

Victorian Traditional Owners Trust
ABN 93 731 388 312
Report Card for the Year Ended 30 June 2018
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 2018.

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:

Elizabeth Helen Eldridge	re-appointed to 12/09/2020
Mark William Sibree	resigned as a director 30 June 2018.
Glen Gerald Brennan	appointed from 13/09/2017 to 12/09/2020
Susanne Dahn	appointed from 18/06/2018 to 17/06/2021
Neil Donald Westbury	appointed from 18/06/2018 to 17/06/2021

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.

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.

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.

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.

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

- * The trust agreement has a duration of 20 years of which 13 years remain, based on a terminal date of 4 October 2031.

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- * 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 adjusted for changes in the Consumer Price Index (CPI).

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 of funds in three of the Multi-Strategy funds managed by the Victorian Funds Management Corporation (VFMC).

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 2018 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%
	<hr/>
	100%

The return and risk characteristics of the VFMC Multi-Strategy investment products indicates that the chosen strategy will have:

- * 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 the Trust of less than 1%
- * An average annual return of CPI plus 3.8%

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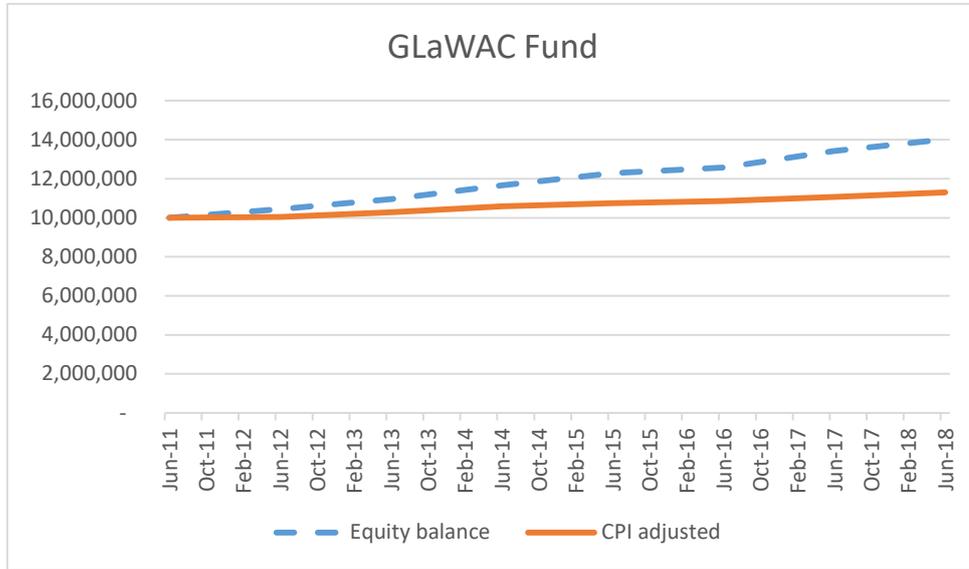
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Report on Operations and Activities

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.

The Settlement amount of \$10,000,000 was received by the Trust on the 14th of October 2011.

Financial year ending	Balance at start	Growth	Withdrawal	Balance at end	Growth p.a.
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	848,012	-	13,419,583	6.75%
Jun-18	13,419,583	897,988	(300,000)	14,017,571	6.69%

The original settlement amount was \$10 million and over the life of the investment, the investment return after expenses has been \$4,562,572. Distributions have been \$545,000.

The initial capital sum adjusted for changes to the Consumer Price Index was \$11,300,000 at 30 June 2018.

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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%
Jun-18	2.1%	3.80%	5.88%	6.69%
	Per annum			Ave Per annum
Past seven years combined	2.0%	3.02%	5.01%	5.56%

For the 2018 financial year the Trust met the Target of CPI (2.1%) plus the Margin (3.8%), or a Target of 5.88% (2.1 + 3.8). The actual return was 6.69%.

