

# Annual Report

2020-2021





**Victorian Funds Management Corporation**  
 ABN 27 691 254 157

**Office**

Level 13  
 101 Collins Street  
 Melbourne Victoria 3000  
 +61 3 9207 2900  
 info@vfmc.vic.gov.au  
 vfmc.vic.gov.au

**Corporation Secretary**

Caitlin Gill (to April 2021)  
 Traci MacRae

**External Auditor**

Victorian Auditor-General's Office  
 Level 31  
 35 Collins Street  
 Melbourne, Victoria 3000

**Our clients**



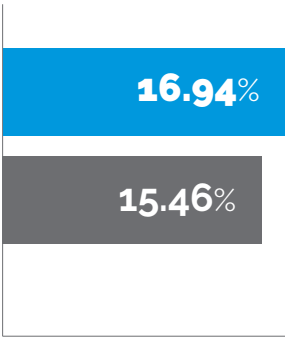
# Contents

- 2020-2021 Highlights \_\_\_\_\_ 4
- About VFMC \_\_\_\_\_ 5
- Strategic priorities \_\_\_\_\_ 7
- Report from the Chair and Chief Executive Officer \_\_\_\_\_ 8
- Investment Management** \_\_\_\_\_ **11**
- Investment management approach \_\_\_\_\_ 12
- Investment stewardship \_\_\_\_\_ 15
- Investment performance \_\_\_\_\_ 20
- Operational Performance** \_\_\_\_\_ **25**
- Our clients \_\_\_\_\_ 26
- Our people \_\_\_\_\_ 28
- VFMC in the community \_\_\_\_\_ 33
- Meet our Executive Leadership Team \_\_\_\_\_ 34
- Meet our Board \_\_\_\_\_ 38
- Governance \_\_\_\_\_ 42
- Key performance indicators \_\_\_\_\_ 46
- Financial performance \_\_\_\_\_ 50
- Annual Financial Report**  
**for the year ended 30 June 2021** \_\_\_\_\_ **51**
- Comprehensive operating statement  
for the financial year ended 30 June 2021 \_\_\_\_\_ 52
- Balance sheet  
as at 30 June 2021 \_\_\_\_\_ 53
- Statement of changes in equity  
for the financial year ended 30 June 2021 \_\_\_\_\_ 54
- Cash flow statement  
for the financial year ended 30 June 2021 \_\_\_\_\_ 55
- Notes to the financial statements \_\_\_\_\_ 56
- Statement by the Chair and Management \_\_\_\_\_ 79
- Auditor-General’s report \_\_\_\_\_ 80
- General compliance information \_\_\_\_\_ 82
- Risk management attestation \_\_\_\_\_ 85
- Disclosure index \_\_\_\_\_ 86

# 2020-2021 Highlights

## One year return

to 30 June 2021  
vs benchmark  
(net of fees)

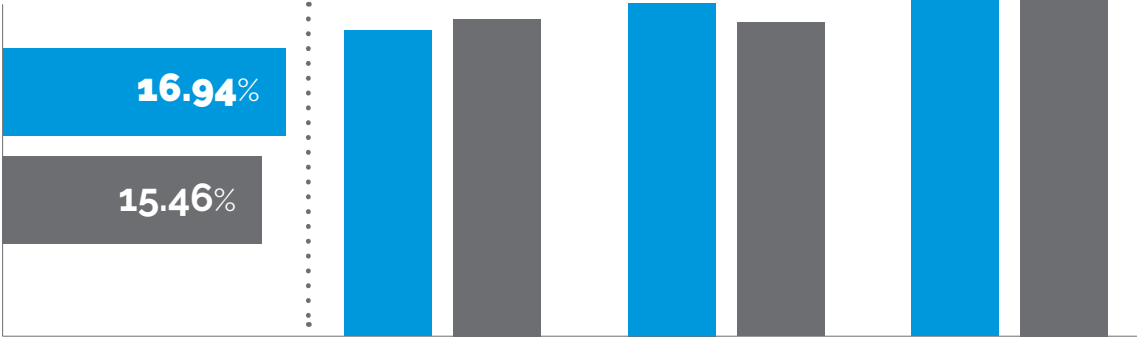


1yr p.a.

## Longer term returns

vs benchmark (net of fees)

**7.92%** **8.15%** **8.64%** **8.13%** **9.41%** **8.79%**

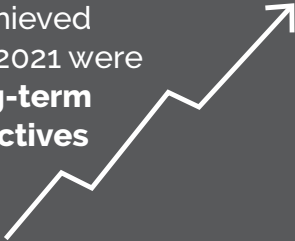


3yrs p.a.

7yrs p.a.

10yrs p.a.

Returns achieved over 2020-2021 were **above long-term client objectives**



**90%**

of our people **recommend VFMC as a great place to work.**

↑ **11% on 2019-20**

Funds Under Management

**\$74.5bn**

↑ **\$10.6bn**

Client satisfaction is strong at

**7.9** out of **10**

EY Sweeney 2020 Research.

Client comments such as **'professional', 'experts' and 'centre of excellence'** used to describe VFMC.

Pre-tax surplus

**\$22.4m**

Thank you to our people for their **immense commitment and determination** in 2020 and into 2021.



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 a contemporary public authority investing for the benefit of all Victorians. We manage funds of \$74.5 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

Our long-term aspiration is 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, invest through VFMC under the Victorian Government's Centralised Investment Model (CIM).

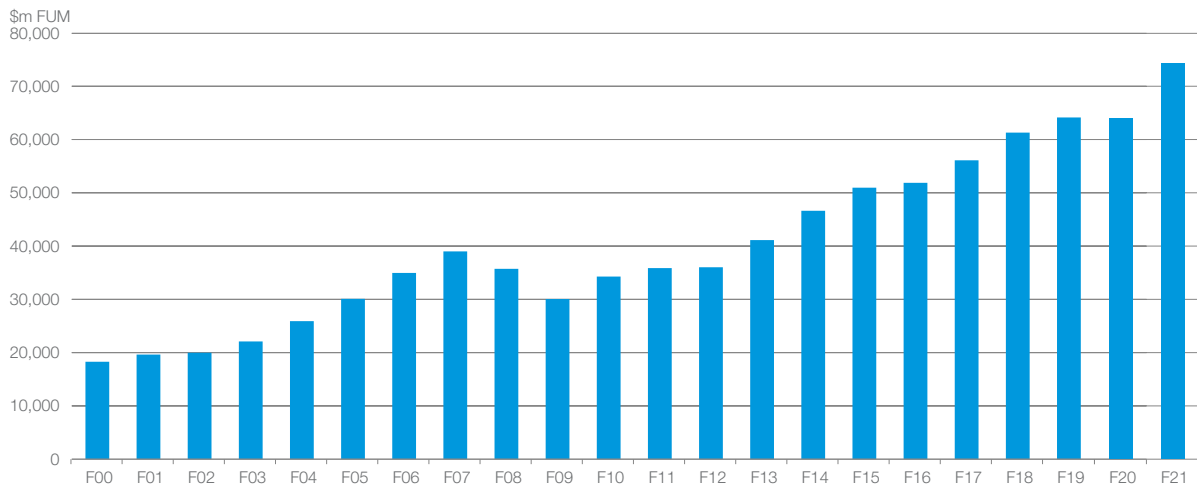
In addition to our Foundation CIM clients, VFMC is investment manager to 27 Victorian public authorities and related organisations with their own unique investment objectives, risk tolerances, time horizons and liquidity needs.

VFMC actively engages with prospective clients who qualify as 'participating bodies' under the VFMC Act. We provide investment guidance and assistance with product selection from VFMC's suite of Multi Strategy Funds (MSFs) or more customised solutions for larger portfolios.

For a complete list of our clients as at 30 June 2021 see page 74.

## Funds Managed

In 2020-2021, VFMC delivered a return of 16.94%, adding \$10.6 billion 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 strategic asset allocations for Foundation CIM clients.
- Designing and offering suitable products for other public authorities and related organisations.
- Implementing investment strategies.
- Offering investment consulting and guidance.
- Providing Internal funds management.
- Selecting external fund managers and monitoring their performance.
- Providing 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 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 36% of VFMC's funds are managed internally.

VFMC provides clients with monthly updates and detailed quarterly performance reports. VFMC 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 **8.64% p.a.** and **9.41% p.a.** net of fees. Our investment returns have exceeded Foundation CIM clients' long-term investment objectives.*

# Strategic priorities



## Evolve24 Strategic Agenda

During the uncertain and volatile environment of 2020, VFMC completed a strategic refresh for the period 2021-2024. Known as 'Evolve24', our new strategic agenda builds on the momentum and capabilities developed as a result of the 2020 Strategic Plan. Evolve24 is designed to enable VFMC to respond to the changing and unpredictable environment.

Our four-year aspiration is to:  
**'Create an adaptable, scalable investment platform that underpins the changing needs of our clients.'**

We have three strategic objectives for the 2021-2024 period:

**1. Optimise investment decision-making by blending our people's talents with data-powered tools**

This is critical as we navigate the complexities of COVID-19 and beyond, global capital markets that require the best of human

insight and intuition supplemented by the speed and reach of data and analytics capabilities.

**2. Simplify our structures and processes to enable effective responses to emerging client needs**

In the past, our underlying structures have been 'built by necessity', but to enable us to rapidly respond to an unpredictable environment and be well positioned for the future they need to be refreshed and 'built by design'.

**3. Future-ready our culture and capability**

Developing new ways of working, leveraging our technology and new data analytic capabilities, will be critical to thriving in a digitally driven world.

**VFMC's new strategic agenda, Evolve24, is underpinned by its enduring purpose of and commitment to 'improving the future prosperity of Victoria'.**

## The previous strategic plan

We have successfully delivered on the three strategic objectives of our previous 2017-2020 Strategic Plan:

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

The plan delivered a number of strategic outcomes for VFMC including:

- 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
- an upgraded technology platform, and
- an advanced data and analytics platform build.

*Our previous strategy has given us the **strong foundations** required for a market-leading Investment Manager.*

# Report from the Chair and Chief Executive Officer

## From Our Chair

The last twelve months have showcased the adaptability, creativity and determination of the people of VFMC. Amidst the varied challenges encountered during a full year of the global pandemic, our people delivered outstanding results for our clients and the State of Victoria. We thank the team for not only what they have delivered but how; displaying commitment, generosity and a strong sense of community.

### A successful year

For financial year 2020-2021, investment performance for one year was outstanding, with a return of 16.94% and 1.48% ahead of benchmark. In the longer term, results were pleasing with a 7-year return of 8.64% and 0.51% ahead of benchmark.

This outstanding performance is testament to the evolutionary transformation of VFMC over the last five years, coupled with the foundation and foresight of the State's Centralised Investment Model. The CIM, established in 2006, benefits from the economies of skill and scale of VFMC, providing access to world class investment management and diversification. It enables State Government departments and agencies to focus on their priorities for the community while benefiting from diversification and access to global investment talent.

### Adaptive governance

The VFMC Board has remained alert to the evolving external environment and its impact on the investment, operational and cultural challenges and opportunities experienced by the management team. Our emphasis has been on remaining flexible and maximising our ability to have choice in the future. To that end, the

Evolve24 Strategic Agenda has been designed to generate momentum while maintaining optionality. Not surprisingly, our oversight of the strategy blends discovery and adaptivity with scrutiny of disciplined execution.

During the year, we welcomed two new directors to the VFMC Board. Andrew Nicolaou joined in September 2020 and brings expertise in risk management and financial governance across the government sector. Tom Considine joined in June 2021 and brings extensive experience across infrastructure, public policy and strategy development.

### Our appreciation

In April, we announced that after nearly six years, CEO, Lisa Gray, has decided to leave VFMC at the end of September 2021. Lisa joined as CEO in February 2016 and has led the growth and evolution of VFMC into a leading, contemporary asset manager. A characteristic of her time as CEO has been her purposeful drive and strategic leadership, along with the adaptable and transparent partnership she has built with the VFMC Board, clients and State Government.

Lisa has been an outstanding leader of VFMC and leaves the organisation in a significantly better place, well positioned for a challenging and exciting future. We thank Lisa for her courage, challenge, optimism and humanity.



## From Our Chief Executive Officer

Capitalising on our investment in innovation, data analytics, leadership and culture, VFMC applied the insights and practices acquired during the early stages of the global pandemic to ensure a strong year of performance and delivery.

While often dealing with challenges due to the personal and family implications of COVID-19, our people have shown immense commitment and determination to deliver outstanding results for clients and the State of Victoria.

Thank you to every person at VFMC. Your talent, adaptability and care for each other has allowed us to remain strong and purposeful in providing our investment services for Victoria.

### Investment and financial performance

Despite encountering another year of volatility and unpredictability due to COVID-19, we have delivered very strong investment returns. In the shorter term, our one-year return was 16.94% and 1.48% ahead of benchmark. Our longer-term outcomes were ahead of clients' objectives and their benchmarks. For three, five, seven and ten years, annualised returns were 7.92%, 9.18%, 8.64% and 9.41% respectively.

