



# Annual Report

2021-2022



Victoria's investment specialist

**Victorian Funds Management Corporation**

ABN 27 691 254 157

**Office**

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

**Corporation Secretary**

Traci MacRae

**External Auditor**

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

## Our clients



## Letter to the Treasurer

Mr Tim Pallas  
Treasurer of Victoria  
1 Treasury Place  
Melbourne Vic 3000

Dear Treasurer

I am pleased to submit the 2021-2022 VFMC Annual Report for presentation to Parliament, as required by section 46 of the Financial Management Act 1994.

Yours sincerely



James MacKenzie  
Chair

# Improving the future prosperity of Victoria



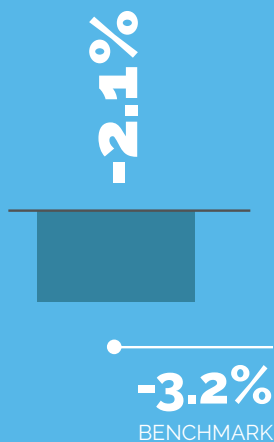
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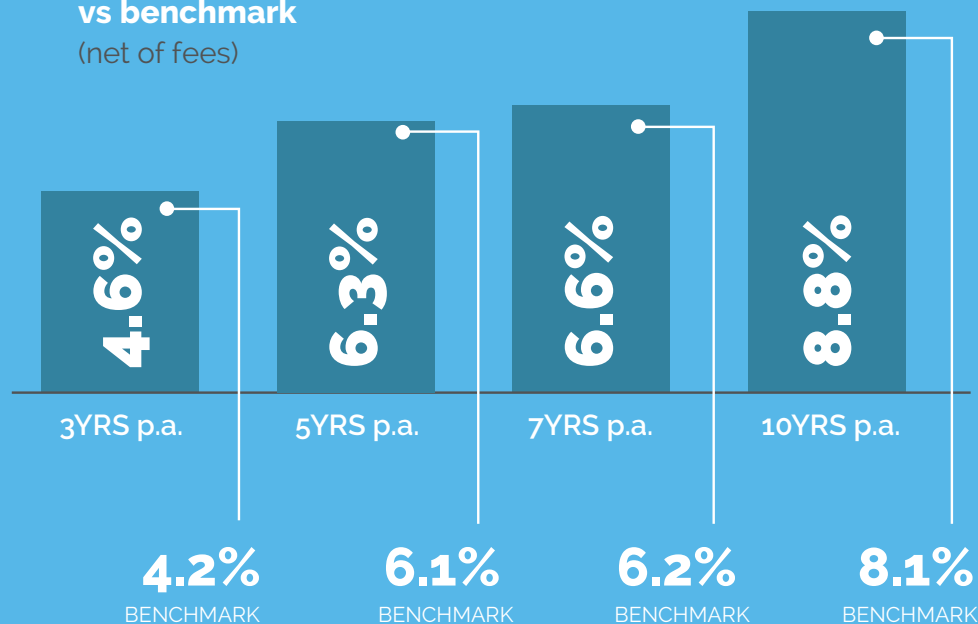


# 2021-2022 Year in Review

**One year return**  
to 30 June 2022  
**vs benchmark**  
(net of fees)



**Longer term returns**  
**vs benchmark**  
(net of fees)



**\$72.1bn**

Funds Under Management

**↓ \$2.4bn**

**\$24.2m**

Pre-tax surplus



**290**

Discrete ESG  
Engagements  
across asset classes



2022 Investment Risk  
Management Plan and  
inaugural Gender Equality  
Action Plan complete



**71%**

Employee  
Engagement Score

# Report from the Chair AND Chief Executive Officer

## From the Chair



VFMC continued to demonstrate strength and resilience this year, despite challenging market and global conditions.

Under the leadership of two exceptional Chief Executive Officers, VFMC has successfully delivered against its corporate and investment objectives for 2021-2022.

A significant milestone was achieved in April 2022, when the Treasurer approved the 2022 Investment Risk Management Plan (IRMP). This plan included considerable changes in response to the current investment outlook and VFMC's updated capital market assumptions, with a new set of strategic asset allocations designed to support clients' investment objectives. A significant effort from our team as well as our clients.

Strategic alignment with the Department of Treasury and Finance and with our clients ensures VFMC remains well-placed to continue to deliver efficient, effective and competitive investment services in accordance with our long-term aspiration, which is to be an extraordinary team delivering market leading, long-term returns

### **Maintaining our long-term investment focus**

It was another volatile year for investment markets. Throughout the second half of 2021-2022, we saw global macro activity continuing to moderate as the mix of elevated inflation and rapidly tightening labour markets prompted central banks around the world to normalise monetary policy stances from emergency settings.

VFMC's one-year return of -2.1% reflects these volatile conditions, however performance remained 1.1% ahead of the strategic asset allocation benchmark. Performance over the three, five, seven and ten year periods also remained ahead of benchmarks, with annualised returns of 4.6%, 6.3%, 6.6% and 8.8% respectively, although performance against clients' long-term investment objectives was mixed.

VFMC's commitment to delivering consistent and sustainable long-term returns is a central tenet of the State's Centralised Investment Model (CIM). The CIM provides State Government departments and agencies with benefits of scale, by providing access to opportunities and global investment management expertise at a lower cost than they could achieve directly. VFMC is proud to manage our clients' assets so they can focus on their own business priorities and community services.

## Governance

We are not alone in experiencing the impacts of market volatility on performance, or in preparing for a challenging outlook ahead. The Board has maintained its focus on governance and creating stability during these rapidly changing times.

VFMC's robust decision-making frameworks at an investments and corporate level have enabled us to be responsive and efficient, while maintaining good governance across the business.

The Board and our executive team recognise that effective risk management is a key enabler in achieving our strategic goals. As a Board, we are confident VFMC has developed a strong risk culture that continues to mature to meet our objectives and deliver for our clients. Throughout the year, the Board has focussed on maintaining VFMC's control framework and enhancements to our data and analytics capabilities in support of these goals.

## Acknowledgements

We congratulate Lisa Gay on her appointment as Deputy Chair of VFMC and on her re-appointment to the Board for a further three-year term. I express my sincere thanks to Lisa for assuming the role of Chair from August to December 2021.

In October 2021, we welcomed Kate Galvin as CEO of VFMC following the departure of long-serving CEO Lisa Gray. Kate's engaging leadership approach and focus on people and development are well suited to the culture of VFMC as it continues to build on the foundations established over the last five years.

The Board and I thank Lisa for her six years of leadership at VFMC and for setting up the organisation for a challenging and exciting future.

We were also pleased to welcome Lisa as a new Director to the Board in January 2022. Lisa's breadth of leadership experience across the private and public sector, especially in financial services, will be integral to helping guide the long-term strategy of VFMC and supporting the future prosperity of the state of Victoria.

On behalf of the Board, I would like to thank the people of VFMC for their continued commitment to delivering for our clients and for the people of Victoria.



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

**James MacKenzie**  
Chair



# From the Chief Executive Officer



Thank you to the VFMC team for your hard work and commitment, and for your open and welcoming approach.

VFMC's unique purpose provides an opportunity to lead a talented team, united in their efforts to improve the future prosperity of Victoria. We strive to do this every day as we manage more than \$72 billion for Victorian public authorities and related organisations across sectors including insurance, superannuation, health, the arts and more.

In 2021-2022, VFMC responded to significant local and global shifts in the regulatory and business environment, including:

- changing client needs, as we all adapt from a low interest rate environment and to increased market volatility;
- increased competition in the market for investment talent; and
- the challenges of reconnecting and re-imagining the workplace post the COVID-19 pandemic.

## Investment and financial performance

In a dynamic investment market and business operating environment, VFMC has remained focussed on strong and sustainable long-term performance. We continued to enhance investment decision-making through investment in our data and analytics platform and implemented new initiatives and investment strategies to build portfolio resilience and diversification.

Our team of investment experts managed volatile market conditions skilfully throughout the year. It was a difficult period for both equity and bond markets, with some of the sharpest falls in 50 years pushing markets into deep negative territory for the financial year. This is reflected in performance,

with VFMC delivering a negative one-year return of -2.1% net of fees, being our first negative one-year return since 2008-2009 and the impacts of the Global Financial Crisis. Our active portfolio management approach delivered strong protection, however, and ensured we remained 1.1% above benchmark for the year. This included the first application of our Cycle Aware Asset Allocation process, which proved a key driver of value.

VFMC's longer-term performance continues to exceed benchmarks, with annualised returns of 4.6% over three years, 6.3% over five years, 6.6% over seven years and 8.8% over ten-year periods. Our ability to deliver on long-term goals was recognised by the Victorian Government in May 2022, with the announcement of VFMC as investment manager for the Victorian Future Fund.

Investment in our people, operations and technical capabilities continues to deliver strong impact and return on capital. VFMC is set to deliver a pre-tax surplus of \$24.2 million and an anticipated dividend payment to the State of Victoria of \$8.4 million for the financial year.

## People and culture

Our number one strategic priority is to maintain and evolve VFMC's open, transparent and supportive culture as we move into a post-pandemic world. There is incredibly strong knowledge and expertise across our team. We are committed to an environment that supports our people to perform, grow and share knowledge across the organisation and broader industry. This will help us continue to drive open and constructive dialogue, to deliver against our whole-of-portfolio investment approach, and to make our team even more resilient.

This year we began an important conversation with our people on our core values, and how they support our purpose. Our values anchor our culture, so it is important they evolve alongside our changing environment and the changing needs of our people. We received valuable feedback that will be used to create a refreshed set of values and Employee Value Proposition that reflects the best of VFMC, now and into the future.

VFMC's commitment to equity, inclusion and diversity was further recognised this year with our certification as a Family Inclusive Workplace. This certification is a testament to our inclusive culture, where we understand that family means different things to different people. We are committed to being one of the first gender equal fund managers in Australia and have made great progress in this area.

As we continued to evolve the way we work, we also made some changes to our Executive Leadership Team structure. I was delighted to announce the appointment of Lucy Carr to the Chief Operating Officer role following the departure of former COO, Sally Collins. Lucy transferred from her role as Chief Risk Officer, demonstrating the capacity and depth of talent within our organisation, with Lucy being able to leverage her expertise across a new portfolio. I thank Sally for her valuable contribution to VFMC and for the role she played in leading the positive development of our culture.

I also look forward to welcoming Paul Shanley to the newly shaped executive role of Chief Finance and Risk Officer early in the new financial year.



A handwritten signature in black ink, which appears to read 'Kate Galvin'.

**Kate Galvin**  
Chief Executive Officer

## Continued evolutionary transformation

This year we continued to implement our Evolve24 strategy in the face of ongoing impacts from COVID-19 and challenging market and geopolitical conditions. We have benefitted from taking an agile approach to regularly reviewing the strategy and testing our assumptions and direction against changes to the external environment.

In 2021-2022, we:

- revised and revalidated our investment management philosophy and finalised the 2022 Investment Risk Management Plan for our Foundation CIM clients;
- continued to develop and embed our data and analytics capabilities;
- accelerated our investment stewardship program and our roadmap to achieving net zero emissions;
- reviewed and simplified our fee structures;
- built organisational capabilities for the future and reviewed our values and employee value proposition to better reflect the changing nature of work;
- conducted a comprehensive review of our Multi Strategy Funds; and
- worked on the next phases of our technology capability and workplace technology roll-out, including the continued evolution of our cyber security defences.

## Thank you

The efforts, expertise and impact of our Board of Directors and our people have been impressive. Together, we are helping shape a more prosperous future for Victoria.

We look forward to the next phase of VFMC's journey and working even more closely as a team with our clients and stakeholders in the year ahead.

“  
The Victorian Funds Management Corporation (VFMC) is Victoria’s investment specialist.  
”

# About VFMC

VFMC is a contemporary public authority investing for the benefit of all Victorians and managing funds of \$72.1 billion for 31 Victorian public authorities and related organisations.

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

## Purpose

VFMC’s diverse team is united by a single purpose: Improving the future prosperity of Victoria.

## Aspiration

VFMC’s long-term aspiration is to be an extraordinary team delivering market leading, long-term returns. It defines success as 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; and
- Competitive – delivering exceptional client experience and attracting and developing 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 VFMC’s funds under management (FUM). These clients, known as Foundation clients, invest through VFMC under the Victorian Government’s Centralised Investment Model (CIM).



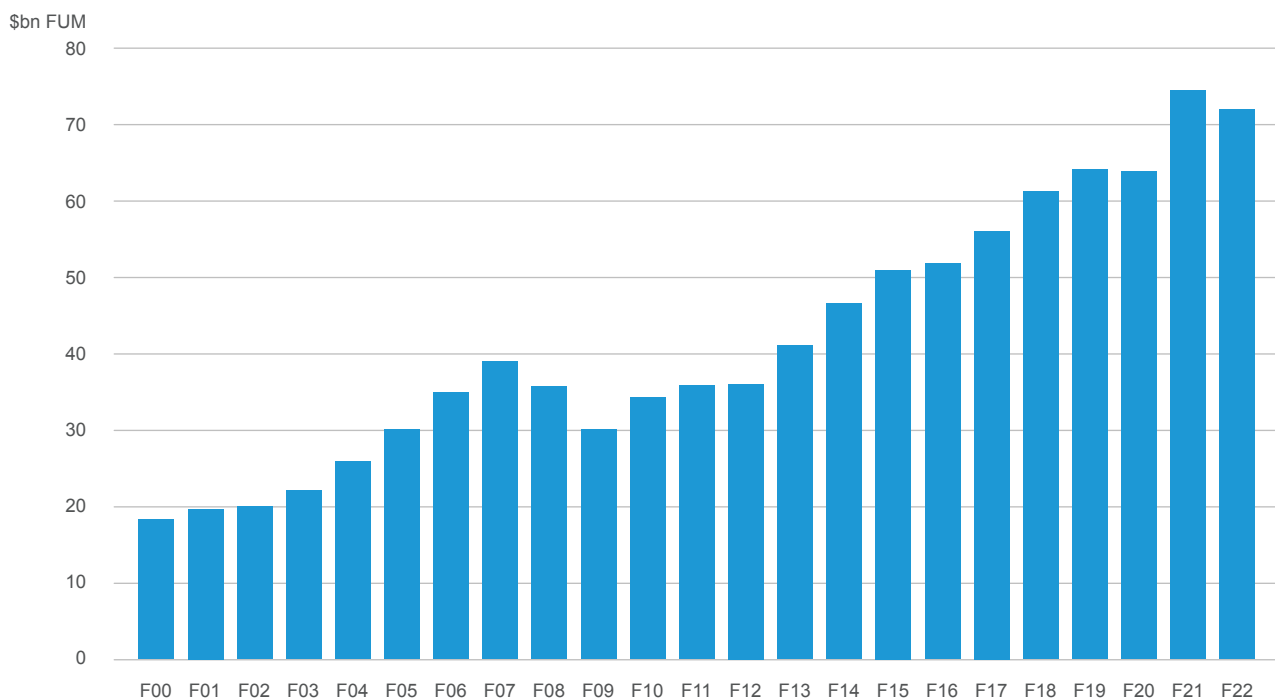
In addition to its Foundation CIM clients, VFMC manages investments on behalf of 27 Victorian public authorities and related organisations, each with their own investment objectives, risk tolerances, time horizons and liquidity needs.

VFMC actively engages with prospective clients who qualify as ‘participating bodies’ under the VFMC Act. It provides 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 VFMC clients as at 30 June 2022 see page 77.

## Funds Managed

VFMC's FUM rises and falls with markets, the performance of VFMC's investments relative to markets and client cash flows. As at 30 June 2022, VFMC's FUM was \$72.1 billion.