The average annual return since the Trust was established has been 5.56% compared with a Target of 5.01%.

Summary of Funds Invested with VFMC

GUNAIKURNAI LANDS and WATER ABORIGINAL CORPORATION

The funds were invested and valued in the following VFMC Funds as at 30 June 2018:

	2018	2017
	\$	\$
VFMC Capital Stable	6,149,471	5,991,887
VFMC Balanced	7,068,735	6,689,742
VFMC Growth	738,241	672,832
Total investments with VFMC	13,956,447	13,354,460
Other Assets less accrued expenses	61,124	65,124
Total Assets	14,017,571	13,419,583
Returns reported by VFMC - before fees	2018	2017
VFMC Capital Stable	4.87%	4.39%
VFMC Balanced	8.20%	8.85%
VFMC Growth	10.36%	11.84%

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Report on Investment Climate

VFMC reported that it was a year of two halves. Overall despite the difficult market environment in the second half of the year portfolio returns for 2017-18 were solid. The bulk of returns (particularly from equities) coming in the first half of the financial year. The first half of 2018 saw a considerable market volatility in February. Political risks in Europe, the escalating trade conflict between the US and China, the tightening of monetary policy in the US and the weakening of the AUD each contributed to higher market volatility and lower investment returns in the second half of the year.

VFMC's Outlook

Growth in the global economy has been solid and is expected to remain so across 2018 and into 2019. While global inflation remains low presently, stronger economic conditions should see a further erosion of spare capacity and gradual upturn in price pressures. VFMC sees some risk that inflation will pick up more quickly than currently envisaged. Other important uncertainties for the global outlook in the second half of 2018, include the potential for an escalation of trade tensions and the risks around the ability of Chinese policymakers to manage the trade-off between growth and financial stability. VFMC is also very mindful that global growth will likely peak and momentum slow over the next 6-12 months and that asset markets can be very sensitive to changes in the momentum of growth. A rise in inflation and faster central bank monetary tightening will place upward pressure on risk premia

VFMC's Three Scenario Economic and Investment Framework

The VFMC's core macro outlook (60% probability and unchanged from the last quarter of 2017/18) assumes continued above trend global growth and moderately higher inflation over 2018/19. VFMC expect, however, the momentum in global growth to peak in 2018 and slow through 2019 as central banks tighten monetary policy and the US business cycle enters later stages in the economic cycle.

VFMC has adjusted its macro scenario probabilities to reflect rising downside risks from these later cycle dynamics – particularly tightening central bank policy and liquidity and the potential for slower growth but higher inflation.

VFMC's negative scenario is one where policy tightening in the US and China has a quicker and more pronounced effect on the global business cycle, leading to a material cyclical downturn later in 2018 and through 2019. US/China trade tensions also loom as a negative for global activity. VFMC now attaches a higher probability to the downside scenario (25% versus 20% last quarter 2017/18).

VFMC's positive scenario (15% versus 20% last quarter 2017/18) is one where the stronger capital expenditure and productivity cycles allow a continuation of above trend non-inflationary growth and only modest central bank policy tightening. This allows the global growth cycle to stay strong and extend through 2019.

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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 with effect from 1 July 2018.

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		2018	2017
		\$	\$
	Equity at Beginning	13,419,583	12,571,572
add	Investment return	903,397	852,464
	Interest received	186	773
		903,583	853,237
	Sub-total	14,323,166	13,424,809
less	Audit fees	(5,411)	(4,958)
	Bank charges	(184)	(267)
		(5,594)	(5,225)
	Sub-total	14,317,572	13,419,583
less	Distributions made	(300,000)	-
	Equity at End	14,017,572	13,419,583

Report on distributions made to GLaWAC

During the 2018 financial year distributions totalling \$300,000 was made to GLaWAC (2017: \$nil).

As approved by the directors of the Trustee Company



Elizabeth Eldridge
 Chair
 23-Oct-18



Ian Gaudion
 Company Secretary
 23-Oct-18