, both positively and negatively, by the physical risks of climate change and risks created by the transition to a low-carbon economy.

We aim to gain a deeper understanding of these risks to better manage them and to take advantage of the opportunities.

Accordingly, we:

- Consider climate risk as part of our pre-investment due diligence process.
- Routinely vote in support of climate-related shareholder resolutions.
- Engage with investee companies regarding climate risk management.
- Collaborate with others to advocate for better climate risk management (at a policy and regulatory level).

- Attend and participate in a diverse range of climate risk briefings and industry roundtable discussions.
- Are scoping out a detailed climate risk assessment to be conducted over the first half of 2019-2020.

Modern slavery

The Australian Government has enacted legislation to address modern slavery risks within a business's operations and its supply chain. The Modern Slavery Act covers a range of offences, including forced labour, deceptive recruiting, slavery, servitude, debt bondage, human trafficking, and offences involving non-citizens working in Australia without the correct visa.

VFMC is a reporting entity under the Modern Slavery Act 2018 and will issue its first Modern Slavery Statement in March 2021. This will:

- highlight the risk of modern slavery in our specific operations and supply chains
- where relevant, describe the actions that we are taking to address these risks.

As such, in the second half of 2019 we appointed specialist advisors to assist us in undertaking a detailed assessment of all of our supply chains to identify any potential modern slavery risk exposures and inform our approach in managing these risks. Accordingly, in addition to this risk assessment, we undertake a range of other activities to manage modern slavery and human rights risks with a particular focus on our investment supply chain.

Modern slavery case study

In early 2020 VFMC considered investing in a network of assets located in an emerging market country. The nature of the assets was such that they comprised operations across hundreds of geographically dispersed sites, sometimes in remote areas.

Further:

- Work at these assets is often conducted by contractors and sub-contractors (with minimal line of sight) presenting a heightened risk of modern slavery.
- There had been a number of employment associated fatalities with these assets.
- It appeared that insufficient policies, procedures and processes were in place to manage these risks.
- Were we to invest, we would have had limited ability to use our influence to drive continuous improvement in work practices.

Accordingly, given the unresolved concerns regarding the risk of modern slavery and occupational health and safety, we elected not to invest.

Over the course of 2019-2020 this has included:

- Considering modern slavery risks as part of our pre-investment due diligence process.
- Voting in support of human rights related shareholder resolutions.
- Engaging with investee companies regarding modern slavery.
- Participating in various modern slavery and human rights collaborative initiatives including briefings and industry roundtable discussions.

ESG governance

The Investment Stewardship team has responsibility for identifying, managing and monitoring ESG issues, with ultimate ownership by the Chief Investment Officer (CIO). Where relevant, investment stewardship and ESG issues are escalated to the CEO and the Executive Investment Committee.

Importantly, in the second half of 2019-2020 we created a new Head of Investment Stewardship role which reports directly to the CIO. This demonstrates the strategic importance of investment stewardship and ESG related matters and is reflective of our focus on these areas.

Social procurement

During the year, we developed our social procurement strategy in response to the Victorian Government's Social Procurement Policy released in April 2018. The strategy is aligned with our ESG framework and aims to drive social and sustainable benefits from procurement decisions.

Investment performance

During 2019-2020, VFMC developed a new Investment Risk Management Plan designed to improve portfolio diversification and flexibility.

Investment environment

The 2019-2020 financial year proved to be a tumultuous and unique period due to the impact of COVID-19.

What seemed initially to be a mild disruption to global economic activity subsequently turned into the worst economic downturn in modern history and wiped out the new highs reached by equity markets at the start of 2020, and also brought an end to Australia's 29-year run of economic growth.

Financial markets were initially ravaged by the sharp decline in global growth and restrictions on the movement of people implemented to deal with the public health crisis. These actions led to an economic contraction akin in depth to the Global Financial Crisis (GFC), which precipitated drawdowns of over 30% in major equity markets. The scale of the shock quickly galvanised an emergency response from global central banks and governments, which enacted unconventional policy measures to relieve liquidity stress in capital markets and fortify the architecture of the broader financial system.

Despite sharp macroeconomic contractions and heightened volatility across markets, the year ended with global equity markets almost where they started assisted by immense fiscal packages and supportive monetary policies as economies gradually reopened.

Looking ahead, several potential downside risks persist, specifically regarding the duration of the economic crisis and long-term impacts on assets and capital markets. A sustained recovery for the global economy will be contingent on an extension of global policy support and a balanced approach by policymakers in managing the virus.

A dynamic investment approach

When managing portfolios, VFMC seeks to improve risk adjusted returns to meet clients' objectives.

In doing so we are highly focused on balancing the risk and return objectives from our clients, and we seek to build portfolio resilience by designing well diversified portfolios.

During 2019, the Victorian Treasurer approved a new Investment Risk Management Plan (IRMP) incorporating a range of new asset classes, changes to the management of foreign currency exposure and considered liquidity requirements. The new elements were designed to improve portfolio diversification and flexibility with the objective of reducing portfolio risk without compromising growth over the longer term. The charts on the following page show the asset allocation changes implemented as part of the IRMP.

During the 2019-2020 financial year, the Multi Strategy Funds were also transitioned to new strategic asset allocations, intended to deliver

*This past year demonstrates **the value of diversification and liquidity** in how we manage portfolios.*



We aspire to deliver market leading long-term returns.

improved risk-adjusted returns by incorporating significant changes in their portfolio composition.

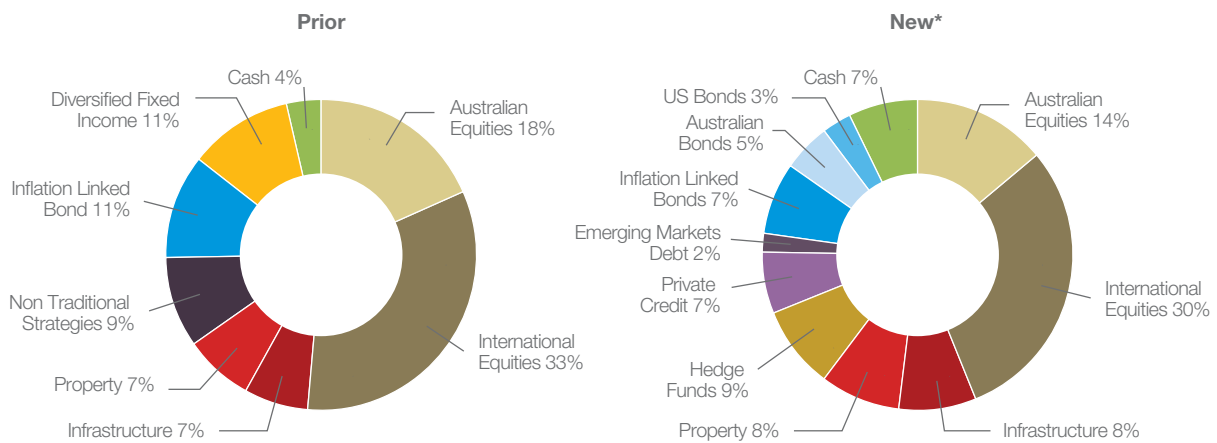
VFMC expects a lower return environment in the future largely due to lower cash rates and inflation expectations. We design portfolios to be resilient in a variety of investment environments whilst seeking out opportunities where we can generate additional returns through skill and investment insights. The Cycle Aware Asset Allocation is a new element in our portfolio designed to make episodic adjustments in response to late and early business cycle risks and opportunities.

The COVID-19 pandemic created immense pressures on investors, including the ability to

adapt and respond quickly. Building on our experiences through the GFC, VFMC designed a process we call 'Fire Drill' to assist with making robust investment decisions in crisis periods when markets are stressed and developments are changing quickly.

Following the first sharp fall in equity markets in February, VFMC activated the Fire Drill process. Capital and liquidity preservation were an important focus in running the portfolio during the market crisis to ensure all financial commitments were met, as well as to position the portfolio to be able to manage risks and take advantage of potential market opportunities.

Foundation CIM clients strategic asset allocation



*This is the new target strategic allocation compared to the actual asset allocation as at 30 June 2020 on page 14.

Investment performance

Despite the sharp market losses resulting from COVID-19, VFMC achieved a flat aggregate return for its Foundation CIM clients for the 2019-2020 financial year. Equities were the main drivers of performance with almost half of the

portfolio strategically allocated to equities over most of the year. Fixed Interest assets, particularly US bonds, delivered positive returns and the benefit of diversification as bond yields fell, increasing the value of the assets. Other assets detracted value as they were particularly affected

Foundation CIM clients aggregate performance by asset class (net of fees)

Asset Class	1 Year			3 Years			5 Years		
	Fund % p.a.	Bmk % p.a.	over/under	Fund % p.a.	Bmk % p.a.	over/under	Fund % p.a.	Bmk % p.a.	over/under
Equities									
Australian Equities	(8.14)	(7.61)	(0.53)	3.85	5.24	(1.39)	5.62	6.00	(0.38)
International Equities	3.70	3.06	0.64	8.03	8.08	(0.05)	7.76	8.00	(0.25)
Real Assets									
Infrastructure	(1.70)	7.03	(8.73)	8.61	6.96	1.65	11.20	6.78	4.42
Property	0.30	(0.58)	0.88	6.36	6.07	0.29	9.02	8.54	0.47
Alternative Strategies									
Hedge Funds	0.21	1.62	(1.41)	1.97	3.81	(1.84)	N/A	N/A	N/A
Credit									
Private Credit*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Emerging Markets Debt*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash and Fixed Interest									
Inflation Linked Bonds	2.78	2.64	0.14	5.50	5.11	0.40	4.20	3.98	0.23
Australian Bonds	4.57	4.18	0.39	5.29	5.57	(0.28)	4.77	4.77	0.00
US Bonds*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash	1.10	0.85	0.25	1.77	1.53	0.24	2.00	1.73	0.27
Other									
Insurance	6.13	3.88	2.25	2.63	4.58	(1.95)	N/A	N/A	N/A
Private Equity	(11.58)	6.23	(17.80)	2.98	12.44	(9.46)	5.54	11.66	(6.12)
Total Fund (Gross)	0.65	1.35	(0.70)	6.58	6.42	0.16	7.22	6.54	0.68
Total Fund (Net)	0.02	1.32	(1.30)	5.83	6.38	(0.55)	6.50	6.50	0.00

* Note: the new IRMP introduced these new strategic asset class allocations for which longer dated performance is not available.

by the curbed output and restrictions on normal human activity.

Our asset allocation positioning was mildly defensive for much of the year, including a modest underweight equity position through the COVID-19 recovery period between April and June 2020. This detracted value as the reaction of financial markets led to the fastest ever drawdown and retracement on record, supported by unprecedented policy responses in a fast-moving market environment.