## Services

VFMC manages investment risks and builds portfolios that aim to optimise returns and meet client objectives. It offers a range of investment and related services, including:

- 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 guidance;
- providing internal funds management;
- selecting external fund managers and monitoring their performance;
- providing integrated investment stewardship (environmental, social and governance) services and guidance;
- providing proxy voting services; and
- monitoring of risk and compliance.

VFMC offers its clients the benefits of scale, by providing access to opportunities and investment management expertise that may not be directly available to them at a competitive cost. This expertise is drawn from a combination of internal investment management and external fund managers. Internal management is utilised where VFMC has the capabilities to generate superior risk-adjusted performance net of fees. Approximately 36% of VFMC's funds are managed internally.

VFMC also provides clients, including their boards and committees, with monthly updates, detailed quarterly performance reports and regular insights on investments and broader global trends. This keeps clients informed of the current performance of their investments, as well as potential drivers of and impacts on future performance.



VFMC seeks to deliver exceptional outcomes for its people, clients, and the State of Victoria.

# Strategic priorities

## Evolve24 Strategic Agenda

The Evolve24 strategic agenda is designed to enable VFMC to create an adaptable, scalable investment platform that underpins the evolving needs of its clients. It provides VFMC with the capability and the flexibility to respond to changing operating and market environments, which proved especially valuable in 2021-2022.

### 2021-2024 Strategic objectives

The Evolve24 strategic agenda covers the 2021-2024 period and includes three strategic objectives.

1.

**Optimise VFMC's investment decision-making by blending the talents of its people with data-powered tools.**

Navigating global capital markets in a complex and volatile environment requires the best of human insight, supplemented by the speed and reach of strong data and analytics capabilities.

2.

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

In the past, VFMC's underlying structures were 'built by necessity'. They are being refreshed and 'built by design' to enable VFMC to rapidly respond to an unpredictable environment and be well positioned for the future.

3.

**Future-ready VFMC's culture and capability.**

To thrive in a digitally driven world, VFMC must continue to embrace new ways of working and leverage its technology and data analytics capabilities.

# Governance and Leadership

## VFMC Board



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

### James MacKenzie

Chair

Appointed June 2015

James MacKenzie is an experienced Australian company director. James currently serves as Chair of Slater and Gordon Lawyers, the Suburban Rail Loop Authority, the Melbourne Arts Precinct Corporation Board, Fed Square Pty Ltd and Monivae College. He is also a Trustee of the MCG Trust.

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, Development 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.

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

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 Australia + New Zealand.

### Lisa Gay

Deputy Chair

Appointed Director May 2016, Deputy Chair August 2021, Acting Chair August to December 2021 Chair of Audit, Risk and Compliance Committee (resumed position December 2021).

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 Board Member of Fed Square. Lisa was formerly Deputy Chair of the Indigenous Land Corporation, Chair of Voyages Indigenous Tourism Australia, Chair of the Australian Securities and Investment Commission's Markets Disciplinary Panel and a non-executive director at Interim Melbourne Arts Precinct Board.

From 1990-2010, Lisa was General Counsel and Managing Director of the Goldman Sachs Group Australia and its predecessor JBWere & Son.



## **Tom Considine**

Director

Appointed June 2021

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

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

## **David Martine PSM**

Director

Appointed September 2014

David Martine has extensive budget, finance, policy and organisational leadership experience and has been involved in wide ranging strategic policy reform.

He is a director of Treasury Corporation Victoria, a member of the Infrastructure Victoria Board, and a member of the Advisory Board, Tax and Transfer Policy Institute – Crawford School of Public Policy at ANU.

David is currently 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.

David has a Bachelor of Economics (Honours) from Monash University and a Master of Business Administration.

## **Andrew Nicolaou**

Director

Appointed September 2020

Acting Chair of the Audit, Risk & Compliance Committee – August 2021 to December 2021

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

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

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

Andrew is a Fellow of the Institute of Chartered Accountants, a Graduate of the Australian Institute of Company Directors and a Fellow of the Institute of Public Administration Australia.

## **Elana Rubin AM**

Director

Appointed August 2015, Chair of People Committee until February 2022

Elana Rubin has extensive experience in funds management, property, infrastructure and insurance.

She is currently the Chair of Victorian Managed Insurance Authority (VMIA) and is a director of Slater and Gordon Lawyers, Telstra, and several unlisted organisations in the infrastructure sector. Previous directorships include Chair of Afterpay and AustralianSuper, director of LaunchVic, ME Bank, Infrastructure Australia, Mirvac Group and the Climate Change Authority.

Elana is a Life Fellow of the Australian Institute of Company Directors, Senior Fellow of the Financial Services Institute of Australasia and member of Chief Executive Women.

She holds a BA(Hons) and MA (Economics) from University of Melbourne, a Diploma in Financial Markets and is a Graduate of the Australian Institute of Company Directors.

## **Fiona Trafford-Walker**

Director

Appointed August 2018

Fiona Trafford-Walker is a non-executive director and Chair of the Audit Committee at the Link Group, a non-executive Director and Chair of the Audit and Risk Committee at 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 broad experience in business, finance and governance having held leadership positions in investment management and superannuation.

Maria is currently serving as a Director of Dexus Wholesale Property Fund, Deputy Chair of Infrastructure Victoria and the State Investment Advisory Board (Queensland). She has extensive experience as Chair of business forums and Audit and Risk and Investment Committees and is a Member of the global Board of Governors of the CFA Institute.

Maria holds a Bachelor of Economics from the University of Tasmania and is a Chartered Financial Analyst charter holder.

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## **Changes in Board composition during 2021-2022**

### **Lisa Gray**

Director

Appointed January 2022, Chair of People Committee from February 2022

Lisa Gray is an accomplished CEO and company director of large, distributed customer businesses across private and public sectors. With more than 30 years experience, Lisa has led strategic, digital and cultural transformations, through multiple business cycles, delivering substantial business value.

Currently, Lisa is a non-executive director of ING Bank (Australia) where she is Chair of the Risk Committee.

Lisa was the CEO, VFMC from 2016 to September 2021. Prior to working with Government, Lisa had an extensive career in the Financial Services sector. Her more recent senior executive roles were at NAB including Group Executive, Enterprise Services and Transformation and Group Executive, Personal Banking. Before joining NAB, Lisa was CEO, MLC Insurance and Managing Director, Plum Financial Services.

Lisa's qualifications include an Advanced Management Program from INSEAD, MBA from University of Melbourne and Columbia University (NY), Graduate Diploma in Management from RMIT, and a Bachelor of Town and Regional Planning (Hons) from University of Melbourne. She is a Graduate of the Australian Institute of Company Directors and a member of Chief Executive Women.



The Chief Executive Officer and Executive Leadership Team (ELT) drive the operation of VFMC.

## VFMC Executive Leadership Team

### **Kate Galvin**

CEO

Joined October 2021

Kate commenced her career in commercial legal practice, before transitioning into management. Kate has led businesses in global and Australian companies across financial advice, asset management, private, corporate and business banking.

Before joining VFMC, Kate was responsible for NAB's Health business, leading a national team of corporate and business bankers to provide banking and financial services to the health sector. Prior to NAB, Kate held multiple roles with JBWere and Goldman Sachs JBWere, including Managing Director, JBWere and Executive Director and Partner, Goldman Sachs JBWere.

Kate holds Bachelor degrees in Economics and Law and is a graduate of the Australian Institute of Company Directors. She is currently on the Board of the Mercy Health Foundation.

### **Lucy Carr**

Chief Operating Officer

(previously Chief Risk Officer)

Joined December 2019

Lucy was appointed as VFMC Chief Operating Officer in May 2022 and is responsible for leading VFMC's data and analytics, digital and technology, investment operations, and projects and change portfolios.

Lucy had been Chief Risk Officer since December 2019, where she was responsible for the legal, risk and compliance functions. She has more than 20 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 \$72.1 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).

## **Sarah Dunn**

Head of Client and Market Development  
Joined September 2020

Sarah 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 across 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.

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## **Changes in ELT composition during 2021-2022**

### **Lisa Gray**

Chief Executive Officer, Lisa Gray retired on 30 September 2021 after nearly six years at the helm of VFMC. Kate Galvin commenced as the new VFMC Chief Executive Officer on 11 October 2021.

### **Sally Collins**

Chief Operating Officer, Sally Collins tendered her resignation in February 2022. She had held the role since May 2017. Former Chief Risk Officer, Lucy Carr was appointed as VFMC's new Chief Operating Officer in May 2022. Responsibility for Risk was reappointed to a newly shaped executive role of Chief Finance and Risk Officer, with Paul Shanley to commence in this role on 1 August 2022.

# Investment management



VFMC has a long-term approach to delivering its clients' investment objectives.

# Investment management approach

## Investment philosophy



## OUR PILLARS

### Whole of Portfolio Approach

Portfolios are best managed as a whole, rather than simply a sum of parts. Enabling portfolio flexibility is important to respond to market developments.

### Diversification

Effective diversification is essential for maximising risk and return outcomes across the portfolio.

### Long-Term Horizon

Long-term investing provides a competitive edge in generating better investment outcomes but should recognise the balance between short and long-term pressures.

### Risk is Multi-Dimensional

Risk is multi-dimensional and its management should support the successful meeting of clients' long-term objectives.

### Active Management

Market inefficiencies can provide opportunity to add value via active management - which is managed to reflect the change in prospective risks and returns over time.

### Execution

Robust and efficient execution is an important contributor to overall investment outcomes.

### Investment Stewardship

Being an active investment steward adds value to our clients' portfolios by management risks, identifying opportunities and influencing positive ESG outcomes.

## OUR FOUNDATIONS

### Clients

Clients' specific circumstances are considered when designing and managing their portfolios.

### Culture & Governance

Good governance practices improve the quality of decision making that can lead to better investment outcomes.





VFMC's investment philosophy is at the centre of its investment process and guides the evolution of its portfolios.

## A renewed investment philosophy

In 2020-2021, VFMC reviewed its investment philosophy to reflect the key investment themes which emerged or were reinforced with the onset of the COVID-19 crisis, as well as subsequent macroeconomic developments.

The revised investment philosophy reconfirms VFMC's position as a long-term investor, while also recognising the balance between short and long-term pressures. It includes two new pillars, Investment Stewardship and Execution, as these principles are implicit in investment decisions and important contributors to overall investment outcomes. The revised philosophy also reflects the evolution of VFMC's risk capabilities and continues to emphasise the importance of good governance and culture in decision-making.

## Investment Risk Management Plan review

During 2022, VFMC completed 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 focus of the review was to ensure VFMC continues to meet clients' evolving investment needs and portfolios are appropriately set up to respond to an increasingly challenging market. Considerations included the prevailing economic environment, a lower return outlook, greater volatility, extraordinary monetary and fiscal policy settings, extreme valuations across some markets and the potential impacts of climate change.

Given this context, the 2022 IRMP adopted a valuation-aware approach to the development of VFMC's capital market assumptions, incorporating a pathway from extreme monetary and fiscal policy settings back towards expected long run equilibrium settings. This provided more relevant risk and return insights for the modelling of asset classes and more robust consideration of client investment objectives. Consistent with VFMC's integrated approach to Investment Stewardship, the potential impact of climate change was also allowed for in the capital market assumptions for the first time.

Key outcomes of the 2022 IRMP review included an increased allocation to unlisted assets; the introduction of Low Volatility Equities within the Equities asset class; and a reduction to Fixed Interest and Cash exposures. These and other relevant portfolio changes will begin to be implemented in the second half of 2022.

## Multi Strategy Funds review

In 2021-2022, VFMC also commenced a review of the Multi Strategy Funds (MSF) to ensure they continue to deliver appropriate investment outcomes and benefits of scale to MSF clients, along with appropriate client service levels. This review considered changes undertaken during the 2022 IRMP review.

Key outcomes of the review include MSF Funds being renamed to VFMC Pooled Funds to reflect the scale of the single sector and multi-asset institutional investment solutions available to clients, updated investment objectives and strategic asset allocations, and the introduction of a new Enhanced Income option. These and other relevant portfolio changes will begin to be implemented in the second half of 2022.

## Portfolio construction

When partnering with VFMC to manage their investments, clients first set their objectives within their risk tolerance. VFMC then works closely with Foundation CIM clients to design and build portfolios to meet these objectives. It also designs multi asset portfolios for MSF clients to access. Each client is responsible for managing its own liabilities.

VFMC is a liability informed investor. In constructing portfolios for Foundation CIM clients, it considers their forecast future liabilities (insurance and pension payments) and seeks to reduce the long-term cost to the State of Victoria of funding those liabilities. VFMC's approach balances an awareness of specific client liability obligations with a primary focus on their long-term return objectives, while also considering their shorter-term pressures. This gives VFMC greater flexibility compared to a strict liability-matching approach, which would limit it to making investments designed to reflect clients' liability profiles.

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), Average Weekly Earnings (AWE) or Wage Price Index (WPI) per annum over rolling seven to ten year periods, depending on each client's 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 appropriate strategic asset allocations for each portfolio. An active management approach is utilised to outperform relevant market benchmarks, net of fees. Clients' long-term investment outcomes therefore depend on both general market movements and VFMC's ability to select the best combination of asset classes and to deliver outperformance in excess of the appropriate benchmarks in each asset class.

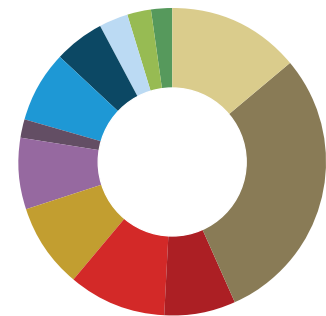
In line with its investment philosophy, VFMC's primary focus is the total portfolio investment outcome for its clients. It believes portfolios are best managed and measured as a whole, rather than the sum of their parts. VFMC builds portfolios to achieve clients' objectives by using the benefits of scale and providing access to opportunities and investment management expertise that may otherwise not be available to clients at a competitive cost.

# Strategic asset allocation

VFMC sets a strategic asset allocation designed to meet each client’s long-term investment objectives, liabilities and risk tolerances with effective diversification. The charts below show the breakdown of investments allocated to each asset class at 30 June 2022 across the Foundation CIM clients and the Multi Strategy Funds respectively.

