



Annual Report

2022-2023



Victorian Funds Management Corporation
ABN 27 691 254 157

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

Corporation Secretary
Traci MacRae

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



Letter to the Treasurer

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

Dear Treasurer

I am pleased to submit the 2022-2023 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

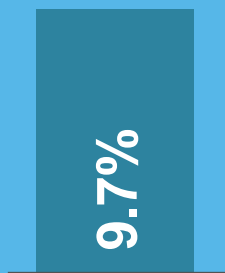


Contents

2022-2023 Year in Review.....	6
About VFMC.....	7
Strategic priorities.....	9
Report from the Chair and Chief Executive Officer	10
Governance	13
VFMC Board	14
VFMC Executive Leadership Team	17
VFMC Governance	18
Investment Management	23
Investment management approach.....	24
Investment performance.....	29
Investment stewardship.....	35
Clients, People and Community.....	41
VFMC clients	42
VFMC people	44
VFMC in the community	50
KPIs, Financial Performance and Other Disclosures.....	53
Key performance indicators.....	54
Financial performance	56
General compliance information	57
Financial management compliance attestation statement.....	59
Disclosure index	60
Annual Financial Report for the year ended 30 June 2023.....	63
Comprehensive operating statement for the financial year ended 30 June 2023	64
Balance sheet as at 30 June 2023	65
Statement of changes in equity for the financial year ended 30 June 2023	66
Cash flow statement for the financial year ended 30 June 2023	67
Notes to the financial statements	68
Statement by the Chair and Management	89
Auditor-General's report	90

2022-2023 Year in Review

One year return
to 30 June 2023
vs benchmark
(net of fees)



9.9%
BENCHMARK

Longer term returns
vs benchmark
(net of fees)



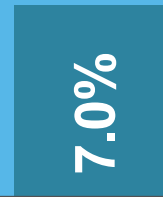
3YRS p.a.

7.1%
BENCHMARK



5YRS p.a.

6.1%
BENCHMARK



8YRS p.a.

6.7%
BENCHMARK



10YRS p.a.

7.6%
BENCHMARK

\$73.7bn

Funds Under Management

↑ \$1.7bn

\$10.4m

Pre-tax surplus



394

ESG engagements
across asset classes



Pooled Fund
Strategy Review
Implemented



44%

Achieved 44% female
representation in
the Investment team
(up 7% from 2021-2022)

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 over \$73 billion for 30 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.

Culture

VFMC's people believe in one another and their mandate to deliver for Victoria. Our values are at the core of our culture.

Do what's right: be courageous, take informed risks, be accountable for our decisions and behaviours.

Always aim to do better: to achieve the best outcomes for our stakeholders.

Be curious, smart, kind and inclusive: work together for greater impact.

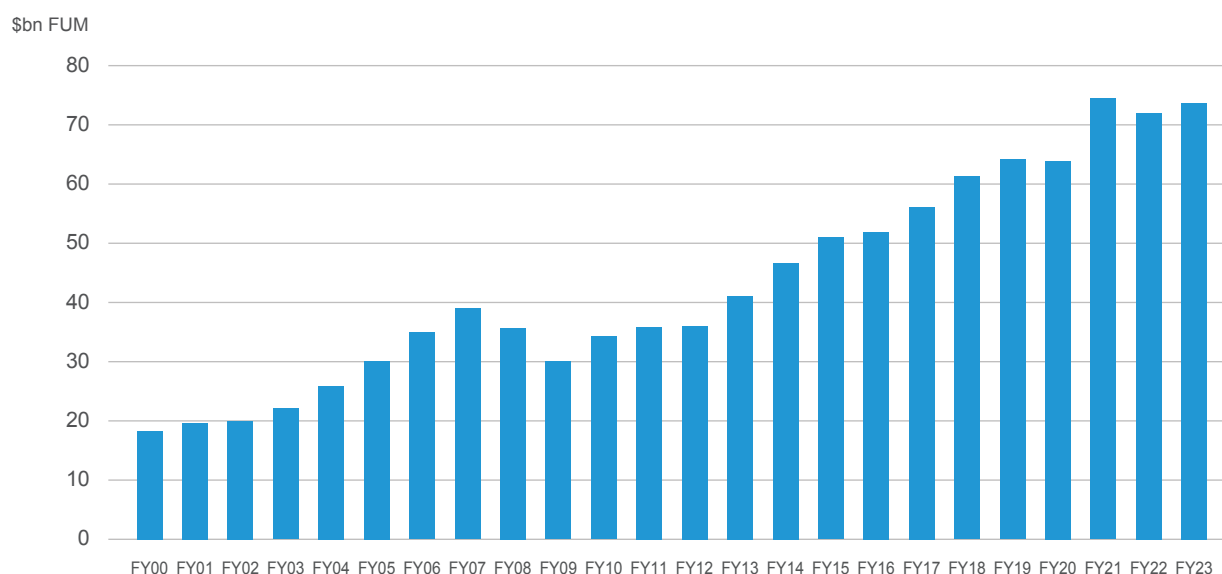
Clients

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 CIM.

VFMC also manages funds for 26 Victorian public authorities and related organisations. See page 2 for a full client list.

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 2023, VFMC's FUM was \$73.7 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 leverages its technology and data analytics capabilities to optimise its business and investment decision making.



Strategic priorities

Evolve24 Strategic Agenda

The Evolve24 strategic agenda was 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.

2021-2024 Strategic objectives

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

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 build the organisational capabilities required for the future.

Report from the Chair and Chief Executive Officer

From Our Chair

Maintaining our long-term investment focus

This year our focus turned to implementation of the Investment Risk Management Plan (IRMP) and the new VFMC Pooled Fund strategies approved in 2021-2022. Our approach to managing Pooled Funds is now more closely aligned with the way in which we manage our Foundation Centralised Investment Model (CIM) clients, creating greater efficiency and shared expertise.

It was another volatile year for investment markets. Financial returns for the year were broadly positive across asset classes in what was a difficult year for markets. Despite a challenging year, investment performance for our Foundation CIM clients remains positive over the medium term. VFMC continues to develop its approach to investment stewardship, or ESG, as this supports the achievement of our long-term goals. ESG factors are becoming even more integrated into our decision making and our 'whole of portfolio' approach to investing. The benefits of our significant data and analytics program continue to be realised through increased efficiencies and insights in our investment decision making.

Governance

As a Board we have maintained our strong focus on ensuring VFMC's governance framework is robust and efficient. Management has continued to evolve and enhance processes to deliver for our clients – across both our investment and corporate areas.

The Board remains focussed on effective risk management as an enabler to achieve our strategic goals. As a Board, we are confident VFMC has maintained a positive risk culture that continues to

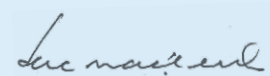
mature in order to deliver strong outcomes for our clients. The Board, with the support of the Audit, Risk and Compliance Committee and the People Committee, has remained focussed on the key risks facing VFMC – strategic, investment and operational.

Acknowledgements

Our people continue to bring their best to the work they do and the teams they create. Our high calibre team operates in a collaborative and transparent way, working with the Board to deliver on our strategic objectives. On behalf of the Board, I wish to thank Kate, the Executive team and all of our people for their continued dedication and commitment to VFMC.

On behalf of the Board, I express my sincere thanks to Elana Rubin for her significant contribution to VFMC over her term on the Board.

Finally, as 2022-2023 was my final year at VFMC, I reflect on the organisation's successes and transformation. I would like to acknowledge the exemplary work of VFMC's people over my tenure as Chair. I am proud of VFMC's achievements, including gender equality at the Board and Executive level and across the business more broadly and the transformation of VFMC's culture. I wish the Board and VFMC's people all the very best as they embark on the next chapter for VFMC.



James MacKenzie
Chair

The emphasis on a resilient and effective governance framework has remained strong, particularly in this challenging year for investment markets. ”

From Our Chief Executive Officer

In 2022-2023, the VFMC team responded with energy and commitment to many challenges and opportunities. We faced into volatile investment markets, primarily driven by high inflation and rising interest rates. We responded thoughtfully to the continued competition in the market for investment talent by working on our differentiated employee value proposition. We evolved our values led culture while also facing into the evolving nature of work. We embedded hybrid ways of working and acknowledged the need to generate connection, collaboration and creative thought when together in our shared workplace.

Investment and financial performance

VFMC focused on further building portfolio resilience and was able to take advantage of market opportunities to generate strong absolute returns for all client portfolios. This was achieved through portfolio construction, active management at the asset class level and through our proprietary Dynamic and Cycle-Aware Asset Allocation programs. Following several years of investment to embed a strong data and analytics capability, this has now become integral to our investment decision-making and the delivery of broader business insights to support speedy responses to the ever-changing landscape within which VFMC operates.

Over the medium to long term VFMC has delivered strong investment returns for our clients, notwithstanding market volatility in 2022-2023. The financial year end return for our Foundation CIM clients was 9.7%, a good return outcome in the context of heightened macro and market uncertainty.

In 2022-2023, VFMC has generated an operating surplus which will provide a significant dividend to the State.

People and Culture

This year we held a 6-month conversation with our people in a truly consultative and inclusive process, to co-develop our refreshed VFMC Values, now being embedded into the way we work:

- Do what's right: be courageous, take informed risks, be accountable for our decisions and behaviour.
- Always aim to do better: to achieve the best outcomes for our stakeholders.
- Be curious, smart, kind and inclusive: work together for greater impact.

I am grateful for the time and work put in by the team and have been proud to talk to our clients, people and peers about how we are bringing these values to life in our day-to-day interactions and decisions.

Building on our commitment to maintain and evolve VFMC's open, transparent and supportive culture, this year we launched our Analyst Program and People Leader Forums. Both programs have a strong focus on career progression and culture and encourage our people to continue to learn and grow, both personally and professionally. VFMC's commitment to equity, diversity and inclusion remains at the fore and we are proud to have been recognised for our work. VFMC was ranked No. 1 for global sovereign funds for gender balance for the second year in a row by the Official Monetary and Financial Institutions Forum (OMFIF) Gender Balance Index 2023.

Continued evolutionary transformation

This year we continued to implement our Evolve24 strategy. In the 2022-2023 financial year we:

- implemented the first phase of the 2022 IRMP for our Foundation CIM clients;
- continued to develop and embed our data and analytics capabilities and risk based approach to decision making;
- deepened our investment stewardship program;
- implemented simplified fee structures for our Foundation CIM clients;

The team strategically addressed talent competition through our distinct employee value proposition, evolved our values-based culture and embraced the hybrid work model while fostering connection, collaboration and innovation within our shared workplace. ”

- embedded our refreshed values and employee value proposition; and
- continued our technology capability uplift with a focus on further enhancing our cyber security defences.

We have responded to regulatory changes and are ready to onboard a significant new client, the Victorian Future Fund, in the 2023-2024 financial year. The Victorian Future Fund was established by the Victorian Government to support the State's debt stabilisation strategy and VFMC is proud to manage the investment of these funds for the benefit of all Victorians.

As we look to the future, we recognise significant challenges ahead, economically, geopolitically and climate related, to name a few. The current environment and potential challenges ahead will inform our strategy beyond 2024. We are mindful of the need for meaningful changes in the approach to strategic capital allocation to address geopolitical instability, deglobalisation and a tightening fiscal environment. We are thoughtful about the impacts of increasing risks such as cyber threats and new opportunities such as artificial intelligence. I am confident our team will lean into these challenges and opportunities with courage and innovation as we work to develop a resilient strategy and underlying program of work that enables us to continue to improve the future prosperity of Victoria.

Thank you

I thank our Board and our people for their enthusiasm and commitment to living our values in everything we do to deliver for our clients and the people of Victoria. I look forward to working together so that VFMC continues to be a great place to work and to ensure our continued success.



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

Kate Galvin
Chief Executive Officer

Governance



VFMC Board

James MacKenzie

Chair

Appointed June 2015

James MacKenzie is an experienced Australian company director who currently serves as Chair of Slater and Gordon Lawyers, the Suburban Rail Loop Authority, the Melbourne Arts Precinct Corporation 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

Chair of the Audit,

Risk and Compliance Committee

Appointed Director May 2016,

Deputy Chair August 2021

Lisa Gay is a highly regarded legal and compliance professional with financial services experience in funds management, investment banking and stockbroking.

Lisa is a non-executive director of Computershare Limited and Koda Capital, and a member of the Council of Trustees of the National Gallery of Victoria. Lisa was formerly a Board Member of Fed Square, 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.

Tom 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.

Lisa Gray

Director

Appointed January 2022

Chair of People Committee

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 and an Associate of the Melbourne Business School.

Lisa was the CEO of 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.

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

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.

VFMC Board

Elana Rubin AM

Director

Appointed August 2015, resigned April 2023

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, Dexus Funds Management Limited and Dexus Wholesale Property Limited and several unlisted organisations in the infrastructure sector. Previous directorships include Chair of Afterpay and Australian Super, 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.

Elana 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 of Link Administration Holdings, a non-executive director and Chair of the Audit and Risk Committee at the Prospa Group, a non-executive director and Chair of the Audit and Risk Committee at FleetPartners and a non-executive director at Perpetual Limited. She is a member of the Investment Committee at the Walter and Eliza Hall Institute and a Strategic Advisor to the Australian Retirement Trust Investment Committee.

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 Chair of Spirit Super and Growth Farms Australia Pty Ltd, a Governor of the global Chartered Financial Analyst Institute, Deputy Chair of Infrastructure Victoria, Director of Dexus Wholesale Property Fund and Member of the State Investment Advisory Board (Qld).