Over the longer term, the Foundation CIM portfolio has achieved clients' objectives.

Asset class returns

Net of fees results by each asset class alongside relevant benchmark (Bmk) returns for one, three and five year periods are shown on the previous page.

Total portfolio results achieved by VFMC are shown net of fees (and excluding franking credits for superannuation clients). The benchmarks chosen for each asset class reflect industry standards. The total portfolio benchmark comprises a capital-weighted blend of the asset class benchmarks.

Benchmarks for each asset class are listed below.

Asset class benchmarks

Asset Class	Benchmark
Australian Equities	S&P / ASX300 Accumulation Index
International Equities	83% MSCI World (Net dividends reinvested) 17% MSCI Emerging Markets Index (Net dividends reinvested)
Infrastructure	CPI + 5% p.a.
Property	25% CPI + 4% per annum + 75% MSCI/Mercer Australia Core Wholesale Monthly Pooled Fund Index
Hedge Funds	50% Bloomberg AusBond Bank Bill Index + 3% p.a. 50% Hedge Funds Research Inc. (HRFI) Fund of Fund Diversified Index (AUD Hedged)
Private Credit	50% Bloomberg AusBond Bank Bill Index + 3% p.a. 25% S&P/LSTA Leveraged Loan Index (AUD Hedged) 12.5% HFRI ED - Distressed/Restructuring Index (AUD Hedged) 12.5% Merrill Lynch High Yield Master II (AUD Hedged)
Emerging Market Debt	50% JP Morgan EMBI Global Diversified (AUD hedged) 50% JP Morgan GBI EM Global Diversified (AUD unhedged)
Inflation Linked Bonds	Bloomberg AusBond Government Inflation Linked 0+ Yr Index
Australian Bonds	Bloomberg AusBond Composite Bond 0+ Yr Index
US Bonds	Bloomberg Barclays US Treasury Index (AUD hedged)
Cash	Bloomberg AusBond Bank Bill Index
Insurance	Bloomberg AusBond Bank Bill Index + 3% p.a.
Private Equity	Bloomberg AusBond Bank Bill Index + 3% p.a.

Australian Equities

The Australian Equity market finished down over the year as the record highs achieved in February quickly evaporated following the onset of COVID-19. An increase in overall market volatility to levels not seen since the GFC dominated the outcomes achieved by active managers in the market. The VFMC portfolio underperformed its benchmark over the year.

International Equities

Global equity markets delivered positive (in AUD) yet volatile returns for the financial year. Value oriented strategies continued to struggle during this period of heightened volatility. However, given the balanced nature of the aggregate equities portfolio, the exposure to growth and higher quality oriented managers more than offset this fall enabling the VFMC International Equities portfolio to outperform its benchmark.

Infrastructure

The VFMC Infrastructure portfolio's performance reflected the impact of COVID-19. GDP exposed assets including airports, ports and roads were particularly affected by the sharp decline in global growth and restrictions on the movement of people and freight. Assets in the energy midstream sector (such as pipelines) were also impacted by an unprecedented decline in the oil price. The portfolio underperformed its CPI + 5% benchmark.

Property

Property markets in Australia endured a tumultuous year as all property sectors were impacted by COVID-19. The retail sector experienced significant structural headwinds and very significant valuation falls. The office sector was also impacted by ongoing income shocks and smaller negative valuation adjustments. The restructuring of the portfolio over recent years has

benefited VFMC clients as strong contributions were gained from real estate debt, hardware and logistics sectors which provided defensiveness against the retail sector challenges in particular. The VFMC Property portfolio delivered a modestly positive return over the year and comfortably outperformed its benchmark.

Fixed Interest

The VFMC Australian, US Bond and Inflation Linked Bond portfolios all delivered positive returns to varying degrees for the year. Returns were driven by the fall in bond yields, from the slowing in the global economy at the turn of the year which further intensified with the outbreak of COVID-19. In response to this impact, central banks aggressively slashed cash rates and implemented enormous quantitative easing programs. The US Bond portfolio led the positive absolute returns. All portfolios outperformed their respective benchmarks for the year.

Hedge Funds

The VFMC Hedge Fund portfolio produced a modest positive absolute return for the year which outperformed comparable hedge fund indices but ultimately underperformed its benchmark due to the 50% cash + 3% element. Well hedged multi-manager strategies and fixed income relative value managers made a positive contribution. However, the heightened investment environment proved difficult for some discretionary macro and quantitative equity orientated hedge funds with common factor exposure to value strategies.

Private Credit

The VFMC Private Credit portfolio delivered a modest negative return for the year. Performance was challenged by the impact of COVID-19 on the global economy and corporate outlook, and the subsequent widening of credit spreads.

Central banks' quantitative easing programs which included the purchasing of corporate bonds, caused credit spreads to recover some of the widening in the latter part of the year. The VFMC Private Credit portfolio underperformed its benchmark, which includes a portion of absolute return cash + 3% target.

Emerging Markets Debt

Exposure to emerging markets debt was gradually incorporated into the portfolios over the second half of the 2019-2020 financial year, as part of the changes introduced in the new IRMP. Over that period, the VFMC Emerging Markets Debt portfolio delivered a negative return. The COVID-19 outbreak resulted in sovereign emerging market spreads widening sharply due to the immediate negative global economic impact and deterioration in market liquidity. The market did partially recover towards the end of the financial year.

Insurance

The VFMC Insurance portfolio delivered positive absolute returns, ahead of its benchmark. The Life Settlements portfolio performed well in line with revised underwritten assumptions after previous years' write-downs. The Natural Catastrophe portfolio delivered positive absolute returns. Whilst there were no individual extreme major natural events that heavily impacted the returns this financial year, revised losses from previous years pulled back returns.

Cash

Cash exposures are actively managed for performance and to provide portfolio liquidity as required. Cash rates continued trading at all-time lows over the year which impacted absolute returns from this part of the portfolio, whilst retaining strong returns relative to the benchmark. The level of liquidity required for portfolio and client activities remained at elevated levels relative to prior years due largely to the increased market volatility experienced in the second half of the year. The strategic allocation to Cash increased over the year in line with the new IRMP.

Multi Strategy Funds

VFMC manages three Multi Strategy Funds, Capital Stable, Balanced and Growth for smaller clients. Client investments in these funds totalled over \$1.9 billion at 30 June 2020, with the majority of funds invested in the Growth and Balanced Funds. The Multi Strategy Funds invest in Australian equities, international equities, Australian credit, emerging markets debt, global bonds, Australian bonds and cash.

While the investment returns for the three funds underperformed against benchmarks for relevant period, all three funds have exceeded the long-term investment objectives.

Operational Performance



Our clients

VFMC increased the frequency of client communication during the impact of COVID-19 on financial markets, regularly keeping its clients informed.

VFMC manages the funds for 31 Victorian public authorities and related organisations. During the financial year, VFMC welcomed the following new clients:

- Corangamite Shire Council
- Municipal Association of Victoria
- Portable Long Service Authority.

The returns generated 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. For a complete list of our clients see page 73.

Every three years, VFMC performs an extensive review of Foundation CIM clients' assets and liabilities – the triennial asset and liability review.

Throughout the process, VFMC works with Foundation CIM clients and the Department of Treasury and Finance (DTF) to develop a deep understanding of clients' long-term liability profile, cash and income requirements, and funding ratios.

Foundation CIM clients are responsible for setting their investment objective. This is often an iterative process and considers their risk tolerance and the Government's risk preference.

While each Foundation CIM client is unique, portfolios are generally designed to deliver absolute returns in the order of 4-5.25% in excess

of inflation per annum (CPI), Average Weekly Earnings (AWE) or Wage Price Index (WPI) over rolling three to ten year periods, depending on the client risk profile.

VFMC is responsible for developing investment strategies to achieve those objectives. Our liability informed approach, compared to a more traditional liability or cash flow matching approach, has delivered superior returns for our Foundation CIM clients and the State of Victoria.

The blueprint for how we invest clients' money is the Investment Risk Management Plan (IRMP). It:

- sets out how we will invest that client's money
- is designed to achieve the client's investment objective
- contains the client's strategic asset allocation.

The IRMP received approval from the Victorian Treasurer in May 2019. The new IRMP contains a number of innovations, including the introduction of new asset classes, redefined risk categories, whole of portfolio foreign currency exposure and Cycle Aware Asset Allocation, with the aim of increasing portfolio resilience.

Phase 1 changes to clients' portfolios were successfully implemented in October 2019, with Phase 2 completed in April 2020.

Working closely with clients through COVID-19

Throughout COVID-19, VFMC's focus is on regularly keeping clients informed about how their portfolios are tracking and how VFMC is responding. This was particularly the case through the initial period of extreme market volatility earlier in 2020.

VFMC client forums

VFMC hosted investment forums for both Foundation CIM and Multi Strategy Fund (MSF) clients in 2019-2020. In addition to our regular market review and outlook, we covered a number of other topics including:

- Implementation of Phase 1 and 2 of the Investment Risk Management Plan.
- VFMC's approach to Cycle Aware Asset Allocation.
- VFMC's approach to infrastructure investing.
- VFMC's response to COVID-19.

Contributing to the investment community

As well as running client forums, VFMC actively engages with the industry as a thought leader and contributes to the investment community by knowledge sharing. This allows us to deepen our expertise through peer-to-peer learning and helps us attract key talent.

Fiduciary Investors Symposium (FIS) - transforming VFMC

The FIS is a leading forum in Australia designed to examine the management of fiduciary assets in both investment strategy and implementation. VFMC was invited to speak at the digital forum.

Evolving to a self-propelling, self-sustaining organisation

At the May 2020 Symposium our CEO, Lisa Gray, and CIO, Russell Clark, talked about VFMC's transformation across technology, investment expertise, leadership, culture and capability and how we're positioning the organisation for the next decade.

How we did it

To build a more sustainable organisation, transformation needed to be strategic and aligned throughout the whole organisation by:

- Shifting from technical expertise in siloed asset classes to a whole of portfolio approach across all teams, ensuring one organisation.
- Broadening our capability by investing in leadership, including strategic business leadership, people leadership and team leadership.
- Ensuring that we invested in technology strategically, which ultimately becomes the spine through the whole organisation. Data analytics is a good example of that.

“ TPA (Total Portfolio Approach) means different things to different people. From our perspective, we very much view it as a mindset, not a mechanical process. We have a mindset of thinking about the overall portfolio outcomes. ”

Our people

We are proud of the resilience and optimism displayed by our people in response to the challenges of COVID-19.

At VFMC, our high performing and inclusive culture continues to strengthen. We remain focused on our clients, our purpose and supporting our people to be their best while continuing to deliver a contemporary place to work.