Strong investment performance and effective cost management enabled VFMC to continue to invest in technology, data analytics and people capabilities while delivering a pre-tax surplus of \$22.4 million. This robust 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 \$74.5 billion of funds for 31 Victorian public authorities. During 2020-2021, we were delighted to welcome two new clients – Agriculture Victoria Services and William Angliss Institute.

### Evolutionary transformation

In December 2020, VFMC concluded the successful implementation of the 2020 Strategic Plan. The strategy has underpinned a purposeful, evolutionary transformation including a shift to whole of portfolio investment management, uplift in investment risk analytics, refreshed investment stewardship roadmap, innovative investment strategies and practices aimed at increasing performance resilience, new enterprise data and analytics tools and contemporary technology including digital workplace capabilities.

Underpinning the implementation of the 2020 Strategic Plan has been a sustained investment in our people, their leadership capability and the culture of VFMC. This has ensured that initiatives are sustainable and embedded.

In early 2021, we launched VFMC's next strategic agenda, 'Evolve24'. Evolve24 builds on the foundations established by the 2020 Strategic Plan and aspires to create an adaptable, scalable investment platform that underpins the changing needs of our clients and the State. This will ensure VFMC is well positioned over the next decade.

### Future ways of working

Our people have embraced new and different ways of working. In this regard, we look forwards not backwards. None of us truly know the impacts of working remotely for long periods of time, inducting new people into a culture without

experiencing the ‘village’ around them, developing and training people early in their career without the benefit of experience and a sounding board sitting next to them or renewing cultures when teams are working in many different locations. What we do know is we need to remain flexible, open to ways of working we haven’t yet considered, and to blend the needs of the individual with those of the whole organisation. Our investment in leadership will ensure we are well placed, as teams and leaders on the ground will be best equipped to determine what will work for their people while they deliver on expectations. Ultimately, our aim is to create self-sustaining and self-propelling organisations where ‘we do as we agree’.

We support the Voices for Vaccine program as vaccines are a key element of a safe and sustainable path out of the pandemic. We encourage all of our eligible people to choose to get vaccinated as soon as possible and provide support, such as paid leave, to help them.

### Thank you

We are grateful for the expertise and insight that our Board of Directors bring to VFMC. They are always generous in sharing their experience to ensure we deliver optimum outcomes for our clients.

The final word is for the people of VFMC who bring their whole selves to work every single day. Thank you for who and how you are.



*James MacKenzie*

**James MacKenzie**

Chair

*Lisa Gray*

**Lisa Gray**

Chief Executive Officer

# Investment Management

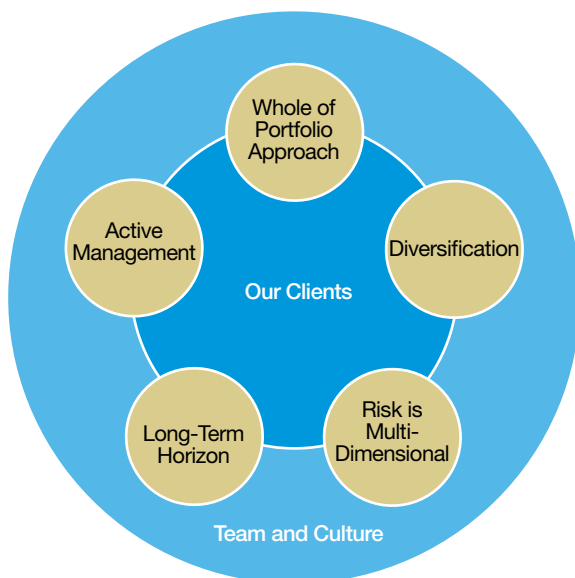


# Investment management approach

Our enduring purpose is to improve the future prosperity of Victoria.  
Our investment philosophy outlines the foundations of our approach to investment management.

## 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

Our philosophy must be resilient to our investment environment. During 2021, VFMC commenced a review of its investment philosophy to reflect the key investment themes which emerged or were reinforced with the onset of the COVID-19 crisis and subsequent macroeconomic developments.

## 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 objectives within risk tolerance and incorporate 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 (Consumer Price Index – CPI), Average Weekly Earnings (AWE) or Wage Price Index (WPI) per annum over rolling seven to ten 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 allocations 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 Funds as well as other clients with specific mandates.

## 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 while also being conscious of their shorter-term pressures. 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 reflect clients' liability profiles, such as assets which increase in line with inflation.

## A whole of portfolio approach

Enabling flexibility is an important feature of the portfolio to respond to the complexities and challenges of market developments. We believe that portfolios are best managed and measured as a whole, rather than the sum of its 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 whole of portfolio considerations that lead to more informed, holistic decision-making and better assessment of long and medium-term opportunities and risks. This approach enables VFMC to better respond to market conditions dynamically.

## 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 most appropriate level of 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 uses currency hedging to manage these exposures as needed.

## 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 around the globe who understand our investment strategy and collaborate closely with us to implement innovative investment ideas.

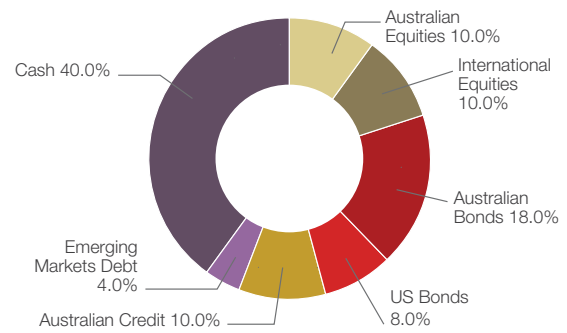
## Asset allocation

VFMC sets a strategic asset allocation designed to meet each client's long-term investment objectives, liabilities and risk tolerances.

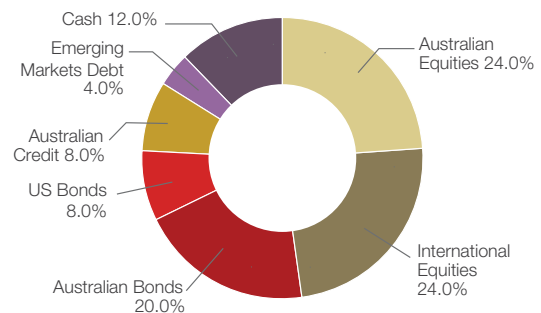
The charts on this page show the breakdown of investments allocated to each asset class at 30 June 2021 across the Foundation CIM clients and the Multi Strategy Funds respectively.

### Multi Strategy Funds asset allocation at 30 June 2021

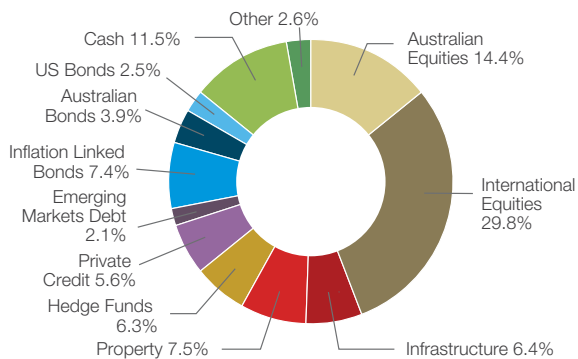
#### VFMC Capital Stable Fund



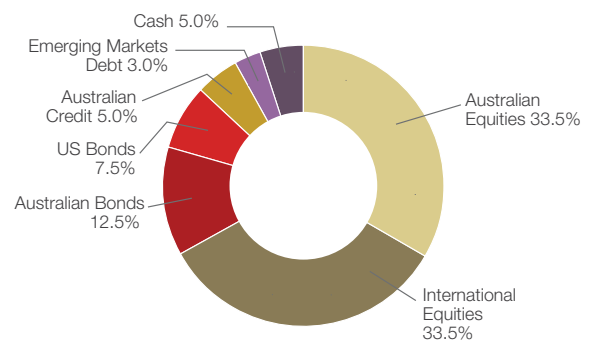
#### VFMC Balanced Fund



### Foundation CIM clients' asset allocation at 30 June 2021

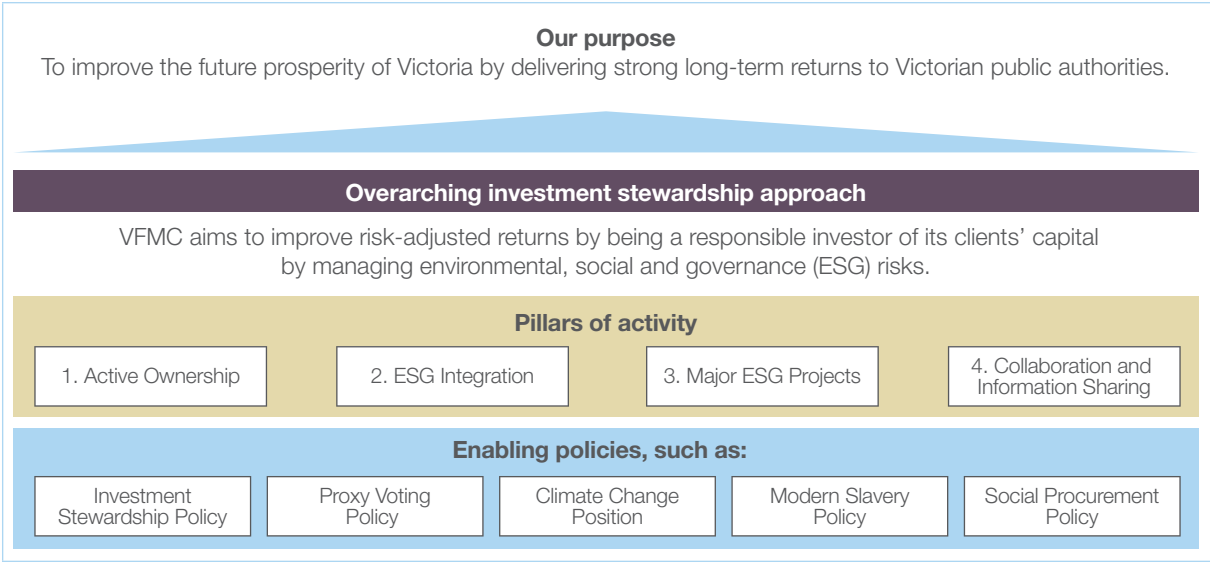


#### VFMC Growth Fund



# Investment stewardship

## Our approach



The primary activities under each of our investment stewardship pillars are summarised as:

- Active Ownership** We engage with investee companies, fund managers and policymakers regarding material ESG issues, and we exercise our voting rights at company meetings.
- ESG Integration** We consider ESG risks and opportunities across all asset classes in selecting, managing and monitoring our investments.
- Major ESG Projects** We undertake a range of dedicated ESG projects to ensure that we maintain current knowledge and oversight of ESG issues, enhance our understanding of material risks and meet legislative compliance obligations.




### • Collaboration and Information Sharing

We work with peers and other stakeholders across the investment industry to drive positive change and to ensure we remain across key ESG issues and emerging trends. We share information with industry partners who share a common purpose. VFMC is a member of, and participates in, several collaborative initiatives including:



## Key ESG themes

VFMC strives to remain aware of material and emerging ESG risks, many of which are of direct relevance and interest to its clients. When working across all four pillars of our investment stewardship approach, the material themes fall largely into three categories: environmental, social, and corporate governance. Examples of the issues and themes we are working towards are shown below:

<b>Environmental</b> 	<b>Social</b> 	<b>Governance</b> 
<ul style="list-style-type: none"> <li>• Climate change risk</li> <li>• Affordable and clean energy</li> <li>• Management of natural resources</li> <li>• Circular economy and reduction of pollution and waste</li> <li>• Responsible consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Social and community impact</li> <li>• Work and labour standards, including modern slavery</li> <li>• Workplace health and safety</li> <li>• Cultural heritage</li> <li>• Diversity and inclusion</li> <li>• Sustainable cities and communities</li> </ul>	<ul style="list-style-type: none"> <li>• Board structure, composition and skills mix</li> <li>• Risk management and internal controls</li> <li>• Reporting frameworks</li> <li>• Executive compensation and incentives</li> </ul>

VFMC's priority ESG themes broadly align to a number of the United Nations Sustainable Development Goals (UNSDG). We believe we are well placed to contribute to the UNSDG through our investment stewardship activities and capital allocation. Our 2020-2021 activities demonstrate how we use our ownership rights to influence change and integrate ESG considerations into our investment management processes.

## Climate change

VFMC and its external investment managers undertook a range of activities in 2020-2021 to better understand and manage climate change risk across all four pillars of activity, as shown below.

### 1. Active Ownership

- VFMC engages with investee companies and external fund managers regarding climate risk management and net zero commitments.
- Long standing practice of voting in support of climate-related resolutions.