Maria holds a Bachelor of Economics from the University of Tasmania, is a Chartered Financial Analyst charter holder and a Fellow of the Australian Institute of Company Directors.

VFMC Executive Leadership Team



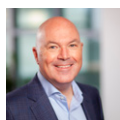
Kate Galvin

CEO

Joined October 2021

Kate is responsible for the strategic development and leadership of VFMC and steward to the Board.

As Victoria's investment specialist, VFMC's success lies in the commitment and capability of our people, and our ability to work collaboratively. It is imperative that our organisation is one that attracts talented, inquisitive individuals who come to us to learn and progress their career. We continue to hear from our team that VFMC is a great place to work, allowing enhanced decision making with flexibility within a highly accountable and dynamic environment. I am privileged to lead this passionate, professional, and talented team and proud of their ongoing contribution to improving the future prosperity of Victoria.



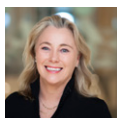
Paul Shanley

Chief Finance and Risk Officer

Joined August 2022

Paul is responsible for leading VFMC's enterprise governance, risk management, compliance, finance, tax and legal portfolios.

We build trust and confidence with our clients and stakeholders from the strong governance frameworks we have implemented.



Lucy Carr

Chief Operating Officer

Joined December 2019

Lucy is responsible for leading VFMC's data and analytics, digital and technology, investment operations and projects and change portfolios.

Leading best in class operational capability to ensure the effective, efficient and digitally enabled platforms and functions at VFMC means our clients can trust that our people operate in a contemporary environment to enable market leading returns.



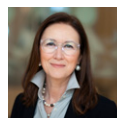
Russell Clarke

Chief Investment Officer (CIO)

Joined May 2017

Russell is responsible for leading the investment team and overseeing the investment management of more than \$73 billion FUM.

Leading a diverse and talented investment team, striving for market leading long-term returns, underpinned by an enduring focus on responsible stewardship of our clients' capital.



Sarah Dunn

Head of Client and

Market Development

Joined September 2020

Sarah is responsible for leading VFMC's client and stakeholder management, market development, investment performance reporting and communications portfolios.

We are passionate about our government stakeholder's imperative to deliver clear benefits of a centrally managed investment service for government agencies across Victoria, enabling our clients to generate impactful results into our community and supporting VFMC's purpose of improving the future prosperity of Victoria.



Johanna Neilsen

Head of People

Joined November 2018

Johanna is responsible for leading VFMC's people, culture and facilities portfolios.

We are proud to be a strategic partner to enable VFMC's performance by the design, build and implementation of contemporary strategies that support our culture, enable our team to be their best and continue to make VFMC a great place to work.

VFMC Governance

VFMC's responsibilities and accountabilities are outlined primarily in the Victorian Funds Management Act 1994 (the Act), the Instrument of Delegation and in Board and Management Committee charters.

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 IRMPs 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 IRMPs;
- oversight of investment strategy for VFMC Pooled Funds;
- oversight of VFMC including control and accountability systems, including approval of key policies;

- 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 Directors are bound by the parts of the Public Administration Act 2004 and the Victorian Public Entity Director's Code of Conduct. VFMC's people are bound by the Victorian Public Sector Code of Conduct.

VFMC provides investment and fund management services to Victorian public authorities and the State in a commercially effective, efficient and competitive manner. VFMC's investment powers and functions under the 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").

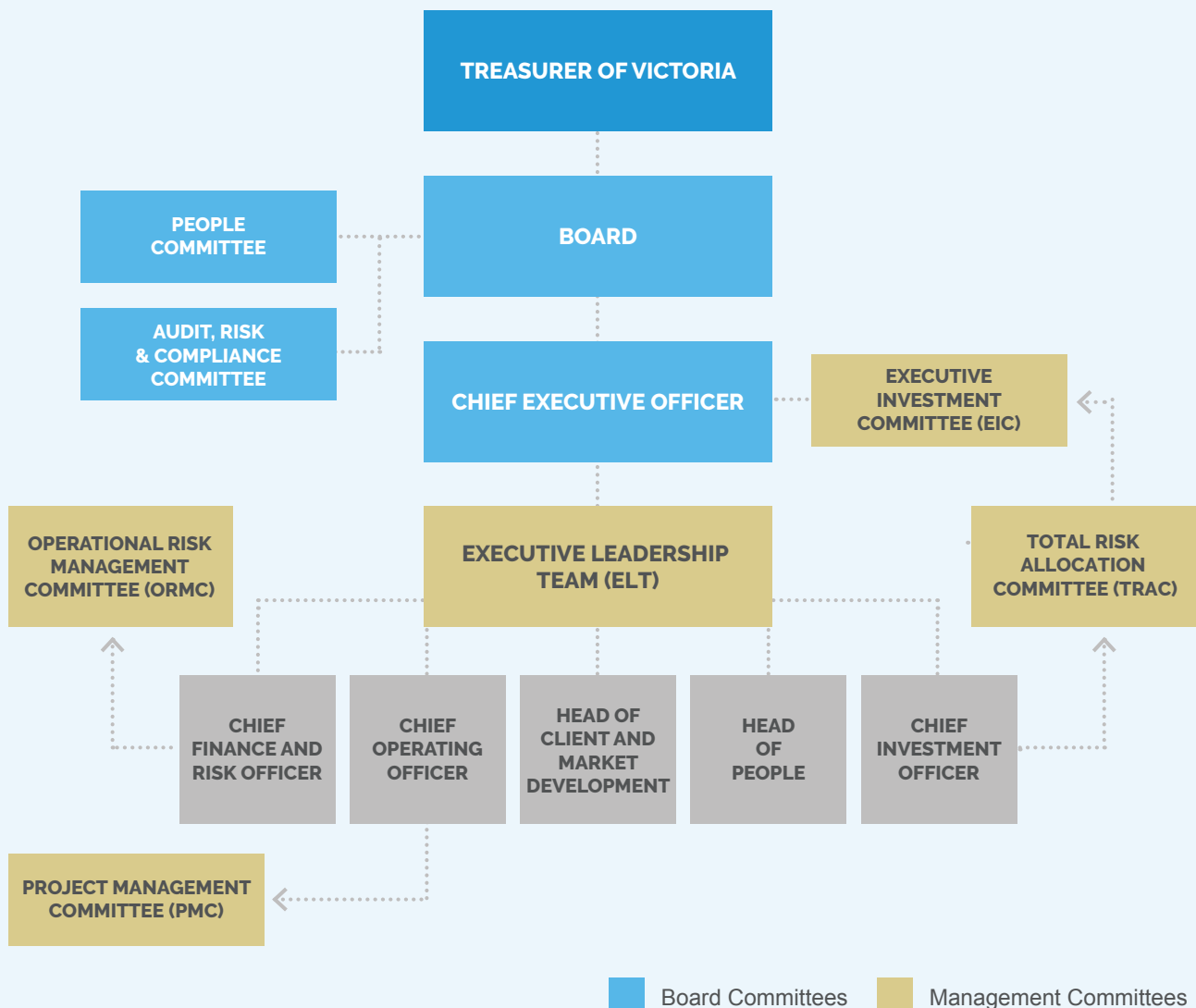
The Board certifies to the Department of Treasury and Finance and its Foundation CIM clients annually in relation to several obligations under the Prudential Standard. The Prudential Standard outlines VFMC's obligations regarding governance, investment governance, client IRMPs, risk management, breach reporting and fit and proper requirements.

In accordance with the Act, VFMC is subject to the general direction and control of the Treasurer. Directions from the Treasurer may relate to the corporate performance of VFMC but must not 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.

VFMC's structure

The diagram below shows VFMC's structure and the relationship between the Treasurer, the VFMC Board, the CEO, Executive Leadership Team and Management Committees.

Each Board and Management Committee operates in accordance with a Charter that sets out the role, responsibilities, level of authority, membership and governance processes.



VFMC Governance

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee assists the Board with fulfilling its statutory and regulatory responsibilities, including overseeing the integrity of VFMC's financial reporting (including compliance with the Standing Directions made by the Minister for Finance under the Financial Management Act 1994), risk management and internal controls. The Committee Chair is Lisa Gay. Meetings are held at least four times a year or as required.

People Committee

The People Committee assists the Board with overseeing the remuneration strategies, organisational culture, diversity inclusion and belonging strategies and succession planning of the organisation. The Committee evaluates the CEO's performance and makes recommendations to the Board on CEO remuneration. The Committee Chair is Lisa Gray. Meetings are held at least twice a year or more often as required.

Board and Committee meetings

The number of meetings held during 2022-2023 and attendance of each Director are set out in the tables to the right.

Board

Director	Meetings held and eligible to attend as a member	Attended
James MacKenzie	9	7
Lisa Gay	9	9
Tom Considine	9	9
Lisa Gray	9	9
David Martine	9	7
Andrew Nicolaou	9	9
Elana Rubin	8	6
Fiona Trafford-Walker	9	8
Maria Wilton	9	8

Audit, Risk and Compliance Committee

Director	Meetings held and eligible to attend as a member	Attended
Lisa Gay	6	6
James MacKenzie	6	3
Tom Considine	6	6
David Martine	6	6
Andrew Nicolaou	6	6
Maria Wilton	6	6

People Committee

Director	Meetings held and eligible to attend as a member	Attended
Lisa Gray	4	4
James MacKenzie	4	4
David Martine	4	1
Elana Rubin	3	2
Fiona Trafford-Walker	4	4

Directors' benefits

Since the end of the previous financial year, no Director of the Corporation (other than disclosed below) has received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Directors shown in the financial statements) by reason of a contract made by the Corporation, with the Director or with a firm of which the Director is a member or with an entity in which the Director has a substantial financial interest.

Independence and related parties

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 80 and 81 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.

Management Committees

VFMC's Management Committees perform specific functions to support robust decision making. Each Committee's role and responsibilities are outlined in Charters.

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 client IRMPs.

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, manage 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.

VFMC Governance

Risk Culture

Effective risk management is a key enabler of VFMC's strategic delivery and an integral part of its culture. This extends across all areas of the business including both enterprise and investment risk. 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.

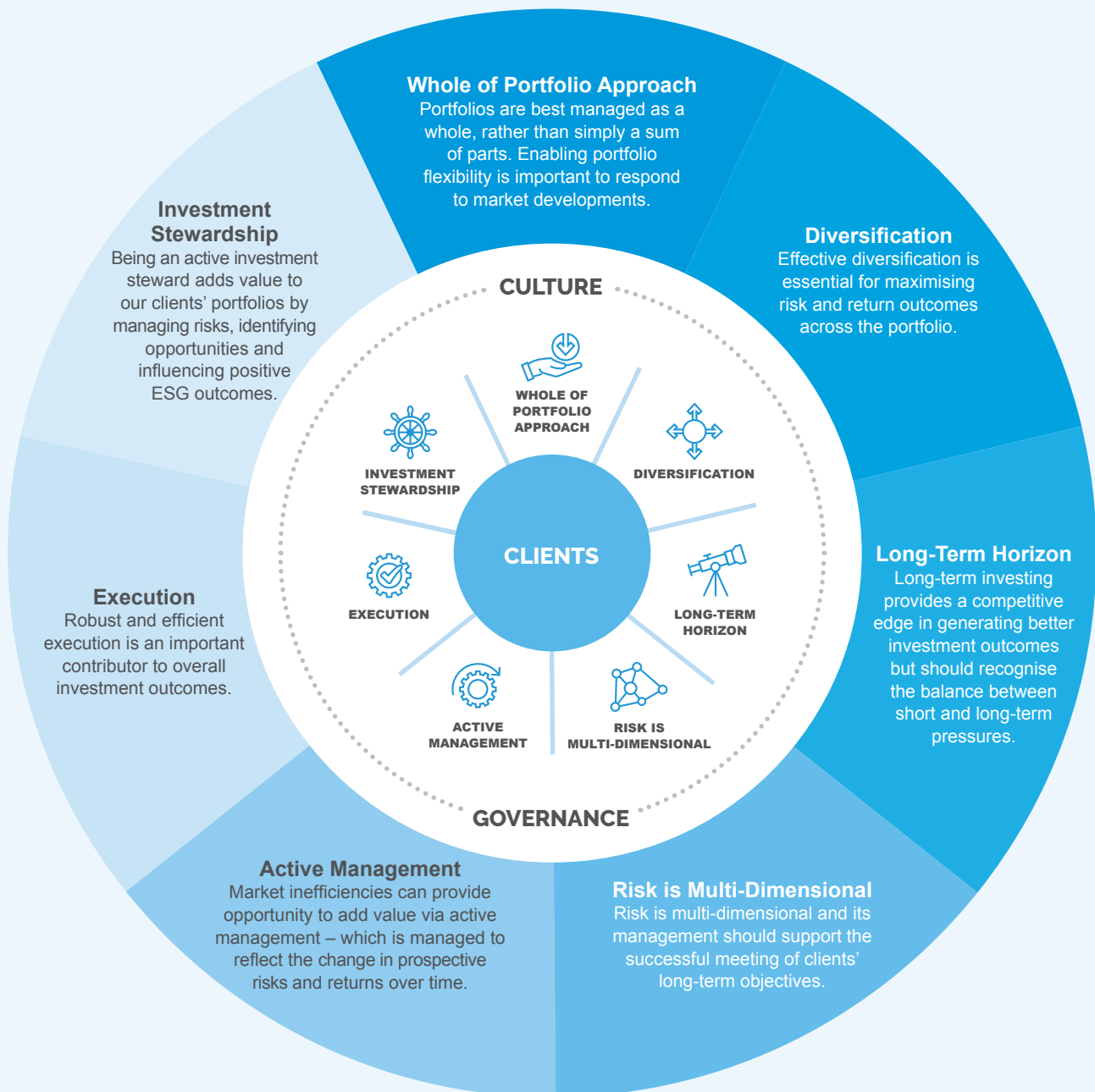
VFMC understands that thinking about and managing risk is part of everyone's responsibility and recognises that risk presents both opportunities and challenges. The Risk and Compliance team works with the Executive Leadership Team and Board to understand the current attitude to risk, define the desired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



Investment Management

Investment management approach

Our Pillars



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.

