

Victorian Traditional Owners Funds Limited

A Company Limited by Guarantee
ACN 153 198 791

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Registered name:

The Trustee for Victorian Traditional Owners Trust - Dja Dja Wurrung Clans Aboriginal Corporation for and on behalf of the Dja Dja Wurrung People

The Trustee, the Victorian Traditional Owners Funds Ltd (VTOFL), presents the Report Card for the 2020 financial year for Victorian Traditional Owners Trust - Dja Dja Wurrung Clans Aboriginal Corporation for and on behalf of the Dja Dja Wurrung People (DDW Trust).

The DDW Trust was established with effect from 1 July 2018. The DDW Trust holds the funds of the Dja Dja Wurrung Clans Aboriginal Corporation Ltd (DDWCAC) which were originally held with the funds of another Traditional Owner Group in the Victorian Traditional Owners Trust (VTOT). VTOT was established under a Trust Deed signed on 13 September 2011 between Robert Clark the Attorney General of Victoria and the Trustee, VTOFL. The amendment deed creating the two separate trusts one of which is the DDW Trust was signed on 25 September 2018.

DIRECTORS

The names of each person who has been a Director of the VTOFL during the year and to the date of this report are:

Elizabeth Helen Eldridge

Glen Gerald Brennan

Susanne Dahn

Neil Donald Westbury

PRINCIPAL ACTIVITIES

The principal activity of the DDW Trust is to invest settlement funds received on behalf of the Dja Dja Wurrung People represented by DDWCAC. The settlement between the Dja Dja Wurrung People and the State was under the Native Title Settlement Framework.

The State of Victoria and the Dja Dja Wurrung People reached a settlement on 28 March 2013 and the Participation Agreement was executed on 5 December 2013. In accordance with the terms of this Participation Agreement the State of Victoria paid the settlement amount of \$5 million to VTOT.

The DDW Trust (originally VTOT) has a duration of 20 years of which 13 years remain, based on a terminal date of 4 December 2033.

The costs of running VTOFL are currently met by an annual grant agreed with the Department of Justice and Community Safety.

DDW TRUST AND INVESTMENT STRATEGY

VTOFL has developed investment objectives and an investment strategy for the DDW Trust.

The objectives and the investment strategy were developed after meetings with DDWCAC where DDWCAC outlined its long term and short term objectives and its tolerance for risk.

The DDW Trust objectives are as follows:

- pay the minimum annual funding amount of \$250,000 per annum adjusted for changes in the Consumer Price Index (CPI); and
- achieve a targeted capital sum on the termination date, 4th December 2033, of \$5,000,000 (being the settlement sum) not adjusted for inflation.

The investment strategy to 30 June 2019 had a target average annual return of CPI + 3.7% (after fees) with a probability of negative returns once in 6.3 years. The average annual return target was reduced to CPI +2.4% from 1 July 2019. The reduction followed a review of the economic and financial market assumptions underpinning the investment strategy. The advice was that over the medium term (10 to 15 years) there will be lower returns due to:

- economic growth which, has been moderate since the Global Financial Crisis, is late in the economic cycle and is expected to slow and remain slow;
- asset markets are considered late in the cycle and are considered overpriced;
- bond returns are expected to remain low for some time given the level of global debt; and
- the low bond returns are the basis on which other low investment returns are set.

The reduction in the projected real return of 1.3% has implications for the DDWAC. While VTOFL still expects to meet the minimum annual funding amounts each year (assuming the return target of CPI +2.4% is achieved) it does not expect to achieve a termination amount of \$5 million (not inflation adjusted) on 4th December 2033, the terminal date of the DDW Trust. Under the new assumptions there is a 50% chance that the terminal amount on 4th December 2033 will reach \$3.4 million.

The DDW Trust funds are invested equally across two of Victorian Funds Management Corporation's (VFMC) investment products, the Capital Stable Fund and the Balanced Fund.

Table 1 below sets out the value of funds invested with VFMC as at 30 June 2020 and 2019. It also reports the other assets of the Trust, which comprise franking credits receivable less accrued expenses.

Table 1 **Dja Dja Wurrung Trust**

The funds were invested and valued in the following VFMC Funds as at 30 June 2020 and 2019:

Table 1.		Dja Dja Wurrung Trust			
				2020	2019
				\$	\$
	VFMC Capital Stable			2,546,520	2,644,190
	VFMC Balanced			2,548,712	2,638,079
	VFMC Growth			-	-
	Total Investments with VFMC			5,095,232	5,282,269
	Other Assets less accrued expenses			15,156	33,550
	Total Equity			5,110,388	5,315,819

The figures in Table 1 for 2019 differ from the figures in Table 1 in the 2019 Annual Report Card. The 2019 entry for "Other assets less accrued expenses" has been changed to \$33,550 in accordance with the 2019 audited financial statements. Also, the entry for the Total Equity for 2019 has been changed in accordance with the 2019 audited financial statements.