## 2. ESG Integration Considerations

- Climate risk is considered as part of VFMC's pre-investment due diligence.
- All property managers and several infrastructure and equities managers have net zero commitments in place.
- VFMC has exposure to various renewable infrastructure projects and invests in green bonds.
- VFMC is considering climate risk as part of the IRMP.

## 3. Major ESG Projects

- Portfolio-wide climate risk assessment.
- Investment portfolio net zero by 2050 commitment.
- Mapping VFMC's portfolio alignment with the Paris targets.

## 4. Collaboration and Information Sharing

- Participation in the Investor Group on Climate Change, Climate League 2030, Climate Action 100+ and Australian Council of Superannuation Investors' (ACSI) climate risk management and advocacy.
- Engaging with peer investors regularly to discuss approaches to managing climate risk throughout the portfolio.

## Modern slavery

Following a review of an initial risk scoping exercise in 2019-2020 and in alignment with the Australian Modern Slavery Act, VFMC developed a Modern Slavery Risk Management and Compliance plan.

Activities undertaken during 2020-2021 included:

- Delivering ongoing modern slavery training and awareness sessions for our internal investment teams and some external managers.
- Voting in support of human rights related shareholder resolutions, where appropriate and relevant.
- Engaging with investee companies regarding modern slavery risk management approach.
- Attending and participating in a diverse range of modern slavery briefings and industry roundtable discussions.
- Participating in various modern slavery and human rights collaborative initiatives, including the Investors Against Slavery and Trafficking (IAST) initiative.

## Occupational health and safety (OH&S)

We seek to ensure that our investee companies and managers embrace and drive a positive safety culture by:

- Elevating the importance of strong governance and controls surrounding OH&S standards through our engagements with external managers and investee companies.

*We believe integrating ESG factors into our decision-making process is not only **the right thing to do**, it is **important for our clients' long-term returns**.*

- Reviewing underlying investee companies' health and safety records and engaging with companies to better understand what they are doing to drive a culture of safety, including near miss assessments.
- Reviewing our property and infrastructure investment managers' health and safety policies to better understand how the policies and data translate into their investment decisions and ongoing asset management.
- In some instances, making a decision not to invest where health and safety standards are poor and where we cannot influence health and safety outcomes. For example, we decided against investing in an emerging markets asset due to elevated safety concerns, where we had no apparent ability to influence positive change post-investment.

## Cultural heritage

VFMC undertook the following activities related to cultural heritage this financial year:

- Became a member of the ACSI Cultural Heritage working group.
- Engaged with investment managers and underlying investee companies to better understand their relationships with First Nations groups and community as part of our ongoing ESG engagement.
- Attended seminars and briefings on relevant issues including the intersection of indigenous land management and carbon farming, Australian mining and Indigenous heritage and the empowerment of Indigenous communities.
- Engaged with Aboriginal Community Controlled Organisations (ACCOs) to discuss the impact of our investee companies' projects on First Nation communities.

## Supporting Gender Diversity through the Vision 40:40 Initiative

During 2020-2021, VFMC joined Vision 40:40, an investor-led initiative, that aims to drive systemic change and achieve diversity in executive leadership across the entire ASX200. Participants in this initiative engage with companies to encourage a 2030 Target for 40% men, 40% women and 20% any gender board representation.

The investor statement aims to set out expectations of companies regarding gender diversity and encourage investors to engage on the issue and consider voting against directors where insufficient action is being taken, consistent with VFMC's voting policy.

Vision 40:40 will publicly benchmark signatories and non-signatory ASX200 companies according to their executive leadership teams' gender composition. Public targets will be disclosed alongside annual progress.

## Protecting Cultural Heritage

VFMC is invested in Rio Tinto through its equities portfolio. Following the devastating destruction of the sacred Juukan Gorge caves in early 2021, VFMC immediately engaged with Rio Tinto. A key focus for VFMC was ensuring executive and board accountability at Rio Tinto for the incident.

We collaborated with other investors to identify transparent measures for Rio Tinto to disclose against, including rebuilding trust with First Nations communities, improvements to culture and operations, and advocacy on sector-wide improvements to cultural heritage.

## Diversity and inclusion

We actively support the overwhelming business case for diversity in the workplace. VFMC engages with existing investee companies that have poor diversity across their board and key management to understand what initiatives are underway to drive positive change. Through asset class ESG deep dives, VFMC seeks to understand how its external fund managers incorporate diversity and inclusion in their teams and investment activities to drive diversity of thought, gender, culture, and socio-economic background. VFMC takes a firm stand on the gender diversity of investee company boards in its Proxy Voting Policy. The policy states that, in cases where a board has zero representation of women, VFMC will consider voting against all board members. In addition, VFMC invests in various social and gender-focused bonds that drive positive outcomes for women.

VFMC values and actively supports diversity in its own organisation through diversity and inclusion initiatives. We also track diversity metrics across the business and drive continuous improvement.

## Corporate culture and conduct

VFMC has been active in asking boards how they are defining, assessing, overseeing and guiding their culture to avoid the financial and reputational impacts of the past as highlighted by the Financial Services Royal Commission.

Recent years have evidenced the destruction of shareholder value that poor corporate culture can cause, making culture an increasing focus and priority for directors and shareholders alike.

VFMC takes a holistic approach to assessing culture with principal components including:

- Regular engagement with key management personnel (KMP) and the Board.

- Review of key leading internal metrics such as absenteeism, turnover, employee grievance, whistle blower calls, misconduct, diversity statistics at all levels of the organisation, compliance with risk parameters and compliance with internal policies.
- Review of external metrics such as market data, customer complaints, investor or stakeholder surveys and Net Promoter Scores.

VFMC, alongside peer investors, is trying to improve its ability to assess what 'good' and 'bad' culture looks like. We acknowledge researchers such as Kate Jenkins' Respect@Work, and ACSI's and AICD's joint work on 'Governing Company Culture' for contributing to investors' collective knowledge in this space.

## Driving positive outcomes for Victorians

In line with our purpose, where possible and appropriate, we aim to invest VFMC client capital in projects and companies that contribute towards positive social, governance or environmental outcomes in the Victorian community.

# Investment performance

## During 2020-2021, VFMC delivered its highest returns in over 10 years

### Investment environment

The 2020-2021 financial year continued to be impacted from the COVID-19 pandemic which created a health and economic crisis.

Starting in the second half of 2020, global growth rebounded more strongly than anticipated. This created one of the strongest recoveries in history as policy stimulus from governments and central banks exceeded levels once considered unprecedented.

Although the recession has turned out to be less severe than initially feared, the recovery has been uneven across countries and sectors, mainly reflecting the nature of the pandemic and the stringency of containment measures.

In financial markets, the economic resurgence, and exceptionally accommodative financial conditions underpinned buoyancy across all asset classes. Equity markets rallied, sustaining stretched valuations even after accounting for very low interest rates. Across fixed interest, a brighter economic outlook, positive vaccine news and fiscal expansion lifted long-term sovereign yields. Elsewhere, positive economic forces supported corporate solvency, reducing funding costs and compressing risk premia.

The peak in growth momentum seems to be on the horizon as central banks and governments' support starts to fade. Moreover, the pandemic is not over, the rollout of global vaccinations is uneven and there is a risk that new waves of contagion may emerge. These developments are likely to lead to greater market volatility as

markets focus on growth, inflation and earnings outlooks, as well as the trend of interest rates and subsequent response of central banks.

### A dynamic investment approach

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

In doing so, we focus on balancing the risk and return objectives of our clients and build portfolio resilience by designing well diversified portfolios. We believe that market inefficiencies provide opportunities to add value by managing risk. Our active asset allocation programs are designed to add incremental value and improve clients' risk-adjusted returns over time.

During 2021, VFMC commenced the strategic review of the Investment Risk Management Plan (IRMP). The IRMP documents the Foundation CIM clients' investment objectives, their strategic asset allocations and VFMC's investment management approach.

The review incorporates clients' evolving investment needs and VFMC's response to an increasingly challenging market, having regard for the prevailing economic environment, unprecedented monetary and fiscal policies, historically low interest rates and stretched equity valuations. Proposed portfolio changes will be presented for approval to the Victorian Treasurer in 2022.



*We aspire to deliver market leading long-term returns.*

## Investment performance

During the 2020-2021 financial year, VFMC delivered 16.94% net return for its Foundation CIM clients – the highest return in over a decade. Over the past 10 years, the Foundation CIM portfolio has delivered an annualised return of 9.41% after fees. Most asset classes delivered strong absolute and relative returns over the financial year except for Fixed Interest which was impacted by rising bond yields. Equities and Private Credit were the main drivers of performance as these asset classes benefited from the reopening of economies worldwide, extraordinary monetary and fiscal policy support and progressive COVID-19 vaccine rollouts. The Foundation CIM aggregate portfolio outperformed its benchmark by 1.48%.

Notwithstanding the volatility experienced throughout the year, portfolio diversification assisted to limit portfolio negative returns in 2020-2021. The portfolio experienced only one slightly negative month in September 2020 and its allocation to growth assets helped capture the stronger-than-expected market recovery, particularly over the second half of the financial year.

Our active asset allocation programs reflected the improved global macro-economic conditions through the year in the form of overweight positions in equities and the Australian dollar and underweight positions in bonds. These added value as the portfolio benefited from the expansive economic recovery while managing stretched valuations across equity markets.

The Foundation CIM portfolio continues to achieve clients' objectives over the long term.

## Asset class returns

Net of fees results by each asset class alongside relevant benchmark (Bmk) returns for one, three

and seven year periods are shown on the following 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 on page 23.

### Australian Equities

The Australian Equity market rebounded strongly during the first half of the 2020 calendar year. The coordinated monetary and fiscal stimulus resulted in a broad-based rebound across all sectors delivering solid returns except in Utilities. The VFMC Australian Equity portfolio outperformed its benchmark over the year.

### International Equities

Global Equity markets delivered strong returns over the financial year. The synchronised global monetary and fiscal stimulus resulted in value-oriented managers leading the outperformance, as the global economic recovery gathered pace. The VFMC International Equities portfolio outperformed its benchmark over the year.

### Infrastructure

The VFMC Infrastructure portfolio delivered a strong return for the year and outperformed its benchmark. Performance was driven primarily by the global economic recovery. High consumer demand for goods and inventory resulted in strong port volumes and freight traffic on toll roads, while a rebound in oil prices benefited midstream energy assets. Digital and renewables sectors continue to attract investor interest, while certain assets are

still challenged by the impact of COVID-19, energy transition and other asset specific factors.

### Property

The VFMC Property portfolio delivered a positive return for the financial year following the volatility experienced through the onset of COVID-19. Much of the return was generated in the second

half of the year as capital markets and investor demand stabilised. The portfolio continues to benefit from increased allocation to defensive strategies in logistics, hardware and property debt particularly, compared to the discretionary retail sector which remains impacted by structural and cyclical challenges. The VFMC Property portfolio outperformed its benchmark over the year.

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

Asset Class	1 Year			3 Years			7 Years		
	Fund (%)	Bmk (%)	over/under (%)	Fund (% p.a.)	Bmk (% p.a.)	over/under (%)	Fund (% p.a.)	Bmk (% p.a.)	over/under (%)
<b>Equities</b>									
Australian Equities	31.00	28.50	2.50	8.71	9.77	(1.06)	9.13	8.90	0.23
International Equities	30.29	27.92	2.37	13.26	12.46	0.80	12.32	11.90	0.42
<b>Real Assets</b>									
Infrastructure	13.23	8.84	4.39	9.36	6.70	2.66	12.31	6.69	5.62
Property	10.63	8.09	2.54	5.98	4.64	1.34	9.60	8.59	1.01
<b>Alternative Strategies</b>									
Hedge Funds	10.95	10.07	0.88	3.70	5.49	(1.79)	N/A	N/A	N/A
<b>Credit</b>									
Private Credit*	20.71	13.29	7.42	N/A	N/A	N/A	N/A	N/A	N/A
Emerging Markets Debt*	4.69	2.28	2.41	N/A	N/A	N/A	N/A	N/A	N/A
<b>Cash and Fixed Interest</b>									
Inflation Linked Bonds	5.10	4.61	0.49	5.45	5.31	0.14	4.72	4.42	0.30
Australian Bonds	(0.78)	(0.84)	0.06	4.12	4.22	(0.10)	4.06	4.07	(0.01)
US Bonds	(2.54)	(3.46)	0.92	N/A	N/A	N/A	N/A	N/A	N/A
Cash	0.44	0.06	0.38	1.26	0.96	0.30	1.88	1.62	0.26
<b>Other</b>									
Insurance	3.59	3.05	0.54	1.54	3.98	(2.44)	N/A	N/A	N/A
Private Equity	(0.75)	3.05	(3.80)	(1.35)	7.89	(9.24)	3.38	10.00	(6.62)
<b>Total Fund (Gross)</b>	<b>17.95</b>	<b>15.49</b>	<b>2.46</b>	<b>8.71</b>	<b>8.19</b>	<b>0.52</b>	<b>9.38</b>	<b>8.17</b>	<b>1.21</b>
<b>Total Fund (Net)</b>	<b>16.94</b>	<b>15.46</b>	<b>1.48</b>	<b>7.92</b>	<b>8.15</b>	<b>(0.23)</b>	<b>8.64</b>	<b>8.13</b>	<b>0.51</b>

\* Note: Strategic asset classes introduced in 2019 for which longer dated performance is not available.