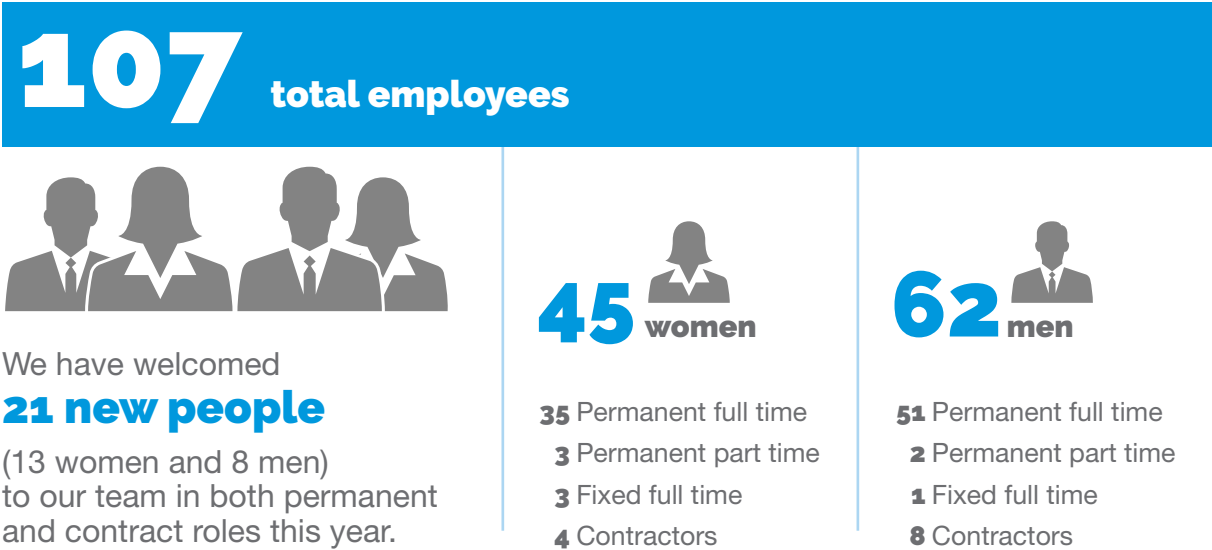
Our investment in capability, particularly leadership and innovation, complemented by our workplace technologies, have ensured our people were equipped to work flexibly, with great speed and agility. Unexpectedly, the circumstances of 2020 provided a 'platform' that showcased our previous investment in culture and capability resulting in seamless outcomes for clients.

Talent Management

We have welcomed 21 (62% women and 38% men) new people to our team in both permanent and contract roles. Our people join VFMC from a wide variety of asset management, investment and commercial organisations from Australia and overseas.

For the first time in 2019-2020 we conducted an in-house assessment centre to attract Analysts for three new positions within our Investment team. This was a successful and rewarding experience with new Analysts joining the Fixed Income and Absolute Returns, Portfolio Strategy and Allocation, and Equities teams. Two positions were filled by external candidates and one via an internal promotion.

Our team at 30 June 2020





*Our focus for the year ahead will be to establish sustainable ways of working remotely, to ensure we stay connected, continue to **deliver for our clients and bring out the best in our talented team.***

We are also proud to participate in the Monash University Work Integrated Learning (WIL) program. Over the 2019-2020 year, we hosted three placements as part of this program. Each secondee worked at VFMC, within the Portfolio Risk and Solutions team, for a three-month placement.

Career development

Over the last year we have expanded our leadership program 'Propel', to provide learning opportunities in design thinking, innovation and career management for all VFMC people. This formal development was supplemented by syndicate and peer coaching.

Alongside Propel, we have a rotation program across our key management forums (such as the Executive Leadership Team and Investment Leadership Team) to further build decision making capability in our future leaders.

These opportunities enable our people to build capability outside their area of expertise and gain insight into decision making at VFMC.

Career development extends to the opportunity for our people to participate in the broader asset management community and share their knowledge by speaking externally on panels and at conferences.

In 2019-2020 we celebrated three of the investment team members achieving CFA® Charterholder status.

Flexible work practices

We refreshed our approach to flexible work practices in 2019-2020, relaunching our policy framework and setting targets to encourage our people to incorporate flexible work practices into our 'way of working'.

In response, the proportion of our people who accessed formal flexibility as part of their work program increased from 26% to 32% prior to the COVID-19 office shut down. From the end of March 2020, 100% of our workforce established working remotely practices as VFMC responded to the 'stay at home' directive due to the COVID-19 pandemic.

We are very pleased to have achieved a 100% return from Parental leave rate.

Future capabilities

Looking forward to 2021, we will reimagine our ways of working and the role of the workplace. We plan to build sustainable and inclusive practices to ensure our people can blend their work and personal lives to focus on outcomes, resulting in work being something you do, not a place you go.

We will seek to develop new capabilities to address new ways of working in a digital, virtual and distributed environment. These capabilities will include data analytics, the use of insight tools, communication and leadership skills.

Diversity and inclusion

This year we launched our inaugural Diversity and Inclusion Policy. This Policy sets targets focused on gender representation and flexible work practices. The program of work to support the policy focuses on gender, culture and diversity of background.

We conducted a Diversity and Inclusion survey to understand and celebrate diversity aspects of our workforce. This will enable us to broaden our conversation and action beyond gender. See key findings from our survey on page 30.

Like many of our peer organisations in asset management, we are committed to increasing

the proportion of women within investment management teams.

This year we increased the proportion of women within the Investment Leadership Team from no representation to 25% and increased the proportion of women overall in the Investment team from 27% to 30%.

VFMC was the first Australian asset manager to join the CFA Institute Experimental Partners Program. As part of the partners program, each organisation selects three areas to improve.

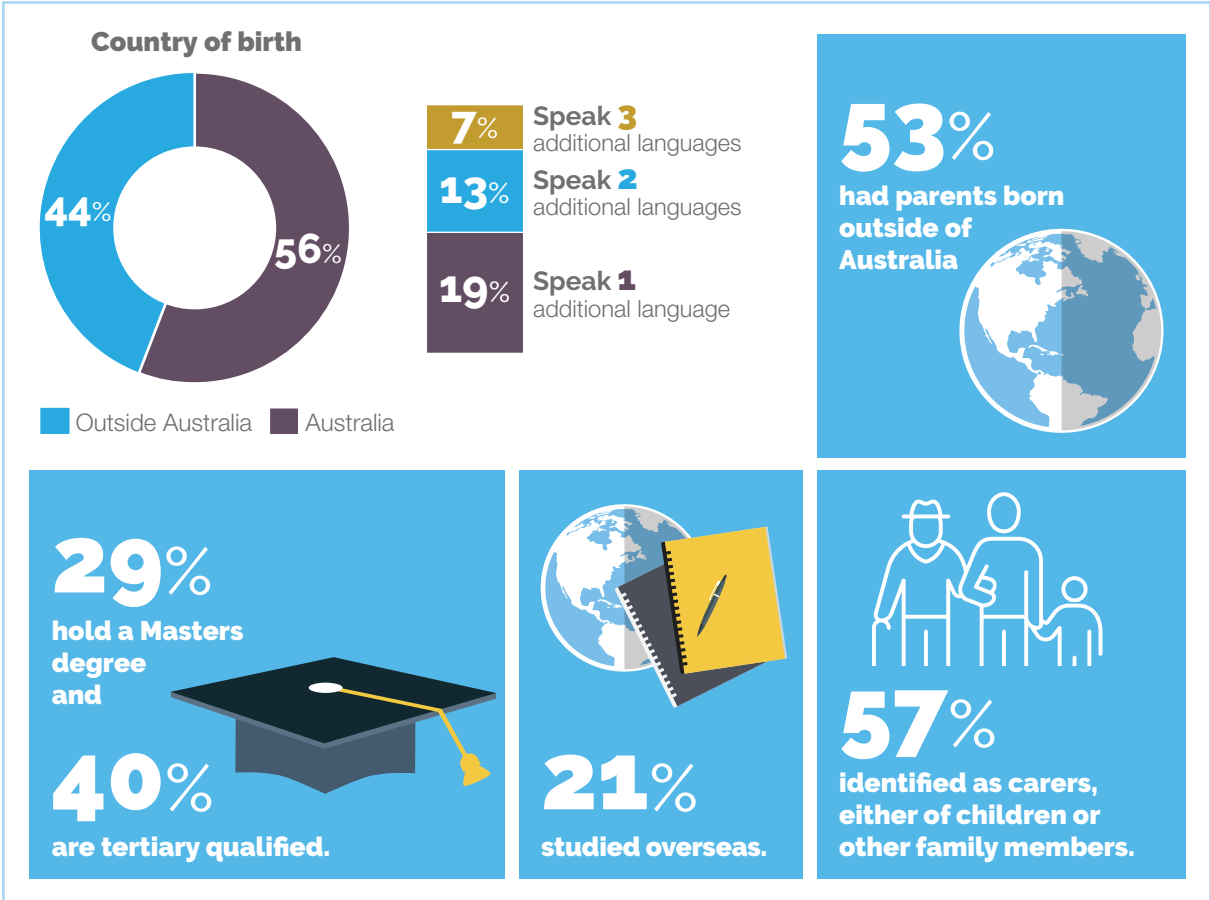
VFMC’s focus areas are:

- defining diversity
- data
- storytelling.

We have delivered on the metrics under each of the targets and will continue to evolve both the ‘storytelling’ and ‘data’ areas.

In conjunction with Diversity Partners, the entire VFMC team participated in ‘Better Decision Making: Challenging Unconscious Bias’ training in the 2019-2020 year.

Key findings from our Diversity and Inclusion survey



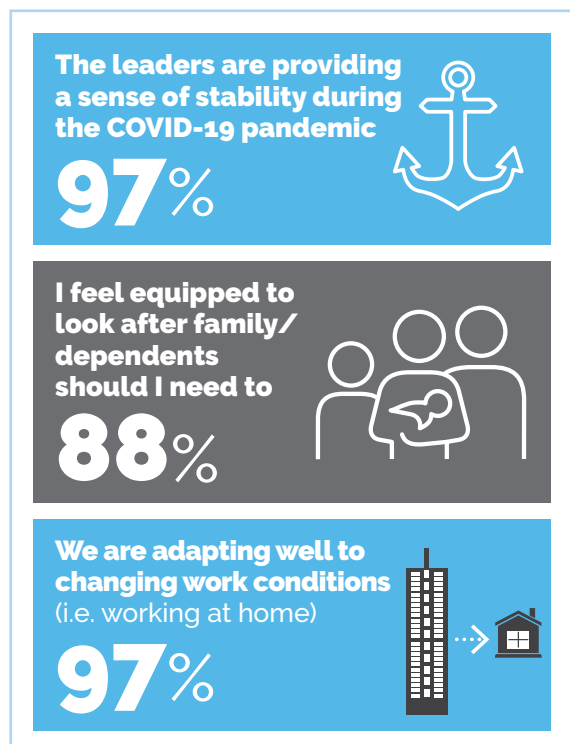
Staying connected with our people

We pulse checked the People Experience Survey as part of the broader Diversity and Inclusion survey and pleasingly we saw an increase across our five engagement questions. Key highlights were:

- I am proud to work at VFMC – **93%**
- I would recommend VFMC as a great place to work – **83%**

We conducted a range of pulse surveys to stay connected to our people during the COVID-19 pandemic. These pulse surveys allowed us to focus our communication efforts to provide clear and effective support where needed. Pleasingly, our people felt very supported during these very uncertain times.