Investment philosophy

VFMC seeks to ensure that its investment philosophy is appropriate for, and resilient to, the markets and environment within which we operate. To this end, VFMC's investment philosophy emphasises VFMC's position as a long-term investor and recognises the balance between short and long-term pressures. Importantly, it explicitly includes Investment Stewardship as one of the pillars, underscoring a contemporary approach to investment stewardship and ensuring that investment decisions are made with consideration of ESG related matters.

In the most recent review of VFMC's investment philosophy, several themes were foreshadowed which have indeed impacted the portfolio, including ongoing geopolitical tensions, structural economic changes and central banks tightening monetary policy. Thus, these pillars continue to serve VFMC well.

The Investment Risk Management Plan

The IRMP documents the Foundation CIM clients' investment objectives, their strategic asset allocations and VFMC's investment management approach. The IRMP is reviewed every three years and the last review was completed with effect from 1 July 2022.

The purpose of periodically reviewing the IRMP is to ensure that VFMC continues to meet clients' evolving investment needs, with portfolios that are appropriately set up to respond to prevailing macro-economic and market conditions.

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 and portfolio modelling for clients for the first time.

Implementation of Multi Strategy Funds review

Following the review of VFMC's Multi Strategy Funds (MSFs) in 2021-2022 to ensure they deliver the best outcomes and the benefits of scale for clients invested in those solutions, the required changes were implemented over 2022-2023. As part of this, the MSFs were collectively renamed to VFMC Pooled Funds (PIFs) and the investment objectives and time horizons were updated to align more closely with the intention of the longer-term nature of these funds. The strategic asset allocations were more closely aligned with those of the Foundation CIM clients. The Capital Stable Fund was renamed Conservative Fund and a new Enhanced Income option was introduced, providing clients with four institutional investment solutions. The PIFs transitioned to their new strategic asset allocations in October 2022. This included the introduction of unlisted assets, Low Volatility Equities and Enhanced Income as new asset classes in order to further diversify the portfolios. More detail regarding the PIF's strategic asset allocations are included on page 27.

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. VFMC also designs portfolios for PIF clients, which includes three multi-asset options and a single sector option with the recent introduction of Enhanced Income. Each client is responsible for managing its own liabilities and capital commitments.

VFMC is a liability aware investor. In constructing portfolios for Foundation CIM clients, it considers their forecast future liabilities (insurance and superannuation 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 business pressures. This provides VFMC with greater flexibility compared to a strict liability-matching approach, which would limit it to making investments designed solely 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% to 5.25% per annum in excess of inflation, expressed via the Consumer Price Index, Average Weekly Earnings or Wage Price Index over rolling eight-to-ten-year periods, depending on each client's risk profile.

VFMC aims to achieve its clients' investment objectives through the design of appropriate strategic asset allocations and, in aggregate, an active management approach is utilised to outperform the relevant market benchmark in each asset class, net of fees. Clients' long-term investment outcomes therefore depend on general market movements within individual asset classes, VFMC's ability to select the best combination of asset classes, outperformance in excess of the appropriate benchmarks in each asset class and active asset allocation.

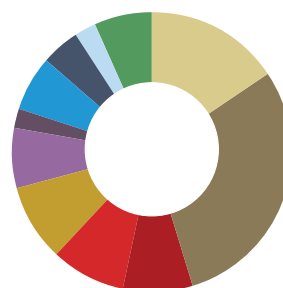
In line with its investment philosophy, VFMC's primary focus is the total portfolio investment outcome for its clients. It believes portfolios are best managed and measured as a whole, rather than the sum of their parts. VFMC builds portfolios to achieve clients' objectives by using the benefits of scale 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 the strategic asset allocation for each asset class at 30 June 2023 across the Foundation CIM clients and the VFMC Pooled Funds respectively. The Foundation CIM aggregate is a weighted average of individual clients' strategic asset allocations.

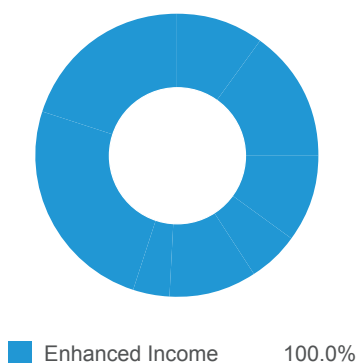
Foundation CIM clients aggregate strategic asset allocation at 30 June 2023

Australian Equities	15.6%	Emerging Markets Debt	2.0%
International Equities	29.8%	Inflation Linked Bonds	6.4%
Infrastructure	8.2%	Australian Bonds	4.5%
Property	8.5%	US Bonds	2.5%
Hedge Funds	8.8%	Cash	6.6%
Private Credit	7.1%		

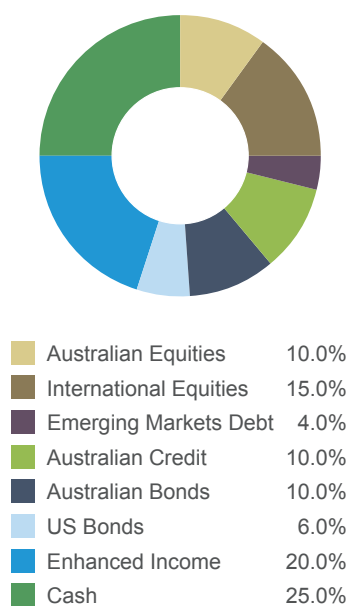


VFMC Pooled Funds strategic asset allocation
at 30 June 2023

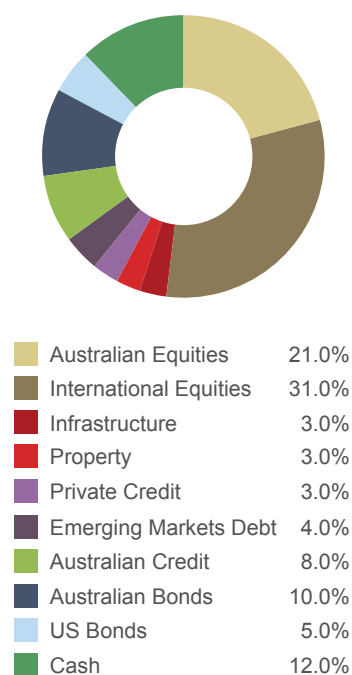
VFMC Enhanced Income Fund



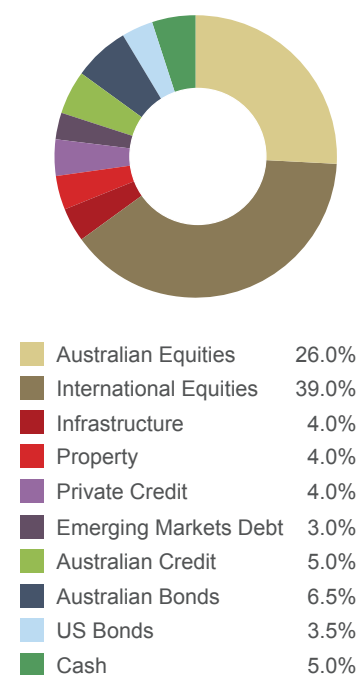
VFMC Conservative Fund



VFMC Balanced Fund



VFMC Growth Fund



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 at the portfolio level, 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 asset allocation management

VFMC takes an active approach to asset allocation 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.

The past year has been turbulent, with high inflation, rising interest rates and varying recession expectations in the first half of the financial year, with the second half buoyed by signs of economic and corporate resilience, inflation cooling and AI having a more pervasive influence.



Investment performance

Investment environment

Financial year 2022-2023 brought a variety of challenges for financial markets, contributing to continued volatility. The first six months were defined by persistently high inflation, interest rate increases, the Russian invasion of Ukraine, China's COVID-zero policy and growing recession fears. However, late 2022 provided some relief as central banks such as the US Federal Reserve and Reserve Bank of Australia (RBA) indicated a slowing of the pace of rate increases amid signs that inflation was cooling from earlier highs, a milder northern hemisphere summer and China abruptly reversing its COVID-zero policy.

Risk sentiment was further boosted through the second half of the 2022-2023 financial year with US growth and corporate earnings resilience on balance outweighing concerns about persistently high inflation and signs that rate hikes were having an impact as stresses emerged in the US banking system. In Australia, inflation also remained in focus with the RBA retaining a bias towards tighter monetary policy as necessary. Australian shares returned 14.4% over the 2022-2023 financial year, while international shares were 17.2% in AUD terms and 13.5% in local currency terms.

Global bond yields pushed higher from mid-2022 as central banks lifted policy rates while consistently reaffirming a commitment to taming inflation.

However, toward the end of 2022, yields began to ease from earlier peaks as most jurisdictions approached the end of their monetary policy tightening cycles. Having lifted rates by a cumulative 2.75% and 2.25% respectively in the first half of the financial year, the US Federal Reserve and RBA only increased rates by a further 0.5% in the second half of the financial year. Australian and US bonds returned 1.2% and -3.8% in hedged terms respectively over the financial year.

Looking ahead, the global outlook remains highly uncertain with risk of a slowdown in growth. The trajectory of inflation and the response of central banks to this, along with the implications on the corporate sector, remain key to the outlook. Economic growth is expected to continue to moderate over the remainder of 2023, with the major challenge for central banks being to cool economies sufficiently to reduce inflation without falling into recession. This is further complicated by financial stability considerations and presents a potentially volatile and uncertain backdrop for investors.

Despite a challenging investment and economic market environment over the 2022-2023 financial year, VFMC delivered a net annual return of 9.7% for VFMC's Foundation CIM clients in aggregate.



Investment Performance

In the face of significant uncertainty and periods of heightened volatility, global equity markets pushed higher over the 2022-2023 financial year which contributed, along with infrastructure and debt strategies, to a net annual return of 9.7% for VFMC's Foundation CIM clients in aggregate.

Over the past 10 years, the Foundation CIM aggregate portfolio has delivered a net return of 8.2% after fees per annum, outperforming the strategic asset allocation benchmark return of 7.6% per annum.

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

Asset Class	1 Year		3 Years		5 Years		8 Years		10 Years	
	Actual (%)	Bmk (%)	Actual (%)	Bmk (% p.a.)	Actual (%)	Bmk (% p.a.)	Actual (%)	Bmk (% p.a.)	Actual (%)	Bmk (% p.a.)
Equities										
Australian Equities	13.2	14.4	11.5	11.1	6.3	7.1	7.8	7.9	8.6	8.5
International Equities	18.2	17.2	11.1	11.1	8.9	8.8	9.0	9.2	11.2	11.1
Real Assets										
Infrastructure	10.8	11.0	13.7	10.5	11.1	8.5	12.1	7.9	12.3	7.7
Property	-0.2	4.9	7.3	8.1	5.9	6.0	8.4	8.3	8.8	8.6
Alternative Strategies										
Hedge Funds	3.7	2.8	8.0	4.4	4.8	3.9	n/a	n/a	n/a	n/a
Credit										
Private Credit	1.6	1.4	10.1	5.8	n/a	n/a	n/a	n/a	n/a	n/a
Emerging Markets Debt	9.3	10.2	-0.5	-2.2	n/a	n/a	n/a	n/a	n/a	n/a
Cash and Fixed Interest										
Inflation Linked Bonds	7.5	5.7	0.6	-0.3	2.6	2.0	2.8	2.3	4.1	3.4
Australian Bonds	7.5	1.2	-3.3	-3.5	0.6	0.5	1.7	1.6	2.6	2.4
US Bonds	-2.4	-3.8	-4.6	-5.6	n/a	n/a	n/a	n/a	n/a	n/a
Cash	3.5	2.9	1.3	1.0	1.5	1.2	1.7	1.5	2.0	1.7
Other										
Insurance	-0.3	6.0	1.9	4.0	1.4	4.2	n/a	n/a	n/a	n/a
Private Equity	2.4	6.0	-6.0	4.0	-4.3	6.5	1.1	8.7	2.3	9.6
Other Strategies	2.1	6.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
DAA Overlay	0.1	-	0.1	-	0.1	-	0.0	-	0.1	-
CAA Overlay										
CAA Overlay	0.0	-	n/a	-	n/a	-	n/a	-	n/a	-
Total Fund (Net) Incl. CAA	9.7	9.9	7.9	7.1	6.2	6.1	7.0	6.7	8.2	7.6

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 2022-2023 financial year, VFMC's portfolio positioning was on balance defensive, holding underweight positions in international equities, given the deterioration in both the nearer and medium-term outlook for risk-adjusted equity returns. VFMC also held overweight positions in bonds for a period, closing the position after a sharp retracement in yields. The size of the positions was managed nimbly given the volatility and in aggregate, these positions contributed modest value to returns over the financial year.

Asset Class Returns

The benefit of portfolio diversification was once again highlighted over the 2022-2023 financial year as Fixed Interest, Cash and Alternative Strategies outperformed relative to their benchmarks. This softened the impact of another year of volatile markets.

VFMC's Australian and International equities, Infrastructure, Emerging Markets Debt and Inflation Linked Bonds portfolios all delivered strong absolute returns as managers navigated the market volatility over the year.

Net of fees results by asset class alongside relevant benchmark (Bmk) returns for one, three, five, eight and ten year periods are shown on the prior 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 33.