The performance over the past year reflects a **strong rebound** in investment markets **and successful value-add** from VFMC's various actively managed investment programs.

#### Fixed Interest

The VFMC Australian and US Bond portfolios delivered low single digit negative returns for the year. The negative returns were driven by a rise in bond yields that occurred in response to a stronger than expected global and domestic economic rebound following the COVID-19 induced recession. The Inflation Linked Bond portfolio delivered a positive return for the year as real yields moved lower benefiting from a sharp rise in inflation expectations and realised inflation associated with the economic rebound. All portfolios outperformed their respective benchmarks for the year.

#### Hedge Funds

The VFMC Hedge Fund portfolio produced positive absolute returns for the year and outperformed the benchmark in what was a strong year for the hedge funds sector following a number of weaker years. Most external managers performed relatively strongly albeit with greater volatility throughout the year due to episodes such as the Gamestop induced market instability and February's sharp bond market sell off.

#### Private Credit

The VFMC Private Credit portfolio delivered a strong positive absolute and relative return for the year. The corporate outlook improved significantly as business started to reopen following the COVID-19 economic slowdown. Credit spreads

## 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.

narrowed as companies were supported by continued central bank easing programs and government fiscal stimulus packages. The VFMC Private Credit portfolio outperformed its benchmark significantly over the year.

**Emerging Markets Debt**

Exposure to emerging markets debt was further increased in clients’ portfolios during the year in line with their strategic asset allocations. Over the year, the VFMC Emerging Markets Debt portfolio delivered a positive absolute and relative return despite the pandemic-induced economic toll on emerging markets. The local and hard currency bonds were also impacted by the rise in US Treasury yields which was disruptive for emerging markets debt given the increase in funding costs for countries that borrow in US dollars.

**Insurance**

The VFMC Insurance portfolio delivered positive absolute returns, ahead of its benchmark. The Natural Catastrophe portfolio contributed to performance with a small positive absolute return despite being adversely affected by losses from US winter storms earlier in the year. The Life Settlements portfolio delivered positive absolute and relative returns and was sold during 2020-2021.

**Cash**

Cash exposures are actively managed for performance and to provide portfolio liquidity as required. Cash rates continued to trade at all-time lows over the year which impacted absolute returns from this asset class, while achieving strong returns relative to the benchmark. The allocation to cash is above its strategic target due to a combination of factors, including the expected time lag in deploying capital in unlisted asset classes and the strong performance of equity markets during the year.

**Multi Strategy Funds**

VFMC manages three Multi Strategy Funds: Capital Stable, Balanced and Growth for various Victorian public authorities and related organisations. Client investments in these funds total \$2.1 billion with most 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.

Net of fees results for each of the Multi Strategy Funds alongside relevant benchmark (Bmk) returns for one, three and five year periods are shown in the table below.

**Multi Strategy Fund aggregate performance by Fund**

VFMC Multi Strategy Funds	1 Year			3 Year			5 Year		
	Actual (%)	Bmk (%)	Over/under (%)	Actual (%)	Bmk (% p.a.)	Over/under (%)	Actual (%)	Bmk (% p.a.)	Over/under (%)
VFMC Capital Stable Fund	5.79	4.94	0.85	4.22	4.32	(0.10)	4.27	4.20	0.06
VFMC Balanced Fund	13.70	12.62	1.08	6.97	7.65	(0.68)	7.37	7.73	(0.36)
VFMC Growth Fund	19.46	18.19	1.27	8.53	9.47	(0.94)	9.31	9.84	(0.53)



# Operational Performance



## Our clients

### The triennial review of client Investment Risk Management Plans requires extensive engagement with clients and other stakeholders.

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

- Agriculture Victoria Services; and
- William Angliss Institute.

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 lives of Victorians. For a complete list of our clients, see page 74.

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 profiles, cash and income requirements, and funding ratios.

Foundation CIM clients are responsible for setting their investment objectives. This is an iterative process and considers each individual client's risk tolerance.

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.

We develop tailored IRMPs that:

- set out how we will invest each client's money,
- are designed to achieve the client's investment objective, and
- contain the client's strategic asset allocation.

A new IRMP process commenced during 2021 with a detailed review of individual asset class risk and return profiles, client asset and liability modelling and investment market assumptions. The new IRMP will be implemented during 2022.

### A challenging year

Over 2020-2021, our clients have been challenged by the continuing policy-driven low returns in the cash and short-term money markets, which have only intensified in the continuing COVID-19 environment of rolling lockdowns and economic dislocation. This has placed pressure on client operating cashflows and led them to review their

*VFMC hosts investment forums for its Multi Strategy Fund clients to provide insights on performance and investment market updates.*

risk appetites to preserve returns and funding levels for their operations.

The need for liquidity and stability with enhanced returns over cash, particularly for our clients invested in our Multi Strategy Funds, has led us to work with a number of our clients in remodelling their investments, aware of their cashflow and liability requirements in alignment with the appropriate investment timeframe.

For our Foundation CIM clients, the impact of the pandemic has caused them, as with many businesses, to review their own operations and the shape of their liabilities, requiring us to be aligned to their evolving needs in the management of their funds.

### VFMC client forums

VFMC hosted investment forums for both Foundation CIM and Multi Strategy Fund clients in 2020-2021. In addition to our regular review of markets and economic outlook, we provided insight on a range of topics including:

- Investment Market Assumptions and the medium to long-term return outlook.
- VFMC's current key initiatives in investment stewardship.
- VFMC's ongoing work in portfolio risk analysis.

### Contributing to the investment community

As well as presenting client forums, VFMC actively engages with the industry as a thought leader and contributes to the investment community by knowledge sharing. This enables us to deepen our expertise through peer-to-peer learning and develop industry networks.

## I3 Investment Strategy Forum

Evolving asset allocations post COVID-19

Investment Innovation Institute [i3] is a leading provider of educational forums and editorial content for the institutional investment community. Our CIO, Russell Clarke, opened day one of the Forum in May 2021, addressing changes in VFMC's investment strategy.

Russell outlined the changes introduced prior to the COVID-19 health and economic crisis, which placed VFMC in good stead. These included streamlining our operating rhythm across investment teams, improving our liquidity modelling and increasing diversification and resilience of our strategic asset allocations.

Russell mentioned the opportunities taken by VFMC to further enhance the governance frameworks and improve portfolio agility while navigating the crisis.

“Frequent communication with stakeholders to provide our views on the evolving health crisis and policy responses, portfolio decisions and impacts.”

“Lengthening and staggering tenors of the FX currency hedging contracts and widening the portfolio rebalancing ranges to preserve liquidity.”

“Reviewing Board delegation limits to vary between asset classes to better reflect the risk by category and size.”

“Developing a new whole of portfolio trades framework, designed to reshape the portfolio's characteristics to reflect a desired risk positioning.”

# Our people

Our team responded to the challenges of the pandemic over the year with adaptability, optimism and resilience.

VFMC continues to benefit from its performance-oriented and inclusive culture. Over the last 12 months, the team focused on our clients and each other as we navigated new ways of working during these challenging times.

VFMC has drawn a 'dividend' from the prior investment in its team's leadership capability, technology and well-established flexible ways of working. This has enabled us to adapt and thrive working in a distributed way throughout the pandemic.

As we focused on reopening our shared workplace at the start of 2021, the investments

made during our 2020 Strategic Plan enabled us to rapidly respond to remote working and prepared us for a hybrid working approach. Our flexible approach to where we worked meant we were well placed to absorb the disruption of the unpredictable pandemic.

## Talent management

We welcomed 29 (59% women and 41% men) new people in 2020-2021 to our team in both permanent and contract roles. People join VFMC to work as part of a flexible and innovative team. The breadth of our roles and governance structure, including how we make investment decisions, means our people can make the most

## Our team at 30 June 2021

**116** employees



We welcomed **29 new people** 18 (59%) women and 11 (41%) men to our team in both permanent and contract roles this year. **4 people took parental leave** this year, 3 women and 1 man.

**50** women

- 38 Full time (permanent)
- 2 Part time (permanent)
- 5 Contract (full time)
- 5 Contract (part time)

**66** men

- 59 Full time (permanent)
- 7 Contract (full time)



*We remain focused on being future ready to ensure **our team can thrive in a distributed, digitally-driven world.***

of their talents and capability to the benefit of our clients.

VFMC attracted talented team members from banking, asset management, superannuation and other private sector organisations.

VFMC continued to participate in the Monash University Work Integrated Learning (WIL) program. Three talented students worked in our investment team for their three-month placement and contributed to a number of project outcomes.

## Career development

Notwithstanding the need to work remotely, we continued our focus on career development and transposed our face-to-face development programs into virtual delivery formats.

The investment team rotation program has been in operation for over three years and continues to support our teams to build their leadership capability across the different decision-making forums of VFMC.

The program allows our people to observe and participate across decision-making forums such as:

- Executive Leadership Team
- Investment Leadership Team
- Executive Investment Committee
- Total Risk Allocation Committee

To support an uplift in capability across the breadth of VFMC operations.

## Future ways of working

VFMC's strong commitment to workplace flexibility established a solid foundation from which its team navigated working at home during the pandemic. We continue to transition and adapt the ways we work to suit our people and the organisation. We also continue to build on the established culture, development programs and talent retention to reimagine our way of working.

In reopening our shared workplace, we focused our attention on what activities work best face-to-face and which are more productive remotely. This work is ongoing as Victoria continues to navigate public health directions that require the team to stay home. Our aim is to create a self-sustaining and self-propelling organisation where each team commits to 'do as we agree'.

We are very pleased to have achieved a 100% return from parental leave over the period.

## Future capabilities

VFMC continues to build its data and analytics capability within the investment team and more broadly. Our focus on leadership capability will continue as we believe the most influential impact on the experience of how we work is through strong leadership capability.

Future development opportunities for our people, through exposure to new skills and experience across teams, is one way we build capabilities, supported by leaders to guide and coach.

## People Experience Survey

The People Experience Survey was completed in early 2021. It aims to measure our progress against a range of factors since we last conducted this survey in 2019.

The overall engagement score increased

74%  
▲ 10pts

Overall, VFMC saw uplifts across all factors measured. The outcomes of this survey are reflective of the considerable investment of the leaders at VFMC in uplifting the experience of work over the past 24 months.

### Key findings from our pulse survey

I have confidence in VFMC's response to the pandemic

99%



VFMC is supporting us during the pandemic

98%



The leaders at VFMC are providing a sense of stability during the pandemic

96%



As always, feedback allows our leaders to focus on aspects of work that have the biggest impact on our people and their ability to contribute to our client's success.

Reflecting our investment in building leadership capability we saw the Leadership and Management factors also increase significantly to 80% and 90% respectively.

Key strengths of our leaders include:

My People Leader genuinely cares about my wellbeing

94%  
▲ 11pts

My People Leader gives me useful feedback on how well I am performing

86%  
▲ 16pts

My People Leader keeps me informed about what is happening at VFMC

92%  
▲ 19pts

Our focus on creating and sustaining a culture to allow our people to be their best at work was highlighted in our risk factor questions and showed strong safety indicators as follows:

When I make a mistake, I feel comfortable to escalate the issue to my people leader (or ELT) and compliance team

91%

Risk is always part of how we think about our daily work, new projects or change initiatives

90%

Areas of focus for 2021-2022 will be:

- Improving Service and Quality
- Company Confidence; and
- Feedback and Recognition.

“ VFMC’s communication has been exceptional – especially during the uncertain times of COVID. ”

“ I am listened to, valued and part of a great team. There is genuine interest in creating a workplace designed for our people, which recognises good work, and attracts and retains talent. ”

“ I believe VFMC is very progressive, not only in its workplace practices, but also in investment innovation. The culture encourages new investment opportunities and processes for new ideas to be heard. ”

## Remuneration arrangements

During 2020-2021, VFMC continued to align its remuneration practices within the context of the policy settings of the Victorian Public Sector.

At the end of the 2020-2021 period, VFMC’s variable remuneration plan, the Single Incentive Plan (SIP), was closed.

In conjunction with the Departments of Premier and Cabinet and Treasury and Finance, a study into the remuneration structure of senior investment decision-making roles is underway. The outcomes of the study and any changes to remuneration structures for these roles will be

approved by the Board and the Treasurer and will be effective for the 2021-2022 financial year.