REPORT ON DDW TRUST'S PERFORMANCE

The actual return of the funds will be determined by a wide range of market driven factors and will vary over time.

Chart 1 below shows the annual growth of the DDW Trust against its investment target since it was established. The performance includes earnings from VFMC and franking credits less expenses.

Chart 1. Performance of the Dja Dja Wurrung Trust against Target Returns

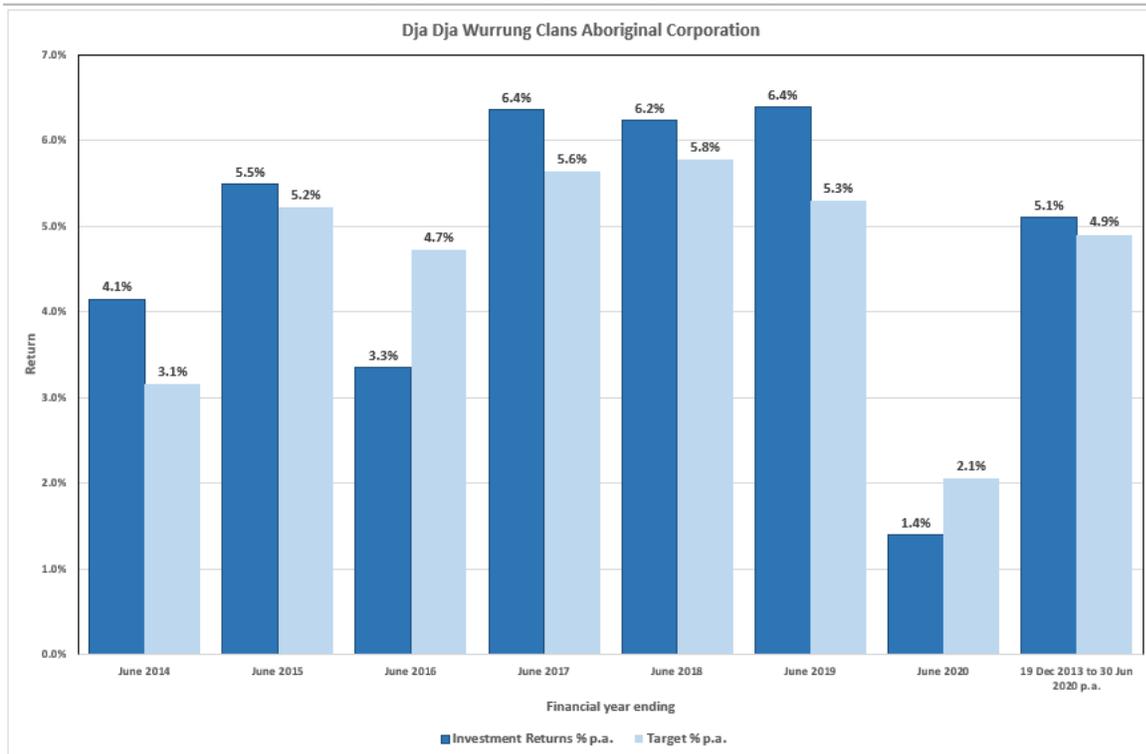


Table 2 below shows the actual performance of the DDW Trust against its investment target.

Year Ending	CPI growth % p.a.	Margin % p.a.	Target % p.a.	Investment Returns % p.a.
June 2014	1.0%	2.1%	3.1%	4.1%
June 2015	1.5%	3.7%	5.2%	5.5%
June 2016	1.0%	3.7%	4.7%	3.3%
June 2017	1.9%	3.7%	5.6%	6.4%
June 2018	2.1%	3.7%	5.8%	6.2%
June 2019	1.6%	3.7%	5.3%	6.4%
June 2020	-0.3%	2.4%	2.1%	1.4%
19 Dec 2013 to 30 Jun 2020 p.a.	1.4%	3.5%	4.9%	5.1%

For the 2020 financial year the DDW Trust fell short of its investment target of 2.1% (CPI -0.3% plus a margin of 2.4%). The actual return was 1.4%.

The average annual return since the DDW Trust was established has been 5.1% compared with a target of 4.9%.

Chart 1 and Table 2 have minor changes to the versions presented in the 2019 Annual Report Card. The investment returns to June 2014 and June 2015 have been changed to reflect the

actual timing of the accrual of franking credit rebates. Minor changes (-0.1%) were made to the target figures (2014-2019) which relate to differing CPI compounding calculations.

Table 3 below summarises the key changes in the balances over the past years.

