

Victorian Traditional Owners Trust
ABN 93 731 388 312
Report Card for the Year Ended 30 June 2017
GUNAIKURNAI PEOPLE

The Victorian Traditional Owners Trust (the Trust) was established on 13 September 2011 by Deed between the Attorney General of Victoria and the Trustee, Victorian Traditional Owners Funds Ltd (the Trustee Company).

The directors of the Trustee Company present this report on the Trust for the financial year ended 30 June 2017.

Directors

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

Mark William Sibree	re-appointed to 12/09/2018
Elizabeth Helen Eldridge	re-appointed to 12/09/2020
Gary Andrew Lennon	3 year term expired on 12/09/2017
Glen Gerald Brennan	appointed from 13/09/2017 to 12/09/2020

Except for Glen Brennan, the directors were appointed upon the incorporation of the Trustee Company in 2011.

Principal Activities

The Trust was established for charitable purposes to benefit the Aboriginal people of Victoria. The Victorian government established a Native Title Settlement Framework to reach agreements with Traditional Owners through execution of Participation Agreements.

The State of Victoria reached a settlement with the Gunaikurnai People in October 2010, and the Participation Agreement was executed on 4 October 2011. In terms of this Participation Agreement the State of Victoria has paid the settlement amount to the Trust of \$10 million.

The Gunaikurnai people are represented by the Traditional Owner Group Entity, the Gunaikurnai Land and Waters Aboriginal Corporation Ltd (GLaWAC).

The principal activity of the Trust is to invest settlement funds received on behalf of the beneficiaries.

The costs of running the Trustee Company are currently met by an annual grant agreed with the Department of Justice and Regulation.

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Investment Objectives and Investment Strategy

Pending discussions with GLaWAC and the development of an investment strategy, the trustees invested the funds in secure term deposits with the National Australia Bank. The target return on investment for these two years, reported on the next page, is determined by reference to the 30 day bank bill rate reported by the Reserve Bank of Australia for the equivalent periods.

After consultation with the beneficiary, the **investment objectives were established** as follows:

- * Duration of 15 years, based on a terminal date of 4 October 2031. (20 years after the commencement of the Participation Agreement.)
- * Targeted Capital Sum at termination date to be the Settlement Sum of \$10,000,000 adjusted for changes in the Consumer Price Index (CPI).
- * Minimum Annual Funding amount to be \$175,000 per annum.

A tailored **investment strategy** has been developed by the Trustee Company after a series of meetings with GLaWAC. At these meetings GLaWAC outlined its long term and short term investment objectives and its tolerance for risk.

Given GLaWAC's objectives of minimal drawdowns for the short term but increasing over time, for the preservation of the amount of the capital sum (\$10m) (adjusted for inflation) at the end of 20 years and their risk tolerance, this led to the adoption of the an investment strategy and the investment in a basket of Victorian Funds Management Corporation (VFMC) funds.

The VFMC offers three investment products with the following investment allocations:

	Cash	Fixed Interest	Australian Equities	International Equities
Capital Stable	50%	30%	15%	5%
Balanced	20%	30%	35%	15%
Growth	10%	20%	50%	20%

The allocation to the above asset classes leads to each VFMC investment product having the following characteristics:

	Defensive	Growth
Capital Stable	80%	20%
Balanced	50%	50%
Growth	30%	70%

The **investment strategy** for 2017 that was implemented to meet the stated investment objectives was as follows:

	Target Allocation
* VFMC Capital Stable investment product	45%
* VFMC Balanced investment product	50%
* Growth investment product	5%
	<u>100%</u>

Investment modelling commissioned by the Trustee Company forecasts that the investment strategy is likely to have the following characteristics:

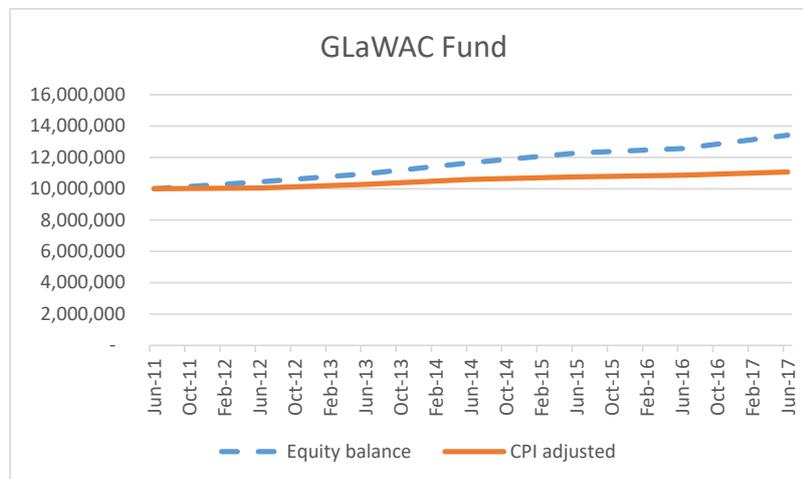
- * A split between Defensive and Growth assets of 62.5% and 37.5%
- * A probability of negative returns once in 5.7 years
- * A probability of having zero cash at the end of less than 1%
- * An average annual return of CPI plus 3.8%

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Report on Operations and Activities

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

The chart below shows the value of the GLaWAC fund since it was established.