## Workplace health, safety and wellness

Over the last 12 months, we have continued to highlight the focus on wellbeing and safety when working across different environments.

As part of managing our health, wellbeing and safety responsibilities VFMC offers:

- Occupational Health and Safety (OHS) virtual and onsite inductions for those team members who participated as part of the Shared Workplace pilot.
- Financial support for home-based work environments to ensure equipment met VFMC OHS expectations.
- External training for first aid officers and fire wardens.
- Access to the Employee Assistance Program that also provides specialist mental health support and support for People Leaders.
- As part of the VFMC Leave Policy, family violence leave is provided to support victims/survivors.
- Financial reimbursement for flu vaccinations.
- Six-month wellbeing program provided by its partners ‘Health Breaks’ delivering ‘virtual live’ and online health and wellbeing activities and information.

VFMC leaders focused on ensuring they managed workloads appropriately while team members were adhering to the health directions and working exclusively from home. We know that taking annual leave during these times has been challenging, but recognise that taking appropriate breaks from the intense ways of working was a way to support better mental health outcomes and disconnect from work in a meaningful way.

VFMC focused on annual leave utilisation and balancing work and time away from work during this time.

## COVID-19

We understand that everyone experiences the pandemic differently, depending on personal risk appetite, family experiences and home environment. We know that for many of our team with family and friends living overseas that this has been a stressful time.

We provided additional leave arrangements and financial support for our team to enable working at home.

As a whole, our team has responded extremely well to the challenges of the last 12 months.

*Towards 2022, we are open to **how and where we work, creating space for everyone to be their best**, as we continue to reimagine how we utilise our shared workplace and deliver a hybrid way of working.*



## VFMC in the community

It is important for us to contribute to the community in which we operate.

Many of our team participate in volunteer opportunities, however over the past year the public health settings have meant our formal volunteering activities have paused.

Team VFMC participated in the 2021 Mother's Day Classic and proudly raised \$8,800. Our team is always looking for ways to contribute and we anticipate more community-based activities during 2021-2022.

### Social procurement

Our social procurement strategy aligns with our ESG framework and aims to drive social and sustainable benefits from procurement decisions. As part of that strategy, we have engaged with BioPak, Fruit2Work and The Good Good as providers.

The Good Good is an Australian-based tea brand focused on providing tea that has a positive economic, environmental and social impact. As a certified social enterprise, The Good Good donates 50% of its profits to programs for disadvantaged children to get access to education. Their teas have plastic-free and recyclable or biodegradable packaging. VFMC engaged with The Good Good as their mission to effect both social and environmental change had clear symmetry with VFMC's ESG framework.



BioPak is Australia's market leader in sustainable foodservice packaging. They produce compostable food packaging and provide eco-friendly alternatives to single use plastics.

As a responsible business and in conjunction with charity partners, BioPak is committed to donating time, energy and 7.5% of all profits to environmental restoration initiatives and community programs.

VFMC's engagement with BioPak aligns with its climate change objectives to contribute to a more sustainable future.



Fruit2Work is a certified social enterprise. They provide a fruit and milk delivery service to workplaces in Melbourne and Geelong; creating employment opportunities for individuals impacted by the justice system.

Fruit2Work aims to reduce the social impact and costs of recidivism by creating opportunities to enable employees to gain important skills and contribute positively to the community.

Fruit2Work's focus on driving social change and benefits to vulnerable Victorians aligns with the Victorian Government's Social Procurement Framework.



## 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 (First Class Honours) from the University of Melbourne, Graduate Diploma in Management from the Royal Melbourne Institute of Technology (RMIT), Master of Business Administration from the University of Melbourne/Columbia University, New York and an AMP (INSEAD).

She is a non-executive director of ING Australia, 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.

Lucy holds a Bachelor of 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 \$74 billion FUM.

Russell joined VFMC from Mercer where he was the Global CIO (Mainstream Assets) since 2011 and CIO (Pacific) since 2003. He was responsible for all discretionary equity, listed property, fixed income and multi-asset portfolios worldwide. On a day-to-day basis, he led 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.

### **Sarah Dunn**

---

**Head of Client and Market Development**

**Joined September 2020**

Sarah joined VFMC in September 2020 as Head of Client and Market Development where she is responsible for client and stakeholder management, market development, investment performance reporting and communications. Sarah has more than 25 years' experience in financial services, investment management and trusteeship across the UK, Europe, North America and Asia Pacific.

Prior to joining VFMC, Sarah spent 18 years with HSBC in a range of leadership positions across investments, wealth management and private banking, latterly running their Private Bank in Canada before joining ANZ in Melbourne in 2010. At ANZ, Sarah was the MD of ANZ Trustees. More recently she held the roles of Country CEO Cook Islands and Country COO Taiwan. Sarah's final role at ANZ was the Head of Group Services prior to assisting Latitude Financial Services to establish their customer remediation and conduct and culture programs.

Sarah holds a Bachelor of Classics, Latin and Modern Greek from the University of Leeds, UK and studied Modern Greek at the University of Thessaloniki, Greece. Sarah is also an Associate of the Chartered Institute of Bankers.

## **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 and Culture, developing and leading the people strategy, initiatives and practices of the Fund as part of the Executive team.

Johanna spent six years at ESSSuper and prior to this worked in human resources teams across the manufacturing and professional services sectors in 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 and was included in the Global Diversity List Top 20 'Diversity Professionals in Industry' of 2020.

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 2020-2021 financial year Adrian Best and Michael Stavropoulos were the senior representatives.

## **Adrian Best**

---

**Head of Infrastructure**

**Joined February 2008**

Adrian joined VFMC at the start of 2008 and was appointed Head of Infrastructure in early 2011 when the Infrastructure Team was created out of the Private Markets Team.

Adrian's experience in funds management commenced in 1991 with PricewaterhouseCoopers in London and then in Toronto and Melbourne. He was an Associate Director with Macquarie's Infrastructure and Specialised Funds group in Sydney, an Investment Consultant with Hawkswood Investments in Melbourne and a Group Financial Controller at Multiimedia Investments in Melbourne.

Adrian completed a Master of Commercial Law at the University of Melbourne in 2018, a Master of Business Administration at the University of Melbourne in 2003, and a Bachelor of Accountancy at the University of Glasgow in 1991. He is a CFA Charterholder, a Member of the Institute of Chartered Accountants of Scotland, and a Graduate of the Australian Institute of Company Directors.

## **Michael Stavropoulos**

---

**Head of Equities**

**Joined November 2008**

Michael joined VFMC in November 2008 and has over 20 years' experience in funds management and investment consulting.

Michael joined VFMC as a Portfolio Manager within the equities team initially responsible for investment research, manager selection and portfolio construction across VFMC's listed equity portfolio. In 2017, Michael moved across to restructure and lead VFMC's internal Australian Equity capability, including the management of a large cap Australian Equity portfolio and an all cap, unconstrained high conviction Australian equity portfolio.

In May 2020, Michael was appointed to the role of Head of Equities leading a team which includes both internal and external research and portfolio management.

Prior to joining VFMC, Michael was a Portfolio Manager at Intech Investments and was responsible for all aspects of Australian equity multi-manager research and portfolio management.

Michael holds a Bachelor of Business, Graduate Diploma in Applied Finance and Investment and a Master of Business Administration from the University of Melbourne.

## 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, the suburban Rail Loop Authority Advisory Board and the interim Melbourne Arts Precinct Board (including Fed Square). He is a member of the Melbourne Cricket Ground Trust and director of Monivae College.

James was previously President of the Victorian Arts Centre Trust and Chair of property developer Mirvac Group, Pacific Brands, the Transport Accident Commission (TAC), Worksafe Victoria and was co-Vice Chair of Yancoal Australia. He was also Managing Director of Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia, and TAC Chief Executive Officer. He has been a member of the COAG Business Advisory Forum and a previous director of VFMC.

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

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

### Tom Considine

---

Director

Appointed June 2021

Tom Considine is a partner in the advisory and investment business with the Sayers Group.

Prior to this, Tom held a number of executive roles in the public sector, including Interim CEO, Suburban Rail Loop Authority, Group Head, Advisory and Civic Infrastructure at Development Victoria, and Chief of Staff to the Treasurer of Victoria.

Tom has extensive experience in infrastructure, commercial policy and strategy, public sector financial management and risk management.

He holds a Bachelor of Arts from Monash University and a Master of Business Administration from the University of Melbourne.

### John Fitzgerald

---

Director

Appointed January 2013

(term concluded 1 February 2021)

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 acting Chair August 2021)**

**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 and a non-executive director at Interim Melbourne Arts Precinct Board (including Fed Square).

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 a Master of Business Administration.

## **Andrew Nicolaou**

---

Director (appointed acting Chair of the Audit, Risk & Compliance Committee August 2021)  
Appointed September 2020

Andrew Nicolaou is a highly experienced risk management, assurance, consulting and regulation professional in financial services and government.

He specialised in the financial institutions of government, with senior roles covering the Treasury portfolio in Victoria over a period of 30 plus years. He provided services to TAC, VWA, VMIA, Rural Finance and DTF.

Andrew supported the Victorian Treasury in the development and implementation of the Financial Management compliance, risk management and prudential assurance regimes.

Andrew is a former partner at PWC with a 24-year career in various roles including leading the firm's government practice in Victoria.

He is the Chair of the Audit Committees at Department of Transport, Grampians Wimmera Mallee Water, Fire Rescue Victoria and the Victorian Parliament.

He is a member of the Audit Committee for Education in Victoria and has served on the Audit Committee of State Trustees.

He is a Fellow of the Institute of Chartered Accountants, a Graduate of the Australian Institute of Company Directors and a Fellow of IPAA.

## **Elana Rubin AM**

---

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 investment sectors.

Previous directorships include Chair of AustralianSuper, director of LaunchVic, ME Bank, Infrastructure Australia, Mirvac and the Climate Change Authority.

Elana is a Fellow of the Australian Institute of Company Directors, senior fellow of the Financial Services Institute of Australasia (FINSIA), 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, the Prospa Group and a non-executive director at Perpetual Ltd and the Eclix Group Ltd. She is a member of the Investment Committee at the Walter and Eliza Hall Institute.



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 2020-2021**

One director completed their term on the VFMC Board during the financial year and two new directors were appointed.

We thank John Fitzgerald, who completed his term with the Board effective 1 February 2021, for his long service and contribution to our Board.

We welcome Andrew Nicolaou and Tom Considine who were appointed to the Board in September 2020 and June 2021 respectively.

## 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.

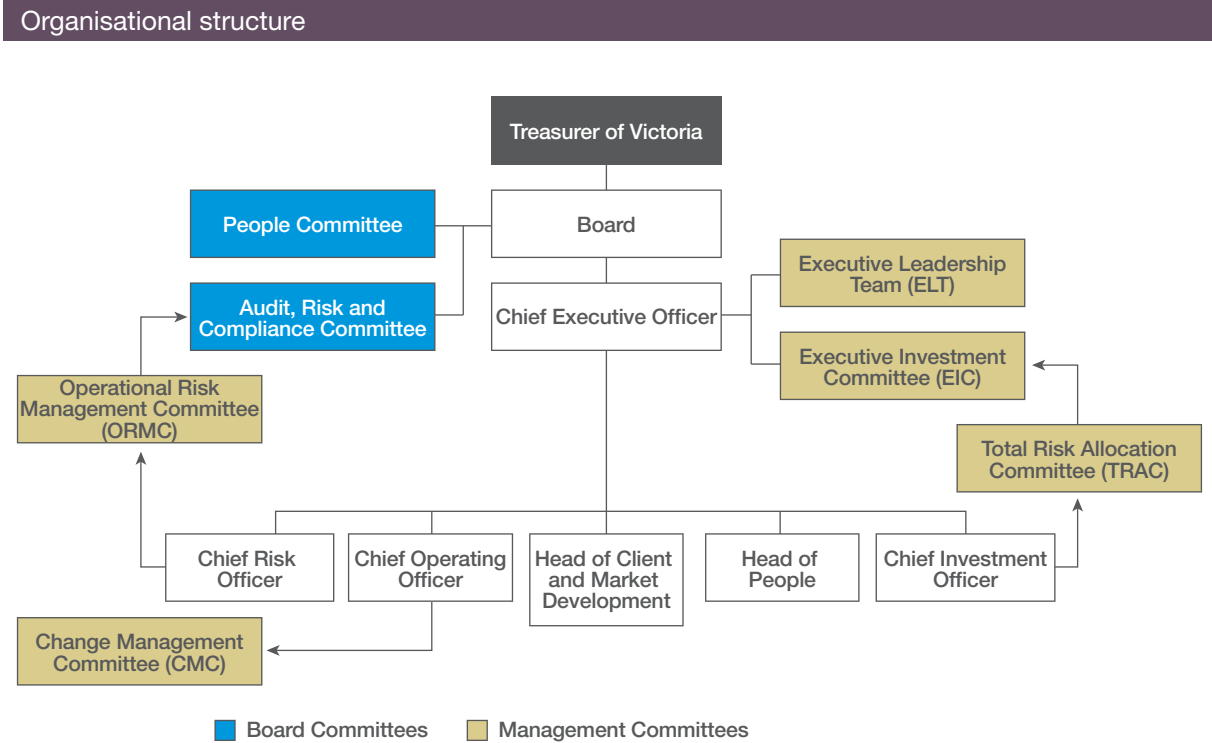
**VFMC’s structure**

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. Andrew Nicolaou was appointed acting chair of the Committee in August 2021. 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 five directors and was 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 evaluated by this Committee.