Table 3		Dja Dja Wurrung Trust Balances since inception to 30 June 2020			
Financial year ending	Balance at start	Net Investment Gain	Withdrawal	Balance at end	Trust Return p.a.
Jun-14	5,000,000	207,015	-	5,207,015	4.1%
Jun-15	5,207,015	285,697	(187,500)	5,305,212	5.5%
Jun-16	5,305,212	177,557	(375,000)	5,107,769	3.3%
Jun-17	5,107,769	324,552	(250,000)	5,182,321	6.4%
Jun-18	5,182,321	322,877	(250,000)	5,255,198	6.2%
Jun-19	5,255,198	335,621	(275,000)	5,315,819	6.4%
Jun-20	5,315,819	73,949	(279,380)	5,110,388	1.4%
19 Dec 2013 to 30 Jun 2020		1,727,268	(1,616,880)		5.1%

Since the original settlement amount of \$5 million was received by the DDW Trust the cumulative earnings and franking credits after expenses have been \$1,727,268. Distributions have been \$1,616,880.

Table 3 has minor changes to the version presented in the 2019 Annual Report Card. The investment returns to June 2014 and June 2015 have been changed to reflect the actual timing of the accrual of franking credit rebates. There is also a reduction in the Balance at end 2019. This is due to an increase in the audit fees in Table 4 below which also results in a slight reduction in Trust Equity at the end of 2019.

Table 4 below shows the detailed movements in the DDW Trust over the last two financial years, and the distributions paid.

Table 4.		Detailed Movements Over The Past Two Years	
		2020	2019
		\$	\$
Trust Equity at beginning		5,315,819	5,255,198
Add			
	Return from funds invested	60,964	299,516
	Franking credits	12,584	47,351
Resources received free of charge		47,135	57,399
	Other income	5,241	-
Less			
DDW Trust share of VTOFL expenses		(47,135)	(57,399)
	Audit fees	(4,840)	(11,246)
Less			
	Distributions paid	(279,380)	(275,000)
Trust Equity at end		5,110,388	5,315,819

REPORT ON SIGNIFICANT CHANGES AND LIKELY DEVELOPMENTS

In financial year 2019 VTOFL commenced a review of its fund management arrangements. A selective tender to a number of fund managers including VFMC, seeking expressions of interest to manage the DDW Trust was issued in financial year 2020. Due to the market volatility following the outbreak of the COVID-19 pandemic, VTOFL deferred making a decision on its future fund management arrangement to financial year 2021.

After the close of financial year 2020 VTOFL entered into an agreement with Mercer to provide quarterly reporting on the investment performance of the trusts for which VTOFL is trustee and the financial modelling underpinning the investment strategies of those trusts.

REPORT ON INVESTMENT STEWARDSHIP

VFMC has for a number of years had a framework for addressing economic, social and governance issues (ESG). In 2020 the framework was reviewed and expanded into a more all-encompassing approach to investment stewardship of which ESG is a component. VFMC has developed an Investment Stewardship Road Map with four key pillars:

- Active Ownership eg. Proxy voting and engagement;
- ESG Integration eg. manager selection due diligence and monitoring and direct investment due diligence;
- Major ESG Projects eg. climate risk management plans and Modern Slavery; and
- Collaboration and Information Sharing eg. collaborate and engage with industry and peers.

VFMC invests the Capital Stable and Balanced Funds through a range of contracted fund managers. As such VFMC is not directly investing in the market. VFMC does however seek to be a responsible investor and to proactively manage ESG issues. In the case of the Capital Stable and Balanced Funds this principally involves undertaking due diligence on prospective fund managers from an ESG perspective.

During the year VFMC paid particular attention to the issues arising from the introduction of the Modern Slavery Act and Rio Tinto's destruction of the sacred Juukan Caves in Western Australia.

In the case of the Modern Slavery Act VFMC is taking a number of steps to avoid the risk of modern slavery in its investment portfolio. These include the appointment of Mercer to undertake a detailed risk assessment of modern slavery. VFMC is looking to include clauses regarding modern slavery in new contracts with fund managers and include modern slavery as part of its pre-investment due diligence process. VFMC will vote at company annual general meetings in support of shareholder requisitioned resolutions regarding human rights and collaborate with other investors to drive collective action regarding modern slavery via public policy advocacy and research.

In the case of Rio Tinto VFMC has:

- communicated its concerns with Rio Tinto in writing and attended two engagement meetings (one with the Chairman) to gain the company's perspective;
- engaged with the external managers that hold Rio Tinto on VFMC's behalf;
- engaged with other mining companies in the Pilbara to understand how they manage these important issues;
- engaged in First Nations briefing by Australian Council of Superannuation Investors.