Key findings from our pulse survey



VFMC pleased to join the CFA Experimental Partner Program.

“ We are pleased to join the CFA Experimental Partner Program this year. As part of the CFA Experimental Partner Program, we have selected three areas of focus to monitor. These are: “defining diversity” to create organisational alignment; “data” to better build and measure the impacts of our actions; and “storytelling” to ensure that everyone knows what we are doing and how it is impacting our organisation.

We have set metrics around measuring flexible work, gender balance, tenure, age and the impact of our leadership development programs.

Making the best investment decisions usually benefits from a broader range of ideas and perspectives – and a more inclusive culture assists in higher quality challenge and debate. ”

Russell Clarke
Chief Investment Officer, VFMC

Remuneration arrangements

At VFMC, our remuneration is set within the context of the Victorian Public Sector. As part of the annual remuneration review process, we conduct a pay equity audit of fixed and variable remuneration to ensure pay equity between like-for-like roles.

In 2019-2020, VFMC's variable remuneration, called the Single Incentive (SI) remuneration framework, offered performance-based rewards at an organisational, functional and individual level.

In 2019-2020 the VFMC Board provided oversight of 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 forfeiture (if appropriate and at Board discretion).

Investment outperformance (against pre-approved targets) over one and three years is used to determine the pool of incentives.

As part of the broader review of remuneration across the public sector, VFMC will change its remuneration framework to be effective in the 2020-2021 financial year.

Workplace health, safety and wellness

VFMC is committed to the health and safety of all employees. We continue to embrace a proactive approach to identifying and managing workplace health, wellness and safety (WHS) responsibilities by delivering initiatives and programs including:

- Offering a workplace environment that delivers ergonomic sit-to-stand workstations, to enhance health and wellbeing.
- A WHS induction program for all new team members.
- External training and accreditation for first aid officers.
- External training for fire wardens.
- Access to an Employee Assistance Program that also provides specialist mental health support.
- Mental Health Awareness training for our leaders to enable them to better support their teams in line with the Victorian Government Mental Health Charter.
- Access to Family Violence Leave for our people and a program of support for victims/survivors of family violence.
- 'Engage to Change' Family Violence Awareness Sessions for all leaders (conducted by McAuley Community Services for Women).

- Men's and Women's Health seminars.
- Flu vaccinations.
- Parents at Work membership to deliver parental leave coaching, return to work coaching and the Thrive Masterclass.

COVID-19

We are very proud of how our people have responded to COVID-19.

Prior to closing access to the office, VFMC conducted a week of 'remote work' testing to check systems capacity and to enable our people to set up and test home-based offices. VFMC closed access to the tenancy and all team members began to work at home from 25 March 2020 in response to the Victorian Government position on managing the spread of COVID-19.

The VFMC team responded very well to the new working arrangements, while navigating extreme volatility in financial markets and new technology platforms.

Our people leaders have been focusing on their team's physical and mental well-being, with support from our Employee Assistance Program and various additional online health programs.

VFMC also provided additional leave arrangements and financial support for our team to adapt to the new ways of working.

*Looking forward to 2021, we will **reimagine our ways of working** and the role of the workplace.*

VFMC in the community

We seek to find ways to give back to the community in which we operate. Many of our team members participate in various personal volunteer opportunities.

In 2019-2020 we launched the VFMC volunteer program in which more than 35 days of community volunteer days were planned at SecondBite and Ingrid's Haven. Unfortunately, due to COVID-19 this program was postponed in March 2020.

In February, over 40 kgs of corporate clothing was donated via an internal clothing drive to support Fitted for Work.

While working remotely in May, VFMC set up a team of 20 participants in the 'virtual' Mother's Day Classic event. Team VFMC raised over \$8,000 as part of this event.

Supporting social enterprise through STREAT

Consistent with, and in addition to, our approach to social procurement, we are focused on supporting social enterprise and positively contributing to the community within which we exist. To this end, we have a partnership with STREAT.

STREAT is a social enterprise that offers disadvantaged youth aged 16-25 a supported pathway from the street to a sustainable livelihood via hospitality training, development and work experience. To achieve these goals STREAT runs coffee roasting, artisan bakery, catering and café businesses, as well as working with other social enterprises in some specific areas such as during the current COVID-19 pandemic via provision of relief meals to vulnerable Victorians.

Throughout the year VFMC has worked with STREAT and supported a number of their campaigns. The property team also engaged with our Fund managers to investigate the potential for STREAT to provide some of their services to office worker communities across Melbourne CBD and surrounding areas.

*We seek to find ways to **give back to the community** in which we operate.*

Meet our Executive Leadership Team

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

Lisa Gray

Chief Executive Officer (CEO)

Joined February 2016

Lisa's career spans over thirty years, predominantly in financial services having held various CEO and executive roles at NAB, MLC, Plum Financial Services and AXA.

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 and Regional Planning (Honours) (University of Melbourne), Graduate Diploma in Management (RMIT), Master of Business Administration (University of Melbourne/Columbia University, New York) and an AMP (INSEAD). She is a Graduate of the Australian Institute of Company Directors and a member of Chief Executive Women.

Lucy Carr

Chief Risk Officer

Joined December 2019

Lucy joined VFMC in December 2019 as Chief Risk Officer where she is responsible for the risk and compliance function. She has more than 19 years' experience in financial services across Vanguard, AXA and EY.

Prior to joining VFMC, Lucy spent eight years at Vanguard Australia in various executive roles including Head of Human Resources, Head of Enterprise Risk Management and Head of Fund Financial Services, as well as serving as a member of Vanguard Australia's Board of Directors for two and a half years.

Lucy brings to VFMC deep experience in risk management, operations and leadership.

Lucy holds a Bachelor's degree in Commerce from the University of Melbourne.

Russell Clarke

Chief Investment Officer (CIO)

Joined May 2017

Russell is responsible for overseeing the investment management of more than \$63 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 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 Actuaries Institute and a Senior Associate of the Financial Services Institute of Australasia (FINSIA).

Sally Collins

Chief Operating Officer (COO)
Joined May 2017

Sally joined VFMC with more than twenty 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 had 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

Head of Client Services
Joined September 2013

Geoff has over thirty years' experience in financial markets 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 is a Senior Associate (SA Fin) of the Financial Services Institute of Australasia (FINSIA).

Johanna Neilsen

Head of People
Joined November 2018

Prior to joining VFMC, Johanna spent nine years at Cbus Super Fund as the Executive Manager People & Culture, developing and leading the people strategy, initiatives and practices of the Fund as part of the Executive team.

Johanna also spent six years at ESSSuper and prior to this worked in human resources teams across the manufacturing and professional services sectors in both Australia and London.

Johanna brings to VFMC her deep expertise in developing people strategies that build inclusive leaders. Her passion is equality, diversity, inclusion and the future of work. Johanna is a past winner of the Australian Human Resources Institute Diversity Champion Award for her work in this area.

Johanna holds a Master of Human Resource Management from Deakin University.

ELT rotating member

Every six months, we rotate a senior member of the Investment team on to the ELT. For the 2019-2020 financial year Pete King and Nick Tribe were the senior representatives.

Pete King

Head of Property
Joined May 2008

Pete joined VFMC in 2008 and has over 25 years' experience in asset management, consulting and funds management. Pete's role as Head of Property involves the responsibility for and management of property investments in a portfolio of core unlisted property funds and club style investments. In this role, Pete sits on advisory boards and investment committees relating to five funds. Prior to joining VFMC, Pete held roles at Investa Property Group and Pinnacle Property Group.

Pete holds a Postgraduate Diploma in Management from Melbourne Business School,

Bachelor of Business from RMIT University and a Graduate Diploma in Finance and Investment. He is a Fellow of the Financial Services Institute of Australia (FINSIA) and a Member of the Royal Institution of Chartered Surveyors (RICS).

Nick Tribe

Head of Fixed Income and Absolute Return
Joined October 2009

Nick has over 30 years' experience in the management of fixed income, inflation linked bond and cash portfolios. He joined as a Senior Portfolio Manager to establish an active fixed income capability across the internally managed fixed income portfolios. In August 2017, his responsibilities were expanded to the role of Head of Fixed Interest and Absolute Returns to lead the team which includes both internal and external portfolio management.

Prior to VFMC he was Deputy Head of Fixed Income at Aviva Investors which was formerly known as Portfolio Partners and prior to that Norwich Investment Management Ltd.

Nick holds a Bachelor of Business (Economics and Finance) from RMIT.

Meet our Board

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

James MacKenzie

Chair

Appointed June 2015

James MacKenzie is an experienced Australian company director. He currently serves as Chair of Development Victoria and Slater and Gordon Lawyers, and he is a member of the Melbourne Cricket Ground Trust.

James was previous Chair 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 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.

John Fitzgerald

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 is a director of Infrastructure Australia and Canberra

Transport Light Rail. 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

Director

Appointed May 2016

Chair of Audit, Risk and Compliance Committee

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 PSM

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. David is a member of the Advisory Board, Tax and Transfer Policy Institute – Crawford School of Public Policy at ANU.

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

Elana Rubin

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 AfterPay Limited, and is a director of Slater and Gordon Lawyers, Telstra 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, Mirvac and the Climate Change Authority.

Elana is a Fellow of the Australian Institute of Company Directors, the Financial Services Institute of Australasia (FINSIA) and the Institute of Managers and Leaders Australia and New Zealand (IML ANZ), and is a member of Chief Executive Women.

Fiona Trafford-Walker

Director

Appointed August 2018

Fiona Trafford-Walker has over twenty five years' experience in investments, superannuation and governance.

Fiona is a non-executive director and Chair of the audit committee at the Link Group, and a non-executive director and a member of the audit committee at the Prospa Group. She is a member of the Investment Committee at the Walter and Eliza Hall Institute and a director of Perpetual Limited.

Fiona is a former Investment Director at Frontier Advisors, where she previously held the positions of Managing Director and Director of Consulting.