## Directors' and Committee meetings

The number of meetings held during 2020-2021 and those attended by each Director are set out in the tables to the 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	11	11	11
Tom Considine	11	1	1
John Fitzgerald	11	6	6
Lisa Gay	11	11	11
David Martine	11	11	7
Andrew Nicolaou	11	8	8
Elana Rubin	11	11	11
Fiona Trafford-Walker	11	11	10
Maria Wilton	11	11	11

Director	Audit, Risk & Compliance Meetings		
	No. Held	No. Eligible	No. Attended
Lisa Gay	6	6	6
James MacKenzie	6	6	6
John Fitzgerald	6	4	3
Andrew Nicolaou	6	4	4
Fiona Trafford-Walker	6	6	6
Maria Wilton	6	6	6

Director	People Committee Meetings		
	No. Held	No. Eligible	No. Attended
Elana Rubin	5	5	5
James MacKenzie	5	5	5
David Martine	5	5	4
Andrew Nicolaou	5	1	1
Fiona Trafford-Walker	5	5	5

## 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 69 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 2021, VFMC had 31 clients with FUM of \$74.5 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 seven 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 2021.

### Whole of State performance versus benchmark

The following charts show major asset class returns, Net of Fees (NOF), against the relevant benchmarks over one, seven and ten years ended 30 June 2021.

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

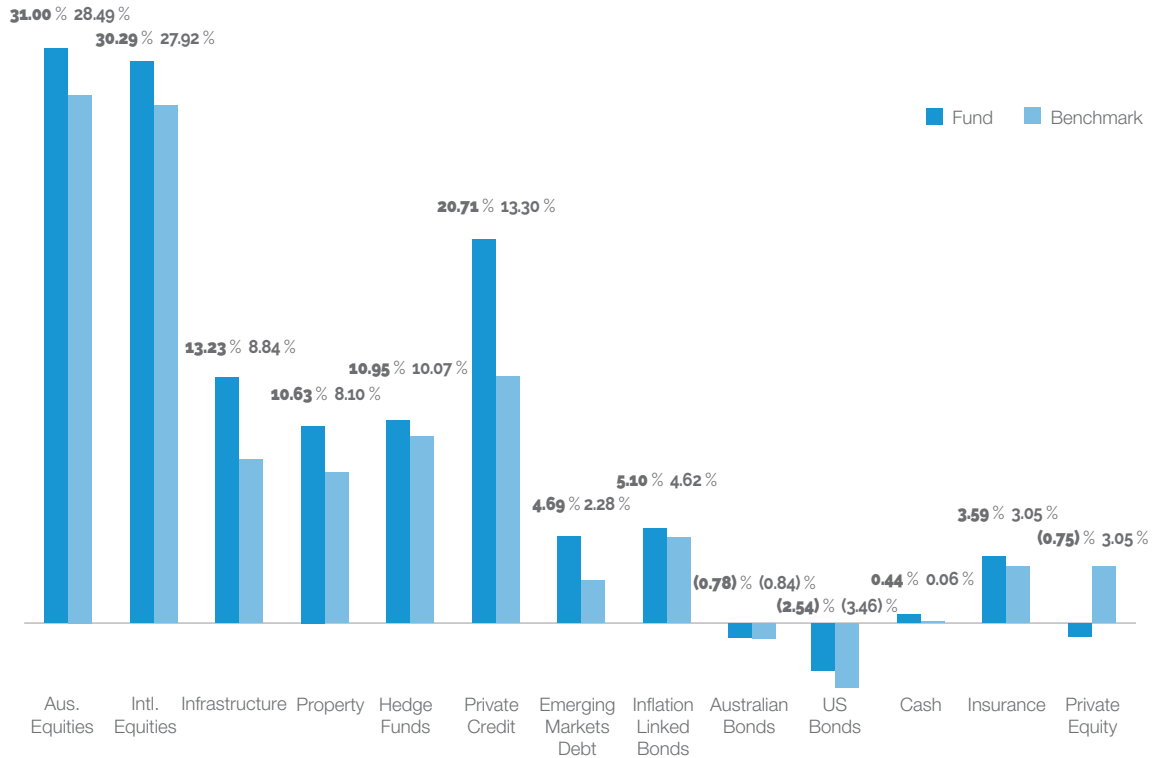
### Individual Client Performance versus stated objective for periods ending 30 June 2021

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	8.58	6.67	AWE + 4% p.a. over rolling seven year periods	60%
TAC	10	9.44	6.87	CPI (Melb) + 5% p.a. over rolling ten year periods	60%
VMIA	10	9.35	6.26	WPI + 4.25% p.a. over rolling ten year periods	50%
ESSSuper SSF	8	9.62	7.24	CPI (Aust) + 5.25% p.a. over rolling eight year periods	65% ± 2.5%
ESSSuper DB	8	9.22	6.79	CPI (Aust) + 5% p.a. over rolling eight year periods	65% ± 2.5%

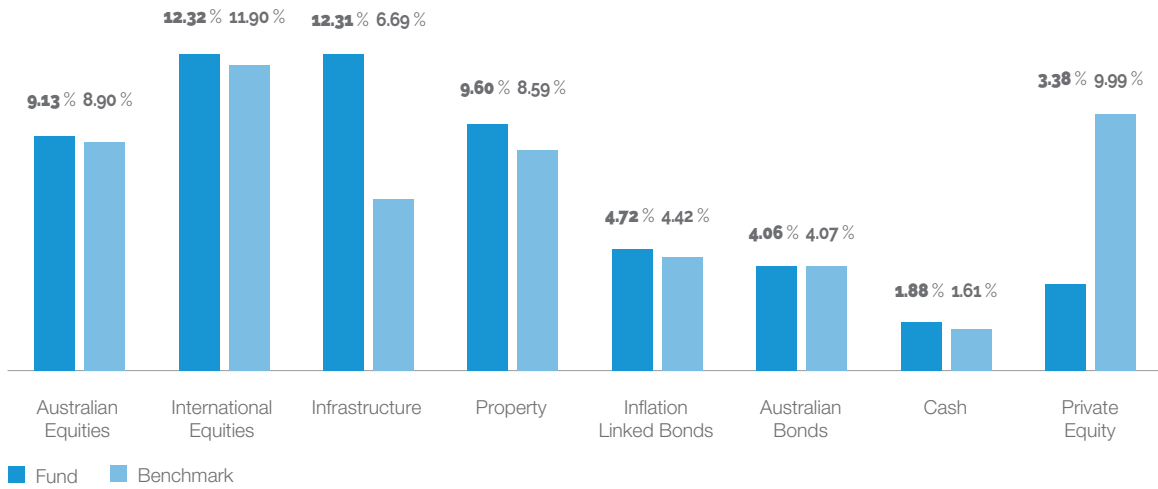
Note: These client objectives were implemented on 1 October 2019.

# Asset Class Performance versus benchmark (Net of Fees)

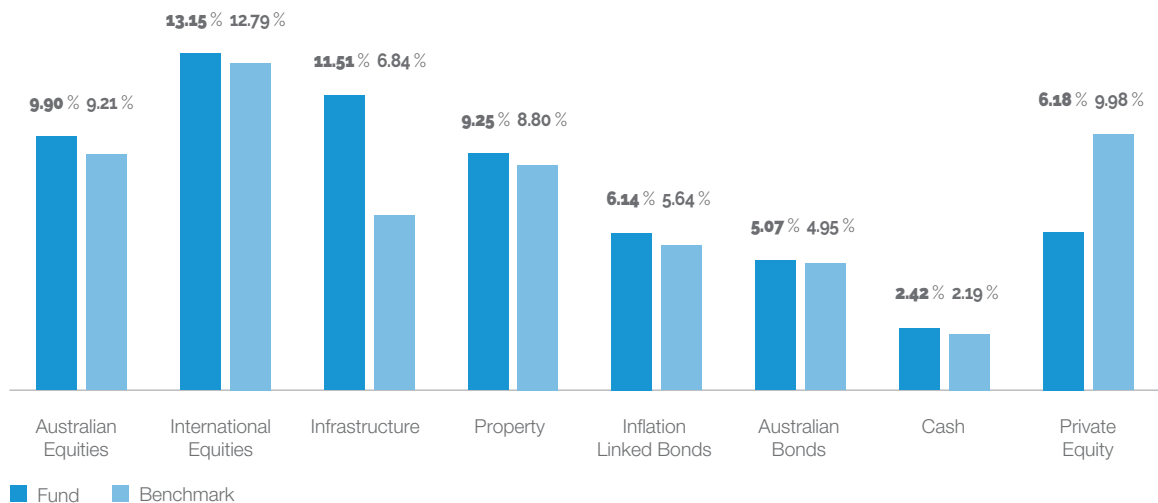
1 year



7 years p.a.



10 years p.a.



## Client and stakeholder satisfaction

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

During 2020, a Client Satisfaction Survey was conducted by EY Sweeney during a time of significant market uncertainty.

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

Overall satisfaction was high, with 13 of the 17 clients surveyed rating their satisfaction at 8 or above (out of 10). While the average level of satisfaction in 2020 was 7.9 compared to 8.4 in 2018, client comments show VFMC's services are highly valued. Six key areas of improvement have been identified and an action plan developed and incorporated into existing bodies of work.

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 2022.

## Our people engagement

Our culture continues to strengthen during a challenging year for our whole team.

Our people responded to the unique challenges of the 'work from home' direction and we established new ways of staying connected and enabling our teams to succeed.

Our leaders focused their attention on staying connected and providing differing levels of support to the team.

Our leadership programs were adjusted over the course of 2020-2021 with the move to virtual learning.

As we began to reimagine what 'work' would look like for VFMC, we began to establish more resilient hybrid ways of working that blended working at home and working from our shared workplace.

This evolution of how we worked has ensured that as we manage the unpredictability of the pandemic our team are well equipped to 'work from anywhere' as part of how they work.

VFMC conducted a range of COVID-19 pulse surveys and the People Experience Survey in early 2021. This survey demonstrated a 10pt uplift in engagement to 74% meeting the Finance sector benchmark.



## 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. The next review will be in the second half of the 2021 calendar year.

## 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 2021, 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 \$22.4 million in 2020-2021. This result was consistent with FUM growth to \$74.5 billion and effective cost management practices.

### Return on capital

VFMC's return on capital was 30% and the capital position increased from \$52.9 million in 2019-2020 to \$61.9 million as at 30 June 2021.

An anticipated dividend payment to the State of Victoria of \$7.8 million would reduce net assets at 30 June 2021 to \$54.1 million. This amount will be confirmed in 2021-2022.

For further information, refer to our financial statements on pages 51 to 79.

### Expenditure on consultancies and major contracts

In 2020-2021, VFMC invested in its operations by continuing the execution of the 2020 Strategic Plan. Seven consultancies were used to support the delivery of projects, with annual expenditure of \$1,465,000. This compared to an expenditure of \$1,060,000 in 2019-2020.

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

VFMC's information and communication technology expenditure of \$7,345,000 included \$4,119,000 for business as usual (BAU) expenses and \$3,226,000 for project expenditure.

In comparison, the 2019-2020 figures were \$7,356,000 for information and communication technology expenditure, \$4,759,000 for BAU expenses and \$2,597,000 for project expenses.

