

# Victorian Traditional Owners Funds Limited

A Company Limited by Guarantee  
ACN 153 198 791

12-14 Leveson Street/PO Box 431  
North Melbourne, Vic 3051  
Email: secretary@vtofl.org.au

## Registered name:

### **The Trustee for Victorian Traditional Owners Trust - Gunaikurnai Land & Waters Aboriginal Corporation for and on behalf of the Gunaikurnai People**

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

The Gunaikurnai Trust was established with effect from 1 July 2018. The Gunaikurnai Trust holds the funds of the Gunaikurnai Land & Waters Aboriginal Corporation Ltd (GLaWAC) 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 Gunaikurnai 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 Gunaikurnai Trust is to invest settlement funds received on behalf of the Gunaikurnai People represented by GLaWAC. The settlement between the Gunaikurnai People and the State was under the Native Title Settlement Framework.

The State of Victoria and the Gunaikurnai People reached a settlement in October 2010, and the Participation Agreement was executed on 4 October 2011.

In terms of this Participation Agreement the State of Victoria paid the settlement amount of \$10 million to the VTOT.

The Gunaikurnai Trust (originally VTOT) has a duration of 20 years of which 11 years remain, based on a terminal date of 4 October 2031.

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

## **GUNAIKURNAI TRUST AND INVESTMENT STRATEGY**

Pending discussions with GLaWAC and the development of an investment strategy, VTOFL initially invested the settlement funds in secure term deposits with the National Australia Bank.

VTOFL subsequently developed investment objectives and an investment strategy for the Gunaikurnai Trust. The investment objectives and the investment strategy were developed after meetings with GLaWAC where GLaWAC outlined its long term and short-term objectives and its tolerance for risk.

The Gunaikurnai Trust objectives are as follows:

- pay the minimum annual funding amount of \$175,000 per annum adjusted for changes in the Consumer Price Index (CPI); and
- achieve a targeted capital sum on the terminal date, 4th October 2031, of \$10,000,000 (being the settlement sum) adjusted for inflation.

The investment strategy to 30 June 2019 had a target average annual return of CPI + 3.8% (after fees) with a probability of negative returns once in 5.7 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.

Although the review has resulted in a reduction in the real return of 1.4% VTOFL still expects to meet the minimum annual funding amounts each year and to achieve a terminal amount of \$10 million (CPI adjusted) on 13 October 2031, the terminal date of the Gunaikurnai Trust.

The Gunaikurnai Trust funds are invested across three of Victorian Funds Management Corporation's (VFMC) investment products as follows:

- Capital Stable investment product           45%
- Balanced investment product               50%
- Growth investment product                 5%

The investment strategy has a target split between defensive and growth assets of 62.5% and 37.5% respectively.

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.

<b>Table 1</b>		<b>Gunaikurnai Trust</b>			
The funds were invested and valued in the following VFMC Funds as at 30 June 2020 and 2019:					
				<b>2020</b>	<b>2019</b>
				\$	\$
	VFMC Capital Stable			6,610,920	6,525,373
	VFMC Balanced			7,361,159	7,327,449
	VFMC Growth			739,803	751,310
	Total Investments with VFMC			14,711,882	14,604,132
	Other Assets less accrued expenses			43,559	134,453
	Total Equity			14,755,441	14,738,585

## REPORT ON GUNAIKURNAI 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 Gunaikurnai 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 Gunaikurnai Trust against Target Returns**