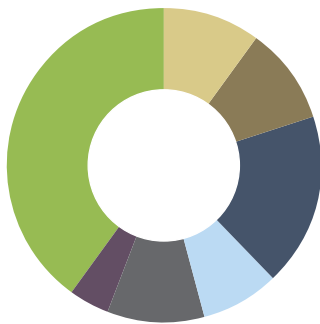
## Foundation CIM clients’ allocation at 30 June 2022

<span style="color: #c4a33d;">■</span> Australian Equities	13.9%	<span style="color: #4b3621;">■</span> Emerging Markets Debt	2.0%
<span style="color: #8b6914;">■</span> International Equities	29.5%	<span style="color: #0070c0;">■</span> Inflation Linked Bonds	7.5%
<span style="color: #c00000;">■</span> Infrastructure	7.5%	<span style="color: #2c3e50;">■</span> Australian Bonds	5.1%
<span style="color: #e74c3c;">■</span> Property	10.2%	<span style="color: #add8e6;">■</span> US Bonds	3.0%
<span style="color: #c4a33d;">■</span> Hedge Funds	8.8%	<span style="color: #90d16c;">■</span> Cash	2.7%
<span style="color: #9b59b6;">■</span> Private Credit	7.6%	<span style="color: #27ae60;">■</span> Other	2.0%



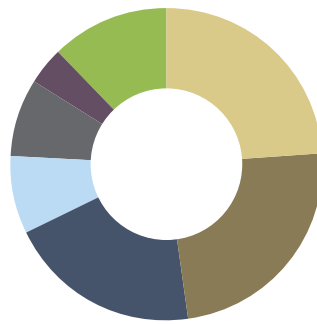
## Multi Strategy Funds asset allocation at 30 June 2022

### VFMC Capital Stable Fund



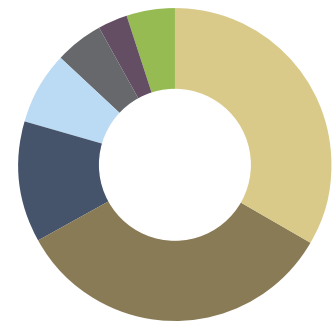
<span style="color: #c4a33d;">■</span> Australian Equities	10.0%
<span style="color: #8b6914;">■</span> International Equities	10.0%
<span style="color: #2c3e50;">■</span> Australian Bonds	18.0%
<span style="color: #add8e6;">■</span> US Bonds	8.0%
<span style="color: #7f7f7f;">■</span> Australian Credit	10.0%
<span style="color: #4b3621;">■</span> Emerging Markets Debt	4.0%
<span style="color: #90d16c;">■</span> Cash	40.0%

### VFMC Balanced Fund



<span style="color: #c4a33d;">■</span> Australian Equities	24.0%
<span style="color: #8b6914;">■</span> International Equities	24.0%
<span style="color: #2c3e50;">■</span> Australian Bonds	20.0%
<span style="color: #add8e6;">■</span> US Bonds	8.0%
<span style="color: #7f7f7f;">■</span> Australian Credit	8.0%
<span style="color: #4b3621;">■</span> Emerging Markets Debt	4.0%
<span style="color: #90d16c;">■</span> Cash	12.0%

### VFMC Growth Fund



<span style="color: #c4a33d;">■</span> Australian Equities	33.5%
<span style="color: #8b6914;">■</span> International Equities	33.5%
<span style="color: #2c3e50;">■</span> Australian Bonds	12.5%
<span style="color: #add8e6;">■</span> US Bonds	7.5%
<span style="color: #7f7f7f;">■</span> Australian Credit	5.0%
<span style="color: #4b3621;">■</span> Emerging Markets Debt	3.0%
<span style="color: #90d16c;">■</span> Cash	5.0%

## Managing currency

As a global investor, VFMC also considers the impact of currency exposure on international asset returns. When designing portfolios, VFMC evaluates 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. It uses currency hedging to manage these exposures as needed and proactively manages its foreign currency hedging program in response to market developments.

## Active portfolio management

VFMC takes an active approach to portfolio management as it believes market inefficiencies can provide opportunity to add incremental value. VFMC has two active asset allocation programs, the Dynamic Asset Allocation and Cycle Aware Asset Allocation programs. These programs are designed to improve portfolio resilience, increase absolute and risk-adjusted returns and take advantage of market opportunities at different stages of the business cycle. A range of risks and opportunities are considered to maximise the probability of long-term success, as VFMC believes downside protection in the portfolio is as important as capturing upside opportunities.

## Internal and external funds management

VFMC uses a combination of internal and external management across portfolios. Internal management is undertaken within the Australian Equities, International Equities, Australian Credit, Fixed Interest and Cash asset classes, as well as the Dynamic Asset Allocation and Cycle Aware Asset Allocation programs.

VFMC also partners with external investment managers who execute investment strategies and make active investment decisions on its behalf. VFMC's external managers represent a range of trusted, specialist investment organisations around the globe.

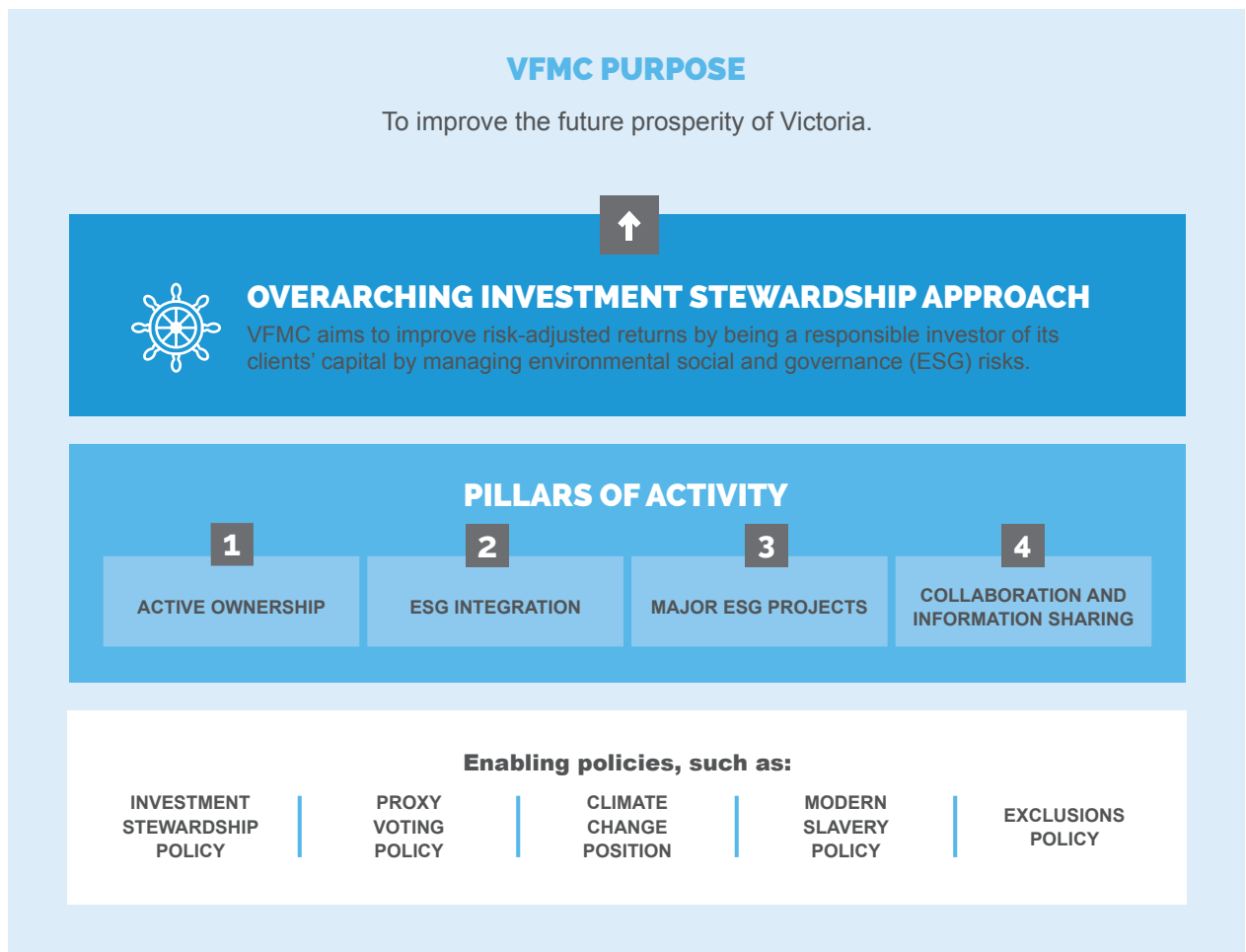


VFMC is a responsible investment steward for the State of Victoria and related Victorian public authorities.

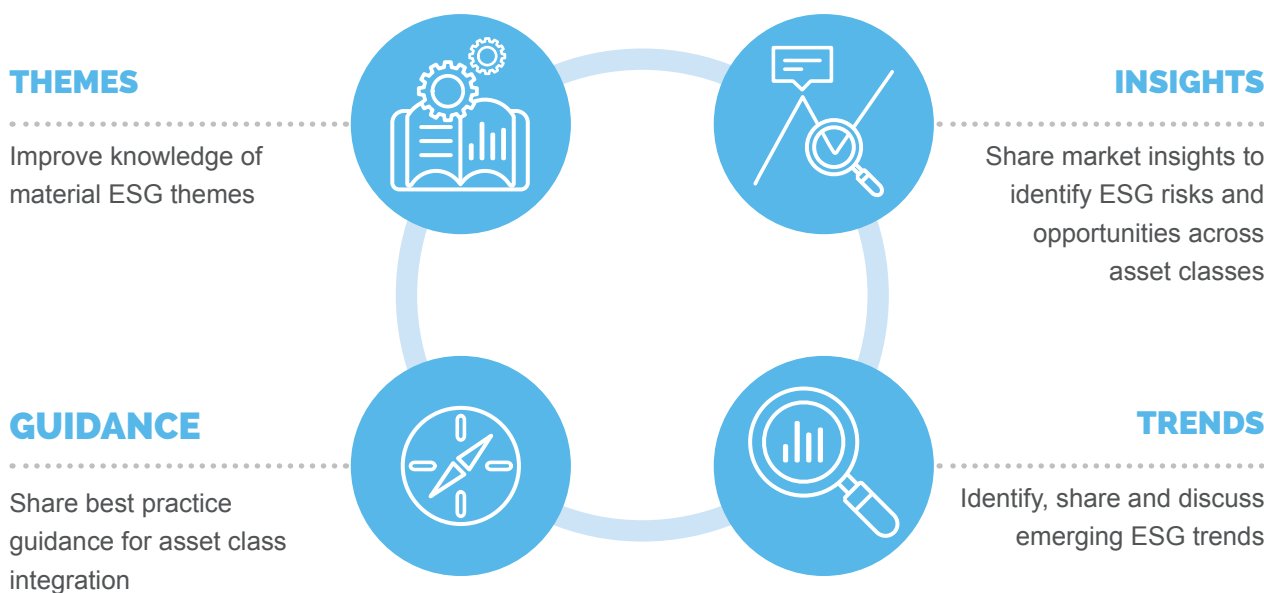
# Investment stewardship

## Investment stewardship approach

VFMC seeks to improve risk-adjusted returns by being an active and responsible steward of its clients' capital and managing material environmental, social, and governance (ESG) issues alongside other investment factors. It achieves this by systematically integrating ESG factors into its 'whole-of-portfolio' investing approach and evaluating ESG risks and opportunities when selecting, managing and monitoring investments.



In 2021-2022, VFMC established a multi-disciplinary ESG Working Group with representatives from all investment classes. This group brings together experience across internal and external investment management functions to enhance ESG investment decision making and ESG risk-adjusted returns.



As part of efforts to further evolve its integrated management approach in 2021-2022, VFMC:

- undertook research and facilitated cross-asset class discussion on the market and broader economic impacts of energy transition versus energy security tensions;
- developed a Sustainable Bond Assessment Framework to support consistent and robust evaluation of Sustainability Linked Loans and Sustainability Linked Bonds across issuances;
- implemented an Equity ESG Manager Scorecard to measure and assess its external equity managers' approach to ESG and support continued ESG engagement; and
- supported its Private Credit Direct Lending managers to incorporate ESG considerations into their investment processes, by leveraging tools such as the Sustainable Accounting Standards Board (SASB) to better evaluate the ESG profile of a borrower.

VFMC also invested further in its ESG research, data and analytics capability in 2021-2022. It has appointed two external providers to conduct ESG-specific portfolio analytics and scenario analysis, as well as undertake iterative, dynamic climate and broader ESG risk assessment. VFMC uses the underlying ESG indicators and data to evaluate ESG risk and opportunities at a whole-of-portfolio level and support more robust and timely ESG integration.




### Responsible Investing

In early 2022, VFMC made the decision to remove any portfolio exposure to Russian and Belarusian securities and to maintain zero exposure going forward. This position was consistent with both VFMC's broader stewardship objectives and principles, and Government sanctions. At the time, VFMC's total exposure to Russian securities accounted for less than 0.2% of portfolio holdings. It had no exposure to Belarusian securities.



# Material ESG themes

VFMC's investment stewardship approach is centered on the management of material ESG issues. It therefore applies material ESG themes to its portfolios and major pillars of activity, as outlined below. These themes broadly fit into the three categories of environmental, social, and corporate governance. Priority themes are shown in bold.

 <p><b>ENVIRONMENTAL</b></p> <ul style="list-style-type: none"><li>• <b>Climate risk management</b></li><li>• Biodiversity</li><li>• Management of natural resources</li><li>• Circular economy and reduction of pollutions and waste</li><li>• Supporting the transition to a renewable economy</li></ul>	 <p><b>SOCIAL</b></p> <ul style="list-style-type: none"><li>• <b>Occupational health and safety</b></li><li>• <b>Modern slavery</b></li><li>• <b>Diversity and inclusion</b></li><li>• Social and community impact</li><li>• Cultural heritage</li></ul>	 <p><b>GOVERNANCE</b></p> <ul style="list-style-type: none"><li>• <b>Strong governance and company culture</b></li><li>• Board structure, composition and skills mix</li><li>• Risk management</li><li>• Reporting frameworks</li><li>• Executive compensation and incentives</li></ul>
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“VFMC's ESG Working Group brings together internal and external expertise to enhance ESG decision making and ESG risk-adjusted returns.”

# Climate change

VFMC acknowledges that the impacts and effects of climate change have the potential to pose risks to investment returns and financial markets. As an asset owner, VFMC has a responsibility to manage the risks and opportunities posed by climate change whilst delivering against its clients' long-term risk and return objectives.

In 2021-2022, VFMC formalised its commitment to:

- achieve net zero portfolio greenhouse gas emissions by 2050;
- undertake engagement with investee companies on their decarbonisation efforts and transition pathways; and
- support climate positive investments that not only provide strong financial returns, but also help drive the global economy's transition towards net-zero emissions.

To guide its net zero by 2050 commitment, VFMC has developed a 'roadmap to net zero' in line with the COP26 Just Transition Declaration.

## VFMC Net Zero Roadmap for 2022



## Managing climate risk

Given climate risk is multi-dimensional and extends across multiple time periods, VFMC adopts a management approach that utilises levers at a company, whole-of-portfolio and systemic market-wide level. It assesses top-down portfolio implications, as well as undertaking climate risk and opportunity assessment from a bottom-up perspective through the pre-investment due diligence and approval process.

To better understand and manage climate change across 2021-2022, VFMC and its external investment managers:

- completed VFMC's second Task Force on Climate Related Financial Disclosures (TCFD) report to assess the investment portfolio's exposure to physical and transition related climate risks;
- commenced carbon footprinting across its listed equity portfolios on a quarterly basis, evaluating the weighted average carbon intensity of VFMC's Scope 1, 2 and 3 portfolio exposures; and
- entered into a series of climate-positive investments which provide strong financial returns and also help drive the global economy's transition towards net-zero emissions. These investments were made across several asset classes, from renewable infrastructure to sustainability-linked loans.

### Transitioning away from thermal coal

In 2021-2022, VFMC formally implemented a portfolio exclusion to thermal coal mining for coal powered generation, to mitigate climate-based market risk and the risk of holding stranded assets.