### Key financials

	2020-2021 \$ million	2019-2020 \$ million	2018-2019 \$ million
Pre-tax surplus	22.4	19.3	19.1
Net assets	61.9	52.9	46.2
Dividend paid	6.7	6.7	7.2

# Annual Financial Report

for the year ended  
30 June 2021



## Comprehensive operating statement for the financial year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Income from transactions</b>			
Management fees		171,296	176,552
Performance fees		5,869	–
<b>Total income from contracts with customers</b>		<b>177,165</b>	<b>176,552</b>
Interest and other income		70	306
<b>Total income from transactions</b>		<b>177,235</b>	<b>176,858</b>
<b>Expenses from transactions</b>			
Portfolio management and custodian expenses	4	102,117	110,099
Employee benefit expenses	4	27,502	22,800
Depreciation and amortisation expenses	4	2,233	2,075
Other operating expenses	4	23,016	22,585
<b>Total expenses from transactions</b>		<b>154,868</b>	<b>157,559</b>
<b>Net surplus from transactions</b>		<b>22,367</b>	<b>19,299</b>
<b>Other economic flows included in net surplus</b>			
Net profit/loss arising from revaluation of long service leave		47	(37)
<b>Net surplus before tax</b>		<b>22,414</b>	<b>19,262</b>
Income tax expense	5	6,725	5,792
<b>Net surplus after tax</b>		<b>15,689</b>	<b>13,470</b>
<b>Comprehensive result</b>		<b>15,689</b>	<b>13,470</b>

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

## Balance sheet

as at 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Assets</b>			
<b>Financial assets</b>			
Cash and cash equivalents	14(a)	55,507	48,074
Trade and other debtors	6	41,496	39,267
Prepayments and other assets		1,300	2,772
Income tax receivable		–	1,077
Deferred tax assets	5	3,686	3,850
<b>Total financial assets</b>		<b>101,989</b>	<b>95,040</b>
<b>Non-financial assets</b>			
Property, plant and equipment	7(a)	2,638	3,707
Right-of-use asset	10	4,963	5,839
Intangible assets	7(b)	3,611	1,111
<b>Total non-financial assets</b>		<b>11,212</b>	<b>10,657</b>
<b>Total assets</b>		<b>113,201</b>	<b>105,697</b>
<b>Liabilities</b>			
Trade and other payables	8	33,008	35,596
Income tax payable		2,712	–
Lease liability	10	6,490	7,408
Provisions	9	9,096	9,752
<b>Total liabilities</b>		<b>51,306</b>	<b>52,756</b>
<b>Net assets</b>		<b>61,895</b>	<b>52,941</b>
<b>Equity</b>			
Contributed equity		5,000	5,000
Accumulated surplus		56,895	47,941
<b>Net worth</b>		<b>61,895</b>	<b>52,941</b>

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

## Statement of changes in equity for the financial year ended 30 June 2021

	\$'000	\$'000	\$'000
	<b>Contributed Equity</b>	<b>Accumulated Surplus</b>	<b>Total</b>
<b>1 July 2019</b>	<b>5,000</b>	<b>41,160</b>	<b>46,160</b>
Net surplus after tax	–	13,470	13,470
Dividends paid	–	(6,689)	(6,689)
<b>30 June 2020</b>	<b>5,000</b>	<b>47,941</b>	<b>52,941</b>
	<b>Contributed Equity</b>	<b>Accumulated Surplus</b>	<b>Total</b>
<b>1 July 2020</b>	<b>5,000</b>	<b>47,941</b>	<b>52,941</b>
Net surplus after tax	–	15,689	15,689
Dividends paid	–	(6,735)	(6,735)
<b>30 June 2021</b>	<b>5,000</b>	<b>56,895</b>	<b>61,895</b>

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

## Cash flow statement

for the financial year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Receipts from trade and other debtors		176,408	179,461
Payments to creditors and employees		(146,179)	(156,125)
Net GST paid		(9,501)	(8,507)
Income tax paid		(2,771)	(4,362)
Lease interest paid	10	(154)	(158)
Interest received		70	306
<b>Net cash flows from operating activities</b>	<b>14(b)</b>	<b>17,873</b>	<b>10,615</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(35)	(527)
Purchase of intangible assets		(2,753)	(1,152)
<b>Net cash flows used in investing activities</b>		<b>(2,788)</b>	<b>(1,679)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	17	(6,735)	(6,689)
Lease principal paid	10	(917)	(871)
<b>Net cash flows used in financing activities</b>		<b>(7,652)</b>	<b>(7,560)</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,433</b>	<b>1,376</b>
Cash and cash equivalents at the beginning of the financial period		48,074	46,698
<b>Cash and cash equivalents at the end of financial year</b>	<b>14(a)</b>	<b>55,507</b>	<b>48,074</b>

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

# Notes to the financial statements

## 1. General information

The financial report of Victorian Funds Management Corporation (VFMC) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the Directors on 18 August 2021. 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 are the new and amended standards and interpretations which are effective from periods beginning 1 July 2020 or beyond and they do not materially impact the financial statements of VFMC:

- Interest Rate Benchmark Reform [Phase 2] - Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16
- Reference to the Conceptual Framework - Amendments to IFRS 3
- Property, Plant and Equipment: Proceed before Intended Use – Amendments to IAS 16
- Classification of Liabilities as Current or Non-current to Amendments to IAS 1
- Definition of Accounting Estimates – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

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

A number of new and amended standards and interpretations have been published that are not yet effective for periods beginning 1 July 2020 and have not been early adopted by VFMC. These standards and interpretations applicable from periods beginning 1 July 2021 or beyond as noted by effective date, are not expected to have a material impact on the financial statements of VFMC.



# Notes to the financial statements

## 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 Australian Accounting Standard (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 order of liquidity 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 as out-performance 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. 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.

# Notes to the financial statements

## 4. Expenses

	2021 \$'000	2020 \$'000
Portfolio management and custodian expenses	102,117	110,099
Salary and related expenses	27,029	22,320
Directors' fees	473	480
<i>Total employee benefit expenses</i>	27,502	22,800
IT expenses	5,700	4,926
Market data and research	4,354	5,038
Investment risk management	1,380	905
Consultancy and professional fees	3,044	2,356
Rental and outgoings	390	345
Legal expenses	1,456	1,258
Insurance	1,422	1,137
Audit fees	90	104
Finance cost	154	158
Strategic development costs	4,101	4,737
Office administration	872	689
Other expenses	53	932
<i>Total other operating expenses</i>	23,016	22,585
Depreciation of property, plant & equipment	1,104	1,124
Amortisation of right-of-use asset	876	876
Amortisation of intangible	253	75
<i>Total depreciation and amortisation expenses</i>	2,233	2,075
<b>Total expenses</b>	<b>154,868</b>	<b>157,559</b>

**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.

**Salary and related expenses:**

These expenses include all costs related to employment including wages and salaries, superannuation, redundancy payments, leave entitlements, incentives, work cover insurance, payroll tax and fringe benefit tax which are recognised when services have been rendered.

# Notes to the financial statements

## 5. Income tax

	2021 \$'000	2020 \$'000
--	----------------	----------------

(a) Income tax expense

The major components of income tax expense are:

### **Comprehensive operating statement**

Current income tax charge	6,561	3,817
Deferred income tax – relating to origination and reversal of temporary differences	164	1,975

### **Income tax expense reported in the comprehensive operating statement**

<b>6,725</b>	<b>5,792</b>
--------------	--------------

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

Accounting net surplus before tax from continuing operations	22,414	19,262
Prima facie tax calculated at 30%	6,724	5,779
Non-deductible expenses	1	13

### **Income tax attributable to net surplus from operations**

<b>6,725</b>	<b>5,792</b>
--------------	--------------

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

Deferred tax assets at 30 June relate to the following:

- salary and related expenses	2,703	2,918
- capital deductions	86	189
- fixed and intangible assets	308	169
- client rebates	106	85
- others	483	489
<b>Total deferred tax assets</b>	<b>3,686</b>	<b>3,850</b>

Deferred 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

	2021 \$'000	2020 \$'000
<b>Current</b>		
Management fees and trade receivables	40,323	38,474
Receivables from VFMC Trusts	1,090	774
Australian Taxation Office (GST)	83	19
<b>Total trade and other receivables</b>	<b>41,496</b>	<b>39,267</b>

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. 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.

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

	2021 \$'000	2020 \$'000
Leasehold premises improvements	4,901	4,901
Less: Accumulated depreciation	(2,871)	(2,474)
	2,030	2,427
Furniture, fittings and equipment	4,112	4,077
Less: Accumulated depreciation	(3,504)	(2,797)
	608	1,280
<b>Total carrying value</b>	<b>2,638</b>	<b>3,707</b>
<b>Reconciliation</b>		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	2,427	2,632
Additions	–	174
Depreciation	(397)	(379)
	2,030	2,427
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	1,280	1,672
Additions	35	353
Depreciation	(707)	(745)
	608	1,280
<b>Total property, plant and equipment</b>	<b>2,638</b>	<b>3,707</b>

Property, plant and equipment, are measured initially at cost and are subsequently 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 the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Notes to the financial statements

### 7. Property, plant and equipment and intangible assets

#### (b) Intangible assets

	2021 \$'000	2020 \$'000
Intangible assets	10,246	8,359
Less: Accumulated amortisation	(8,373)	(8,120)
	1,873	239
Intangible assets – work in progress	1,738	872
<b>Total carrying value</b>	<b>3,611</b>	<b>1,111</b>
<b>Reconciliation</b>		
<i>Intangible assets</i>		
Carrying amount at beginning	239	34
Additions	–	280
Transfer from Intangible assets – work in progress	1,887	–
Amortisation	(253)	(75)
	1,873	239
<i>Intangible assets – work in progress</i>		
Carrying amount at beginning	872	–
Additions	2,753	872
Transfer to Intangible assets	(1,887)	–
	1,738	872
<b>Total intangible assets</b>	<b>3,611</b>	<b>1,111</b>

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 3-5 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 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 asset, 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

	2021 \$'000	2020 \$'000
<b>Current</b>		
Accrued management and performance fees	28,298	32,875
Trade creditors and other payables	4,710	2,721
<b>Total trade and other payables</b>	<b>33,008</b>	<b>35,596</b>

Trade and other payables are carried at amortised cost and represent liabilities for services provided to VFMC prior to the end of the financial year and which are unpaid. All payables are non-interest bearing and are paid within the settlement conditions applicable to each provider of goods and/or services. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

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



# Notes to the financial statements

## 9. Provisions

	2021 \$'000	2020 \$'000
<b>Current</b>		
Unconditional annual leave		
expected to settle within 12 months	604	498
expected to settle after 12 months	1,042	1,041
Unconditional long service leave		
expected to settle within 12 months	397	315
expected to settle after 12 months	1,564	1,639
Unconditional incentives	4,020	3,922
Provisions for on-costs		
expected to settle within 12 months	343	307
expected to settle after 12 months	232	243
<b>Total current</b>	<b>8,202</b>	<b>7,965</b>
<b>Non-current</b>		
Long service leave	524	490
Incentives	–	948
Provision for on-costs	370	349
<b>Total non-current</b>	<b>894</b>	<b>1,787</b>
<b>Total provisions</b>	<b>9,096</b>	<b>9,752</b>

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

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

A liability for long service leave is recognised and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service (greater than six years are classified as current liabilities). 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 are recognised once approved by the People Committee and the Board. Incentives that are expected to vest and be paid within 12 months are recognised as a current liability.

# Notes to the financial statements

## 10. 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. Subsequent to initial measurement, right-of-use asset will be measured at fair value.

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 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.

VFMC has a lease contract for its commercial office with 10-year lease term which contains an option to extend the lease at the end of the lease term. The current lease liability and right-of-use assets have been calculated on the 10-year lease term, and do not include the extension option as the extension option is subject to market rent review and renegotiation of lease payments, and therefore not deemed highly probable.

VFMC also has an information technology commitment with lease terms of 12 months or less and a lease of office equipment with low value. VFMC applies the 'short-term lease' and 'lease of low value assets' recognition exemptions for these leases. As a result, these leases were recognised on a straight-line basis as an expense in comprehensive operating statement.

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

	2021 \$'000	2020 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	5,839	6,715
Amortisation expense	(876)	(876)
<b>Total right-of-use asset</b>	<b>4,963</b>	<b>5,839</b>

## Notes to the financial statements

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

	2021 \$'000	2020 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	7,408	8,279
Interest accrued	154	158
Payments	(1,072)	(1,029)
<b>Total lease liability</b>	<b>6,490</b>	<b>7,408</b>

The following amounts are recognised in the Cash flow statement:

	2021 \$'000	2020 \$'000
Lease interest paid	154	158
Lease principal paid	917	871
<b>Total cash outflow for leases</b>	<b>1,071</b>	<b>1,029</b>

Maturity analysis of lease liability is as follows:

	2021 \$'000	2020 \$'000
<i>Lease liability</i>		
Not longer than 1 year	981	918
1 – 5 years	4,625	4,338
Longer than 5 years	884	2,152
<b>Total lease liability</b>	<b>6,490</b>	<b>7,408</b>

The following are amounts recognised in the Comprehensive operating statement:

	2021 \$'000	2020 \$'000
Amortisation expense of right-of-use asset	876	876
Interest expense on lease liability (included in other operating expenses)	154	158
Expense relating to short-term leases (included in other operating expenses)	2,093	2,033
Expense relating to leases of low-value assets (included in other operating expenses)	18	47
<b>Total amount recognised in the Comprehensive operating statement</b>	<b>3,141</b>	<b>3,114</b>

# 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 \$1,953,796 (2020: \$1,690,648) 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

Timothy Pallas, Treasurer

##### The Directors

James MacKenzie (Chairperson)

Tom Considine (appointed 8 June 2021)

John Fitzgerald (appointment concluded  
1 February 2021)

Lisa Gay

David Martine PSM

Andrew Nicolaou (appointed 15 September 2020)

Elana Rubin AM

Fiona Trafford-Walker

Maria Wilton AM

##### Chief Executive Officer

Lisa Gray

The number of responsible persons being the Directors and the Chief Executive Officer (CEO), their base and total remuneration during the reporting period is 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.