Australian Equities

The Australian equity portfolio delivered a double-digit return over the year; however, it underperformed its benchmark over the same period. Australian equity market performance was volatile during the period

and was dominated by the macro environment, with the RBA launching the most aggressive rate hiking cycle since the 1990s. While stock selection within Information Technology contributed positively, asset allocation and stock selection in Metals & Mining detracted meaningfully. Gold and lithium stocks had a strong year and the portfolio's underweight exposure to these stocks was a key detractor for relative performance.

International Equities

The International equity portfolio meaningfully outperformed its benchmark over the year. Global equity markets delivered solid returns, led by US Technology stocks and Europe. However, market volatility remained heightened against a backdrop of central bank tightening, a US regional banking crisis and China's softening economy. The developed markets portfolio underperformed its benchmark due to stock selection within Information Technology. The dedicated emerging markets portfolio outperformed the Morgan Stanley Capital International (MSCI) \$A Emerging Markets Index, however, it underperformed its developed markets counterparts, mainly driven by China. The low volatility portfolio which was inceptioned at the start of the financial year, outperformed its benchmark over the period.

Infrastructure

The VFMC Infrastructure portfolio delivered a strong positive return and performed broadly in line with its benchmark for the year which included a significant increase in the inflation linked component of the benchmark. While there was a broad contribution to performance from across the infrastructure sector, transaction activity in relation to certain asset sales was a key driver of the strong positive result. Against a backdrop of rising inflation and interest rates and softer economic growth, valuations of long-duration and GDP-exposed assets were challenged. Infrastructure asset returns were mixed due to the challenging market environment but generally positive with the benefits of a diversified infrastructure strategy.

Property

The VFMC Property portfolio delivered a modestly negative return for the financial year and underperformed its benchmark due to the significant increase in the inflation linked component of the benchmark.

Performance was negatively impacted by a softening in capitalisation rates for core office and retail assets balanced against strong rental growth in the industrial sector. Property debt strategies in Australia and the US continued to provide strong positive risk adjusted returns as global property markets adjusted to significant increases in interest rates by central banks.

Fixed Interest

Fixed income markets globally were under severe upward yield pressure in the first six months of the financial year. This resulted in significant negative return outcomes as Central Banks embarked on one of the most aggressive tightening cycles for decades, with the aim being to stem the sharp rise in inflation. However, a slowing in the pace of Central Bank tightening in the latter part of the financial year (in response to inflation showing signs of moderating coupled with economic recession risks increasing) saw bond markets recoup the bulk of these losses. As such, we saw the Australian fixed income market end the year with positive returns. The fixed income portfolio successfully navigated this challenging environment with the Australian Fixed Income, Inflation Linked Bond markets and US Bond portfolios all outperforming their respective benchmarks by a considerable margin. The outperformance was a result of strong contributions from interest rate management and relative value strategies.

Hedge Funds

The VFMC Hedge Fund portfolio delivered positive absolute returns for the year, outperforming its benchmark. Many managers across VFMC's portfolio benefited from increased volatility across markets which continues to be a positive environment for various investment strategies. A small number of VFMC's managers struggled from being bearishly

positioned whilst equities rallied and another manager's momentum-based strategies struggled with the volatility in markets, particularly in interest rates following the regional banking crisis in US.

Private Credit

VFMC's Private Credit portfolio delivered a modestly positive return for the year and outperformed its benchmark. Credit markets remained very volatile over the year as markets reacted to the likelihood of central banks being able to balance the desire to dampen inflation whilst preventing a drop in economic growth. Newer vintage private credit strategies were able to take advantage of mispricing in the market and therefore performed strongly over the year. Older vintages of funds were subject to a slowdown of realisations as mergers and acquisitions (M&A) activity decreased significantly on the back of the economic uncertainty.

Emerging Markets Debt

VFMC's Emerging Markets Debt portfolio delivered a strong positive absolute return for the year but underperformed its benchmark. Hard currency bonds (emerging market debt issued predominantly in US dollars) contributed to performance driven by credit spread compression during the year. Local currency bonds (issued in the country's own currency) across both Europe and Latin America delivered strong returns as bond yields in these emerging markets rallied. The Emerging Markets Debt portfolio was positively impacted by markets recovering from the Russian invasion of Ukraine and attractive yields given many emerging market countries are approaching the end of their rate hiking cycle.

Insurance

VFMC's Insurance portfolio delivered modestly negative returns and underperformed its benchmark for the year. The Natural Catastrophe portfolio was the main detractor despite yields being at historical highs, following losses from Hurricane Ian in Florida. This was partially offset by the residual of the Life Settlements portfolio which delivered a small positive absolute return.

The benefit of active management was highlighted over the year as global equities, fixed interest, cash and alternative strategies outperformed their benchmarks.



Cash

Cash exposures are actively managed for performance, appropriate risk exposure and to provide portfolio liquidity as required. The cash rate was raised aggressively by the RBA throughout the 2022-2023 financial year, from 0.8% to 4.1%. The Cash portfolio delivered a higher return than the benchmark over the year.

Asset Class Benchmarks

Asset Class	Benchmark
Australian Equities	S&P ASX300 Accumulation Index
International Equities	66% MSCI World (Net dividends reinvested) in AUD 17% MSCI Emerging Markets Index (Net dividends reinvested) in AUD 17% MSCI World Minimum Volatility (USD) Index (Net dividends reinvested) in AUD
Infrastructure	75% CPI + 4.5% p.a. 25% MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen)
Property	50% CPI + 4% p.a. 50% MSCI/Mercer Australia Core Wholesale Monthly PFI (Net) 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)
Australian Credit	Bloomberg AusBond Bank Bill Index
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 Index 0+ Yr Index
Australian Bonds	Bloomberg AusBond 0+ Yr Composite Index
US Bonds	Bloomberg Barclays US Treasury Index (AUD Hedged)
Enhanced Income	Bloomberg AusBond Bank Bill Index
Cash	Bloomberg AusBond Bank Bill Index
Other Strategies	Bloomberg AusBond Bank Bill Index + 3% p.a.

VFMC Pooled Funds delivered strong absolute returns following a review of strategic asset allocations in 2022.



VFMC Pooled Funds

Following the review of the Multi Strategy Funds over 2021-2022 as outlined on page 25, the Funds transitioned to their new investment objectives and strategic asset allocations in October 2022.

As at 30 June 2023, 25 clients invested in these funds, with combined investments totalling \$2.6 billion. Net of fees results for each of the VFMC Pooled Funds alongside relevant benchmark (Bmk) returns are shown in the following table. The VFMC Enhanced Income Fund delivered positive returns over the period since inception from October 2022.

The VFMC Conservative, Balanced and Growth Pooled Funds outperformed their strategic asset allocation benchmarks over the year. This was driven by the strong absolute performance of Australian and International equities and Emerging Markets Debt and the outperformance of VFMC's Debt and Cash strategies. The second table below shows the VFMC Pooled Funds' long-term investment objectives. Reflecting the sharp rise in inflation over the year, the Conservative and Balanced Funds' performance was below their inflation linked objectives, while the Growth Fund outperformed its CPI + 4% per annum objective over 10 years.

VFMC Pooled Fund aggregate performance by Fund

Pooled Fund aggregate performance by Fund to 30 June 2023

VFMC Pooled Fund	1 Year		3 Years		5 Years		7 Years		10 Years	
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk
	(%)	(%)	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
Enhanced Income Fund ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Conservative Fund (Capital Stable)	6.4	5.6	2.5	1.8	2.8	2.7	3.3	3.1	3.7	3.6
Balanced Fund	9.7	9.3	4.9	4.6	4.5	4.9	5.4	5.7	5.8	6.1
Growth Fund	11.2	11.1	6.9	6.8	5.5	6.2	6.9	7.4	7.1	7.6

¹ Incepted Q4 2022, 1 year performance not available

Pooled Fund versus stated objective for periods ending to 30 June 2023

VFMC Pooled Fund	Objective Horizon (years)	Performance Net of Fees % p.a. ²	Target Return per Objective % p.a.	Investment Objective	Modelled Probability
Enhanced Income Fund ¹	3	n/a	n/a	The Fund seeks to achieve a return of Bloomberg Ausbond Bank Bill Index + 0.5% p.a. over rolling 3 years	n/a
Conservative Fund	5	2.8	5.5	The Fund seeks to achieve a return of CPI + 1.5% p.a. over rolling 5 years	67%
Balanced Fund	7	5.4	6.1	The Fund seeks to achieve a return of CPI + 3.0% p.a. over rolling 7 years	63%
Growth Fund	10	7.1	6.7	The Fund seeks to achieve a return of CPI + 4.0% p.a. over rolling 10 years	67%

¹ Incepted Q4 2022, 3 year performance not available

² Based on objective horizon

VFMC is a long-term steward of its clients' capital, where balancing investment returns and ESG risks and opportunities form part of the investment decision making process.



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.

VFMC PURPOSE

To improve the future prosperity of Victoria.



OVERARCHING INVESTMENT STEWARDSHIP APPROACH

VFMC aims to improve risk-adjusted returns by being a responsible investor of its clients' capital by managing environmental social and governance (ESG) risks.

PILLARS OF ACTIVITY

1

ACTIVE OWNERSHIP

2

ESG INTEGRATION

3

MAJOR ESG PROJECTS

4

COLLABORATION AND
INFORMATION SHARING

Enabling policies, such as:

INVESTMENT
STEWARDSHIP
POLICY

PROXY
VOTING
POLICY

CLIMATE
CHANGE
POSITION

MODERN
SLAVERY
POLICY

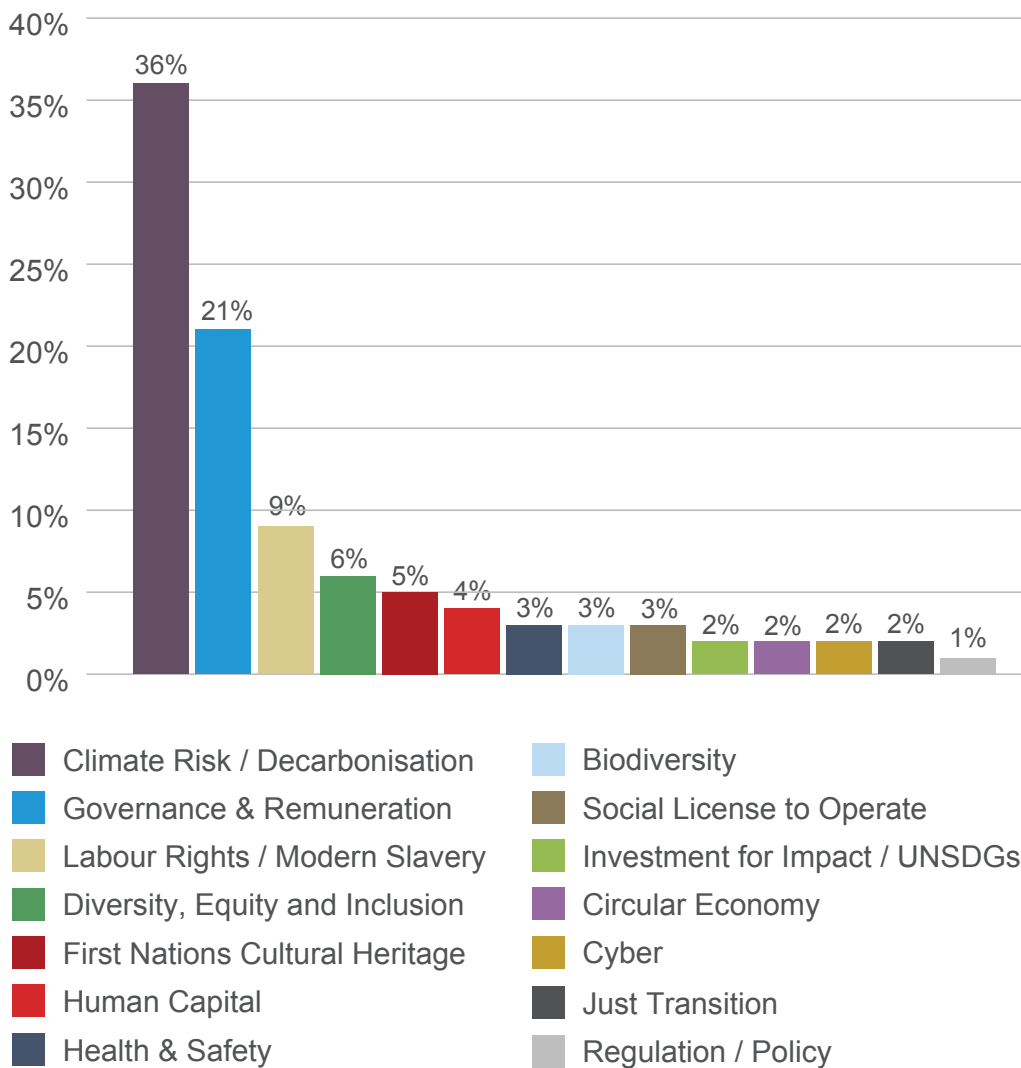
EXCLUSIONS
POLICY

Active Ownership

VFMC actively monitors and engages with investee companies and external fund managers across all asset classes. This active ownership enables VFMC to influence positive change in ESG practices across its portfolio and in real-world outcomes. This is achieved through two approaches: direct and indirect company engagement and proxy voting.

VFMC engages directly with investee companies and indirectly via fund managers on its material existing and emerging ESG issues, particularly those that can impact the long-term sustainability of its investments. In the 2022-2023 year, VFMC undertook 394 engagements across material themes, as set out in the following graph.