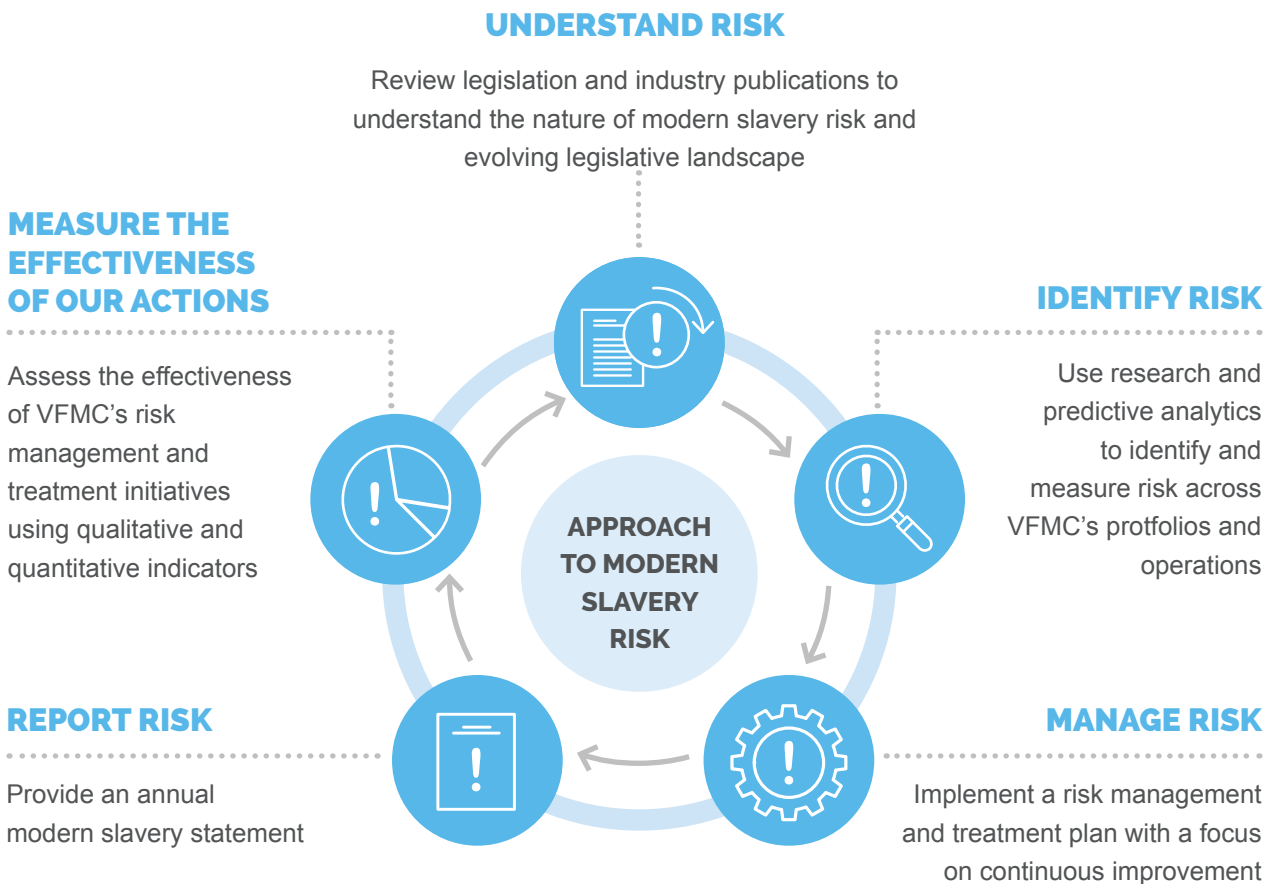
### Case study: Net Zero Buildings

In the first half of 2022, construction started on 480 Swan Street, Richmond, a \$410 million office development in which VFMC holds a 50% stake. Targeting a 6 star Green Star rating, the building will be constructed under a carbon-neutral framework and will be carbon-neutral enabled on completion.

This development also supports VFMC's commitment to drive positive social and community impact through its investments, with 200sqm of the building being leased at discount rents for the social enterprise charity **STREAT**, and an Indigenous employment program being established in partnership with the builder, **Built**.

# Modern slavery

As an institutional investor, VFMC has a responsibility to uphold human rights throughout its investment process. This includes upholding labour rights and working to prevent modern slavery. In 2021-2022, VFMC completed the second submission of its Modern Slavery Statement. This statement outlined the actions taken by VFMC (and all entities it owns or controls) to identify and address the risk of modern slavery in its business operations, supply chain, and investments, in alignment with the Australian Modern Slavery Act.



To support management of modern slavery risks in 2021-2022, VFMC:

- developed a proprietary risk assessment model for its International Equities portfolio;
- incorporated modern slavery considerations in procurement, legal and pre-investment due diligence processes;
- undertook 17 targeted modern slavery engagements with external fund managers, investee companies and suppliers; and
- participated in modern slavery and human rights collaborative initiatives, such as the Investors Against Slavery and Trafficking (IAST) initiative.

## Human capital

VFMC recognises the value of human capital within organisations. It seeks to ensure investee companies and managers embrace business practices that safeguard labour rights and promote safe operating environments for their people.

As part of 2021-2022 company engagement, VFMC:

- recommended the inclusion of health and safety metrics such as lost time injury frequency rate (LTIFR) or fatalities as gateway metrics within the incentive plans of a listed company, which is now being considered in the development of their 2021-2022 Remuneration Frameworks; and
- partnered with an International Equities manager and the PRI (a UN-supported network of investors) to co-sign a letter requesting a European Airline to support employees' rights to a safe working environment and address pilot fatigue and flight safety concerns through union membership.

## Diversity and inclusion

VFMC proactively supports the business case for diversity and inclusion, including gender diversity, in the workplace. It achieves this through both proactively addressing gender balance at an organisational level through its Gender Equality Action Plan, and as part of its ongoing engagement with external investment managers and underlying investee companies.

In its 2021-2022 engagement activities, VFMC reviewed company metrics including:

- disclosure of diversity of the board, in senior management and through all levels of the organisation;

- programs undertaken to support diversity and inclusion;
- indicators used to track the effectiveness of their diversity and inclusion processes;
- pay-equity across different roles and levels;
- turnover rates by gender; and
- nature and (where relevant) uptake of sexual harassment, flexible work and parental leave policies.

## Cultural Heritage

VFMC is committed to upholding the rights and safeguarding the cultural heritage assets of First Nations peoples through principled and constructive engagement. While much of its direct engagement is domestically focussed on the rights of First Nations Australians, VFMC also considers, where appropriate, the rights of First Nations peoples globally. This includes much of its collaborative activities with ACSI, which applies both a domestic and global lens to stakeholder consultation and research.

During 2021-2022, VFMC sought to broaden its engagement with companies, particularly in the mining, oil and gas sector, on their frameworks for consultation and constructive engagement with First Nations peoples.

As part of engagement activities in 2021-2022, VFMC:

- participated in the ACSI working group and review of ACSI's Policy on Company Engagement with First Nations;
- collaborated with industry peers in reviewing an ASX 200 mining company's relationship with First Nations communities in Australia; and
- sought insights from First Nations leaders, policy and legal experts in Australia on the newly legislated Western Australia Cultural Heritage Bill.



VFMC integrates ESG factors into its 'whole of portfolio' investing approach and evaluates ESG risks and opportunities when selecting, managing and monitoring investments.



Despite wide market losses in the 2021-2022 financial year, VFMC added 1.1% of incremental value to the Foundation client portfolios through diversification and active management.

# Investment performance

## Investment environment

The financial year 2021-2022 can be best described as a year of two halves. In the first half, investment markets benefited from a global economic recovery following the COVID-19 downturn. By late 2021, a pick-up in inflation amid the ongoing economic reopening was expected to be short-term in nature but ultimately turned out to be highly persistent. This complicated efforts by central banks to tame inflation and forced them to pivot toward an earlier than expected start to interest rate hikes.

Through 2022, soaring inflation, increasingly hawkish central banks, the Russia/Ukraine war, ongoing China lockdowns, and energy shortages were the primary catalysts of a risk-off movement in financial markets. Global equity markets fell in the second half of the financial year, with increasing worries about corporate earnings outlook as fears of recession increased. In Australia, heavy rain and floods in the early part of 2022 further affected supply chains and added to the already high inflationary pressures. Australian shares fell 6.8% over the 2021-2022 financial year, while international shares were down 8.5% in AUD terms and 15.6% in local currency.

Global bond yields pushed higher as interest rates moved upwards from historical low levels, leading to the worst negative returns on record for bonds over the last year. The US Federal Reserve lifted rates by a cumulative 1.5% across March, May and June and outlined a series of anticipated rate hikes across the 2022 calendar year to combat elevated inflation. In Australia, the Reserve Bank commenced its hiking cycle in May when it delivered the first cash rate hike in a decade. Australian and US bonds were down 10.5% and 9.3% in hedged terms respectively over the financial year.

Significant challenges exist for the global economy over the year ahead. The outlook for global supply chains, the prospect of slower economic growth and less support from policymakers create high uncertainty. The evolution of COVID-19 and the timeline for central banks to bring inflation back in line with longer-term targets will be key parameters to watch. On balance, economic growth is expected to continue to moderate over 2022-2023, presenting a volatile environment for investors.

## Investment performance

Falls in global markets over the 2021-2022 financial year resulted in a net annual return of -2.1% for VFMC's Foundation CIM clients. This is the first negative annual return since the Global Financial Crisis in 2008-2009.

Despite the steep losses across the more traditional Equities and Fixed Interest asset classes, VFMC's portfolio diversification materially contained the annual loss and delivered an outperformance of 1.1% against its benchmark. The strongest contributors to outperformance over the year were VFMC's Active Asset Allocation programs as well as Hedge Funds, Private Credit and Infrastructure asset classes.

Over the past 10 years, the Foundation CIM portfolio has delivered a net return of 8.8% after fees and all periods from two to ten years remain positive.

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

Asset Class	1 Year			3 Years			7 Years			10 Years		
	Fund (%)	Bmk (%)	over/under	Fund (% p.a.)	Bmk (% p.a.)	over/under	Fund (% p.a.)	Bmk (% p.a.)	over/under	Fund (% p.a.)	Bmk (% p.a.)	over/under
<b>Equities</b>												
Australian Equities	-6.6	-6.8	0.2	4.0	3.4	0.6	7.0	7.0	0.0	9.7	9.2	0.5
International Equities	-10.9	-8.5	-2.4	6.4	6.5	-0.1	7.8	8.1	-0.3	12.1	12.0	0.1
<b>Real Assets</b>												
Infrastructure	17.1	11.8	5.3	9.2	8.5	0.7	12.3	7.5	4.8	12.2	7.4	4.8
Property	11.9	11.3	0.6	7.5	6.0	1.5	9.7	8.8	0.9	9.7	9.0	0.7
<b>Alternative Strategies</b>												
Hedge Funds	9.3	0.5	8.8	6.7	4.0	2.7	N/A	N/A	N/A	N/A	N/A	N/A
<b>Credit</b>												
Private Credit	8.8	3.1	5.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Emerging Markets Debt	-13.9	-16.9	3.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Cash and Fixed Interest</b>												
Inflation Linked Bonds	-9.9	-10.5	0.6	-0.9	-1.3	0.4	2.2	1.9	0.3	3.6	2.6	1.0
Australian Bonds	-11.2	-10.5	-0.7	-2.7	-2.6	-0.1	1.5	1.6	-0.1	2.7	2.6	0.1
US Bonds	-8.8	-9.3	0.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash	0.0	0.1	-0.1	0.5	0.3	0.2	1.5	1.3	0.2	2.0	1.7	0.3
<b>Other</b>												
Insurance	2.5	3.1	-0.6	4.1	3.3	0.8	N/A	N/A	N/A	N/A	N/A	N/A
Other Strategies	-1.7	3.1	-4.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DAA Overlay	0.3	-	-	0.1	-	-	0.0	-	-	-	-	-
<b>CAA Overlay*</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>-</b>	<b>-</b>
<b>Total Fund (Net) Incl. CAA</b>	<b>-2.1</b>	<b>-3.2</b>	<b>1.1</b>	<b>4.6</b>	<b>4.2</b>	<b>0.4</b>	<b>6.6</b>	<b>6.2</b>	<b>0.4</b>	<b>8.8</b>	<b>8.1</b>	<b>0.7</b>

\* Note: A CAA Overlay position was implemented in late February 2022 and has added to relative performance over the one year. Legacy assets are not shown.



## Active Asset Allocation Programs

VFMC seeks to enhance total portfolio returns via its two internally managed active asset allocation programs: the Dynamic Asset Allocation and Cycle Aware Asset Allocation programs.

During the 2021-2022 financial year, VFMC's portfolio positioning became more defensive, holding underweight positions in equities, given the deterioration in both the nearer and medium-term outlook for risk-adjusted equity returns. VFMC also held underweight positions in bonds for most of the financial year given the very low starting level of yields. These positions in aggregate contributed over 0.6% to returns over the financial year.

Portfolios were repositioned back in line with their neutral strategic asset allocations towards the end of the financial year, following sharp movements in bond yields and declines in equity markets.



Over the past 10 years, the Foundation CIM portfolio has delivered a net return of 8.8% after fees.

## Asset class returns

The benefit of portfolio diversification was once again highlighted over the 2021-2022 financial year as private market assets and alternative strategies assisted in cushioning the steep falls in equity and bond markets.

Hedge Funds, Private Credit and Infrastructure delivered strong absolute returns and outperformed against their respective benchmarks. Private Credit and Infrastructure benefited from the strong rebound in economic activity, while Hedge Fund managers were well positioned to extract value in the midst of the heightened market volatility, particularly over the second half of the financial year. Property also delivered strong absolute returns as the portfolio benefited from the strong economic activity and ongoing demand for quality property assets.

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

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

Benchmarks for each asset class are listed on page 37.

## Australian Equities

The Australian Equity portfolio delivered a negative return for 2021-2022, however it modestly outperformed its benchmark over the year. Market sentiment was impacted by rising inflation and tighter monetary policy concerns, resulting in polarised sector performance. The utilities and energy sectors were the biggest winners over the year as they benefited from a boom in commodity prices and the global energy crisis. By comparison, the information technology and consumer discretionary sectors were the worst performing sectors. Large index weights to resource companies saw the Australian market outperform most global peers, with the market environment benefitting value-orientated managers.

## International Equities

Global equity markets were broadly lower over the 2021-2022 financial year, as markets responded to global supply chain disruptions, the Russia/Ukraine war and lockdowns in China, which created multiple headwinds. These intertwined events placed strain across equity markets, especially on the long duration growth stocks. While commodity producers fared particularly well, emerging markets underperformed their developed counterparts, mainly driven by China. The VFMC International Equities portfolio underperformed its benchmark over the year, driven predominantly by stock selection in the developed market portfolio.

## Infrastructure

The VFMC Infrastructure portfolio delivered a positive return and outperformed its benchmark significantly for the year, driven primarily by strong economic growth. Gross Domestic Product exposed infrastructure assets, such as ports and rail assets, benefited from high consumer demand and inventory restocking, which resulted in strong container and freight volumes. Midstream energy assets benefited from high energy commodity prices, while renewable and digital infrastructure asset valuations were supported by robust investor demand. VFMC's co-investment program was another key driver of outperformance, in particular its co-investments in ports, rail, midstream and digital infrastructure assets.

## Property

The VFMC Property portfolio delivered a strong return for the financial year and outperformed its benchmark. Performance was driven primarily by strong capital market demand for real estate assets, particularly in the logistics, hardware, bulk-goods and non-discretionary retail sectors, whereas discretionary retail continued to underperform due to ongoing structural challenges. The office segment of the portfolio continued to perform well, despite higher than historical vacancy rates due to the portfolio's positioning to high quality assets.