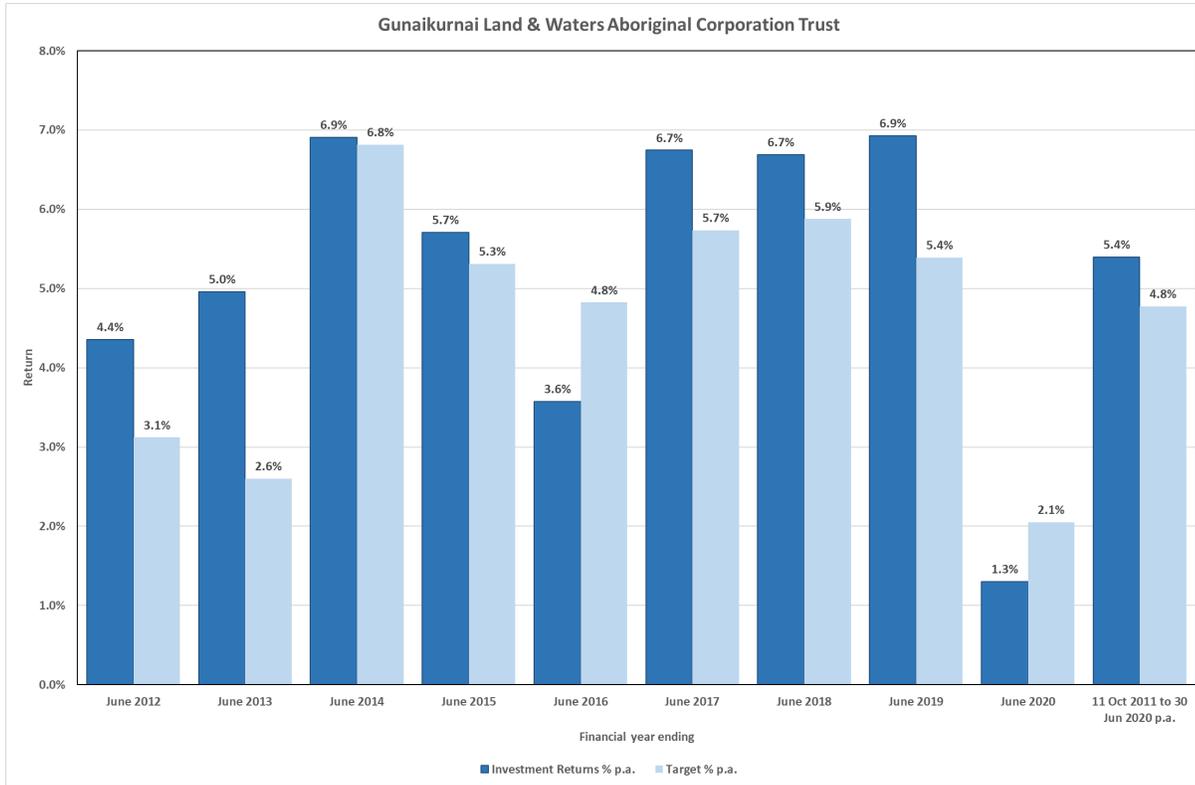


Table 2 below shows the actual performance of the Gunaikurnai Trust against its investment target.

<b>Table 2 Against Investment Strategy Target</b>				
<b>Year Ending</b>	<b>CPI growth % p.a.</b>	<b>Margin % p.a.</b>	<b>Target % p.a.</b>	<b>Investment Returns % p.a.</b>
June 2012	0.6%	2.5%	3.1%	4.4%
June 2013	2.4%	0.2%	2.6%	5.0%
June 2014	3.0%	3.8%	6.8%	6.9%
June 2015	1.5%	3.8%	5.3%	5.7%
June 2016	1.0%	3.8%	4.8%	3.6%
June 2017	1.9%	3.8%	5.7%	6.7%
June 2018	2.1%	3.8%	5.9%	6.7%
June 2019	1.6%	3.8%	5.4%	6.9%
June 2020	-0.3%	2.4%	2.1%	1.3%
11 Oct 2011 to 30 Jun 2020 p.a.	1.6%	3.2%	4.8%	5.4%

For the 2020 financial year the Gunaikurnai Trust fell short of its investment target of CPI (-0.3%) plus the Margin (2.4%), or a Target of 2.1%. The actual return was 1.3%.

The average annual return since the Gunaikurnai Trust was established has been 5.4% compared with a target of 4.8%.

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 summarizes the key changes in the balances over the last eight years.

<b>Table 3</b>		<b>Gunaikurnai Trust Balances since inception to 30 June 2020</b>			
<b>Financial year ending</b>	<b>Balance at start</b>	<b>Net Investment Gain</b>	<b>Withdrawal</b>	<b>Balance at end</b>	<b>Trust Return p.a.</b>
Jun-12	\$ 10,000,000	\$ 435,687		\$ 10,435,687	4.4%
Jun-13	10,435,687	517,306		10,952,993	5.0%
Jun-14	10,952,993	756,420		11,709,413	6.9%
Jun-15	11,709,413	668,627	(100,000)	12,278,040	5.7%
Jun-16	12,278,040	438,532	(145,000)	12,571,572	3.6%
Jun-17	12,571,572	848,011		13,419,583	6.7%
Jun-18	13,419,583	897,988	(300,000)	14,017,571	6.7%
Jun-19	14,017,571	971,014	(250,000)	14,738,585	6.9%
Jun-20	14,738,586	191,855	(175,000)	14,755,441	1.3%
11 Oct 2011 to 30 Jun 2020		5,725,440	(970,000)		5.4%

The original settlement amount of \$10 million was received by the Gunaikurnai Trust on the 14th of October 2011 and over the life of the trust, the earnings and franking credits after expenses have been \$5,725,441. Distributions have been \$970,000.

The initial capital sum adjusted for changes to the Consumer Price Index was \$11,440,000 at 30 June 2020.

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.

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

<b>Table 4</b>		<b>Detailed Movements Over The Past Two Years</b>		
			2020	2019
			\$	\$
	Trust Equity at beginning		14,738,585	14,017,571
	Add			
		Return from funds invested	157,749	844,585
		Franking credits	38,178	142,684
		Resources received free of charge	136,096	153,103
		Other revenue	769	-
	Less			
		Trust's share of VTOFL expenses	(136,096)	(153,103)
		Audit fees	(4,840)	(16,255)
	Less			
		Distributions paid	(175,000)	(250,000)
	Trust Equity at end		14,755,441	14,738,585

#### **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 Gunaikurnai 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, Balanced, and Growth 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, Balanced and Growth 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; and
- 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 the 2020 financial year 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's three scenario economic and investment framework is designed to convey possible pathways for how activity might evolve over the next 6-12 months. In constructing these scenarios, the 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