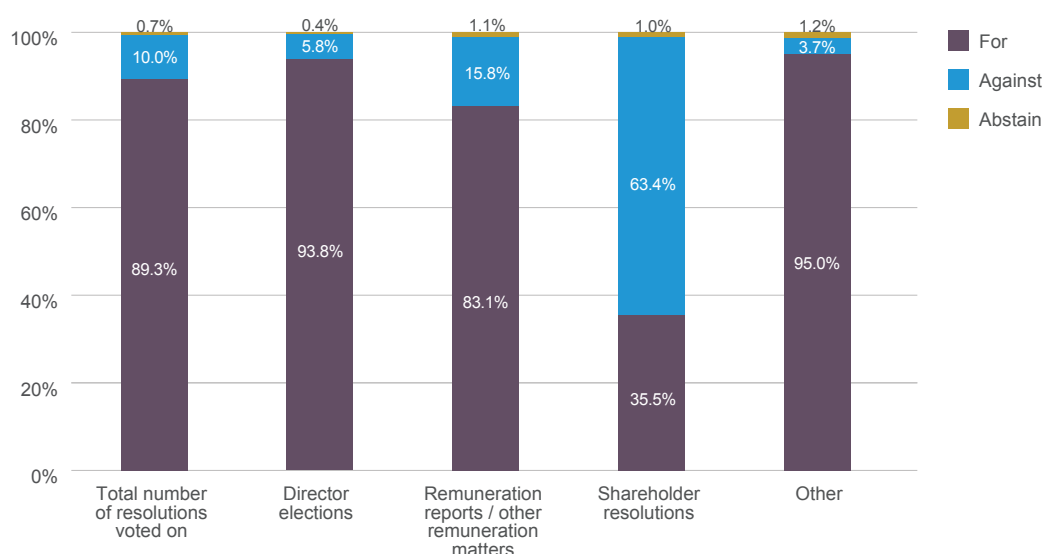
ESG Engagement Thematic Breakdown



Proxy voting

The second element of VFMC's approach to active ownership is through proxy voting. Voting at company Annual General Meetings provides investors such as VFMC with a formal means to exercise ownership rights, hold the Board and company management accountable and, where appropriate, indicate dissatisfaction or concern with an issue. Contentious resolutions can be effective in influencing a company to take action.

In the 2022-2023 year, VFMC voted on 6,324 resolutions across both global and domestic companies.



ESG Integration

VFMC seeks to systematically integrate ESG factors into its whole of portfolio approach to investing across and within all asset classes. In 2022-2023, ESG due diligence was undertaken on 23 new investment mandates and several direct investment opportunities. Items of note discussed at VFMC's ESG working group and investment team meetings throughout the year included:

- how climate scenarios inform long term capital market assumptions;
- the interplay between emissions reduction objectives and energy security;
- how human capital indicators (diversity, inclusion, turnover, culture) can act as leading indicator of performance;
- insights on the hydrogen market; and
- Power Purchase Agreement (PPA) trends across the Real Estate portfolio.

Case Study: Investments with Impact Benefits

VFMC recently made an investment in Specialised Disability Accommodation (SDA), which supports increased access to safe, secure and quality housing for people living with disability. This opportunity provides the benefits of increased portfolio diversification, attractive expected returns and positive social impact. The physical disability support services will be delivered through the National Disability Insurance Scheme (NDIS).

VFMC acknowledges that climate risk is multi-dimensional across multiple time periods. This requires climate risk management at the company level, across the whole of portfolio and at a systemic market-wide level.



Major Projects

VFMC undertakes dedicated ESG projects to support its investment stewardship activities, enhance its understanding of material risks and to meet legislative obligations. These projects are initiated when significant cross-functional input or resourcing is required to support or enable improvements to VFMC's whole of portfolio approach.

Key ESG projects undertaken in 2022-2023 include:

- Commenced development of security level ESG analysis for material positions within the internally managed equity portfolios;
- The development of a model to assess sovereign ESG risks and performance;
- The progression of an unlisted ESG data project to improve coverage of meaningful ESG metrics in VFMC's unlisted portfolios; and
- Thematic research in the areas of water scarcity and labour market trends across the portfolio.

Collaboration

To maintain a robust approach to ESG risk, VFMC regularly collaborates and shares knowledge with peer investors and other industry participants. It also works with investment managers, investee companies and other institutional investors through investor-led initiatives to integrate, capture and monitor the positive social, environmental and governance impacts of investments.

VFMC is a member of, and participates in, collaborative initiatives including the following:



Case Study: Collaboration

As part of a multi-year collaborative engagement from 2021-2023, VFMC engaged with a large Australian company that displayed elevated modern slavery risk indicators and actual instances of modern slavery. This company was identified as a high-risk holding in VFMC's modern slavery assessment, primarily due to the nature of the inherent risk within the agricultural sector, as well as the identified supply chain controversies. This collaborative activity resulted in significant progress related to the following objectives:

- Increased supply chain mapping transparency across tier 1 and 2 suppliers;
- Improved workforce disclosure, including third-party labour hiring;
- Audit and grievance transparency, including outline of grievance mechanisms and resourcing; and
- A specific action plan and KPIs have been set for the coming financial year.

Electricity Consumption

The current financial year saw the full implementation of VFMC's Hybrid Ways of Working, compared to the prior year when, like many Victorian workplaces, many people worked largely at home. This resulted in

an increase to the proportion of electricity utilised by VFMC at its office location in the current year.

Total electricity is now being monitored and reported by the Investment Stewardship team to help track and understand VFMC's electricity consumption.

Indicator	FY23	FY22
Total electricity consumption (kWh)	152,541.2	138,590.6
Purchased electricity		
Corporate Office (a)	67,373.5	58,898.8
Not directly purchased but from outside the organisation		
Corporate Office (a)(b)	85,167.7	79,691.8

Notes:

a. This being the sole office of Victorian Funds Management Corporation

b. This is an estimate based on most recent available data provided by the Landlord

Material ESG themes

VFMC's investment stewardship approach is centred on the management of material ESG themes. Each of these themes has a clear objective, as detailed below. Within each theme, financially material ESG issues are identified. These financially material ESG issues are an important focus of VFMC's active ownership activities.



ENVIRONMENTAL

- Climate change
- Biodiversity
- Management of natural resources
- Circular economy and reduction of pollutions and waste
- Supporting the transition to a renewable economy



SOCIAL

- Occupational health and safety
- Human and labour rights
- Modern slavery
- Diversity, equity and inclusion
- Social and community impact
- Cultural heritage



GOVERNANCE

- Governance and remuneration
- Cyber security and data governance
- Board structure, composition and skills mix
- Risk management
- Reporting frameworks
- Executive compensation and incentives

Spotlight on Thematic: 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.

VFMC has made a commitment to achieve net zero portfolio greenhouse gas emissions by 2050. To achieve this, VFMC undertakes the following climate focused activities:

- Engagement with investee companies on their decarbonisation efforts and transition pathways;
- Allocation of capital towards climate positive investments that not only provide strong financial returns, but also help drive the economy's transition towards net-zero emissions; and
- Management and mitigation of stranded asset risk.

Case Study: Financing the transition

During the 2022-2023 year, VFMC's Fixed Income portfolio invested in several climate positive bond and loan investments. The proceeds from these bonds provide capital that could be used to finance a range of green projects in emerging economies, including:

- Solar and wind installations;
- Rehabilitation of power plants and transmission facilities to reduce emissions;
- Electrifying transportation;
- Carbon reduction through reforestation and prevention of deforestation;
- Advancing climate-smart agricultural infrastructure, strengthening food value chains to become more resilient to climate change and increasing market access for smallholder farmers;
- Sustainable water resource utilisation; and
- Addressing biodiversity conservation and challenges of pollution and natural resource degradation.

Case Study: Physical Risks of Climate Change

As part of VFMC's integrated ESG approach, VFMC conducted scenario-based climate hazard analysis across 73 assets within the Property portfolio. Risks evaluated include increased frequency and magnitude of extreme weather events such as cyclones, changing rainfall patterns, flooding, drought, heat stress and the rising of sea levels; risk likelihood and potential impact is also considered. The analysis was designed

to provide a foundational understanding of the portfolio's vulnerability to the physical effects of climate change. Nine individual climate hazards were considered across two time horizons (2030 and 2050). The analysis demonstrated that, despite the absence of any aggregate risk scores beyond "moderate", some assets are potentially vulnerable to individual climate events during the time horizon of investment. In response to these findings, VFMC has requested that the external fund manager prepares a risk monitoring, management and adaptation plan going forward.



Clients, People and Community

Through regular client engagement, VFMC continues to enhance its services to meet clients' evolving needs.



VFMC clients

VFMC manages funds for 30 Victorian public authorities and related organisations. The returns generated from client investment portfolios support client 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 2022-2023 financial year, VFMC welcomed two new clients, Monash Health and Banyule City Council. During the year, two clients withdrew their funds from VFMC, Fire Rescue Victoria and the University of Melbourne.

Since the May 2022 announcement of the Treasurer's intention to establish a Victorian Future Fund in the 2022-2023 Victorian Budget, VFMC has worked closely with the Department of Treasury and Finance to establish the operational requirements of the Fund. The Fund balance has been held as a notional allocation in the Consolidated Fund and VFMC will commence investing in 2023-2024.

For a complete list of current clients, see page 2.

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 investment guidance, integrated investment stewardship services, regular Board and 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 the latest IRMP process approved in April 2022 and the first phase implemented over 2022-2023, with the next two phases to be implemented over 2024 and 2025.

Throughout the IRMP process, VFMC works closely with Foundation CIM clients and the Department of Treasury and Finance to ensure it has a thorough understanding of clients' risk and return profiles, long-term liability profiles, funding ratios, liquidity and income requirements. VFMC refreshed its Capital Market Assumptions (CMAs) during 2022-2023 because of shifts in the market and macroeconomic environment and worked with clients to understand the impact of the refreshed CMAs on the outlook for client portfolios.

Client performance reporting

Following a full review of VFMC's suite of performance reporting, reports have been redesigned to meet client requirements and the underlying processes supporting their delivery have been simplified with increased automation for greater efficiency. This has included portfolio risk reporting with further work ongoing into 2023-2024.

Client satisfaction survey

VFMC engages the services of EY Sweeney to undertake independent biennial client satisfaction surveys. The latest survey was conducted in December 2022 showing that overall client satisfaction remains high at 7.5 out of 10, primarily attributable to strong investment performance and high-quality client service, down slightly from 7.9 in 2020.

VFMC client forums

As part of its commitment to client education and engagement, VFMC hosted quarterly investment forums for its clients throughout 2022-2023. 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.

VFMC client strategy day

In September 2022, VFMC held its inaugural client strategy day where Foundation CIM clients, DTF and VFMC shared and discussed their corporate strategies to enhance mutual understanding, collaboration and partnership.

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 2022-2023, VFMC representatives were invited to participate in panels, roundtables and presentations at several industry events. VFMC leaders and investment experts spoke across a range of topics, such as:

- emerging market and macroeconomic trends;
- trends in property demand, including resilience in property;
- portfolio strategy and portfolio construction;
- absolute returns and market volatility; and
- ESG considerations, including the transition to a net zero future.

Investment returns from clients' portfolios support their organisations' strategic objectives and community service delivery.

”

VFMC people

VFMC has focussed on sustaining a culture that enables each member of the team to live balanced lives while delivering on VFMC's purpose - to invest for the future prosperity of Victoria - as part of a high performing team. The past twelve months have continued to present opportunities to embed VFMC's approach to working in a flexible and hybrid way while simultaneously implementing new ways to reconnect across the broader VFMC team. Launched in March 2022, VFMC's Hybrid Work Playbook provides a strong framework for teams across the business to establish new ways of working that allows them to manage the demands of staying well, managing caring and family responsibilities and delivering for VFMC's clients.

The positive feedback from VFMC's people that they can integrate work and life in a balanced way while remaining highly productive, has formed the cornerstone of the work to refresh VFMC's values and employee value proposition this year. This work included an organisation-wide consultation program.

An integral focus of the organisation is to increase the proportion of women who choose to work within the VFMC Investment team and this year we are proud to have achieved just over 44% women in this team (up 7% from 2021-2022).

VFMC continues to attract leading talent from across the financial services sector to work as part of its smart, kind, curious and inclusive team serving the State of Victoria. The breadth of roles, size and structure of VFMC means people have direct access to senior leaders while managing significant funds with a singular focus on investing.

Diversity and Inclusion

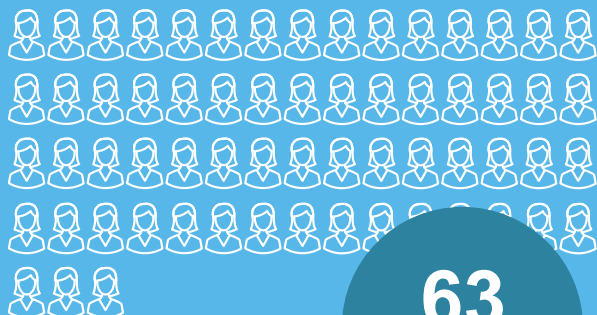
In recognition of ongoing internal programs of work, VFMC was ranked the No. 1 global sovereign fund for gender balance in the workplace for the second year in a row by the Official Monetary and Financial Institutions Forum (OMFIF) in their OMFIF Gender Balance Index 2023.

VFMC is an active and proud partner of the Future IM/Pact initiative that seeks to change the face of investment management by building a pipeline of future female investors.