## Fixed Interest

The VFMC Australian and US Bond portfolios delivered negative returns for the year, predominantly driven by a large rise in bond yields. This came in response to inflation moving sharply higher as a result of ongoing global supply disruptions and higher commodity prices. With inflation more persistent than originally expected, central banks across the world pivoted and began the process of raising their respective cash rates from the pandemic emergency low levels. The Inflation Linked Bond portfolio also delivered a negative return as real yields moved higher, notwithstanding both higher realised inflation and a rise in inflation expectations moving forward. The Australian Bond portfolio underperformed its benchmark for the year, primarily due to underlying managers being overweight credit at year end. However, the US Bond and Inflation Linked Bond portfolios outperformed their respective benchmarks. This was primarily due to strong interest rate management in the face of rising cash rates, and the positioning of the Inflation Linked Bond portfolio to benefit from an increase in inflation expectations.

## Hedge Funds

The VFMC Hedge Fund portfolio produced positive absolute returns for the year and outperformed its benchmark significantly in what was a second successive strong year for the hedge funds sector. All external managers performed strongly against a backdrop of volatile equity markets, with increased volatility across and within markets providing a fertile environment for their various investment strategies. While some fixed interest relative value managers struggled at times with the large moves in rates curves, managers benefited from short rates positioning and long commodity exposures.

## Private Credit

VFMC's Private Credit portfolio delivered a strong positive return for the year and outperformed its benchmark significantly. Credit markets continued their rally during the first half of the year on the back of continued fiscal support and strong company earnings, with inflation concerns in the second half of the year leading to a general risk-on market sell off. All external managers contributed strongly to returns, with the overall positive performance being driven in particular by investments made in COVID-19 impacted sectors which rebounded as economies reopened.

## Emerging Markets Debt

VFMC's Emerging Markets Debt portfolio delivered a negative absolute return for the year. Performance was heavily impacted by the rate hike cycle within emerging markets, which began in the third quarter of 2021. Local and hard currency bonds were also impacted by the rise in US Treasury yields, which increased funding costs for countries borrowing in US dollars. Despite the overall negative returns, the Emerging Markets Debt portfolio outperformed its benchmark, as managers were able to take advantage of the broad market sell-off to identify attractive relative value trades.

## Insurance

VFMC's Insurance portfolio delivered positive absolute returns but underperformed its benchmark for the year. The Natural Catastrophe portfolio contributed a small positive absolute return despite being adversely affected by losses from US winter storms and widening spreads. The residual of the Life Settlements portfolio that was largely sold in 2020-2021 also delivered a positive absolute return.

## Other Strategies

Other Strategies include VFMC's Completion Strategies, which delivered a small absolute negative return and underperformed its benchmark for the year. During the year, VFMC introduced Completion Strategies to portfolios to aid in the overall management of surplus cash which results from time to time due to the lag in deploying capital to unlisted assets. Managers underperformed their benchmarks as their diversifying strategies did not fully offset the decline in growth assets across property, commodities and equity markets, and significant interest rate volatility led to modest losses in their relative value strategies.

## Cash

Cash exposures are actively managed for performance, appropriate risk exposure, and to provide portfolio liquidity as required. Cash rates traded at all-time lows over most of the 2021-2022 financial year. VFMC's Cash portfolio delivered a flat absolute return and slightly underperformed its benchmark.



VFMC continues to focus on building portfolio resilience and diversification in an increasingly uncertain environment.

## 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.
Other Strategies	Bloomberg Ausbond Bank Bill Index + 3% p.a.

## Multi Strategy Funds

VFMC manages three Multi Strategy Funds: Capital Stable, Balanced and Growth for 27 Victorian public authorities and related organisations. Client investments in these funds total \$2.3 billion. The Multi Strategy Funds invest in Australian Equities, International Equities, Australian Credit, Emerging Market 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 following table. Given the challenging performance of equities and fixed interest assets over the financial year, the returns of the Multi Strategy Funds were lower relative to the Foundation clients' portfolios as they did not benefit from exposures to unlisted asset classes. Reflecting the challenging market conditions throughout 2021-2022, the Funds' performance were below their objectives which are linked to inflation metrics.

VFMC commenced a strategic review of the Multi Strategy Funds during 2021-2022 (see page 22). This review aims to optimise the Funds and improve portfolio outcomes by leveraging changes introduced to the Foundation CIM clients' portfolios via the recent IRMP review (see page 20). These changes will begin to be implemented in the second half of 2022.

## Multi Strategy Fund aggregate performance by Fund

VFMC Multi Strategy Funds	1 Year			3 Years			5 Years		
	Actual	Bmk	Over/ under	Actual	Bmk	Over/ under	Actual	Bmk	Over/ under
	(%)	(%)	(%)	% p.a.	% p.a.	(%)	% p.a.	% p.a.	(%)
VFMC Capital Stable Fund	-4.5	-4.7	0.2	0.9	0.7	0.2	2.5	2.5	0.0
VFMC Balanced Fund	-7.4	-6.9	-0.5	2.0	2.2	-0.2	4.1	4.6	-0.5
VFMC Growth Fund	-8.1	-7.3	-0.8	3.1	3.4	-0.3	5.2	6.0	-0.8



VFMC manages funds for 31 Victorian public authorities and related organisations.

# Operations





VFMC regularly engages with its clients to maintain a close understanding of their environments and evolving needs.

## VFMC clients

VFMC manages funds for 31 Victorian public authorities and related organisations. The returns generated from client investment portfolios support these organisations to deliver important community services, such as health and wellbeing, insurance needs, education, retirement outcomes and enhancements to the cultural lives of Victorians.

In the 2021-2022 financial year, VFMC welcomed two new clients that play a critical role in supporting the health of Victoria - the Royal Melbourne Hospital and Australian Health Practitioner Regulation Agency (Ahpra). It also worked with Local Government Victoria to establish a Standing Direction to allow all Victorian Local Councils to invest with VFMC. In early 2022, the University of Melbourne notified VFMC of its decision to transition to a new fund manager, following a review of its investment management governance model and arrangements. VFMC will work closely with University of Melbourne to transition its investment portfolio in 2022-2023.

For a complete list of current clients, see page 77.

## Client investment services

VFMC engages regularly with its clients to maintain a close understanding of their environments and evolving needs. It also provides clients with ad-hoc investment guidance, integrated investment stewardship services, regular board committee updates, and monthly, quarterly and annual reporting.

VFMC performs an extensive review of the investment strategy for its Foundation CIM clients every three years, with a new IRMP process commencing in 2021.

VFMC worked closely with Foundation CIM clients and the Department of Treasury and Finance throughout the process to ensure it had a thorough understanding of clients' risk and return profiles, long-term liability profiles, funding ratios, liquidity and income requirements. VFMC also undertook comprehensive modelling of client assets and liabilities and a detailed review of investment market assumptions. The new IRMP was approved by the Treasurer in April 2022, with implementation to begin during the second half of 2022.

VFMC also commenced a comprehensive review of its Multi Strategy Funds in 2021-2022, including Fund investment objectives and updated strategic asset allocations, the inclusion of an additional Enhanced Income Fund, and a newly defined service proposition to meet evolving client needs. The outcomes of the review will be implemented in 2022-2023.



## Evolving fund management needs

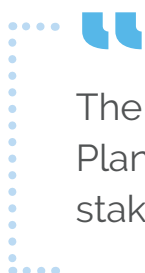
With yields remaining low for the majority of the year, many clients were prompted to review their risk and return profiles. For Foundation CIM clients, this is being addressed through the new IRMP, which is based on VFMC's updated capital market assumptions. Throughout the year, Foundation CIM clients were also reviewing their own operations and liabilities in the wake of COVID-19 and a higher inflationary environment. VFMC continues to work closely with these clients to ensure its activities are aligned to their evolving funds management needs.

For many of VFMC's Multi Strategy Fund clients, the emergence from pandemic restrictions has led to a renewed focus on addressing or initiating investment strategies. Many clients have been holding high cash balances and are now ready to take appropriate levels of risk to support a longer term view of investments.

## Fee review

In 2021-2022, VFMC completed a review of its internal fees. The purpose of the review was to simplify the fee structure for Foundation CIM clients and ensure they continue to represent value for money, demonstrating the benefits of the Centralised Investment Model.

Following the review, VFMC Foundation CIM clients will now be charged one single Investment Service fee. Based on VFMC projections, all Foundation CIM clients are expected to pay lower fees from the 2022-2023 financial year.



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



## VFMC client forums

As part of its commitment to client education and engagement, VFMC hosted quarterly investment forums for its clients throughout 2021-2022. These forums provided updates on investment markets and performance drivers, as well as targeted topics including:

- investment market assumptions and the medium to long-term return outlook;
- impacts of geopolitical activity on investment markets;
- individual asset class deep dives; and
- VFMC's current key initiatives and progress in investment stewardship.

## Contributing to the investment community

As well as hosting client forums, VFMC actively engages with the industry as a thought leader and contributes to the investment community through knowledge sharing.

In 2021-2022, VFMC representatives were invited to participate in panels, roundtables and presentations at over 20 industry events. VFMC leaders and investment experts spoke across a range of topics, such as:

- emerging market trends;
- trends in property demand, including social and environmental opportunities in built environments;
- ESG considerations, including the transition to a net zero future;
- addressing key challenges in the investment data and technology landscape; and
- risk management and risk mitigation strategies.

# VFMC people

The past twelve months have been characterised by ongoing change, with pandemic-related challenges and market volatility continuing to have a significant impact on roles and resilience for the VFMC team. VFMC has continued to support its people to be at their best while navigating persistent change and complexity.

In 2021-2022, VFMC welcomed 36 people (22 women and 14 men) to the team in both permanent and contract roles. In June 2022, it achieved organisation-wide gender equal representation, with 50% women and 50% men employed across the organisation.

VFMC is proud to continue to attract leading talent from both the private and public sector to work as part of its dynamic, flexible team serving the State of Victoria. The breadth of roles, size and structure of VFMC means people can make the most of their talents and capability for the benefit of clients and other key stakeholders.

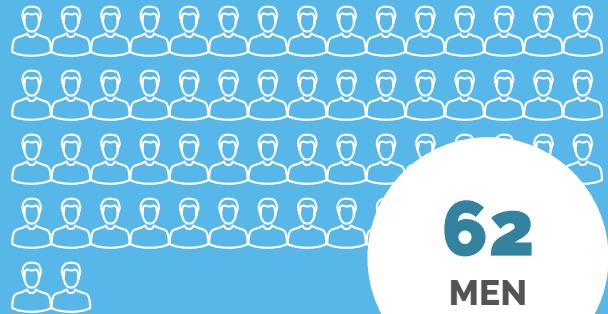
VFMC again participated in the Monash University Work Integrated Learning program for 2021-2022. For the first time, the participating student transitioned to become a VFMC employee following their successful three-month placement with the Investment team.

## Our team at 30 June 2022

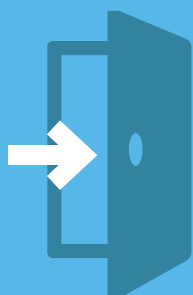
**123** employees



- 48 FULL TIME (PERMANENT)
- 7 PART TIME (PERMANENT)
- 6 CONTRACT (FULL TIME)



- 56 FULL TIME (PERMANENT)
- 1 PART TIME (PERMANENT)
- 5 CONTRACT (FULL TIME)



we welcomed

**36 new people**

**22 (61%) women and 14 (39%) men**  
to our team in both permanent  
and contract roles this year.

**3 people took  
parental leave**



**2 women and 1 man.**



VFMC's diverse team is united by a single purpose: improving the future prosperity of Victoria.

## Career development and future capabilities

VFMC provides a range of future development opportunities for its people, from exposure to new skills and experiences, to direct guidance and coaching from leaders. Leadership capability is an ongoing focus, as VFMC believes the biggest impact on people's experiences at work is strong leadership. Continuing to build data and analytics capability within the Investment team and more broadly also remains a key priority.

VFMC's Investment team rotation program ran for the fourth time in 2021-2022 and continued to support capability uplift and leadership development across the breadth of VFMC operations. The program allows emerging leaders to observe and participate across decision-making forums such as VFMC's:

- Executive Leadership Team;
- Investment Leadership Team;
- Executive Investment Committee;
- Total Risk Allocation Committee; and
- Operational Risk Management Committee.

With stay-at-home restrictions requiring the VFMC team to work remotely for a proportion of the year, in-person development activities were limited in 2021-2022. VFMC's formal development program Propel was paused to support the team in balancing individual needs, home lives and work deliverables.

## Future ways of working

Hybrid and flexible working are core tenets of VFMC's employee offering. Building on the approach of the last two years, this year VFMC finalised its Hybrid Ways of Working Playbook and Hybrid Working Team Agreement process. This process allows each team, led by their People Leader, to agree how they will work and manage their deliverables, while optimising individual flexibility and preferences.

The effectiveness of the Hybrid Ways of Working Playbook was tested via a team survey in May 2022, with 98% of respondents indicating that VFMC is set up well for hybrid working.

Over 90% of people also believe:

- VFMC has provided helpful tools to ensure effective Hybrid Working (97%);
- their People Leader is supportive of Hybrid Working (97%);
- their team is able to collaborate well (96%); and
- hybrid working is productive for them (90%).

People Leaders also indicated they were feeling positive and well supported in developing and implementing Hybrid Working Team Agreements and supporting their teams to work in a hybrid manner.

*"We are all aligned with our work and results, so the fluidity / flexibility of when we are in the office reflects what work we have on at the time."*

*"My team members are overwhelmingly supportive of hybrid work. I feel my team is at least as productive as pre-COVID and stress levels are lower as people are more able to juggle family and other non-work commitments."*

- VFMC team members

## Gender Equality Action Plan

In accordance with the Victorian Government's Gender Equality Act 2020, VFMC was proud to submit its first Gender Equality Action Plan to the Gender Equality Commission in early 2022. The Plan was informed by a Workplace Gender Audit conducted in 2021 and a 13-person internal Consultation Group, which provided direct feedback, focus group facilitation support and insights and ideas to VFMC's People Team.

Providing male leaders with the skills to drive gender equality in their own teams is a key action within VFMC's plan, with a number of VFMC team members invited to participate in the Change Makers course, facilitated by Future Women, in 2022. VFMC will extend participation in this program further in 2022-2023.

As at 30 June 2022, the VFMC Gender Equality Action Plan was under review by the Gender Equality Commission. The Plan will be published on the VFMC website once approved. VFMC will also provide its first progress report by 31 October 2023.

## Family Friendly Workplace Certification

VFMC officially achieved Family Friendly Workplace Certification during National Families Week in May 2022. Endorsed by UNICEF, the Family Friendly Workplaces certification program benchmarks and evaluates employers' progress and efforts to support their people to thrive at work and at home. VFMC rated above its peer cohort on most dimensions, including flexible working, parental leave, leadership culture and measurement.

*"At VFMC, balancing the joy and challenge of family and caring responsibilities along with an impactful and interesting career is understood. We know that to retain, engage and attract the best talent while creating a truly diverse and inclusive organisation we need to understand that everyone has family obligations – which look different for each person. At VFMC, being a family friendly workplace aligns with our values and vision, and importantly our commitment to our team to maintain a culture that allows everyone to be their best with us."*

*– Kate Galvin, Chief Executive Officer, VFMC*

VFMC will also implement a Family Friendly Workplace Action Plan over the next two years, to ensure its team has the support they need to be their best, no matter how they define family or what that support looks like.

## Team engagement

VFMC conducted an engagement pulse survey in 2021-2022, with a full People Experience Survey due in 2023. VFMC Employee Engagement was recorded at 71%, a 3% decrease since last measured in 2021.

**SAY** results, which measure employee advocacy, were extremely strong, with a large majority feeling proud to work at VFMC and very likely to recommend VFMC as a great place to work.

**STRIVE** results, which measure employee motivation, were also strong, with most people feeling motivated to go beyond what they would in a similar role in another organisation.