#### (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.

The Key Management Personnel (KMP) of VFMC are a combination of the responsible persons and executive officers. VFMC has prepared the related

Income Band	Total Remuneration		Base Remuneration	
	2021 No.	2020 No.	2021 No.	2020 No.
\$Nil to \$9,999	2	1	2	1
\$30,000 to \$39,999	1	–	1	–
\$40,000 to \$49,999	1	1	1	1
\$60,000 to \$69,999	4	5	4	5
\$130,000 to \$139,999	1	1	1	1
\$590,000 to \$599,999	–	–	1	1
\$1,000,000 to \$1,009,999	1	1	–	–
Total numbers	10	9	10	9
Total amount	1,479,630	\$1,494,540	1,068,588	\$1,083,590

## Notes to the financial statements

party disclosures for the year based on reasonable enquiries made by management in relation to the responsible persons, executive officers 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, including investment decisions are conducted in the ordinary course of business and are entered into under normal commercial terms and conditions, independent of VFMC Directors.

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 2021 had FUM invested of \$113,560,522 (2020: \$95,188,765). All fees are charged on 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 \$6,735,000 (2020: \$6,689,000). On behalf of its clients, VFMC invests funds with TCV periodically, with Fixed Rates Notes of \$99,697,465 held at 30 June 2021 (2020: Nil) and Nil Guaranteed Bill Index Deposit held at 30 June 2021 (2020: \$629). 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 2021 had Funds Under Management (FUM) invested of \$2,984,042,785 (2020: \$2,589,495,801). All fees are charged on normal commercial terms and conditions.

Fiona Trafford-Walker is a Director of Perpetual Limited. On behalf of its clients, VFMC held investments in Perpetual ESG Real Return Fund totalling \$879,756,533 at 30 June 2021 (2020: Nil) and has paid management fees of \$13,418 (2020: Nil)

Maria Wilton is a Director of Victorian WorkCover Authority Board (WorkSafe). WorkSafe is a client of VFMC, and at 30 June 2021 had FUM invested of \$20,784,889,516 (2020: \$17,596,294,469). All fees are charged on normal commercial terms and conditions. Maria Wilton is also External Director of Dexus Wholesale Property Limited. On behalf of its clients, VFMC held investments in Dexus Wholesale Property Fund totalling \$232,500,927 at 30 June 2021 (2020: \$223,565,349) and has paid management fees of \$1,139,255 (2020: \$1,095,470)

As the investment manager for its clients, VFMC invested in debt securities used in Victorian Public-Private Partnerships. At 30 June 2021, VFMC held investments in Royal Children's Hospital's debt security totalling \$1,267,599,876 (2020: \$1,244,762,004) and Royal Women's Hospital's debt security totalling \$930,550 (2020: \$923,210). 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.

## Notes to the financial statements

VFMC utilises the insurance services of Victorian Managed Insurance Authority (VMIA), a client and related government entity. VFMC has paid/payable premiums to VMIA of \$1,566,189 (2020: \$1,422,484) 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 2021 were \$1,089,770 (2020: \$774,253). Management fees are paid on a monthly basis. Total fees earned by VFMC during the year for the management of the VFMC Trusts were \$28,230,839 (2020: \$27,135,635).

### (c) Remuneration of executive officers

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the previous table on page 69. Total annualised employee equivalent 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 including incentives, annual leave or personal leave that are usually paid or payable on a regular basis.

Other long-term benefits include long service leave.

Remuneration of executive officers	Total remuneration	
	2021 \$	2020 \$
Short-term employee benefits	2,749,615	2,451,245
Other long-term benefits	6,493	2,652
<b>Total remuneration</b>	<b>2,756,108</b>	<b>2,453,897</b>
<b>Total number of executives</b>	<b>6</b>	<b>6</b>
<b>Total annualised employee equivalents</b>	<b>5.0</b>	<b>4.9</b>

# Notes to the financial statements

## 13. Assets and liabilities of VFMC trusts for which VFMC is trustee

In the course of its fund management activities, VFMC establishes investment trusts that comprise investments of various kinds, tailored to meet 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.

During the year ended 30 June 2021, fees earned were \$28,230,839 (2020: \$27,135,635) and unpaid fees were \$2,481,169 (2020: \$2,091,706). 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 2021.

### Board of Directors as trustees:

VFMC Balanced Fund  
VFMC Capital Stable Fund  
VFMC Cash Trust  
VFM Emerging Markets Trust

VFMC Australian Credit 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 Property Trust 1  
VFMC Property Trust 2  
VFMC Yield Optimised Dividend Accumulator Trust

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

The VFMC Trusts are not subject to the financial reporting provisions of the FMA and as such their financial statements are not tabled in Parliament.



# 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:

	2021 \$'000	2020 \$'000
Cash at bank	55,507	48,074
<b>Total cash and cash equivalents</b>	<b>55,507</b>	<b>48,074</b>

Reconciliation of net surplus from operations after income tax to net cash flows from operating activities.

	2021 \$'000	2020 \$'000
Net surplus from operations after income tax	15,689	13,470
<b>Adjustments for non-cash income and expense items:</b>		
Depreciation of property, plant & equipment	1,104	1,124
Amortisation of right-of-use asset	876	876
Amortisation of intangible assets	253	75
<b>Changes in assets and liabilities:</b>		
Decrease/(Increase) in receivables and other debtors	(758)	2,908
Decrease in payables and other provisions	709	(7,838)
<b>Net cash flows from operating activities</b>	<b>17,873</b>	<b>10,615</b>

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. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

# 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 \$74.5bn as at 30 June 2021 (2020: \$63.9bn). These funds are managed on behalf of the following clients:

- Agriculture Victoria Services
- Ballarat General Cemeteries Trust
- Ballarat Health Services
- CenITex
- Consumer Affairs Victoria
- Corangamite Shire Council
- ESSSuper Accumulation Fund
- ESSSuper Defined Benefits Fund
- ESSSuper State Super Defined Benefits Fund
- Holmesglen Institute
- Latrobe Regional Hospital
- Melbourne Recital Centre
- Fire Rescue Victoria
- National Gallery of Victoria
- Peninsula Health
- Portable Long Service Leave 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
- William Angliss Institute
- Worksafe Victoria
- Zoos Victoria

# Notes to the financial statements

## 16. Auditor remuneration

	2021 \$	2020 \$
Fees paid or payable to Victorian Auditor-General's Office (VAGO) for the audit of VFMC	89,600	104,400
<b>Total audit fees</b>	<b>89,600</b>	<b>104,400</b>

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

## 17. Capital management

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

The Directors believe the business is scalable over time and will continue to operate efficiently. VFMC's capital consists of shareholders' contributed equity and retained earnings with no external debt. The Directors believe the current capital base is adequate.

In accordance with the *State Owned Enterprises Act 1992*, VFMC is required to pay the Victorian State Government a dividend out of retained profits as determined by the Treasurer in consultation with the Board of VFMC. The distribution policy set by the Treasurer is approximately 50% of after-tax surpluses. During 2020-2021 VFMC paid a \$6,735,000 dividend to the Department of Treasury & Finance (2020: \$6,689,000).

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).

COVID19, which is a respiratory illness caused by a new virus, was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID19, 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, on behalf of clients, are not included as investments on the balance sheet, there is no material 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's risk management framework continues to be applied across its business. VFMC continues to monitor the impact of COVID-19 on its risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff and service providers have been

identified, assessed, managed, and governed through timely application of 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, \$150,000 is past due (2020: \$100,618).

## 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 and obligations falling due and through holding of cash and only short-term deposits.

VFMC's financial liabilities comprises non-interest bearing payables which are all contracted to be settled within 30 days after balance date (2020: 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 \$55,500,000 (2020: \$48,100,000), trade and other receivables of \$41,200,000 (2020: \$39,300,000) and trade and other payables of \$31,900,000 (2020: \$35,600,000). The weighted average interest rate for cash during the reporting period was 0.10%.

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 \$555,000 (2020: \$480,000 increase)
- 100 basis points lower: decrease in surplus of \$555,000 (2020: \$480,000 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 2021 or on the results and cash flows of the VFMC for the year ended on that date.

# Notes to the financial statements

## 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 2021 and the financial position as at 30 June 2021;
- 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 2021.



**LISA GAY**  
Acting Chair



**LISA GRAY**  
Chief Executive Officer



**MAURICE PETRILLI**  
Head of Finance

Dated: 18 August 2021

# Independent Auditor's Report

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

---

<b>Opinion</b>	<p>I have audited the financial report of the Victorian Funds Management Corporation (the Corporation) which comprises the:</p> <ul style="list-style-type: none"><li>• balance sheet as at 30 June 2021</li><li>• comprehensive operating statement for the year then ended</li><li>• statement of changes in equity for the year then ended</li><li>• cash flow statement for the year then ended</li><li>• notes to the financial statements, including significant accounting policies</li><li>• statement by the Chair and Management.</li></ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2021 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>
<b>Basis for opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Director's responsibilities for the financial report</b>	<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's responsibilities for the audit of the financial report**

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

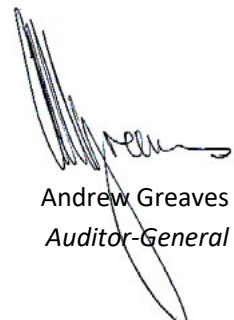
As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors
- conclude on the appropriateness of the 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.

---

MELBOURNE  
24 August 2021



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 2020-2021, contracts 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 attestation

I, Lisa Gay, on behalf on the Responsible Body, certify that Victorian Funds Management Corporation (VFMC) has no Material Compliance Deficiency with respect to the applicable Standing Directions under the *Financial Management Act 1994* and Instructions.

For and on behalf of VFMC



Acting Chair

Dated 18 August 2021

## Disclosure index

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

Legislation	Requirement	Page reference
<b>Report of Operations – FRD Guidance</b>		
<b>Charter and Purpose</b>		
FRD 22H	Manner of establishment and the relevant Ministers	56
FRD 22H	Purpose, functions, powers and duties	56
FRD 8D	Departmental objectives, indicators and outputs	5
FRD 22H	Key initiatives and projects	7
FRD 22H	Nature and range of services provided	6
<b>Management and Structure</b>		
FRD 22H	Organisational structure	43
<b>Financial and other information</b>		
FRD 8D	Performance against output performance measures	22
FRD 8D	Budget portfolio outcomes	N/A
FRD 10A	Disclosure index	86
FRD 12B	Disclosure of major contracts	N/A
FRD 15E	Executive officer disclosures	69
FRD 22H	Employment and conduct principles	28
FRD 22H	Occupational health and safety policy	31
FRD 22H	Summary of the financial results for the year	50
FRD 22H	Significant changes in financial position during the year	53
FRD 22H	Major changes or factors affecting performance	19
FRD 22H	Subsequent events	78
FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	N/A
FRD 22H	Compliance with building and maintenance provisions <i>Building Act 1993</i>	N/A
FRD 22H	Public Interest Disclosure Act 2012	N/A
FRD 22H	Application and operation of the <i>Protected Disclosure Act 2012</i>	83
FRD 22H	Application and operation of the <i>Carers Recognition Act 2012</i>	84
FRD 22H	Details of consultancies over \$10,000	50
FRD 22H	Details of consultancies under \$10,000	N/A
FRD 22H	Disclosure of government advertising expenditure	N/A
FRD 22H	Disclosure of ICT expenditure	50

FRD 22H	Statement of availability of other information	82
FRD 24D	Reporting of office-based environmental impacts	N/A
FRD 25D	Local jobs first Victorian Industry Participation Policy disclosures	83
FRD 29C	Workforce Data disclosures	28

SD 5.2 Specific requirements under Standing Direction 5.2

SD 5.4.1	Attestation for compliance with Ministerial Standing Direction	85
SD 5.2.3	Declaration in report of operations	79

**Financial Report**

**Financial Statements**

SD 5.2.2	Declaration in financial statements	79
----------	-------------------------------------	----

**Other requirements under Standing Directions 5.2**

SD 5.2.1(a)	Compliance with Australian accounting standards and other authoritative pronouncements	56
SD 5.2.1(a)	Compliance with Standing Directions	79
SD 5.2.1(b)	Compliance with Model Financial Report	56

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

FRD 21C	Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report	69
FRD 110A	Cash Flow Statements	55
FRD 103H	Non-Financial Physical Assets	62

**Legislation**

*Victorian Funds Management Corporation Act 1994*

*Public Interest Disclosures Act 2012*

*Local Jobs First Act 2003*

*Financial Management Act 1994*

*Freedom of Information Act 1982*

*Carers Recognition Act 2012*

*Disability Act 2006*

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