The solid line shows what the value of the fund would have been if the capital amount was adjusted for changes to the Consumer Price Index (CPI). The dotted line shows the actual value of the fund allowing for the actual return achieved and takes account of the distributions made to GLaWAC.

Actual Results

	Settlement				
Oct-11	\$ 10,000,000				
	Balance at start	Growth	Withdrawal	Balance at end	Growth as % of Balance at Start.
Jun-12	\$ 10,000,000	\$ 435,697	-	\$10,435,697	4.36%
Jun-13	10,435,697	517,306	-	10,953,003	4.96%
Jun-14	10,953,003	703,729	-	11,656,732	6.42%
Jun-15	11,656,732	721,308	(100,000)	12,278,040	6.19%
Jun-16	12,278,040	438,532	(145,000)	12,571,572	3.57%
Jun-17	12,571,572	848,011	-	13,419,583	6.75%

The original settlement amount was \$10 million and over the life of the investment, the investment return after expenses has been \$3,664,583. Distributions have been \$245,000.

The initial capital sum adjusted for changes to the Consumer Price Index was \$11,070,000 at 30 June 2017.

Actual returns compared with targets from investment strategy

	CPI growth	Margin	Target	Actual Growth %
Jun-12	1.2%	1.91%	3.12%	4.36%
Jun-13	2.4%	0.21%	2.60%	4.96%
Jun-14	3.0%	3.80%	6.82%	6.42%
Jun-15	1.5%	3.80%	5.31%	6.19%
Jun-16	1.0%	3.80%	4.82%	3.57%
Jun-17	1.9%	3.80%	5.73%	6.75%
	Per annum			Ave Per annum
Past six years combined	2.0%	2.89%	4.86%	5.37%

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Summary of funds invested with VFMC

The funds were invested and valued in the following VFMC Funds as at 30 June 2017:

	2017	2016
	\$	\$
VFMC Capital Stable	5,991,887	6,174,131
VFMC Balanced	6,689,742	5,647,709
VFMC Growth	672,832	625,767
Total investments with VFMC	<u>13,354,460</u>	<u>12,447,607</u>
Other Assets less accrued expenses	65,123	123,965
Total Assets	<u><u>13,419,583</u></u>	<u><u>12,571,572</u></u>
Returns reported by VFMC - before fees	2017	2016
VFMC Capital Stable	4.39%	3.73%
VFMC Balanced	8.85%	3.20%
VFMC Growth	11.84%	2.21%

Report on Investment Climate

VFMC advised that 2017 financial year was one in which the returns from growth assets strongly outperformed defensive, fixed interest assets as global growth recovery prospects strengthened and became more synchronised. Bond yields rose as central banks began to unwind their post Global Financial Crisis monetary stimulus.

Further, they advised that over the year to 30 June 2017 the Growth Fund outperformed the Balanced Fund, which outperformed the Capital Stable Fund, in both absolute and relative terms. This was due to the more heavily weighted Australian and International Equity asset classes' returns being stronger, and as the strategies within each added more value than in Cash and Fixed Interest.

VFMC continues to expect moderately higher global growth and inflation over the remainder of 2017 and into 2018. VFMC's core view has strengthened over the past 6-9 months given stronger and more synchronised global economic conditions. Structural headwinds have eased, particularly deleveraging, deflation and overcapacity. Credit markets are also functioning much better.

Against this more favourable economic outlook, asset markets have been better able to absorb political and policy uncertainties and the ebb and flow of the global business cycle.

The key macro risks being monitored are the withdrawal of global liquidity by central banks, potential changes in China's economic policies post the 19th National Congress later in the year, and some pockets of increased leverage in corporate and household balance sheets.

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Report on Significant Changes and Likely Developments

It is proposed to separate the Trust into separate Trusts for each Traditional Owner Group. This will involve the creation of a separate Trust for the Gunaikurnai people and the transfer of its investment assets to that Trust. It is expected that this will occur during the 2018 financial year.

Major Financial and Performance Statistics

The table below sets out a summary of the financial results for the year

GUNAIKURNAI LAND AND WATERS ABORIGINAL CORPORATION		2017	2016
		\$	\$
	Equity at Beginning	12,571,572	12,278,040
add	Investment return	852,464	443,368
	Interest received	773	109
		853,237	443,477
	Sub-total	13,424,809	12,721,517
less	Audit fees	(4,958)	(4,679)
	Bank charges	(267)	(266)
		(5,225)	(4,945)
	Sub-total	13,419,583	12,716,572
less	Distributions made	-	(145,000)
	Equity at End	13,419,583	12,571,572

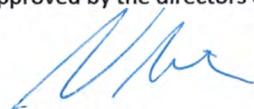
Prior period correction

The audited financial statements for the 2016 financial year incorrectly double counted the Distribution Receivable of \$200,331 at 30 June 2016. The investment balance at 30 June 2016 has been re-stated by reducing the previously reported balance by \$200,331. This has been offset by an equivalent reduction in the Retained Earnings at 30 June 2016. The balances reported above for 2016 have been re-stated at the correct values. No money was lost as a result of the reporting error.

Report on distributions made to GLaWAC

During the financial year no distribution was made to GLaWAC (2016: \$145,000).

As approved by the directors of the Trustee Company



Mark Sibree
 Chair
 19-Dec-17



Ian Gaudion
 Company Secretary
 19-Dec-17