In 2013, Fiona was named as the inaugural 'Woman of the Year' in the Money Management/ Super Review Women in Financial Services Awards, as well as one of the top 10 global Asset Consultants by the US financial journal Chief Investment Officer from 2013 to 2016 inclusive, and again in 2019.

She was announced as a winner in The Australian Financial Review and Westpac 100 Women of Influence Awards for 2016 in the Board/ management category.

Fiona holds a Bachelor of Economics (First Class Honours) from James Cook University, receiving a University Medal, a Master of Finance from RMIT and is a Graduate of the Australian Institute of Company Directors.

Maria Wilton AM

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 CFA National Diversity Committee and a member of the Advocacy Council of the CFA Societies Australia. Maria is a director at WorkSafe Victoria, an Employer-Representative Director of Australia Post Super Scheme, a member of the State Investment Advisory Board

(Queensland), and is a director of the Confident Girls Foundation.

Maria is the former Managing Director and Chair of Franklin Templeton Investments Australia, a role she held for 12 years. She was previously a board member of the Financial Services Council and a Trustee director of AGEST and Emergency Services and State Super. She has 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. She is a Fellow of the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

Changes in Board composition during 2019-2020

One director resigned from the VFMC board during the financial year.

We wish to thank Paula Benson, who resigned from the Board effective 6 March 2020, for her service on our Board.

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 is supported by 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 fund 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.
- Recommending the Corporate Plan to the Treasurer for approval.
- 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 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.

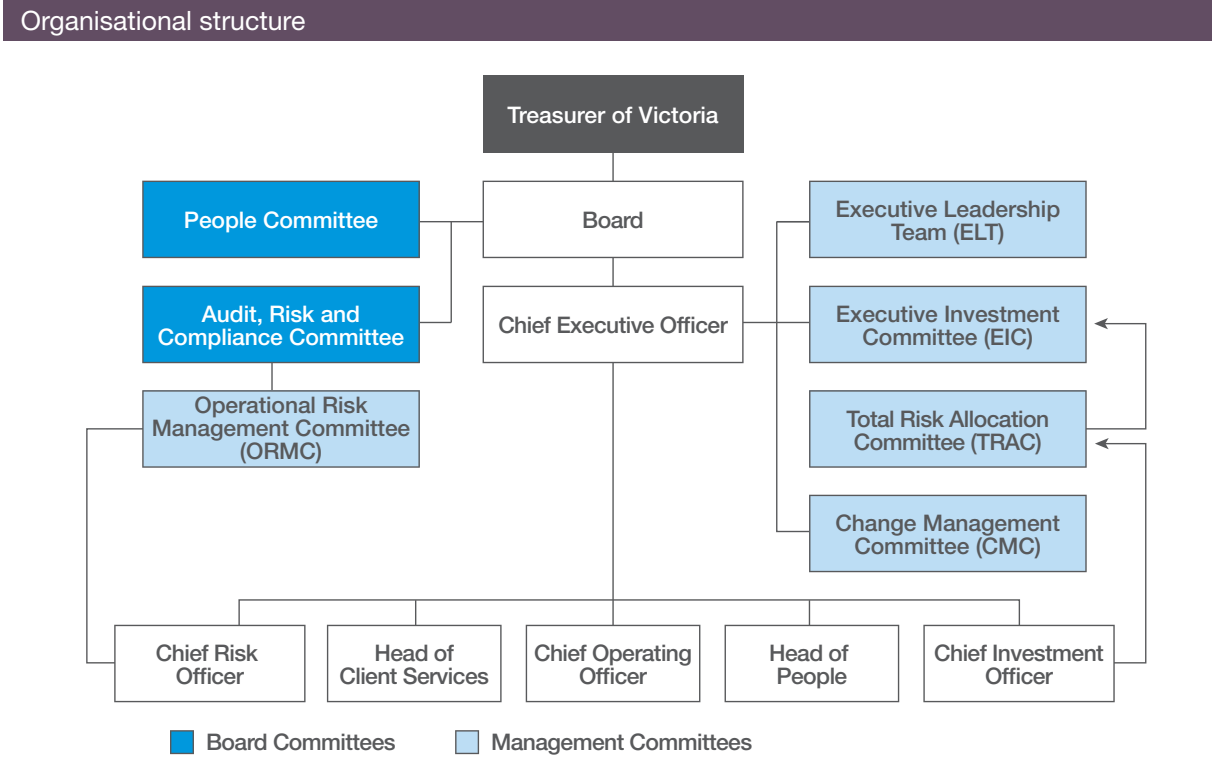
VFMC’s structure

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 five directors and is chaired 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.



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 and inclusion. The performance of the CEO is also evaluated by this Committee.

Directors' and Committee meetings

The number of meetings held during 2019-2020 and those attended by each Director are set out at right.

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.

Director	Board of Directors Meetings		
	No. Held	No. Eligible	No. Attended
James MacKenzie	13	13	13
Paula Benson	13	7	7
John Fitzgerald	13	13	11
Lisa Gay	13	13	13
David Martine	13	13	8
Elana Rubin	13	13	12
Fiona Trafford-Walker	13	13	12
Maria Wilton	13	13	12

Director	Audit, Risk & Compliance Meetings		
	No. Held	No. Eligible	No. Attended
Lisa Gay	6	6	6
James MacKenzie	6	6	6
John Fitzgerald	6	6	6
Fiona Trafford-Walker	6	6	5
Maria Wilton	6	6	6

Director	People Committee Meetings		
	No. Held	No. Eligible	No. Attended
Elana Rubin	7	7	7
James MacKenzie	7	7	6
Paula Benson	7	5	5
David Martine	7	7	6
Fiona Trafford-Walker	7	7	6
Lisa Gay John Fitzgerald Maria Wilton	Each attended one meeting as observer only.		

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 67 to 71 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

Client portfolios versus benchmarks

VFMC manages the majority of the State's assets available to it under the terms of the VFMC Act. At 30 June 2020, VFMC had 31 clients with FUM of \$63.9 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 5.0-5.25%, Average Weekly Earnings (AWE) plus 4.0% or Wage Price Index (WPI) plus 4.25% 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 are expected to be met. The table below sets out the multi-year performance and stated long-term objective for each Foundation CIM client.

VFMC's performance has exceeded all five clients' long-term investment objectives for the period ending 30 June 2020.

Whole of State performance versus benchmark

The following charts show major asset class returns, Net of Fees (NOF), against the relevant benchmarks over one, three and ten years ended 30 June 2020.

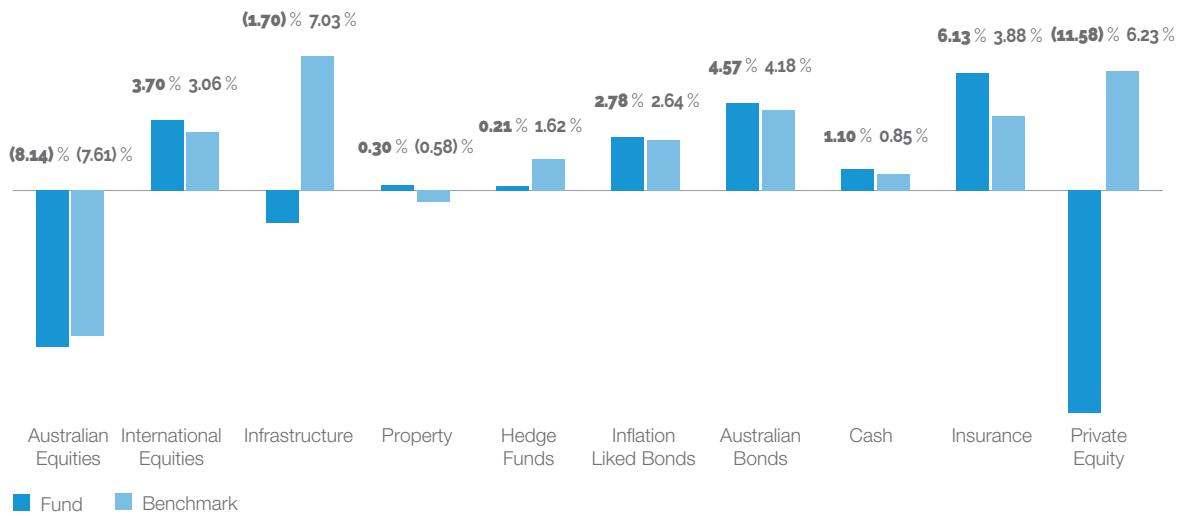
VFMC as a long-term investor continues to outperform the relevant benchmark over the seven and ten year periods.

Individual Client Performance versus stated objective for periods ending 30 June 2020

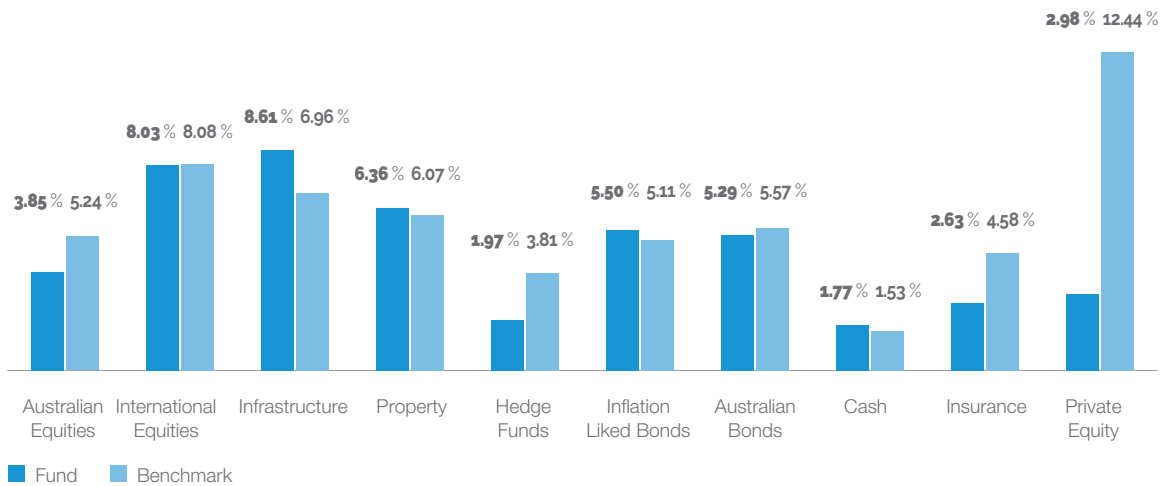
Client	Objective Horizon (years)	Performance Net of Fees % p.a.	Target Return per Objective % p.a.	Investment Objective	Probability of objective being achieved
WorkSafe Victoria	7	8.37	6.55	AWE + 4% p.a. over rolling seven year periods	60%
TAC	10	8.94	7.19	CPI (Melb) + 5% p.a. over rolling ten year periods	60%
VMIA	10	8.78	6.85	WPI + 4.25% p.a. over rolling ten year periods	50%
ESSSuper SSF	8	9.40	7.17	CPI (Aust) + 5.25% p.a. over rolling eight year periods	65% ± 2.5%
ESSSuper DB	8	9.17	6.92	CPI (Aust) + 5% p.a. over rolling eight year periods	65% ± 2.5%