**STAY** scores, which measure employee retention trends, had softened since the last survey. This was not unexpected given broader employment market trends and the growing shift towards a more mobile and fluid modern workforce.

## Workplace health, safety and wellness

VFMC continued to support the health, safety and wellbeing of its people throughout 2021-2022, including through the pandemic and during the course of various public health orders affecting work settings.

VFMC provided additional leave and limited financial support for home-based and hybrid working arrangements, time off for COVID-19 vaccinations, and created a framework to support workplace contact tracing as it reopened the shared workplace in line with relaxed policy settings. It was also pleased to enable many team members to work remotely both interstate and internationally for fixed term periods of time, once they were able to travel again to connect with friends and family, within the framework of its Flexible Working policy.

VFMC People Leaders continued to support appropriate workload and resourcing as teams managed self-isolation and close contact requirements, as well as positive cases within the team and their extended family. Supporting and encouraging leave for positive mental and physical wellbeing was also important.

In addition to managing pandemic settings, VFMC initiatives and support included:

- access to the Employee Assistance Program, which provides specialist mental health support along with tailored support for People Leaders;

- external training for First Aid Officers and Fire Wardens, along with workplace-based training on emergency protocols;
- paid family violence leave to support victim/survivors, as part of the VFMC Leave Policy; and
- financial support for the annual flu vaccine.

There were zero workplace incidents in the VFMC shared workplace throughout 2021-2022.

## Remuneration arrangements

VFMC continues to align its remuneration practices within the context of the policy settings of the Victorian Public Sector. The Treasurer approved the variable remuneration structure for senior investment decision making roles in December 2021, as part of the Finance Review being conducted by the Departments of Premier of Cabinet and Treasury and Finance, in conjunction with the Victorian Independent Remuneration Tribunal.



VFMC team members enjoy easy access to leaders and investment experts, with the opportunity to grow, challenge, and innovate as part of their roles.



VFMC believes it is important to contribute to the community in which it operates.

## VFMC in the community

VFMC offers volunteering leave and supports individuals to connect with colleagues via community-based initiatives, as it recognises the importance of community connection and giving back.

While community engagement opportunities were limited by stay-at-home restrictions and other pandemic-related conditions for much of the year, VFMC and individual team members continued to contribute to community initiatives. A highlight was Team VFMC's participation in the 2022 Mother's Day Classic, which raised \$5,800. Over the past four years, VFMC has raised over \$23,000 for this important community event.

### Social procurement

VFMC's social procurement strategy aligns with its ESG framework and aims to drive social and sustainable benefits from procurement decisions. As part of that strategy, it engages with providers including The Good Good, BioPak, Fruit2Work and Green Collect.

**The Good Good** is an Australian-based tea brand and certified social enterprise that donates 50% of profits to programs for disadvantaged children to get access to education. Their teas have plastic-free and recyclable or biodegradable packaging and The Good Good partners with Packforce, a member of the Cerebral Palsy Alliance, which employs Australian workers with disabilities to prepare and ship corporate orders. The Good Good mission to effect both social and environmental change has clear alignment with VFMC's ESG framework.

**BioPak** is a B Corp certified business that champions the transition to a circular economy with compostable food packaging products made from plants. In conjunction with community partners, BioPak is committed to donating time, energy and 5% of all profits to environmental restoration initiatives and community programs. Engagement with BioPak aligns with VFMC's climate change objectives to contribute to a more sustainable future.

**Fruit2Work** is a certified social enterprise that provides a fruit and milk delivery service to workplaces; 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.

When VFMC reopened its offices following the end of stay-at-home restrictions in late 2021, it engaged with **Green Collect** to take advantage of their office waste collection service. Green Collect reuses, upcycles and recycles unused office equipment such as stationery, small electrical items and IT equipment. In alignment with VFMC's ESG framework, Green Collect is dedicated to keeping excess and waste office items out of landfill and in the circular economy.





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

## VFMC governance

The VFMC Board Charter and Instrument of Delegation outlines 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.

VFMC's investment powers and functions under the Centralised Investment Model (CIM) are primarily derived from:

- Section 20 of the *Borrowing and Investment Powers Act 1987 (Vic)* (BIPA) and the Orders in Council dated 13 June 2006 ("Orders in Council");
- VFMC's appointment by each Foundation CIM Client under section 9A of the VFMC Act pursuant to the Orders in Council; and
- The *Prudential Standard: VFMC and the Centralised Investment Model* 1 October 2016 issued by the Department of Treasury and Finance ("Prudential Standard").

In accordance with the *Victorian Funds Management Corporation Act 1994* (the Act) VFMC is subject to the general direction and control of the Treasurer. VFMC provides investment and fund management services to Victorian public authorities and the State in a commercially effective, efficient and competitive manner.

Directions from the Treasurer may relate to the corporate performance of VFMC but must include a direction 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 VFMC Board is responsible for the management of the affairs of VFMC and may exercise its powers, including the power of delegation. The Board must have at least four, but no more than nine, members. Directors are appointed by the Governor in Council with the Chair and Deputy Chair appointed by the Treasurer. Each Director is appointed for a term not exceeding three years and is eligible to be reappointed.

VFMC Directors have broad experience in asset management, the public sector and business. 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 role and responsibilities of the Board are detailed further in the VFMC Board Charter.

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;



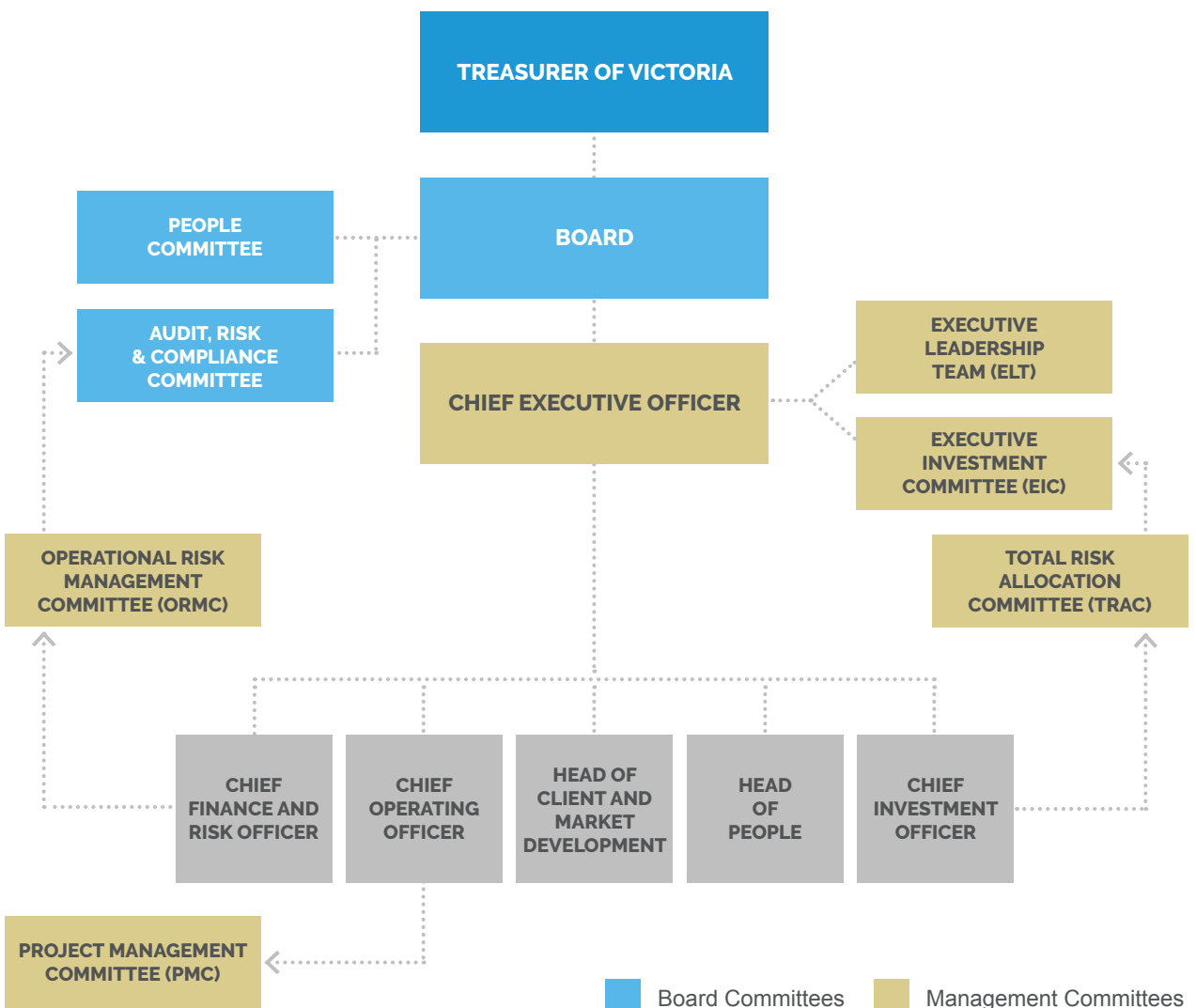
- monitoring performance and implementation of corporate strategy by senior management;
- monitoring investment performance of the organisation and compliance with client investment risk management plans;
- oversight of VFMC including control and accountability systems;
- approving financial reports annually and monitoring financial results on an ongoing basis; and
- 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, the VFMC Board, the CEO and VFMC Executive Leadership Team.



## Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee assists the Board with overseeing the integrity of VFMC's financial reporting (including compliance with the Standing Directions made by the Minister for Financial under the *Financial Management Act 1994*), risk management and internal controls.

The Committee Chair is Lisa Gay. Andrew Nicolaou was appointed acting chair of the Committee in August 2021 (until December 2021), while Lisa acted as VFMC's chairperson. Meetings are held at least four times a year or as required.

## People Committee

The People Committee assists the Board with overseeing succession planning, remuneration, capabilities, organisational culture and diversity and inclusion. The performance of the CEO is evaluated by this Committee. During 2021-2022, the Committee was chaired by Elana Rubin (July to February) and Lisa Gray (February to June). The Committee meets at least three times a year or more often as required.

## Directors' and Committee meetings

The number of meetings held during 2021-2022 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.

## Board and Committee meetings 2021-2022

### VFMC Board

Director	Meetings held and eligible to attend as a member	Attended
James MacKenzie	6	6
Lisa Gay	10	10
Tom Considine	10	10
Lisa Gray	4	4
David Martine	10	8
Andrew Nicolaou	10	10
Elana Rubin	10	9
Fiona Trafford-Walker	10	8
Maria Wilton	10	9

### Audit, Risk and Compliance Committee

Director	Meetings held and eligible to attend as a member	Attended
James MacKenzie	2	2
Lisa Gay	5	5
Tom Considine	5	5
Andrew Nicolaou	5	5
Fiona Trafford-Walker	3	3
Maria Wilton	5	5

### People Committee

Director	Meetings held and eligible to attend as a member	Attended
James MacKenzie	1	1
Lisa Gay	3	3
Lisa Gray	1	1
David Martine	4	3
Andrew Nicolaou	3	3
Elana Rubin	4	4
Fiona Trafford-Walker	4	4

## Independence and related parties

VFMC Directors 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 pages 72 and 73 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 Foundation CIM clients annually in relation to a number of obligations under the Prudential Standard: VFMC and the Centralised Investment Model ("the Prudential Standard"). The Prudential Standard outlines VFMC's obligations regarding governance, investment governance, investment risk management plans, risk management, breach reporting and fit and proper requirements.

## Risk management

VFMC has a robust risk management framework in place. This ensures identification, assessment and management of risk, and an appropriate focus on risk and compliance matters, is embedded as an integral part of VFMC's governance, business planning and management responsibilities. The Board has overall responsibility for risk management within VFMC. This includes:

- setting the desired risk culture;
- setting VFMC's risk appetite to guide management in decision making;
- approval of the residual risk rating for key enterprise-wide risks; and
- approval of and monitoring of compliance with the Investment Risk Management Plan.

The Audit, Risk and Compliance Committee assists the Board in overseeing the risk management and internal control frameworks.

VFMC has adopted the 'three lines model' for risk governance as follows.

1. **Line one is the business.** All team members in each business unit are the owners of risk within the business and are responsible for proactively identifying and managing risk on a day-to-day basis.

**2. Line two is the Risk and Compliance team led by the Chief Finance and Risk Officer.**

The team leads a proactive approach to risk management by promoting a holistic view of risk. The team maintains and supports a risk management program to effectively evaluate and mitigate risk across the organisation. The team provides expert guidance, escalation, and challenge to risk owners in their application of risk management practices and facilitates opportunities for learning and continuous improvement where risks or process failings have eventuated.

**3. Line three is an independent internal audit function which is outsourced.**

The internal audit function assesses and reports on VFMC's operations, internal controls and compliance with regulatory obligations. These reviews ensure that appropriate controls are in place and operating effectively and that line one and line two monitoring arrangements are in place and operating effectively.

## Risk culture

Effective risk management is a key enabler of VFMC's strategic delivery and an integral part of its culture. VFMC seeks to embed and maintain a positive culture to ensure it reinforces the importance of and enhances the effectiveness of its risk management framework. A Risk Culture and Conduct Framework has also been developed to formally document VFMC's desired risk culture. The framework summarises the various organisational elements which are designed to embed and maintain a positive risk culture at VFMC.

VFMC understands that thinking about and managing risk is part of everyone's responsibility and recognises that risk presents both opportunities and challenges. The Risk and Compliance team works with the Executive Leadership Team and Board to understand the current attitude to risk, define the desired risk appetite for VFMC, establish processes to assess and monitor the current risk culture, and develop strategies for continuous improvement.

# Key Performance Indicators

## Client portfolios versus benchmarks

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), Average Weekly Earnings or Wage Price Index per annum over rolling seven to ten year periods, depending on each client's risk profile. VFMC strives to achieve these objectives by:

- setting the most appropriate strategic asset allocation; and
- adding value to that strategic asset allocation through its active asset allocation programs and security selection within asset classes.

The table below sets out the long-term objective for each Foundation CIM client and VFMC's multi-year performance against each objective. Clients set a probability of each objective being achieved, as they understand their objectives will not be achieved in all periods.

Reflecting challenging market conditions throughout 2021-2022, VFMC's performance for the period ending 30 June 2022 was mixed. VFMC exceeded the long-term investment objectives for TAC and VMIA and underperformed the long-term investment objectives for WorkSafe Victoria. Performance was below target for ESSSuper SSF and on target for ESSSuper DB.

### Individual Client Performance versus stated objective for periods ending 30 June 2022

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	6.6	7.4	AWE + 4% p.a. over rolling seven year periods	60%
TAC	10	8.8	7.4	CPI (Melb) + 5% p.a. over rolling ten year periods	60%
VMIA	10	8.6	6.2	WPI + 4.25% p.a. over rolling ten year periods	50%
ESSSuper SSF	8	7.3	7.7	CPI (Aust) + 5.25% p.a. over rolling eight year periods	65% ± 2.5%
ESSSuper DB	8	7.2	7.2	CPI (Aust) + 5% p.a. over rolling eight year periods	65% ± 2.5%

Note: These Client Objectives were implemented on 1 October 2019

## Client and stakeholder satisfaction

VFMC actively seeks feedback from clients and the Department of Treasury and Finance through ongoing engagement. It also conducts a formal Client Satisfaction Survey every two years, which highlights how clients are thinking about VFMC, where clients' expectations may have changed, and provides valuable guidance for VFMC to deliver ongoing client satisfaction. This survey is conducted independently by EY Sweeney and explores key themes including Strategy and Leadership, Investment Returns, Financial Year End Reporting, Asset and Liability Analysis, Service and Communications and ESG considerations.