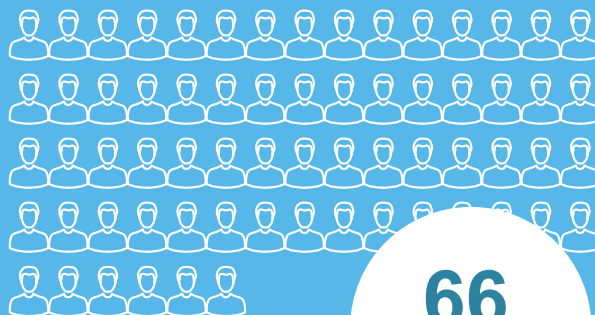
129

employees

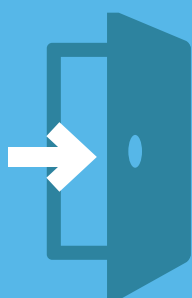
Our team at 30 June 2023



63
WOMEN



66
MEN



we welcomed
25 new people
14 women and 11 men
to our team in both permanent
and contract roles this year.

6 people took
parental leave



1 woman and 5 men.

Gender balance

	All employees		Full-time (permanent)		Part-time (permanent)		Full-time (contract)		Part-time (contract)	
	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022
Gender										
Women	63	61	41	48	9	7	12	6	1	0
Men	66	62	48	56	1	1	17	5	0	0
Total	129	123	89	104	10	8	29	11	1	0

Development @ VFMC Program

Core leadership and broader development has been brought together within an overarching program, the Development @ VFMC Program. This is designed to support the growth and development of all VFMC people and was launched late in 2022. Within this program are several underlying programs as follows:



The VFMC LIFT Sponsorship Program

Facilitated by Yo&Co, this program is designed to support and challenge aspiring leaders to take hold of their career with clarity and confidence so they can chart a pathway to leadership. LIFT focuses on important development areas through experiential learning complimented by peer coaching and sponsorship including in the areas of leadership purpose and career strategy, confidence and passion, influence and impact.



The VFMC Analyst Program

Launched this year and focused on supporting the attraction, development and retention of a group of analysts with 2-3 years of work experience from a broad range of backgrounds. In partnership with Future IM/Pact and Kaizen Recruitment, focus is placed on attracting talented women and gender diverse people to progress their careers with VFMC. The training and development aspect is co-designed with our Investment Leadership Team.



Change Makers

Facilitated by Future Women, as part of VFMC's Gender Equality Action Plan initiatives, this course is designed for men who want to become better managers and leaders. Change Makers assists in their understanding of how a diverse and inclusive workplace can benefit them, the organisation in which they work and the teams they work in.



New Leader Program

Delivered by the Australian Institute of Management (AIM) this program is targeted to newly appointed People Leaders, where the focus is on three key areas: Effective Communication, Implementing Innovation and Continuous Improvement and Project Management Fundamentals.



VFMC Mini MBA

Delivered by The Australian Institute of Management (AIM) covering the key areas of strategy, leadership, customers, numbers, change and action, this course is aimed at intermediate to mid-level team members. As the name suggests, it is a shortened version of an MBA, covering similar study areas.



People Leader Forum

Facilitated internally by VFMC's People Team, this was established to further support and coach people leaders who meet quarterly to participate in cohort development opportunities while networking and sharing experiences.

These programs are open to every VFMC team member and further options will be launched in the coming 12 months.

The development framework and opportunities have really expanded and allow people a chance to get more out of their roles via other avenues. VFMC team member



Career development and future capabilities

VFMC provides a range of development opportunities for its people, from building new skills and gaining broader experience, to receiving both formal and informal mentoring and coaching from leaders.

Leadership capability is an ongoing focus as the biggest impact on people's experiences at work is via their direct people leader. This year several new leadership programs have been established and our broader people development offering has been expanded.

VFMC's internal rotation program ran for the fifth year in 2022-2023 and continued to support opportunities for the participants in this program to access and observe senior leaders and to build better understanding of the governance and decision-making forums of the organisation.

Hybrid and flexible work

Hybrid and flexible working continue to be core tenets of VFMC's Employee Value Proposition and how work is undertaken at VFMC. Feedback from the VFMC team supports the view that its approach to Hybrid and Flexible work is highly valued and very productive. The VFMC Hybrid Ways of Working Playbook and devolved decision making via VFMC's Team Agreement process allow teams to better manage the demands of work and life.

Surveys conducted in both May and November 2022 showed that 97% of people felt that overall, VFMC is set up well for Hybrid Working. Over 90% of the survey participants also indicated:

98%

VFMC have provided helpful tools to ensure effective Hybrid Working

92%

Hybrid Working is productive for them

97%

Their People Leader is supportive of Hybrid Working

92%

The team have adapted well as a team to Hybrid Working

VFMC team members

I think that we have encouraged the right mix of when it is appropriate to work in the Shared Workplace and when we can work remotely.



I enjoy working from home and get more work done at home, but also appreciate the opportunity to meet with colleagues outside my team in person and build the connection.



We know that at VFMC our people value driving their careers whilst living balanced lives, and our commitment to being a Family Friendly Workplace is one way that we can deliver this. **Kate Galvin**, Chief Executive Officer, VFMC



Gender Equality Action Plan (GEAP)

In accordance with the Victorian Government's Gender Equality Act 2020, VFMC submitted its first Gender Equality Action Plan to the Gender Equality Commission in early 2022. Following the Plan's approval by the Commission in late 2022, implementation of the Plan was the focus for the remainder of the year and sets out the Plan's progress until 2025.

This Plan included the need to collect intersectional data as part of the reporting obligations to the Commission. As such, work has been undertaken during the year to improve VFMC's capability to securely and confidentially collect this data. Progress reporting has been delayed by the Commission and VFMC's next progress report is due on 20 February 2024.

The Change Makers initiative continued in 2022-2023 with a total of thirteen senior male leaders now having completed the course. VFMC will extend participation in this program in 2023-2024 to ensure that every male people leader has completed this training as a key component of VFMC's investment in their leadership capability.

VFMC continues to work with approved recruitment partners to ensure that gender balanced short lists are received for vacant roles. All position descriptions and job advertisements are reviewed to ensure that gender neutral language is utilised where possible. VFMC aims to have a gender balanced interview panel when meeting with candidates.

Family Friendly Workplace Certification

VFMC officially achieved Family Friendly Workplace Certification during National Families Week in May 2022. Endorsed by UNICEF, the Family Friendly Workplace certification program benchmarks and evaluates employers' progress and efforts to support their people to thrive at work and at home.

VFMC ranked above its peer cohort in most dimensions, including flexible working, parental leave, leadership culture and measurement.

VFMC has commenced the implementation of its two-year Family Friendly Workplace Action Plan. To embed a sustainable workplace culture that supports families of all shapes and sizes, VFMC people were asked for their feedback to ensure the plan is reflective of their needs and is genuinely inclusive. Feedback showed that VFMC people highly appreciate the support provided in relation to caring for and supporting family, and that the genuine commitment to Hybrid and Flexible working at VFMC is one of the important ways in which those with family and caring responsibilities can balance their work commitments.

Team engagement

The VFMC People Experience Survey was open to all VFMC employees in April 2023 and provided an opportunity to share feedback on a range of topics including Leadership, Reward and Recognition, Hybrid Working and Wellbeing. A pleasing response rate of 86% was achieved, representing 108 VFMC people taking the opportunity to provide their feedback and views. Employee Engagement is currently 72%, representing an eight-percentage point increase since it was first measured in 2019. This result is in line with the Finance Australia benchmark. Very positive feedback was provided in relation to Hybrid Working, Social Connection, Values, Risk and Balanced Lives.

Key areas of focus for the coming year are around improving internal recognition practices, ongoing development programs and career progression opportunities.

VFMC participates in the Victorian Public Sector Commission People Matter Survey annually. 2022 results revealed that VFMC are performing above its peers in the Public Sector on most measures. Results point to strong satisfaction around the important

We are doing hybrid ways of working really well. A good blend of hybrid working, encouraging face-to-face interaction.

VFMC team member



community impact of the work undertaken at VFMC, as well as the way it is done. More specifically, VFMC people feel they can utilise their capabilities to make a worthwhile contribution, and that work is conducted in a respectful, constructive, supportive, and collaborative manner.

They believe that VFMC's strong culture and values differentiate us from the rest of the market.

VFMC Values and Employee Value Proposition

In 2022, a strategic initiative was undertaken to refresh VFMC's organisational values and define its Employee Value Proposition (EVP). This initiative involved every VFMC team member, as well as members of the Board, some past VFMC employees and selected suppliers. This enabled the development of a set of values and an EVP that is fully owned by VFMC's people and creates pride; and importantly is truly reflective of what it is to work at VFMC.

Workplace health, safety and wellness

For VFMC, the health, safety and wellbeing of its people is always a priority. To ensure the wellbeing of VFMC's people while working in a Hybrid environment, VFMC partnered with an external provider in February and March 2023 to conduct virtual assessments of their home workspaces to ensure their ergonomic safety. Those identified whose workspace required adjustment received further support via a one-on-one consultation with an ergonomic consultant.

The Employee Assistance Program (EAP) continues to provide specialist mental health support along with tailored support for People Leaders through their Manager Assist offering. The uptake of the EAP offering has decreased slightly when compared to the uptake during COVID-19 and continues to be within a healthy organisation utilisation rate.

Annual external training for First Aid Officers and Fire Wardens, along with workplace-based training on emergency protocols, were undertaken this year.

During 2022-2023, VFMC partnered with Hearten Up to train 21 VFMC team members in Mental Health First Aid Training. This increased VFMC's internal capability to assist its people to better manage their own and support others' positive mental health.

VFMC continues to provide paid leave for COVID-19 vaccinations and financial support for flu vaccinations.

Continued support is provided via the VFMC Leave Policy for 'victim survivors' of family violence with additional paid leave.

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 conducted by the Departments of Premier of Cabinet and Treasury and Finance, in conjunction with the Victorian Independent Remuneration Tribunal. VFMC operates within this guidance. VFMC has an internal Remuneration Policy to further support transparency and understanding of how remuneration is set and reviewed at VFMC.

VFMC in the community

VFMC offers two days of volunteering leave per year and supports individuals to connect with colleagues via community-based initiatives, as it recognises the importance of community connection and giving back. During March 2023, VFMC launched its first Corporate Volunteering Month. Many team members participated in a range of volunteer opportunities such as RSPCA Victoria, Sacred Heart Mission and Foodbank Victoria. Over the course of this month, the team contributed 107 hours into the community.

Over the financial year, the team at VFMC have contributed a total of over 260 hours of service into the community at organisations such as West Welcome Wagon, Oz Harvest Melbourne, CERES Community Environment Park and FareShare.

An annual highlight is Team VFMC's participation in the Mother's Day Classic (MDC) to support breast cancer research, with guest speaker and MDC Co-Founder, Louise Davidson AM attending this year's event and sharing stories of MDC's creation. This year the team raised over \$3,500 as part of this community event, increasing VFMC's overall contribution to this important charity to \$26,500.

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.

My volunteering day at the RSPCA was such a rewarding experience. I gained a much better understanding of the amount of hard work and dedication that goes into helping innocent animals who are suffering. The fulfilling work I was allocated made me feel like I was truly giving back in a meaningful way. I am extremely grateful for VFMC's support in making this happen. My only regret is that I couldn't stay longer.

VFMC Team Member





The Good Good

is an Australian-based tea brand and certified social enterprise that donates 50% of profits to programs supporting access to education for disadvantaged children. 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 and creates employment opportunities for individuals impacted by the justice system. Fruit2Work aims to reduce the social impact and costs of recidivism by creating opportunities there for 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.



Green Collect

provides office waste collection services, and 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.

Case Study: Social Procurement

Opportunities for Victorian Aboriginal people is one of seven social procurement objectives included in the Victorian Government Social Procurement Framework. VFMC contributed to this by purchasing from a Victorian Aboriginal business and also employment of Victorian Aboriginal people by suppliers to the Victorian Government.

In celebration of NAIDOC week, Bunji catering provided morning tea to an all-staff event.

Bunji catering is a corporate catering venue aligned with Jarrah Integrated Services. They are an Aboriginal company built on a shared commitment to Indigenous business development, and career development and advancement, including key community engagements and initiatives across Victoria. Their mission is to create a meaningful niche within the catering industry, so they can introduce delicious native cuisine that tells stories of the land, pays homage to the heritage and fuels reconciliation.

This page has intentionally been left blank



KPIs, Financial Performance and Other Disclosures

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% to 5.25% in excess of inflation (Consumer Price Index), Average Weekly Earnings or the Wage Price Index per annum over rolling eight-to-ten-year periods, depending on each client's investment objective. 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 active management strategies within asset classes.

The following table 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 that pursuing a growth-oriented long-term strategy means their objectives will not be achieved in all periods.

Reflecting a sharp spike in inflation and volatile market conditions throughout 2022-2023, VFMC's performance for the period ending 30 June 2023 was mixed relative to inflation linked objectives.

VFMC exceeded the long-term investment objectives for TAC and VMIA and underperformed the long-term investment objectives for WorkSafe Victoria. Performance was below the investment objectives for ESSSuper Defined Benefit and SSF.

Individual Client Performance versus stated objective for periods ending 30 June 2023

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	8	6.9	7.3	AWE (Vic) + 4% p.a. over rolling eight year periods	60%
TAC	10	8.2	7.7	CPI (Melb) + 5% p.a. over rolling ten year periods	60%
VMIA	10	8.1	6.2	WPI (Aust) + 4.25% p.a. over rolling ten year periods	60%
ESSSuper SSF	8	7.2	8.2	CPI (Aust) + 5.25% p.a. over rolling eight year periods	60%
ESSSuper DB	8	6.9	7.8	CPI (Aust) + 5% p.a. over rolling eight year periods	60%

Note: These Client Objectives were implemented on 1 July 2022

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 2022 client survey showed an average level of client satisfaction of 7.5 out of 10. Three key areas of improvement were identified and addressed through a targeted action plan in 2023-2024.