VFMC is continuing to gather information in order to make a fully informed decision on whether or not to take further action. VTOFL has written to VFMC requesting that it be kept informed of developments regarding Rio Tinto and the destruction of the Juukan Caves.

VFMC REPORT ON INVESTMENT CLIMATE

VFMC advised that financial year 2019-20 has proved unique. From the cause of the economic downturn (a virus) to its depth and duration (the worst but shortest in modern history), the scope of the subsequent monetary and fiscal response (earliest, broadest and biggest in history) and ultimately, the reaction of financial markets (fastest ever drawdown and retracement). In the midst, oil prices collapsed during the year, US-China trade tension faded but was replaced by strains over COVID-19 and Hong Kong, while Australia's 29-year growth run ended. This unprecedented market environment impacted portfolio returns with most asset classes experiencing low or negative returns over the year. Bonds benefitted from the flight to defensiveness, posting positive returns despite low starting yields.

VFMC says what looked initially like being only a mild disruption to global economic activity at the start of 2020 subsequently turned into the worst downturn in modern history as a mysterious illness circulating around central China morphed into a global pandemic. Measures to contain the spread of the virus imposed cascading stoppages on activity resulting in an abrupt derailment of the global economy.

VFMC reported stocks dived in March but bottomed by month end amid a large and swift monetary and fiscal policy response. As the June quarter progressed, mobility restrictions began to ease in many parts of the world, which together with pledges of additional policy support in many major economies during May further buttressed risk sentiment.

VFMC reported panicked selling characterised the March quarter, whereas the June quarter delivered a strong rally with the MSCI AC World (100% Hedged), up 17.4% (0.98% over the year). Over the same period, Australian equities rose by 16.8% (minus 7.6% over the year). Australian bonds rallied in the quarter with the Bloomberg AusBond Composite index rising 0.53% (4.2% over the year).

VFMC's THREE SCENARIO ECONOMIC AND INVESTMENT FRAMEWORK

VFMC has a three scenario economic and investment framework designed to convey possible pathways for how activity might evolve over the next 6-12 months. In constructing these scenarios, VFMC's focus is on capturing the high-level themes at play while acknowledging that there will always be nuances within each scenario.

Over the last three months of the 2020 financial year VFMC advised its core macro outlook (70% probability) largely evolved in line with expectations. Specifically, a global recession of around two quarters duration, sparked by rising mobility restrictions but which is now giving way to a rebound in activity as many economies gradually reopen.

Although there are variances between jurisdictions with respect to virus management, further outbreaks have not (to date) seriously imperiled the gradual resumption of 'normal' economic activity. In addition, the robust monetary and fiscal policy responses initially deployed to combat the first outbreak are intact and are highly likely to be extended in some form. This reflects a policy of 'least regret' and highlights a skew towards doing too much, rather than too little on the stimulus front.

In a similar vein, the high and very visible economic cost of the initial response to the first wave of infections has also likely shifted policymakers' preferences away from blanket-style restrictions to more localised responses, which means large economic consequences should be avoided. On balance, the base case scenario is one that sees an initial unleashing of pent-up demand, which subsides into a more gradual lift in activity. Without an effective virus treatment, some form of restriction (voluntary or mandated) seems likely to persist, which will somewhat flatten the trajectory of the recovery with temporary hiccups also remaining a residual risk. However, it does not derail it and a significant double-dip in economic activity and asset prices should be avoided.

The negative scenario (20% probability) envisages not only a deep recession but one that extends beyond two quarters and potentially into 2021. One major risk is that virus containment proves more difficult than expected, which eventually begets the reimposition of mobility restrictions or induces major behavioural changes by households and businesses such that a negative feedback loop becomes embedded between containment measures and economic activity. It is also possible that the suite of policy support deployed thus far proves inadequate in buttressing household and business confidence such that a resumption of normal spending and investment patterns does not occur despite virus mitigation. Similarly, broader uncertainty could persist beyond the effects of the pandemic, which reinforces hysteresis effects on the economy,

e.g. the unemployment rate remains high or continues to rise. Inadequate containment action in systemically important economies could also adversely affect a global economic recovery.

The positive scenario (10% probability) is one where containment proves more successful than anticipated or a vaccine/effective treatment is quickly developed, thus permitting a speedier resumption of normal economic activity and faster return to pre-COVID-19 levels of GDP, earnings and unemployment. In this scenario, policy support proves decisive in immediately reversing any damage to household and business confidence, helps promote a fuller recovery in labour markets and sees capital expenditure plans revert to pre-pandemic levels.

As approved by the Directors of VTOFL.



Elizabeth Eldridge
Chair
21 December 2020



Lisa Norden
Company Secretary
21 December 2020