The 2020 client survey showed an average level of client satisfaction of 7.9 out of 10. Six key areas of improvement were identified and addressed through a targeted action plan in 2021-2022. The next Client Satisfaction Survey will be conducted at the end of 2022, with results shared in the 2022-2023 VFMC Annual Report.

## People engagement

VFMC's culture continued to provide a positive and supportive environment for team members over the past year.

VFMC leaders supported their teams through the changing requirements of public health directions over the latter part of 2021 and early 2022 and have since championed VFMC's Hybrid Ways of Working Playbook and Team Agreement process. As more team members transitioned back to the shared workplace, the CEO and ELT led a range of initiatives focussed on reconnection and an ongoing test and learn approach to hybrid work is now in place.

While still in early stages of embedding, feedback from the team has reinforced that VFMC's approach to flexible work and hybrid ways of working supports them to be their best as they manage the complexities of work and life challenges.

VFMC participated in the public sector People Matter Survey in June 2022, with results due in late July 2022. As part of seeking feedback on hybrid working strategies and experiences, an engagement pulse check was also conducted in early 2022. While engagement had softened (as expected) to 71%, the 'pride' metric had increased to 91%.

## Efficiency

Centralising client investments via VFMC provides efficient cost outcomes to the State and clients.

VFMC aims to provide services to clients at a cost which is competitive with the broader funds management industry and conducts fee benchmarking every three years. The most recent benchmarking exercise was undertaken by an independent global consultant in 2021 and showed that VFMC's fees remained in the lower quartile at both an asset class level and at an aggregated level. 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 asset composition.

## 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 2022 and to the date of signing this report, there were no significant breaches.

# Financial performance

## Operating surplus

VFMC returned a pre-tax surplus of \$24.2 million in 2021-2022, consistent with effective cost management practices.

## Return on capital

VFMC's return on capital was 26% and the capital position increased from \$61.9 million in 2020-2021 to \$71.0 million as at 30 June 2022.

An anticipated dividend payment to the State of Victoria of \$8.4 million would reduce net assets at 30 June 2022 to \$62.6 million. This amount will be confirmed in 2022-2023.

For further information, refer to VFMC's financial statements on pages 56 to 81.

## Expenditure on consultancies and major contracts

In 2021-2022, 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 \$1,015,000. This compared to an expenditure of \$1,465,000 in 2020-2021.

For details of individual consultancies, visit [vfmc.vic.gov.au](http://vfmc.vic.gov.au). For details of major contracts refer to [www.tenders.vic.gov.au](http://www.tenders.vic.gov.au).

VFMC's information and communication technology expenditure of \$8,849,000 included \$8,381,000 for business as usual (BAU) expenses and \$470,000 for project expenditure.

In comparison, the 2020-2021 figures were \$7,345,000 for information and communication technology expenditure, \$4,119,000 for BAU expenses and \$3,226,000 for project expenses.

## Key financials

### Pre-tax surplus

2021-2022

**\$24.2m**

2020-2021

\$22.4m

2019-2020

\$19.3m

### Net assets

2021-2022

**\$71.0m**

2020-2021

\$61.9m

2019-2020

\$52.9m

### Dividend paid

2021-2022

**\$8.4m**

2020-2021

\$6.7m

2019-2020

\$6.7m





# Annual Financial Report

for the year ended  
30 June 2022

# Comprehensive operating statement

for the financial year ended 30 June 2022

	Notes	2022 \$'000	2021 \$'000
<b>Income from transactions</b>			
Management fees		187,810	171,296
Performance fees		10,052	5,869
<b>Total income from contracts with customers</b>		<b>197,862</b>	<b>177,165</b>
Interest and other income		155	70
<b>Total income from transactions</b>		<b>198,017</b>	<b>177,235</b>
<b>Expenses from transactions</b>			
Portfolio management and custodian expenses	4	112,397	102,117
Employee benefit expenses	4	33,858	27,502
Depreciation and amortisation expenses	4	2,602	2,233
Other operating expenses	4	25,069	23,016
<b>Total expenses from transactions</b>		<b>173,926</b>	<b>154,868</b>
<b>Net surplus from transactions</b>		<b>24,091</b>	<b>22,367</b>
<b>Other economic flows included in net surplus</b>			
Net profit arising from revaluation of long service leave		90	47
<b>Net surplus before tax</b>		<b>24,181</b>	<b>22,414</b>
Income tax expense	5	7,244	6,725
<b>Net surplus after tax</b>		<b>16,937</b>	<b>15,689</b>
<b>Comprehensive result</b>		<b>16,937</b>	<b>15,689</b>

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

# Balance sheet

as at 30 June 2022

	Notes	2022 \$'000	2021 \$'000
<b>Assets</b>			
<b>Financial assets</b>			
Cash and cash equivalents	14(a)	48,963	55,507
Trade and other receivables	6	57,038	41,496
Prepayments and other assets		1,696	1,300
Deferred tax assets	5	3,762	3,686
<b>Total financial assets</b>		<b>111,459</b>	<b>101,989</b>
<b>Non-financial assets</b>			
Property, plant and equipment	7(a)	1,875	2,638
Right-of-use asset	10	4,087	4,963
Intangible assets	7(b)	4,767	3,611
<b>Total non-financial assets</b>		<b>10,729</b>	<b>11,212</b>
<b>Total assets</b>		<b>122,188</b>	<b>113,201</b>
<b>Liabilities</b>			
Trade and other payables	8	34,526	33,008
Income tax payable		2,109	2,712
Lease liability	10	5,509	6,490
Provisions	9	9,056	9,096
<b>Total liabilities</b>		<b>51,200</b>	<b>51,306</b>
<b>Net assets</b>		<b>70,988</b>	<b>61,895</b>
<b>Equity</b>			
Contributed equity		5,000	5,000
Accumulated surplus		65,988	56,895
<b>Net worth</b>		<b>70,988</b>	<b>61,895</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 2022

	\$'000	\$'000	\$'000
	Contributed Equity	Accumulated Surplus	Total
<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>

	\$'000	\$'000	\$'000
	Contributed Equity	Accumulated Surplus	Total
<b>1 July 2021</b>	<b>5,000</b>	<b>56,895</b>	<b>61,895</b>
Net surplus after tax	-	16,937	16,937
Dividends paid	-	(7,844)	(7,844)
<b>30 June 2022</b>	<b>5,000</b>	<b>65,988</b>	<b>70,988</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 2022

	Notes	2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Receipts from trade and other debtors		181,925	176,408
Payments to creditors and employees		(158,994)	(146,179)
Net GST paid		(10,630)	(9,501)
Income tax paid		(7,923)	(2,771)
Lease interest paid	10	(133)	(154)
Interest received		155	70
<b>Net cash flows from operating activities</b>	<b>14(b)</b>	<b>4,400</b>	<b>17,873</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(209)	(35)
Payments for intangibles		(1,910)	(2,753)
<b>Net cash flows used in investing activities</b>		<b>(2,119)</b>	<b>(2,788)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	17	(7,844)	(6,735)
Lease principal paid	10	(981)	(917)
<b>Net cash flows used in financing activities</b>		<b>(8,825)</b>	<b>(7,652)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(6,544)</b>	<b>7,433</b>
Cash and cash equivalents at the beginning of the financial period		55,507	48,074
<b>Cash and cash equivalents at the end of financial year</b>	<b>14(a)</b>	<b>48,963</b>	<b>55,507</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 2022 was authorised for issue in accordance with a resolution of the directors on 18 August 2022. 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 2021 or beyond. They do not materially impact the financial statements of VFMC.

- AASB 2020-8 Amendments to AASs – Interest Rate Benchmark Reform [Phase 2]
- AASB 2021-3 Amendments to AASs – COVID-19 Related Rent Concessions beyond 30 June 2021

### (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 2021 and have not been early adopted by VFMC. These standards and interpretations applicable from periods beginning 1 July 2022 or beyond, as noted by effective date, are not expected to have a material effect on the financial statements of VFMC.

## 3. Significant accounting policies

### (a) Statement of compliance

VFMC has been designated as a 'for profit' entity pursuant to the *Financial Management Act 1994* (FMA). The General Purpose Financial Statements of VFMC have been drawn up in accordance with the financial reporting provisions of the FMA, applicable 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 liquidity order with assets aggregated into financial and non-financial assets. Current and non-current assets and liabilities are disclosed in the notes, where relevant.

Both the functional and presentation currency of VFMC is Australian dollars. Transactions denominated in foreign currencies are converted at the exchange rate at the date of the transaction. Foreign currency payables at balance date are translated at exchange rates at balance date.

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

VFMC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key assumptions concerning the future and other key sources of estimation at reporting date are described as follows.

## **Revenue recognition**

Consideration for management and performance fees is variable in nature. Revenue is recognised as the performance obligation has been satisfied, 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. Significant management judgement is required to determine the amount of deferred tax balances, based on the likely timing and the level of future taxable profits.

## **Fair value of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these techniques are taken from observable markets where possible but where this is not feasible, a degree of judgement is required in establishing fair values.



## Notes to the financial statements

### 4. Expenses

	2022 \$'000	2021 \$'000
Portfolio management and custodian expenses	112,397	102,117
Salary and related expenses	33,298	27,029
Directors' fees	560	473
<i>Total employee benefit expenses</i>	33,858	27,502
IT expenses	8,723	5,700
Market data and research	5,423	4,354
Investment risk management	1,257	1,380
Consultancy and professional fees	2,275	3,044
Rental and outgoings	462	390
Legal expenses	2,265	1,456
Insurance	1,557	1,422
Audit fees	92	90
Finance cost	133	154
Strategic development costs	1,712	4,101
Office administration	1,024	872
Other expenses	146	53
<i>Total other operating expenses</i>	25,069	23,016
Depreciation of property, plant & equipment	971	1,104
Amortisation of right-of-use asset	876	876
Amortisation of intangible	755	253
<i>Total depreciation and amortisation expenses</i>	2,602	2,233
<b>Total expenses</b>	<b>173,926</b>	<b>154,868</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.

#### **Other operating expenses:**

These expenses relate to general operating costs and are recognised in the period in which the expense is incurred, which is when the goods or services have been provided to VFMC.

## 5. Income tax

	2022 \$'000	2021 \$'000
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### (a) Income tax expense

The major components of income tax expense are:

#### **Comprehensive operating statement**

Current income tax charge	7,320	6,561
Deferred income tax – relating to origination and reversal of temporary differences	(76)	164
<b>Income tax expense reported in the comprehensive operating statement</b>	<b>7,244</b>	<b>6,725</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	24,181	22,414
Prima facie tax calculated at 30%	7,254	6,724
Non-deductible expenses	(10)	1
<b>Income tax attributable to net surplus from operations</b>	<b>7,244</b>	<b>6,725</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.

	2022 \$'000	2021 \$'000
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Deferred tax assets at 30 June relate to the following:

- salary and related expenses	2,673	2,703
- capital deductions	40	86
- fixed and intangible assets	414	308
- client rebates	127	106
- others	508	483
<b>Total deferred tax assets</b>	<b>3,762</b>	<b>3,686</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

	2022 \$'000	2021 \$'000
<b>Current</b>		
Management fees and trade receivables	56,474	40,323
Receivables from VFMC Trusts	564	1,090
Australian Taxation Office (GST)	-	83
<b>Total trade and other receivables</b>	<b>57,038</b>	<b>41,496</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.

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.

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

### (a) Property, plant and equipment

	2022 \$'000	2021 \$'000
Leasehold premises improvements	4,901	4,901
Less: Accumulated depreciation	(3,269)	(2,871)
	<u>1,632</u>	<u>2,030</u>
Furniture, fittings and equipment	4,321	4,112
Less: Accumulated depreciation	(4,078)	(3,504)
	<u>243</u>	<u>608</u>
<b>Total carrying value</b>	<b><u>1,875</u></b>	<b><u>2,638</u></b>
<b>Reconciliation</b>		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	2,030	2,427
Depreciation	(398)	(397)
	<u>1,632</u>	<u>2,030</u>
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	608	1,280
Additions	209	35
Depreciation	(574)	(707)
	<u>243</u>	<u>608</u>
<b>Total property, plant and equipment</b>	<b><u>1,875</u></b>	<b><u>2,638</u></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 (continued)

#### (b) Intangible assets

	2022 \$'000	2021 \$'000
Intangible assets	13,064	10,246
Less: Accumulated amortisation	(9,128)	(8,373)
	<u>3,936</u>	<u>1,873</u>
Intangible assets – work in progress	831	1,738
<b>Total carrying value</b>	<b><u>4,767</u></b>	<b><u>3,611</u></b>
<b>Reconciliation</b>		
<i>Intangible assets</i>		
Carrying amount at beginning	1,873	239
Transfer from Intangible assets – work in progress	2,818	1,887
Amortisation	(755)	(253)
	<u>3,936</u>	<u>1,873</u>
<i>Intangible assets – work in progress</i>		
Carrying amount at beginning	1,738	872
Additions	1,911	2,753
Transfer to Intangible assets	(2,818)	(1,887)
	<u>831</u>	<u>1,738</u>
<b>Total intangible assets</b>	<b><u>4,767</u></b>	<b><u>3,611</u></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.

## 8. Trade and other payables

	2022 \$'000	2021 \$'000
<b>Current</b>		
Accrued management and performance fees	30,179	28,298
Trade creditors and other payables	3,954	4,710
Australian Taxation Office (GST)	393	-
<b>Total trade and other payables</b>	<b>34,526</b>	<b>33,008</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

	2022 \$'000	2021 \$'000
<b>Current</b>		
Unconditional annual leave		
expected to settle within 12 months	646	604
expected to settle after 12 months	1,149	1,042
Unconditional long service leave		
expected to settle within 12 months	326	397
expected to settle after 12 months	1,339	1,564
Unconditional incentives	3,503	4,020
Provisions for on-costs		
expected to settle within 12 months	338	343
expected to settle after 12 months	389	232
<b>Total current</b>	<b>7,690</b>	<b>8,202</b>
<b>Non-current</b>		
Long service leave	406	524
Incentives	713	-
Provision for on-costs	247	370
<b>Total non-current</b>	<b>1,366</b>	<b>894</b>
<b>Total provisions</b>	<b>9,056</b>	<b>9,096</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 are recognised at the end of the performance year and paid once endorsed by the Board. A portion of the incentive is paid subsequent to year end, with the remainder paid equally over the following three years. The cost is recognised in salary and related expenses on a straight-line basis over the period in which service is provided, up until the date of payment (vesting date). A corresponding current liability is recognised where this is expected to be settled wholly within 12 months, with a non-current liability recognised for incentives deferred for more than one year.



## 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 extension option is subject to market rent review and renegotiation of lease payments.

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:

	2022 \$'000	2021 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	4,963	5,839
Amortisation expense	(876)	(876)
<b>Total right-of-use asset</b>	<b>4,087</b>	<b>4,963</b>

## Notes to the financial statements

### 10. Leases (continued)

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

	2022 \$'000	2021 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	6,490	7,408
Interest accrued	133	154
Payments	(1,114)	(1,072)
<b>Total lease liability</b>	<b>5,509</b>	<b>6,490</b>

Maturity analysis of lease liability is as follows:

	2022 \$'000	2021 \$'000
<i>Lease liability</i>		
Not longer than 1 year	1,048	981
1 – 5 years	4,461	4,625
Longer than 5 years	-	884
<b>Total lease liability</b>	<b>5,509</b>	<b>6,490</b>

The following are the amounts recognised in Comprehensive operating statement:

	2022 \$'000	2021 \$'000
Amortisation expense of right-of-use asset	876	876
Interest expense on lease liability (included in other operating expenses)	133	154
Expense relating to short-term leases (included in other operating expenses)	1,767	2,093
Expense relating to leases of low-value assets (included in other operating expenses)	-	18
<b>Total amount recognised in the Comprehensive operating statement</b>	<b>2,776</b>	<b>3,141</b>

The following amounts are recognised in the Cash flow statement:

	2022 \$'000	2021 \$'000
Lease interest paid	133	154
Lease principal paid	981	917
<b>Total cash outflow for leases</b>	<b>1,114</b>	<b>1,071</b>

## 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 \$2,157,921 (2021: \$1,953,796) 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.