Note: These Client Objectives were changed and implemented on 1 October 2019

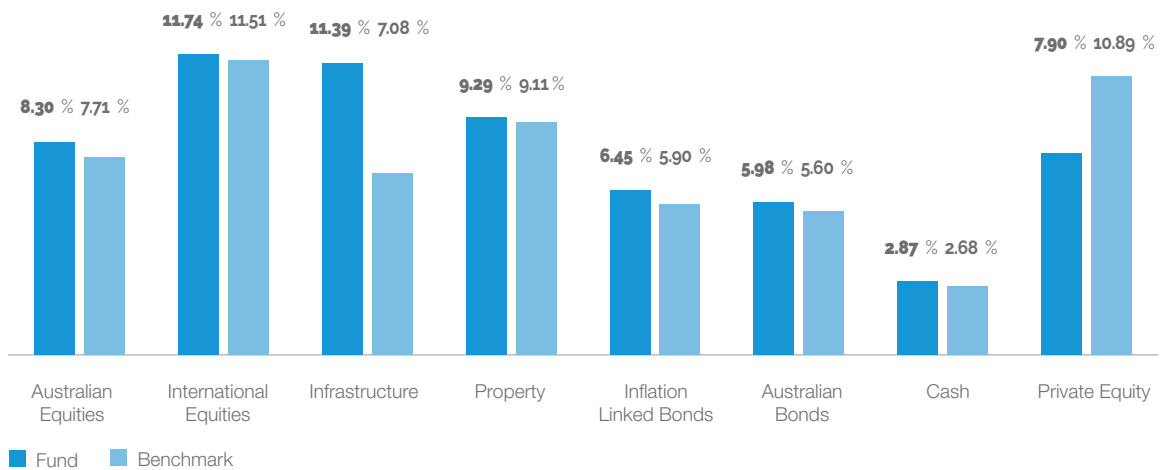
1 year



3 year p.a.



10 year p.a.



Client and stakeholder satisfaction

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

During 2018, a Client Satisfaction Survey was conducted by EY Sweeney.

Six key themes explored in the research were Strategy and Leadership, Investment Returns, Financial Year End Reporting, Asset and Liability Analysis, Service and Communications, ESG and Proxy Voting.

VFMC clients showed very high levels of satisfaction, with 15 of the 16 clients surveyed rating their satisfaction at 8 or above out of 10. Overall, the aggregate satisfaction score increased from 7.93 to 8.40.

Client surveys are a valuable exercise showing where 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. VFMC will conduct the next Client Satisfaction Survey in late 2020.

Our people engagement

We continue to be pleased to see our culture strengthen and our people succeed. While this past financial year ended differently than we expected, our people showed great resilience preparing for and enacting our transition to working at home.

As outlined last year, we have focused our leaders' attention on:

- leadership/management
- feedback and recognition
- career and development.

Unfortunately, our participation in the public sector wide People Matter Survey was curtailed due to COVID-19 impacts. However, we conducted a pulse on our engagement scores and saw a 5% uplift in engagement and pleasingly a 10% uplift in the 'Pride' factor (from 83% to 93%) and a 4% uplift in 'Advocacy' factor (from 79% to 83%).

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 2018 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 clients through portfolios of similar size and complexity. VFMC conducts benchmarking every three years as part of the triennial asset and liability review.

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 2020 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 \$19.3 million in 2019-2020. This result was consistent with FUM growth to \$63.9 billion and effective cost management practices.

Return on capital

VFMC's return on capital was 29% and the capital position increased from \$46.2 million in 2018-2019 to \$52.9 million as at 30 June 2020.

An anticipated dividend payment to the State of Victoria of \$6.7 million would reduce net assets at 30 June 2020 to \$46.2 million. This amount will be confirmed in the 2020-2021 year.

For further information refer to our financial statements on pages 49 to 77.

Expenditure on consultancies and major contracts

In 2019-2020 VFMC invested in its operations by continuing the execution of the 2020 Strategic Plan. Five consultancies, where total fees were more than \$10,000, were used to support the delivery of projects, with annual expenditure of \$1,060,000. This compared to an expenditure of \$1,389,000 in 2018-2019.

For details of individual consultancies, visit vfmc.vic.gov.au.

VFMC's information and communication technology expenditure of \$7,356,000 included \$4,759,000 for business as usual (BAU) expenses and \$2,597,000 for project expenditure.

In comparison, the 2018-2019 figures were \$5,985,000 for information and communication technology expenditure, \$4,654,000 for BAU expenses and \$1,331,000 for project expenses.

Key financials

	2019-2020 \$ million	2018-2019 \$ million	2017-2018 \$ million
Pre-tax surplus	19.3	19.1	20.5
Net assets	52.9	46.2	41.9
Dividend paid	6.7	7.2	6.5

Annual Financial Report

for the year ended
30 June 2020



Comprehensive operating statement for the financial year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Income from transactions			
Management fees		176,552	180,023
Performance fees		–	3,432
Total income from contracts with customers		176,552	183,455
Interest and other income		306	633
Total income from transactions		176,858	184,088
Expenses from transactions			
Portfolio management and custodian expenses	4	110,099	116,800
Employee benefit expenses	4	22,800	25,315
Depreciation and amortisation expenses	4	1,561	479
Other operating expenses	4	23,099	22,242
Total expenses from transactions		157,559	164,836
Net surplus from transactions		19,299	19,252
Other economic flows included in net surplus			
Net loss arising from revaluation of long service leave		(37)	(126)
Net surplus before tax		19,262	19,126
Income tax expense	5	5,792	5,748
Net surplus after tax		13,470	13,378
Comprehensive result		13,470	13,378

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

Balance sheet

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Assets			
Financial assets			
Cash and cash equivalents	14(a)	48,074	46,698
Trade and other debtors	6	39,267	44,068
Prepayments and other assets		2,772	878
Income tax receivable		1,077	384
Deferred tax assets	5	3,850	5,974
Total financial assets		95,040	98,002
Non-financial assets			
Property, plant and equipment	7(a)	3,707	4,304
Right-of-use asset	10	5,839	–
Intangible assets	7(b)	1,111	34
Total non-financial assets		10,657	4,338
Total assets		105,697	102,340
Liabilities			
Trade and other payables	8	35,596	39,785
Lease liability	10	7,408	–
Provisions	9	9,752	16,395
Total liabilities		52,756	56,180
Net assets		52,941	46,160
Equity			
Contributed equity		5,000	5,000
Accumulated surplus		47,941	41,160
Net worth		52,941	46,160

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 2020

	\$'000	\$'000	\$'000
	Contributed Equity	Accumulated Surplus	Total
1 July 2018	5,000	36,888	41,888
Effect of adoption of new accounting standard AASB 15		(1,912)	(1,912)
1 July 2018 (restated)	5,000	34,976	39,976
Net surplus after tax	–	13,378	13,378
Dividends paid	–	(7,194)	(7,194)
30 June 2019	5,000	41,160	46,160
	Contributed Equity	Accumulated Surplus	Total
1 July 2019	5,000	41,160	46,160
Net surplus after tax	–	13,470	13,470
Dividends paid	–	(6,689)	(6,689)
30 June 2020	5,000	47,941	52,941

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 2020

	Notes	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from trade and other debtors		179,461	198,320
Payments to creditors and employees		(156,125)	(161,501)
Net GST paid		(8,507)	(9,801)
Income tax paid		(4,362)	(7,738)
Lease interest paid		(158)	–
Interest received		306	625
Other income		–	9
Net cash flows from operating activities	14(b)	10,615	19,914
Cash flows from investing activities			
Payments for property, plant and equipment		(527)	(2,673)
Payments for intangibles		(1,152)	(7)
Net cash flows used in investing activities		(1,679)	(2,680)
Cash flows from financing activities			
Dividends paid	17	(6,689)	(7,194)
Lease principal paid	10	(871)	–
Net cash flows used in financing activities		(7,560)	(7,194)
Net increase in cash and cash equivalents		1,376	10,040
Cash and cash equivalents at the beginning of the financial period		46,698	36,658
Cash and cash equivalents at the end of financial year	14(a)	48,074	46,698

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 2020 was authorised for issue in accordance with a resolution of the directors on 18 August 2020. The Board has the power to amend and reissue the financial statements.

VFMC is a Victorian-based for profit entity incorporated in Australia, 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.

The principal address of VFMC is:

Victorian Funds Management Corporation
Level 13, 101 Collins Street
Melbourne VIC 3000

2. Application of new and revised accounting standards

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

Summarised below is the Australian Accounting Standard (AAS) that is mandatory and has been adopted by VFMC in the current year. Several other new and revised Standards and Interpretations apply from 1 July 2019, however, they do not materially impact the financial statements of VFMC.

AASB 16 Leases (AASB 16)

AASB 16 applies for reporting periods commencing on or after 1 January 2019. AASB 16 replaces AASB 117 Leases, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 Operating Leases-Incentives and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

VFMC adopted AASB 16 using the modified retrospective method of adoption with the initial application date of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The effect of the adoption of AASB 16 is disclosed in Note 10.

Notes to the financial statements

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

A number of new accounting Standards and interpretations have been published that are not yet effective for periods beginning 1 July 2019 and have not been early adopted by VFMC. These standards and interpretations applicable from periods beginning 1 July 2020 or beyond as noted by effective date, are not expected to have a material effect on the financial statements of VFMC.

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

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

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

The balance sheet 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.

Both the functional and presentation currency of VFMC is Australian dollars. Transactions denominated in foreign currencies 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.

(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

Consideration for management and performance fees is variable in nature. Revenue is recognised only to the extent that it is highly probable that a significant reversal in cumulative revenue recognised will not occur or when the uncertainty associated with the variable consideration is resolved.

Performance fees revenue is derived over both one year and three year terms, calculated

Notes to the financial statements

as outperformance against agreed-upon benchmarks. Performance fee revenue is recognised when it is considered highly probable that the revenue is not subject to reversal.

Principal versus Agent

VFMC engages a number of third-party organisations to fulfil certain performance obligations in portfolio management and custody arrangements. Generally, VFMC is deemed to be the principal in these arrangements because VFMC controls the investment management and other related services before they are transferred to customers. Such control is evidenced by VFMC's primary responsibility to customers, the ability to negotiate the third-party contract price and select and direct third-party service providers. Therefore, management fee revenue is reported on a gross basis.