People engagement

VFMC's culture continues to be a key strength of the organisation. The refresh of the VFMC values and employee value proposition as part of the Evolve 24 Strategic Agenda, allowed the organisation to refresh its internal and external narrative and clearly articulate the strengths of working at VFMC.

VFMC has focused this year on reconnecting its people and supporting high performance in a hybrid way. Feedback from the team continues to be overwhelmingly positive in relation to VFMC's approach. A survey was undertaken in November 2022 and pleasingly 97% of people felt that overall, VFMC is well set up well for Hybrid Working.

During the 2022-2023 financial year, VFMC also completed its internal biennial survey the 'VFMC People Experience Survey'. With an 86% response rate, the engagement score from this survey is currently 72%, representing an eight-percentage point increase since it was first measured in 2019 and in line with the Finance Australia benchmark.

VFMC participated in the annual public sector People Matter Survey in June 2022 with an excellent response rate of 82%, and good representation across all teams.

The People Matter Survey results revealed that VFMC is performing above its peers in the Public Sector on most measures including Employee Engagement where VFMC scored 77%.

These results point to strong satisfaction around the work undertaken at VFMC, as well as how it is done. More specifically VFMC people feel it is important work and that they can utilise their capabilities to make a worthwhile contribution into the community while working in a respectful, constructive, supportive and collaborative manner. Feedback indicated that flexible and hybrid working are key strengths; and that VFMC's strong culture and embedded values differentiate us from the rest of the market.

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 2023 and to the date of signing this report, there were no significant breaches.

Financial performance

Operating surplus

VFMC returned a pre-tax surplus of \$10.4 million in 2022-2023. This result was consistent with FUM growth to \$73.7 billion and effective cost management practices.

Return on capital

VFMC's return on capital was 14.7% and the capital position decreased from \$71.0 million in 2021-2022 to \$69.8 million as at 30 June 2023.

An anticipated dividend payment to the State of Victoria of \$3.6 million would reduce net assets at 30 June 2023 to \$66.2 million. This amount will be confirmed in 2023-2024.

For further information, refer to VFMC's financial statements on pages 63-91.

Expenditure on consultancies and major contracts

In 2022-2023, VFMC invested in its operations by continuing the execution of the Evolve 24 Strategic Agenda. Seven consultancies were used to support the delivery of projects, with an annual expenditure of \$801,000. This compared to an expenditure of \$1,015,000 in 2021-2022. For details of individual consultancies, visit www.vfmc.vic.gov.au.

VFMC has disclosed, in accordance with the requirements of government policy and accompanying guidelines, all contracts greater than \$10 million in value entered into during the financial year ended 30 June 2023. Details of contracts that have been disclosed in the Victorian Government Contracts Publishing System can be viewed at: www.tenders.vic.gov.au.

VFMC's information and communication technology expenditure of \$9,634,000 included \$9,574,000 for business as usual (BAU) expenses and \$60,000 for project expenditure. In comparison, the 2021-2022 figures were \$8,849,000 for information and communication technology expenditure, \$8,381,000 for BAU expenses and \$468,000 for project expenses.

Key financials

Pre-tax surplus

2022-2023

\$10.4m

2021-2022

\$24.2m

2020-2021

\$22.4m

Net assets

2022-2023

\$69.8m

2021-2022

\$71.0m

2020-2021

\$61.9m

Dividend

2022-2023

\$3.6m

2021-2022

\$8.4m

2020-2021

\$7.8m

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:

- c) to manage funds of public authorities and the State
- d) to provide funds management, investment services or other financial services and financial or investment advice to public authorities and the State) to act as trustee;
- e) to act as manager of a trust; and
- f) 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.

Disclosure of emergency procurement

During 2022-2023, emergency procurement was not activated.

Local Jobs First Act 2003

During 2022-2023, no contracts commenced to which the Local Jobs First Act 2003 applied.

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, by phone: 1300 735 135, or by email: info@ibac.vic.gov.au

Compliance with the Building Act 1993

VMFC 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

VMFC 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, VMFC takes into account the Guidelines for Reporting Entities issued by the Department of Home Affairs and closely aligns 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 VMFC's Modern Slavery Policy, which should be read in conjunction with its Investment Stewardship Policy.

Gender Equality Act 2020

The Victorian Government's Gender Equality Act 2020 (the Act) came into effect in March 2021. The Act required VMFC 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.

VMFC has developed an Action Plan and will comply with its mandatory reporting obligations under the Act.

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

Financial management compliance attestation statement

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.

A handwritten signature in black ink, appearing to read 'James MacKenzie', is positioned above the printed name and title.

VFMC Chair
Dated 23 August 2023

Disclosure index

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

Legislation	Requirement	Page reference
Report of Operations – FRD Guidance		
Charter and Purpose		
FRD 22	Manner of establishment and the relevant Ministers	68
FRD 22	Purpose, functions, powers, and duties	68
FRD 8	Departmental objectives, indicators, and outputs	7
FRD 22	Key initiatives and projects	9
FRD 22	Nature and range of services provided.	8
Management and Structure		
FRD 22	Organisational structure	19
Financial and other information		
FRD 8	Performance against output performance measures	29
FRD 8	Budget portfolio outcomes	N/A
FRD 10	Disclosure index	60
FRD 12	Disclosure of major contracts	56
FRD 15	Executive officer disclosures	79
FRD 22	Employment and conduct principles	44
FRD 22	Occupational health and safety policy	49
FRD 22	Summary of the financial results for the year	56
FRD 22	Significant changes in financial position during the year	56
FRD 22	Major changes or factors affecting performance	29
FRD 22	Subsequent events	88
FRD 22	Application and operation of Freedom of Information Act 1982	57
FRD 22	Compliance with building and maintenance provisions Building Act 1993	58
FRD 22	Statement on National Competition Policy	N/A
FRD 22	Application and operation of the Public Interest Disclosure Act 2012	57
FRD 22	Application and operation of the Carers Recognition Act 2012	N/A
FRD 22	Details of consultancies over \$10,000	56
FRD 22	Details of consultancies under \$10,000	56
FRD 22	Disclosure of government advertising expenditure	N/A
FRD 22	Disclosure of ICT expenditure	56
FRD 22	Statement of availability of other information	58

FRD 22	Asset Management Accountability Framework (AMAF) maturity assessment	73
FRD 22	Disclosure of emergency procurement	57
FRD 24	Environmental Reporting	39
FRD 25	Local Jobs First Act disclosures	57
FRD 29	Workforce Data disclosures	44
SD 5.2	Specific requirements under Standing Direction 5.2	3
Compliance attestation and declaration		
SD 5.4.1	Attestation for compliance with Ministerial Standing Direction	3
SD 5.2.3	Declaration in report of operations	3
Financial Report		
Financial Statements		
SD 5.2.2	Declaration in financial statements	89
Other requirements under Standing Directions 5.2		
SD 5.2.1(a)	Compliance with Australian accounting standards and other authoritative pronouncements	68
SD 5.2.1(a)	Compliance with Standing Directions	68
SD 5.2.1(b)	Compliance with Model Financial Report	68
Other disclosures as required by FRDs in notes to the financial statements		
FRD 9	Departmental Disclosure of Administered Assets and Liabilities by Activity	N/A
FRD 11	Disclosure of Ex gratia Expenses	N/A
FRD 13	Disclosure of Parliamentary Appropriations	N/A
FRD 21	Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report	79
FRD 103	Non-Financial Physical Assets	73
FRD 110	Cash Flow Statements	67
FRD 112	Defined Benefit Superannuation Obligations	N/A
FRD 114	Financial Instruments – general government entities and public non-financial corporation	N/A
Legislation		
<i>Victorian Funds Management Corporation Act 1994</i>		
<i>Borrowing and Investment Powers Act 1987</i>		
<i>Public Interest Disclosures Act 2012</i>		
<i>Local Jobs First Act 2003</i>		
<i>Financial Management Act 1994</i>		
<i>Freedom of Information Act 1982</i>		
<i>Building Act 1993</i>		

This page has intentionally been left blank



Annual Financial Report

for the year ended
30 June 2023

Comprehensive operating statement

for the financial year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Income from transactions			
Management fees		181,853	187,810
Performance fees		8,539	10,052
Total income from contracts with customers		190,392	197,862
Interest and other income		1,643	155
Total income from transactions		192,035	198,017
Expenses from transactions			
Portfolio management and custodian expenses	4	113,116	112,397
Employee benefit expenses	4	37,242	33,858
Depreciation and amortisation expenses	4	2,489	2,602
Other operating expenses	4	28,831	25,069
Total expenses from transactions		181,678	173,926
Net surplus from transactions		10,357	24,091
Other economic flows included in net surplus			
Net gain arising from revaluation of long service leave		26	90
Net surplus before tax		10,383	24,181
Income tax expense	5	3,138	7,244
Net surplus after tax		7,245	16,937
Comprehensive result		7,245	16,937

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

Balance sheet

as at 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Assets			
Financial assets			
Cash and cash equivalents	14(a)	51,691	48,963
Trade and other receivables	6	47,325	57,038
Income tax refundable		3,114	-
Total financial assets		102,130	106,001
Non-financial assets			
Prepayments and other assets		1,618	1,696
Deferred tax assets	5	3,916	3,762
Property, plant and equipment	7(a)	1,517	1,875
Right-of-use asset	10	3,211	4,087
Intangible assets	7(b)	7,744	4,767
Total non-financial assets		18,006	16,187
Total assets		120,136	122,188
Liabilities			
Trade and other payables	8	35,415	34,526
Income tax payable		-	2,109
Lease liability	10	4,462	5,509
Provisions	9	10,426	9,056
Total liabilities		50,303	51,200
Net assets		69,833	70,988
Equity			
Contributed equity		5,000	5,000
Accumulated surplus		64,833	65,988
Net worth		69,833	70,988

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 2023

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

	\$'000 Contributed Equity	\$'000 Accumulated Surplus	\$'000 Total
1 July 2022	5,000	65,988	70,988
Net surplus after tax	-	7,245	7,245
Dividends paid	-	(8,400)	(8,400)
30 June 2023	5,000	64,833	69,833

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

Cash flow statement

the financial year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from trade and other debtors		200,182	181,925
Payments to creditors and employees		(166,056)	(158,994)
Net GST paid		(10,786)	(10,630)
Income tax paid		(8,515)	(7,923)
Lease interest paid	10	(111)	(133)
Interest received		1,694	155
Net cash flows from operating activities	14(b)	16,408	4,400
Cash flows from investing activities			
Payments for property, plant and equipment		(268)	(209)
Payments for intangibles		(3,965)	(1,910)
Net cash flows used in investing activities		(4,233)	(2,119)
Cash flows from financing activities			
Dividends paid	17	(8,400)	(7,844)
Lease principal paid	10	(1,047)	(981)
Net cash flows used in financing activities		(9,447)	(8,825)
Net increase/(decrease) in cash and cash equivalents		2,728	(6,544)
Cash and cash equivalents at the beginning of the financial period		48,963	55,507
Cash and cash equivalents at the end of financial year	14(a)	51,691	48,963

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 2023 was authorised for issue in accordance with a resolution of the directors on 23 August 2023. 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 2022 or beyond. They do not materially impact the financial statements of VFMC.

- AASB 2020-3 Amendments to AASs – Annual Improvements 2018-2020 and Other Amendments
- AASB 2021-7 Amendments to AASs – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

- AASB 2022-2 Amendments to AASB 112 – International Tax Reform Pillar Two Model Rules

(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 2022 and have not been early adopted by VFMC. These standards and interpretations applicable from periods beginning 1 July 2023 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.

Notes to the financial statements

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

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

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

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

Revenue recognition

Consideration for management and performance fees is variable in nature. Revenue is recognised 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.

Notes to the financial statements

4. Expenses

	2023 \$'000	2022 \$'000
Portfolio management and custodian expenses	113,116	112,397
Salary and related expenses	36,708	33,298
Directors' fees	534	560
<i>Total employee benefit expenses</i>	37,242	33,858
IT expenses	9,634	8,723
Market data	5,712	4,547
Investment risk management	1,011	1,257
Investment research and advice	1,022	1,243
Recruitment and placement fees	1,108	945
Consultancy, internal audit and professional advisory	1,637	963
Rental and outgoings	686	462
Legal expenses	1,749	2,265
Insurance	2,171	1,557
Audit fees	165	92
Finance cost	111	133
Strategic development costs	1,450	1,712
Office administration	1,127	1,024
Other expenses	1,248	146
<i>Total other operating expenses</i>	28,831	25,069
Depreciation of property, plant & equipment	625	971
Amortisation of right-of-use asset	876	876
Amortisation of intangible	988	755
<i>Total depreciation and amortisation expenses</i>	2,489	2,602
Total expenses	181,678	173,926

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.

Notes to the financial statements

5. Income tax

	2023 \$'000	2022 \$'000
--	----------------	----------------

(a) Income tax expense

The major components of income tax expense are:

Comprehensive operating statement

Current income tax charge	3,292	7,320
Deferred income tax – relating to origination and reversal of temporary differences	(154)	(76)
Income tax expense reported in the comprehensive operating statement	3,138	7,244

(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	10,384	24,181
Prima facie tax calculated at 30%	3,115	7,254
Non-deductible expenses	23	(10)
Income tax attributable to net surplus from operations	3,138	7,244

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.