## 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

Lisa Gay

Lisa Gray

(appointed: 1 January 2022)

David Martine PSM

Andrew Nicolaou

Elana Rubin

Fiona Trafford-Walker

Maria Wilton AM

#### ***Chief Executive Officer***

Lisa Gray

(retired: 30 September 2021)

Kate Galvin

(appointed: 11 October 2021)

## Notes to the financial statements

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

#### (a) Responsible persons (continued)

The number of responsible persons being the Directors and the Chief Executive Officer (CEO), their base and total remuneration during the reporting period are shown in the table below. Base remuneration is exclusive of short-term and long-term incentives, long-service leave, redundancy, relocation and retirement benefits paid or payable.

Income Band	Total Remuneration		Base Remuneration	
	2022 No.	2021 No.	2022 No.	2021 No.
\$Nil to \$9,999	1	2	1	2
\$30,000 to \$39,999	-	1	-	1
\$40,000 to \$49,999	-	1	-	1
\$60,000 to \$69,999	5	4	5	4
\$90,000 to \$99,999	2	-	2	-
\$130,000 to \$139,999	-	1	-	1
\$290,000 to \$299,999	-	-	1	-
\$380,000 to \$389,999	1	-	1	-
\$590,000 to \$599,999	-	-	-	1
\$690,000 to \$699,999	1	-	-	-
\$1,000,000 to \$1,009,999	-	1	-	-
<b>Total numbers</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total amount</b>	<b>1,604,417</b>	<b>1,479,630</b>	<b>1,193,707</b>	<b>1,068,588</b>

The compensation detailed above 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 'Annual Report of the State of Victoria'.

#### (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 party disclosures for the year based on reasonable enquiries made by management in relation to the executive officers, responsible persons and their related parties and the information available to the organisation.

Transactions during the year between VFMC, its clients and service providers have been undertaken on normal commercial terms and conditions.

Conflicts of interest are overcome, where applicable, by directors declaring their interests and abstaining from voting at VFMC's Board meetings, and where appropriate excusing themselves from the meeting.

VFMC may enter into commercial arrangements with parties related to VFMC directors. These arrangements, 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.

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

### (b) Related party transactions (continued)

David Martine is Secretary, Department of Treasury & Finance (DTF) and a Director of TCV. During the year VFMC paid a dividend to DTF of \$7,844,000 (2021: \$6,735,000). On behalf of its clients, VFMC invests funds with TCV periodically, with Fixed Rates Notes of \$473,311,480 held at 30 June 2022 (2021: \$99,697,465). 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 2022 had Funds Under Management (FUM) invested of \$2,891,654,203 (2021: \$2,984,042,785). 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 \$417,286,196 at 30 June 2022 (2021: \$879,756,533) and has paid management fees of \$2,395,559 (2021: \$13,418).

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 2022 had FUM invested of \$105,228,486 (2021: \$113,560,522). All fees are charged on normal commercial terms and conditions.

Maria Wilton is a Director of Victorian WorkCover Authority Board (WorkSafe). WorkSafe is a client of VFMC, and at 30 June 2022 had FUM invested of \$20,310,830,295 (2021: \$20,784,889,516). All fees are charged on normal commercial terms and conditions. Maria Wilton is also External Director of Dexu Wholesale Property Limited. On behalf of its clients, VFMC held investments in Dexu Wholesale Property Fund totalling \$412,372,471 at 30 June 2022 (2021: \$232,500,927) and has paid management fees of \$1,689,900 (2021: \$1,139,255).

As the investment manager for its clients, VFMC invested in debt securities used in Victorian Public-Private Partnerships. At 30 June 2022, VFMC held investments in Royal Children's Hospital's debt security totalling \$114,097,073 (2021: \$1,267,599,876) and Royal Women's Hospital's debt security totalling \$827,500 (2021: \$930,550). These debt securities are valued by an independent third party, income is being received and the transactions were undertaken on normal commercial terms and conditions.

VFMC utilises the insurance services of Victorian Managed Insurance Authority (VMIA), a client and related government entity. VFMC has paid/ payable premiums to VMIA of \$1,922,482 (2021: \$1,566,189) 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 2022 were \$563,810 (2021: \$1,089,770). Management fees are paid on a monthly basis. Total fees earned by VFMC during the year for the management of the VFMC Trusts were \$30,214,111 (2021: \$28,230,839).

## Notes to the financial statements

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

#### (c) Remuneration of executive officers

The number of executive officers being those employed by VFMC on Public Entity Employee Contracts, other than the CEO, and their total remuneration during the reporting period are shown in the following table. Total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period. Factors that have impacted the number of executive officers include the renegotiation of executive contracts and the transition of senior investment professionals to Public Entity Employee Contracts, therefore increasing the number of people classified as executives at VFMC.

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	
	2022 \$	2021 \$
Short-term employee benefits	3,120,159	2,749,615
Other long-term benefits	18,651	6,493
<b>Total remuneration</b>	<b>3,138,810</b>	<b>2,756,108</b>
<b>Total number of executives</b>	<b>8</b>	<b>6</b>
<b>Total annualised employee equivalents</b>	<b>6.02</b>	<b>5.00</b>

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

During the year ended 30 June 2022, fees earned were \$30,214,111 (2021: \$28,230,839) and unpaid fees were \$2,692,404 (2021: \$2,481,169). 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 2022.

#### 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  
(Terminated 30 June 2022)

VFMC ESSS Private Equity Trust 2006  
(Terminated 30 June 2022)  
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  
(Terminated 31 March 2022)  
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  
(Terminated 30 June 2022)  
VFMC Investment Trust II  
VFMC Investment Trust IV  
VFMC Opportunistic Strategies Trust  
VFMC Property Trust 1  
VFMC Property Trust 2  
VFMC Low Volatility Equity Trust 1  
VFMC Low Volatility Equity Trust 2  
VFMC Australian Loan 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:

	2022 \$'000	2021 \$'000
Cash at bank	48,963	55,507
<b>Total cash and cash equivalents</b>	<b>48,963</b>	<b>55,507</b>

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

	2022 \$'000	2021 \$'000
Net surplus from operations after income tax	16,937	15,689
<b>Adjustments for non-cash income and expense items:</b>		
Depreciation of property, plant & equipment	971	1,104
Amortisation of right-of-use asset	876	876
Amortisation of intangible assets	755	253
<b>Changes in assets and liabilities:</b>		
Increase in receivables and other debtors	(15,938)	(758)
Decrease in payables and other provisions	799	709
<b>Net cash flows from operating activities</b>	<b>4,400</b>	<b>17,873</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 and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

## 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 \$72.1bn as at 30 June 2022 (2021: \$74.5bn). These funds are managed on behalf of the following clients:

- Agriculture Victoria Services
- Australian Health Practitioner Regulation Agency
- Ballarat General Cemeteries Trust
- Ballarat Health Services
- CenITex
- Consumer Affairs Victoria
- Corangamite Shire Council
- Department of Justice - RTBA
- ESSSuper
- Holmesglen Institute
- Latrobe Regional Hospital
- Library Board of Victoria
- Melbourne Recital Centre
- Fire Rescue Victoria
- National Gallery of Victoria
- Peninsula Health
- Portable Long Service Leave Authority
- Queen Elizabeth Centre
- Royal Melbourne Hospital
- Royal Women's Hospital
- Shrine of Remembrance
- The Royal Victorian Eye and Ear Hospital
- Transport Accident Commission
- University of Melbourne
- Victoria Managed Insurance Authority
- Victorian Arts Centre Trust
- Victoria Social Housing
- Western Health
- William Angliss Institute
- Worksafe Victoria
- Zoological Parks and Gardens Board Victoria

## Notes to the financial statements

### 16. Auditor remuneration

	2022 \$	2021 \$
Fees paid or payable to Victorian Auditor-General's Office (VAGO) for the audit of VFMC	91,900	89,600
<b>Total audit fees</b>	<b>91,900</b>	<b>89,600</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 2021-2022 VFMC paid a \$7,844,000 dividend to the Department of Treasury & Finance (2021: \$6,735,000).

VFMC does not have any externally imposed capital requirements.

## 18. Financial risk management objectives and policies

VFMC's principal financial instruments comprise cash, short-term deposits, receivables, other financial assets, investments and payables. The main risks arising from VFMC's financial instruments are credit risk, liquidity risk and market price risk (currency risk and interest rate risk).

### (a) 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, \$95,083 is past due (2021: \$150,000).

### (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 (2021: 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).

## Notes to the financial statements

### 18. Financial risk management objectives and policies (continued)

#### (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 \$49,000,000 (2021: \$55,500,000), trade and other receivables of \$57,000,000 (2021: \$41,200,000) and trade and other payables of \$34,500,000 (2021: \$31,900,000). The weighted average interest rate for cash during the reporting period was 0.34% (2021: 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 135 basis points higher or 25 basis points lower during the period and all other variables were held constant, VFMC's (pre-tax) operating surplus would have been impacted as follows:

- 135 basis points higher: increase in surplus of \$661,500 (2021: \$742,500 increase)
- 25 basis points lower: decrease in surplus of \$122,500 (2020: \$137,500 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.

### 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 2022 or on the results and cash flows of the VFMC for the year ended on that date.

# Statement by the Chair and Management

We hereby certify that:

- the accompanying financial statements have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable financial reporting directions, Australian Accounting Standards, including interpretations and other mandatory professional reporting requirements;
- the accompanying Comprehensive operating statement, Balance sheet, Statement of changes in equity, Cash flow statement and accompanying notes present fairly the financial transactions for the financial year ended 30 June 2022 and the financial position as at 30 June 2022;
- 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 2022.



JAMES MACKENZIE  
Chair



KATE GALVIN  
Chief Executive Officer



NIGEL DRUMMOND  
Head of Finance (Acting)

Dated: 18 August 2022

# Auditor-General's Report



## 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 2022</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 2022 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>

Level 31 / 35 Collins Street, Melbourne Vic 3000  
T 03 8601 7000 [enquiries@audit.vic.gov.au](mailto:enquiries@audit.vic.gov.au) [www.audit.vic.gov.au](http://www.audit.vic.gov.au)



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**Auditor's responsibilities for the audit of the financial report**

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


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

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

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MELBOURNE  
25 August 2022



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

VFMC was established under the *Victorian Funds Management Corporation Act 1994* (the Act) to provide:

- a) investment and funds management services to participating bodies and the State;
- b) its services in a commercially effective, efficient and competitive manner.

The Corporation is subject to the general direction and control of the Treasurer of Victoria.

## Objectives, functions, powers and duties of the Corporation

VFMC was established to provide to:

- a) investment and funds management services to participating bodies and the State;
- b) its services in a commercially effective, efficient and competitive manner.

The functions of the Corporation are:

- a) to manage funds of public authorities and the State;
- b) to provide funds management, investment services or other financial services and financial or investment advice to public authorities and the State;
- c) to act as trustee;

- d) to act as manager of a trust; and
- e) to carry out functions or provide such financial, investment or other services in relation to financial assets of public authorities or the State as the Treasurer determines.

## 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*.

## Local Jobs First Act 2003

During 2021-2022, one contract commenced to which the *Local Jobs First Act 2003* applied. For further information refer to [www.tenders.vic.gov.au](http://www.tenders.vic.gov.au).

## Public Interest Disclosures Act 2012

The *Public Interest Disclosures Act 2012* encourages and facilitates people in making disclosures of (i) improper conduct by public officers, public bodies, and other persons and (ii) detrimental action taken in reprisal. It provides protection to people who make such disclosures and who suffer detrimental action in reprisal for those disclosures. It ensures that those disclosures are properly assessed and, where necessary investigated. 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 improper conduct by its employees. VFMC does not tolerate threatening or taking detrimental action against another person in reprisal for a public interest disclosure.

Employees and members of the public are encouraged to report known or suspected incidences of improper conduct or detrimental action in reprisal for a public interest disclosure.

VFMC will take all reasonable steps to protect people who make disclosures and will endeavour to foster a culture in which people can make disclosures without the fear of reprisal.

VFMC will also afford natural justice to the person who is the subject of the disclosure.

Disclosures of improper conduct or detrimental action by VFMC or any of its employees or Directors may be made directly to IBAC at [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au), by phone: 1300 735 135, or by email: [info@ibac.vic.gov.au](mailto:info@ibac.vic.gov.au)

## Compliance with the Building Act 1993

VFMC does not own or control any government buildings and is exempt from notifying its compliance with the building and maintenance provisions of the Building Act 1993.

## Modern Slavery Act

VFMC is required to comply with the *Modern Slavery Act 2018 (Cth)* (Act) which covers eight types of serious exploitation practices which are offences under the Australian Criminal Code: trafficking in persons; slavery; servitude; forced marriage; forced labour; debt bondage; deceptive recruiting for labour or services; and the inappropriate or unacceptable form of child labour (modern slavery).

In meeting its obligations under the Act, VFMC takes into account the Guidelines for Reporting Entities issued by the Department of Home Affairs and closely align its approach with the UN Guiding Principles on Business and Human Rights, the recognised global standard for preventing and addressing business-related human rights harm.

More information is available in VFMC's Modern Slavery Policy, which should be read in conjunction with its ESG Policy.

## Gender Equality Act 2020

The Victorian Government's *Gender Equality Act 2020* (the Act) came into effect in March 2021. The Act required VFMC to prepare a four-year Gender Equality Action Plan relating to its operations, informed by gender impact analysis, workplace gender equality indicators, accompanied by targets (set by government) and reported annually with sound evidence.

As part of meeting VFMC's obligations under the Act, it must

- demonstrate how it promotes gender equality in the workplace;
- demonstrate how it considers gender equality when developing policies and programs and delivering services to the public with Gender Impact Assessments;
- complete a Workplace Gender Audit by 1 December 2021;
- submit a Gender Equality Action Plan by 31 March 2021; and
- submit a progress report by 31 October 2023.

## 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 VFMC about VFMC and the places where the publications can be obtained;
- d) details of changes in prices, fees, charges, rates and levies charged by VFMC;
- e) details of any major external reviews carried out on VFMC;
- f) details of major research and development activities undertaken by VFMC;
- 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 VFMC to develop community awareness of VFMC 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 VFMC and details of time lost through industrial accidents and disputes;
- k) a list of major committees sponsored by VFMC, 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.

## Risk management attestation

I, James MacKenzie, 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.



VFMC Chair  
Dated 18 August 2022

# Disclosure index

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

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

**Victorian Funds Management Corporation**

ABN 27 691 254 157

**Office**

Level 13

101 Collins Street

Melbourne Victoria 3000

+61 3 9207 2900

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

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

**Corporation Secretary**

Traci MacRae

**External Auditor**

Victorian Auditor-General's Office

Level 31

35 Collins Street

Melbourne Victoria 3000

VFMC thanks the following employees for the use of their photographs within the 2021-2022 Annual Report: Karla Harman, Idzani Johar, Keli Saville and Alan Zhao.