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.

Leases

VFMC assesses at contract inception whether a contract is, or contains, a lease. A contract is assessed as a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. VFMC recognises a lease liability for lease payments and a right-of-use asset representing the right to use the underlying asset. VFMC uses professional judgement in determining the lease term where the contract contains options to extend or terminate the lease.

A right-of-use asset is recognised at the commencement date of the lease and measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of a right-of-use asset equals the amount of lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. A right-of-use asset is amortised on a straight-line basis over the lease term.

At the commencement date of the lease, VFMC recognises a lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentive receivable and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, VFMC calculates its incremental borrowing rate based on a yield rate adjusted with risk premium margin adjustment based on the Financial industry rating provided by Treasury Corporation of Victoria (TCV). After the commencement date, the amount of lease liability is increased to reflect the accrued interest and reduced for the lease payments made.

Notes to the financial statements

4. Expenses

	2020 \$'000	2019 \$'000
Portfolio management and custodian expenses	110,099	116,800
Salary and related expenses	22,320	24,798
Directors' fees	480	517
<i>Total employee benefit expenses</i>	22,800	25,315
IT expenses	4,926	5,985
Market data and research	5,038	3,866
Investment risk management	905	1,060
Consultancy and professional fees	2,356	2,135
Rental and outgoings	345	1,279
Legal expenses	1,258	541
Insurance	1,137	919
Audit fees	104	100
Finance cost	158	–
Strategic development costs	5,251	4,049
Office administration	689	706
Other expenses	932	1,602
<i>Total other operating expenses</i>	23,099	22,242
Depreciation of property, plant & equipment	610	317
Amortisation of right-of-use asset	876	–
Amortisation of intangible	75	162
<i>Total depreciation and amortisation expenses</i>	1,561	479
Total expenses	157,559	164,836

Portfolio management and custodian expenses:

These expenses are variable in nature and are recognised on a systematic basis that is consistent with the transfer of the related services to customers.

Rental and outgoings:

With the adoption of AASB 16, lease rental payments are now reported as finance cost and amortisation of right-of-use asset, except for short-term and low value leases. Further information is provided in Note 10.

Notes to the financial statements

5. Income tax

	2020 \$'000	2019 \$'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)	3,817	5,073
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Deferred income tax – relating to origination and reversal of temporary differences	1,975	675
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Income tax expense reported in the comprehensive operating statement

5,792	5,748
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(b) The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:

Accounting net surplus before tax from continuing operations	19,262	19,126
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Prima facie tax calculated at 30%	5,779	5,738
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Non-deductible expenses	13	10
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Income tax attributable to net surplus from operations

5,792	5,748
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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 relate to the following:

- salary and related expenses	2,918	4,921
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- capital deductions	189	321
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- fixed assets	169	253
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- client rebates	85	-
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- others	489	479
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Total deferred tax assets	3,850	5,974
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Deferred income tax assets are recognised for all deductible taxable 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

6. Trade and other receivables

	2020 \$'000	2019 \$'000
Current		
Management fees and trade receivables	38,474	43,381
Receivables from VFMC Trusts	774	687
Australian Taxation Office (GST)	19	–
Total trade and other receivables	39,267	44,068

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.

VFMC's credit risk exposure to financial loss resulting from the potential default of its counterparties on their contractual obligations is minimal. VFMC receivables are either with other government entities or with the Trusts, which are managed by VFMC. Receivables from VFMC Trusts are for expenses incurred on behalf of the Trusts. As such no expected credit loss has been recognised for these receivables.

Notes to the financial statements

7. Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	2020 \$'000	2019 \$'000
Leasehold premises improvements	4,901	4,727
Less: Accumulated depreciation	(2,474)	(2,095)
	2,427	2,632
Furniture, fittings and equipment	4,077	3,724
Less: Accumulated depreciation	(2,797)	(2,052)
	1,280	1,672
Total fair value	3,707	4,304
Reconciliation		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	2,632	5
Additions	174	–
Transfers from Leasehold Improvements – Work in Progress	–	2,904
Depreciation	(379)	(277)
	2,427	2,632
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	1,672	480
Additions	353	1,574
Depreciation	(745)	(382)
	1,280	1,672
Total property, plant and equipment	3,707	4,304

Following initial recognition, property, plant and equipment are carried at cost less 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. Cost less accumulated depreciation approximates fair value.

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 an 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.

Notes to the financial statements

(b) Intangible assets

	2020 \$'000	2019 \$'000
Intangible assets	8,359	8,079
Less: Accumulated amortisation	(8,120)	(8,045)
	239	34
Intangible assets – work in progress	872	–
Total fair value	1,111	34
Reconciliation		
<i>Intangible assets</i>		
Carrying amount at beginning	34	188
Additions	280	7
Amortisation	(75)	(161)
	239	34
<i>Intangible assets – work in progress</i>		
Additions	872	–
Total intangible assets	1,111	34

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life by using the straight-line method and are tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets held at reporting date are being amortised over three years. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method as appropriate. There has been no change to the estimated useful lives over the financial year. At reporting date, VFMC does not have any intangible assets with indefinite useful lives.

Work in progress relates to Data and Analytics platform development project and is carried at cost. In determining the amounts to be capitalised, management makes assumptions regarding the expected future benefits and the expected period of benefits. Amortisation of these assets, on the same basis as other intangible assets, commences when the assets are ready for their intended use. No impairment is required as at reporting date.

Notes to the financial statements

8. Trade and other payables

	2020 \$'000	2019 \$'000
Current		
Accrued management and performance fees	32,875	34,678
Australian Taxation Office (GST)	–	110
Trade creditors and other payables	2,721	3,433
Total current	35,596	38,221
Non-current		
Lease incentives	–	1,564
Total non-current	–	1,564
Total trade and other payables	35,596	39,785

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.

With the adoption of AASB 16, the lease incentive has been reclassified and adjusted against the fair value of the right-of-use asset. Further information is provided in Note 10.

Notes to the financial statements

9. Provisions

	2020 \$'000	2019 \$'000
Current		
Unconditional annual leave		
expected to settle within 12 months	498	529
expected to settle after 12 months	1,041	565
Unconditional long service leave		
expected to settle within 12 months	315	270
expected to settle after 12 months	1,639	1,756
Unconditional incentives	3,922	7,683
Provisions for on-costs		
expected to settle within 12 months	307	492
expected to settle after 12 months	243	260
Total current	7,965	11,555
Non-current		
Long service leave	490	429
Incentives	948	4,002
Provision for on-costs	349	409
Total non-current	1,787	4,840
Total provisions	9,752	16,395

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 & 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.

Incentives relate to VFMC's Single Incentive Plan (SIP), which is recognised once approved by the People Committee and the Board. Incentives that are expected to be settled within 12 months are recognised as a current liability, whilst the remainder is paid over two years and recognised as a non-current liability. Non-current amounts represent the present value of the remaining SIP entitlement.

Notes to the financial statements

10. Leases

This note provides information on the effect of the adoption of AASB 16 on VFMC's financial statements and also discloses the new accounting policies that have been applied from the date of application.

VFMC elected to use the transition practical expedient wherein it:

- Applied the standard only to contracts that were previously identified as leases applying AASB 117 at the date of initial application
- Applied short-term and low-value leases exemption

Prior to the adoption of AASB 16, VFMC's commercial office rental and information technology commitments were classified as operating leases.

The commercial office rental has 10-year lease contract which contains an option to extend the lease at the end of the lease term. The extension option is subject to market rent review and renegotiation of lease payments. As such, VFMC did not consider the renewal option on transition.

Upon the adoption of AASB 16, VFMC recognised right-of-use asset and lease liability for the commercial office rental. The right-of-use asset was recognised based on the amount equal to the lease liability, adjusted by the accrued lease incentive immediately before the date of initial application. The accrued lease incentive represented the rent-free benefit which was recognised over the lease term on a straight-line basis as required by AASB Interpretation 115 *Operating Leases-Incentives*.

Lease liability was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The information technology and office equipment commitment was expected to conclude within 12 months or less, hence it was deemed as short-term lease and was recognised on a straight-line basis as an expense in comprehensive operating statement.

Right-of-use asset as at 1 July 2019 was as follows:

	\$'000
Right-of-use asset	8,279
Lease incentive	(1,564)
Right-of-use asset as at 1 July 2019	6,715

The lease liability as at 1 July 2019 can be reconciled to the operating lease commitment as of 30 June 2019, as follows:

	\$'000
Operating lease commitments	
Commercial office rental	9,170
Information technology	785
Operating lease commitments as at 30 June 2019	9,955
Less:	
Commitments relating to short-term leases	785
Commitments relating to low-value asset leases	26
Non-lease components within commercial office rental contract	119
Operating lease commitments as at 1 July 2019	9,025
Weighted average incremental borrowing rate as at 1 July 2019	2.2%
Discounted operating lease commitments as at 1 July 2019	8,279
Lease liability as at 1 July 2019	8,279

Notes to the financial statements

Set out below are the carrying amounts of right-of-use asset and movements during the period:

	2020 \$'000
<i>Commercial office lease</i>	
Carrying amount at beginning	6,715
Amortisation expense	(876)
Total right-of-use asset	5,839

The following table shows the carrying amounts of lease liability and movements during the period:

	2020 \$'000
<i>Commercial office lease</i>	
Carrying amount at beginning	8,279
Interest accrued	158
Payments	(1,029)
Total lease liability	7,408

Maturity analysis of lease liability is as follows:

	2020 \$'000
Lease liability	
Current	918
Non-current	6,490
Total lease liability	7,408

The following are the amounts recognised in Comprehensive operating statement:

	2020 \$'000
Amortisation expense of right-of-use asset	876
Interest expense on lease liability (included in other operating expenses)	158
Expense relating to short-term leases (included in other operating expenses)	2,033
Expense relating to leases of low-value assets (included in other operating expenses)	47
Total amount recognised in the Comprehensive operating statement	3,114

Following amounts are recognised in the Statement of Cashflows:

	2020 \$'000
Lease interest paid	158
Lease principal paid	871
Total cash outflow for leases	1,029

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 \$1,690,648 (2019: \$1,554,064) in accordance with the *Superannuation Guarantee Charge Act (1992)*. There were no outstanding contributions at year end.

Any contributions made to superannuation funds are charged against the comprehensive operating statement when due and classified as employee benefit expenses.