	2023 \$'000	2022 \$'000
--	----------------	----------------

Deferred tax assets at 30 June relate to the following:

- salary and related expenses	3,218	2,673
- capital deductions	-	40
- fixed and intangible assets	225	414
- client rebates	127	127
- others	436	508
Total deferred tax assets	3,916	3,762

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

	2023 \$'000	2022 \$'000
Current		
Management fees and trade receivables	46,646	56,474
Receivables from VFMC Trusts	641	564
Australian Taxation Office (GST)	38	-
Total trade and other receivables	47,325	57,038

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 apply the practical expedients available under AASB 9 when measuring expected credit losses by utilising historical credit loss experience adjusted for known events that could impact the recoverability of these balances, which has been minimal due to the nature of VFMC's debtors. VFMC receivables are either with other government entities or with the Trusts, which are managed by VFMC. Receivables from VFMC Trusts are for expenses incurred on behalf of the Trusts. As such no expected credit loss has been recognised for these receivables.

Notes to the financial statements

7. Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	2023 \$'000	2022 \$'000
Leasehold premises improvements	4,901	4,901
Less: Accumulated depreciation	(3,667)	(3,269)
	1,234	1,632
Furniture, fittings and equipment	4,589	4,321
Less: Accumulated depreciation	(4,306)	(4,078)
	283	243
Total carrying value	1,517	1,875
Reconciliation		
<i>Leasehold premises improvements</i>		
Carrying amount at beginning	1,632	2,030
Depreciation	(398)	(398)
	1,234	1,632
<i>Furniture, fittings and equipment</i>		
Carrying amount at beginning	243	608
Additions	268	209
Depreciation	(228)	(574)
	283	243
Total property, plant and equipment	1,517	1,875

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

	2023 \$'000	2022 \$'000
Intangible assets	16,202	13,064
Less: Accumulated amortisation	(10,116)	(9,128)
	6,086	3,936
Intangible assets – work in progress	1,658	831
Total carrying value	7,744	4,767
Reconciliation		
<i>Intangible assets</i>		
Carrying amount at beginning	3,936	1,873
Transfer from Intangible assets – work in progress	3,138	2,818
Amortisation	(988)	(755)
	6,086	3,936
<i>Intangible assets – work in progress</i>		
Carrying amount at beginning	831	1,738
Additions	3,965	1,911
Transfer to Intangible assets	(3,138)	(2,818)
	1,658	831
Total intangible assets	7,744	4,767

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life by using the straight-line method and are tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets held at reporting date are being amortised over 3-5 years. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method as appropriate. There has been no change to the estimated useful lives over the financial year. At reporting date, VFMC does not have any intangible assets with indefinite useful lives.

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

Notes to the financial statements

8. Trade and other payables

	2023 \$'000	2022 \$'000
Current		
Accrued management and performance fees	31,214	30,179
Trade creditors and other payables	4,201	3,954
Australian Taxation Office (GST)	-	393
Total trade and other payables	35,415	34,526

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

	2023 \$'000	2022 \$'000
Current		
Unconditional annual leave		
expected to settle within 12 months	745	646
expected to settle after 12 months	1,061	1,149
Unconditional long service leave		
expected to settle within 12 months	443	326
expected to settle after 12 months	1,352	1,339
Unconditional incentives	3,835	3,503
Provisions for on-costs		
expected to settle within 12 months	396	338
expected to settle after 12 months	472	389
Total current	8,304	7,690
Non-current		
Long service leave	502	406
Incentives	1,539	713
Provision for on-costs	82	247
Total non-current	2,123	1,366
Total provisions	10,426	9,056

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.

Notes to the financial statements

10. Leases

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

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

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

VFMC has a lease contract for its commercial office with 10-year lease term which contains an option to extend the lease at the end of the lease term. The 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:

	2023 \$'000	2022 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	4,087	4,963
Amortisation expense	(876)	(876)
Total right-of-use asset	3,211	4,087

Notes to the financial statements

10. Leases (continued)

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

	2023 \$'000	2022 \$'000
<i>Commercial office lease</i>		
Carrying amount at beginning	5,509	6,490
Interest accrued	111	133
Payments	(1,158)	(1,114)
Total lease liability	4,462	5,509

Maturity analysis of lease liability is as follows:

	2023 \$'000	2022 \$'000
<i>Lease liability</i>		
Not longer than 1 year	1,118	1,048
1 – 5 years	3,344	4,461
Longer than 5 years	-	-
Total lease liability	4,462	5,509

The following are the amounts recognised in Comprehensive operating statement:

	2023 \$'000	2022 \$'000
Amortisation expense of right-of-use asset	876	876
Interest expense on lease liability (included in other operating expenses)	111	133
Expense relating to short-term leases (included in other operating expenses)	2,922	1,767
Total amount recognised in the Comprehensive operating statement	3,909	2,776

The following amounts are recognised in the Cash flow statement:

	2023 \$'000	2022 \$'000
Lease interest paid	111	133
Lease principal paid	1,047	981
Total cash outflow for leases	1,158	1,114

Notes to the financial statements

11. Superannuation information

Names of schemes

VFMC makes contributions to 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 \$2,470,538 (2022: \$2,157,921) 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, Retired: 23 August 2023)
Tom Considine	
Lisa Gay	(Acting Chairperson from 24 August 2023)
Lisa Gray	
David Martine PSM	
Andrew Nicolaou	
Elana Rubin AM	(Resigned: 24 April 2023)
Fiona Trafford-Walker	
Maria Wilton AM	

Chief Executive Officer

Kate Galvin

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	
	2023 No.	2022 No.	2023 No.	2022 No.
\$Nil to \$9,999	1	1	1	1
\$50,000 to \$59,999	1	-	1	-
\$60,000 to \$69,999	6	5	6	5
\$90,000 to \$99,999	2	2	2	2
\$140,000 to \$149,999	1	-	1	-
\$290,000 to \$299,999	-	-	-	1
\$380,000 to \$389,999	-	1	-	1
\$560,000 to \$569,999	-	-	1	-
\$660,000 to \$669,999	1	-	-	-
\$690,000 to \$699,999	-	1	-	-
Total numbers	10	10	10	10
Total amount	1,254,384	1,604,417	1,146,317	1,193,707

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.

Notes to the financial statements

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 \$8,400,000 (2022: \$7,844,000). On behalf of its clients, VFMC invests funds with TCV periodically, with Fixed Rates Notes of \$194,538,483 held at 30 June 2023 (2022: \$473,311,480). 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 2023 had Funds Under Management (FUM) invested of \$3,226,614,720 (2022: \$2,891,654,203). 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 \$191,712,632 at 30 June 2023 (2022: \$417,286,196) and has paid management fees of \$1,287,617 (2022: \$2,395,559).

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 2023 had FUM invested of \$131,002,353 (2022: \$105,228,486). 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 2023 had FUM invested of \$22,142,499,312 (2022: \$20,310,830,295). 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 \$422,080,448 at 30 June 2023 (2022: \$412,372,471) and has paid management fees of \$2,340,198 (2022: \$1,689,900).

As the investment manager for its clients, VFMC invested in debt securities used in Victorian Public-Private Partnerships. At 30 June 2023, VFMC held investments in Royal Children's Hospital's debt security totalling \$1,102,120,876 (2022: \$1,114,097,073) and Royal Women's Hospital's debt security totalling \$803,010 (2022: \$827,500). 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 \$2,132,529 (2022: \$1,922,482) 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 2023 were \$640,907 (2022: \$563,810). Management fees are paid on a monthly basis. Total fees earned by VFMC during the year for the management of the VFMC Trusts were \$11,199,931 (2022: \$30,214,111).

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	
	2023 \$	2022 \$
Short-term employee benefits	5,524,350	3,120,159
Other long-term benefits	98,042	18,651
Total remuneration	5,622,392	3,138,810
Total number of executives	14	8
Total annualised employee equivalents	10.81	6.02

Notes to the financial statements

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

In the course of its fund management activities, VFMC establishes investment trusts that comprise investments of various kinds, tailored to meet investors' requirements. These trusts meet the definition of structured entities as their purpose is to hold assets on behalf of beneficiaries. The Corporation's interest in 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 2023, fees earned were \$11,199,931 (2022: \$30,214,111) and unpaid fees were \$2,954,954 (2022: \$2,692,404). 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 2023.

Board of Directors as trustees:

VFMC Balanced Fund
VFMC Cash Trust
VFMC Emerging Markets Trust
VFMC Australian Credit Trust
VFMC ESSS Private Equity Trust 2007
VFMC Emerging Markets Debt Trust 1
VFMC Emerging Markets Debt Trust 2
VFMC Enhanced Income Trust
VFMC Equity Trust 1
VFMC Equity Trust 2

VFMC Fixed Income Trust
VFMC Growth Fund
VFMC Inflation Linked Bond Trust
VFMC Insurance Strategies Trust
VFMC International Equity Trust 1
VFMC International Equity Trust 2
VFMC International Fixed Income Trust
VFMC Investment Trust 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
VFMC Conservative Fund
(previously VFMC Capital Stable Fund)
VFMC Completion Trust
VFMC Infrastructure Master Trust
VFMC Investment Fund
VFMC Infrastructure Feeder Trust 1*
VFMC Infrastructure Feeder Trust 2*

**not yet funded*

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:

	2023 \$'000	2022 \$'000
Cash at bank	51,691	48,963
Total cash and cash equivalents	51,691	48,963

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

	2023 \$'000	2022 \$'000
Net surplus from operations after income tax	7,245	16,937
Adjustments for non-cash income and expense items:		
Depreciation of property, plant & equipment	625	971
Amortisation of right-of-use asset	876	876
Amortisation of intangible assets	988	755
Changes in assets and liabilities:		
Increase / (Decrease) in receivables and other debtors	9,793	(15,938)
(Increase) / Decrease in payables and other provisions	(3,119)	799
Net cash flows from operating activities	16,408	4,400

Cash and cash equivalents include cash on hand, cash at bank and short-term fixed interest investments of VFMC. These items represent cash and cash equivalents used in the day-to-day management of VFMC's cash position.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the financial statements

15. Funds under management

Funds managed by VFMC in either a trust or a discrete capacity are not included in investments in the balance sheet, but amount to \$73.7bn as at 30 June 2023 (2022: \$72.0bn). 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
- 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

	2023 \$'000	2022 \$'000
Fees paid or payable to Victorian Auditor-General's Office (VAGO) for the audit of VFMC	165,450	91,900
Total audit fees	165,450	91,900

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 2022-2023 VFMC paid a \$8,400,000 dividend to the Department of Treasury & Finance (2022: \$7,844,000).

VFMC does not have any externally imposed capital requirements.

Notes to the financial statements

18. Financial risk management objectives and policies

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

(a) 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 ongoing impact global events 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, \$420,109 is past due (2022: \$95,083).

(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).

(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 \$51,691,000 (2022: \$48,963,000), trade and other receivables of \$47,325,000 (2022: \$57,038,000) and trade and other payables of \$35,415,000 (2022: \$35,526,000). The weighted average interest rate for cash during the reporting period was 3.07% (2022: 0.34%).

Notes to the financial statements

18. Financial risk management objectives and policies (continued)

(e) Interest rate risk (continued)

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

(f) Interest rate sensitivity

A sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year, and held constant throughout the reporting period.

At reporting date management have determined, if interest rates had been 100 basis points higher or lower during the period and all other variables were held constant, VFMC's (pre-tax) operating surplus would have been impacted as follows:

- 100 basis points higher: increase in surplus of \$517,000 (2022: \$490,000 increase)
- 50 basis points lower: decrease in surplus of \$258,500 (2022: \$245,000 decrease)

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

(g) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate, because of changes in foreign exchange rates. VFMC operates within Australia, however, VFMC does engage offshore fund managers to manage clients' funds as well as a number of off-shore service providers, and the fees payable to these suppliers are charged in local currencies.

At reporting date management have determined, if the AUD/USD rate had appreciated or depreciated during the period and all other variables were held constant, VFMC's (pre-tax) operating surplus would have been impacted as follows:

- AUD/USD 10% higher: increase in surplus of \$610,000 (2022: \$704,000 increase)
- AUD/USD 10% lower: decrease in surplus of \$610,000 (2022: \$704,000 decrease)

The AUD equivalent of fund manager fees is on-charged to clients, therefore VFMC bears no foreign currency risk on these fees and only on expenditure borne by VFMC.

(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 2023 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:

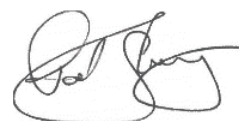
- the accompanying financial statements have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the Financial Management Act 1994, applicable financial reporting directions, Australian Accounting Standards, including interpretations and other mandatory 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 2023 and the financial position as at 30 June 2023;
- 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 23 August 2023.



JAMES MACKENZIE
Chair



KATE GALVIN
Chief Executive Officer



PAUL SHANLEY
Chief Finance and Risk Officer

Dated: 23 August 2023

Independent Auditor's Report

To the Directors of the Victorian Funds Management Corporation

Opinion	<p>I have audited the financial report of the Victorian Funds Management Corporation (the Corporation) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2023 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • statement by the Chair and Management. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
The Director's responsibilities for the financial report	<p>The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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

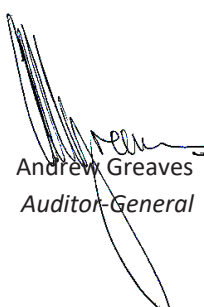
As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and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

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

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

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

MELBOURNE
30 August 2023



Andrew Greaves
Auditor General



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@vfmc.vic.gov.au
vfmc.vic.gov.au

Corporation Secretary

Traci MacRae

External Auditor

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

vfmc.vic.gov.au