Notes to the financial statements

12. Responsible persons, remuneration of executives and other personnel

(a) Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer 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

Tim Pallas, Treasurer

The Directors

James MacKenzie (Chairperson)
 Paula Benson (resigned 6 March 2020)
 John Fitzgerald
 Lisa Gay
 David Martine PSM
 Elana Rubin
 Fiona Trafford-Walker
 Maria Wilton AM

Chief Executive Officer

Lisa Gray

The base and total remuneration of responsible persons, being the Directors and the Chief Executive Officer (CEO), 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 below excludes the salaries and benefits the Treasurer receives. The Treasurer's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' Financial Report.

Income Band	Total Remuneration		Base Remuneration	
	2020 No.	2019 No.	2020 No.	2019 No.
\$Nil to \$9,999	1	2	1	2
\$10,000 to \$19,999	–	1	–	1
\$40,000 to \$49,999	1	–	1	–
\$50,000 to \$59,999	–	1	–	1
\$60,000 to \$69,999	5	5	5	5
\$130,000 to \$139,999	1	1	1	1
\$560,000 to \$569,999	–	–	–	1
\$590,000 to \$599,999	–	–	1	–
\$970,000 to \$979,999	–	1	–	–
\$1,000,000 to \$1,009,999	1	–	–	–
Total numbers	9	11	9	11
Total amount	\$1,494,540	\$1,487,155	\$1,083,590	\$1,076,598

Notes to the financial statements

(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.

David Martine is Secretary, Department of Treasury & Finance (DTF) and a Director of TCV. During the year VFMC paid a dividend to DTF of \$6,689,000 (2019: \$7,194,000). VFMC generated interest income of \$2,876 (2019: \$19,524) from its cash holdings with TCV, with this investment fully redeemed during the year (2019: \$1,000,000). On behalf of its clients, VFMC invests funds with TCV periodically, with Guaranteed Bill Index Deposit of \$629 held at 30 June 2020 (2019: \$1,538,243) and Nil Fixed Rate Notes held at 30 June 2020 (2019: \$338,628,716). Accordingly, VFMC clients

earn interest income at prevailing market rates on normal commercial terms and conditions.

Elana Rubin is Chair of Victorian Managed Insurance Authority (VMIA). VMIA is a client of VFMC, and at 30 June 2020 had FUM invested of \$2,589,495,801 (2019: \$2,531,618,288). All fees are charged on normal commercial terms and conditions.

Lisa 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 2020 had FUM invested of \$95,188,765 (2019: \$95,244,371). All fees are charged on normal commercial terms and conditions.

Maria Wilton is Director of Victorian WorkCover Authority Board (WorkSafe). WorkSafe is a client of VFMC, and at 30 June 2020 had FUM invested of \$17,596,294,469 (2019: \$17,763,531,295). All fees are charged on normal commercial terms and conditions.

The Minister, Tim Pallas, is responsible for Economic Development of the State of Victoria and Invest Victoria is the organisation that supports him as Minister for Economic Development. Lisa Gray was appointed Interim CEO of Invest Victoria, for the period February 2019 to August 2019, to lead the organisation while the Government recruited a permanent CEO. At all times Lisa Gray remained CEO of VFMC and her remuneration as CEO is shown in the previous table.

As the investment manager for its clients, VFMC invested in debt securities used in Victorian Public-Private Partnerships. At 30 June 2020, VFMC clients held investments in Royal Children's Hospital's debt security totalling \$1,244,762,004 (2019: \$1,262,826,318) and Royal Women's

Notes to the financial statements

Hospital's debt security totalling \$923,210 (2019: \$948,390). These debt securities are valued by an independent third party. Income is being received and the transactions were undertaken on normal commercial terms and conditions.

VFMC utilises the insurance services of Victorian Managed Insurance Authority (VMIA), a client and related government entity. VFMC paid premiums to VMIA of \$1,422,484 (2019: \$883,652) 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 unitholders or charged back to the VFMC Trusts on normal commercial terms and conditions. Trust receivables as at 30 June 2020 were \$774,253 (2019: \$686,604). Management fees are paid on a monthly basis. Total fees earned by VFMC during the year for the management of the VFMC Trusts were \$27,135,635 (2019: \$23,588,829).

(c) Remuneration of executive officers

The number of executive officers, other than ministers and responsible persons, 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 salaries, incentives, annual leave and personal leave that are usually paid or payable on a regular basis.

Other long-term benefits include long service leave and other long service benefits.

Remuneration of executive officers	Total remuneration	
	2020 \$	2019 \$
Short-term employee benefits	2,451,245	2,466,882
Other long-term benefits	2,652	(10,292)
Total remuneration	2,453,897	2,456,590
Total number of executives	6	6
Total annualised employee equivalents	4.9	4.8

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 are generally restricted to a management fee, the value of which is based on the funds under management within the Trusts and recovery of certain costs. VFMC's financial statements do not include the assets and liabilities of the VFMC Trusts which are used as investment products for clients.

VFMC's interest in trusts is generally restricted to unpaid fees at period end which is based on the value of the Trust assets. During the year ended 30 June 2020, fees earned were \$27,135,635 (2019: \$23,588,829) and unpaid fees were \$2,091,706 (2019: \$1,787,180). 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.

The following is a list of Trusts for which VFMC acts as trustee as at 30 June 2020.

Board of Directors as trustees:

VFMC Balanced Fund
VFMC Capital Stable Fund
VFMC Cash Trust
VFM Emerging Markets Trust
VFMC Australian Credit Trust
(previously VFMC Enhanced Cash Trust)
VFMC ESSS Private Equity Trust 2004
VFMC ESSS Private Equity Trust 2006
VFMC ESSS Private Equity Trust 2007
VFMC Emerging Markets Debt Trust 1
VFMC Emerging Markets Debt Trust 2
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 International Fixed Income Trust
VFMC Investment Trust I
VFMC Investment Trust II
VFMC Investment Trust IV
VFMC Opportunistic Strategies Trust
VFMC Yield Optimised Dividend Accumulator Trust

Notes to the financial statements

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

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 is reconciled to the related items in the balance sheet as follows:

	2020 \$'000	2019 \$'000
Cash at bank	48,074	45,694
Short term deposits	–	1,004
Total cash and cash equivalents	48,074	46,698

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

	2020 \$'000	2019 \$'000
Net surplus from operations after income tax	13,470	13,378
Adjustments for non-cash income and expense items:		
Depreciation of property, plant & equipment	1,124	660
Amortisation of right-of-use asset	876	–
Amortisation of intangible assets	75	162
Changes in assets and liabilities:		
Decrease in receivables and other debtors	2,908	18,635
Decrease in payables and other provisions	(7,838)	(12,921)
Net cash flows from operating activities	10,615	19,914

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 \$63.9bn as at 30 June 2020 (2019: \$64.1bn). These funds are managed on behalf of the following clients:

- Ballarat General Cemeteries Trust
- Ballarat Health Services
- CenITex
- Consumer Affairs Victoria
- Corangamite Shire Council
- 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
- Municipal Association of Victoria
- National Gallery of Victoria
- Peninsula Health
- Portable Long Service Authority
- Queen Elizabeth Centre
- 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

	2020 \$	2019 \$
Fees paid or payable to Victorian Auditor-General's Office (VAGO) for the audit of VFMC	104,400	99,505
Total audit fees	104,400	99,505

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 2019-2020 VFMC paid a \$6,689,000 dividend to the Department of Treasury and Finance (2019: \$7,194,000).

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).

COVID-19, which is a respiratory illness caused by a new virus, was declared a world wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on the domestic and global economy and equity, debt and commodity markets. As funds managed by VFMC are not included in investments in the balance sheet, there is minimal financial impact to the Corporation.

(a) 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.

VFMC continues to monitor the impact of COVID-19 on its risk profile. Non-financial risks on our people and service providers have been identified, assessed, managed and governed through VFMC's risk management framework.

(b) 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 expected credit loss 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, which has an AA or better credit rating. Hence, no expected credit loss has been recognised for these cash balances.

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, \$100,618 is past due (2019: nil).

Notes to the financial statements

(c) Liquidity risk

Liquidity risk is the risk that VFMC will have insufficient liquidity to meet its obligations as they fall due. This risk is managed by regularly monitoring liquid reserves (cash and short-term reserves) and obligations as they fall due.

VFMC's financial liabilities comprises non-interest bearing payables which are all contracted to be settled within 30 days after balance date (2019: 30 days) and lease liability (further details are provided in Note 10).

(d) 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).

(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 \$48,100,000 (2019: \$46,700,000), trade and other receivables of \$39,300,000 (2019: \$44,100,000) and trade and other payables of \$35,600,000 (2019: \$39,800,000). The weighted average interest rate for cash during the reporting period was 0.25% and the annual interest rate applied to the term deposit was 1.95%.

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 have determined, if interest rates had been 100 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:

- 100 basis points higher: increase in surplus of \$480,000 (2019: \$466,000 increase)
- 100 basis points lower: decrease in surplus of \$480,000 (2019: \$466,000 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, trade and other payables, trade and other debtors which are carried at amortised cost, approximate their reasonable fair value due to the short-term nature of these instruments.

Notes to the financial statements

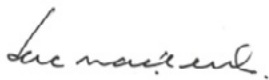
19. Subsequent events to balance date

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 2020 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 Assistant Treasurer 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 2020 and the financial position as at 30 June 2020;
- 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 18 August 2020.



James MacKenzie
Chair



Lisa Gray
Chief Executive Officer



Maurice Petrilli
Head of Finance

Dated: 18 August 2020

Independent Auditor's Report

To the Directors of the Victorian Funds Management Corporation

Opinion	<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">• balance sheet as at 30 June 2020• comprehensive operating statement for the year then ended• statement of changes in equity for the year then ended• cash flow statement for the year then ended• notes to the financial statements, including significant accounting policies• statement by the Chair and Management. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<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>
Director's responsibilities for the financial report	<p>The Directors 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>

Auditor-General's report (continued)

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 the 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 Director's 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.

**Other
information -
Report of
operations**

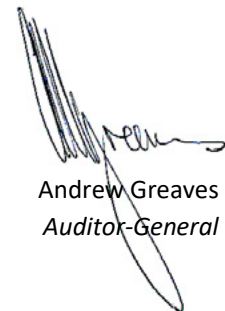
The Board is responsible for the "other information" included in the Corporation's Report of Operations for the year ended 30 June 2020. The Report of Operations does not include the financial report and my auditor's report thereon, which together with the Report of Operations forms the Corporation's annual report.

My opinion on the financial report does not cover the other information included in the Report of Operations and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the Report of Operations when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a materially misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

MELBOURNE
1 September 2020



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.

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 2019-2020, there was one contract commenced 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

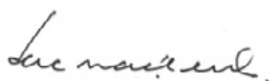
VFMC has taken all practical measures to comply with its obligations under the Act. These include:

- 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', with a small blue mark above the 'e'.

Chair

Dated 18 August 2020

Disclosure index

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

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