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 Limited (VTOFL), presents the Report Card for the 2021 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 (PSM)

Susanne Dahn

Neil Donald Westbury (PSM)

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 of Victoria 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 on 11 October 2011.

The Gunaikurnai Trust (originally VTOT) has a duration of 20 years of which 10 years remain, based on a terminal date of 10 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's 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, 10th 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 10 October 2031, the terminal date of the Gunaikurnai Trust.

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

- Capital Stable Fund 45%
- Balanced Fund 50%
- Growth Fund 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 2021 and 2020. It also reports the other assets of the Trust, which comprise franking credits receivable less accrued expenses.

Table 1 **Gunaikurnai Trust**

The funds were invested and valued in the following VFMC Funds as at 30 June 2021 and 2020:

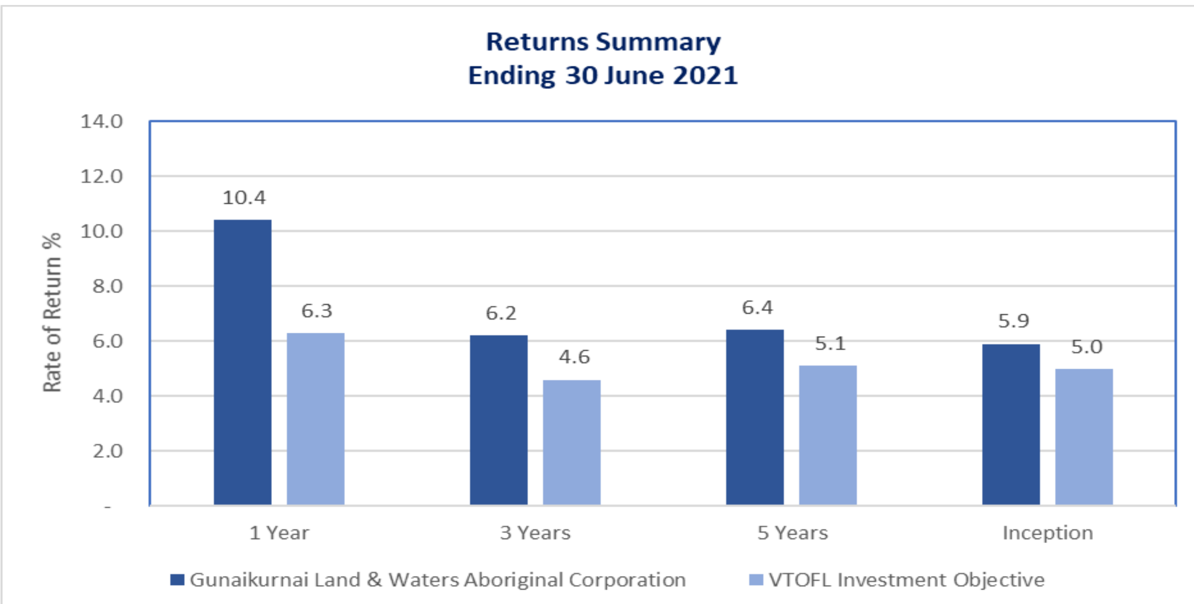
	2021	**2020**
	$	**$**
VFMC Capital Stable	6,994,455	6,610,920
VFMC Balanced	8,284,419	7,361,159
VFMC Growth	822,930	739,803
Total Invesments with VFMC	16,101,804	14,711,882
Other Assets less accrued expenses	23,633	43,559
Total Equity	16,125,437	14,755,441

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 performance 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



Note: Inception for the Trust is 11 October 2011. The VTOFL Investment Objective is a return of CPI + 3.8% p.a. to 30 June 2019 and CPI + 2.4% p.a. thereafter.

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

	Total Trust			
Table 2	CPI Return	Margin	VTOFL Investment Objective	Investment Return
FY Ending				
30-Jun-2012	0.6%	2.5%	3.1%	4.4%
30-Jun-2013	2.4%	0.2%	2.6%	5.0%
30-Jun-2014	3.0%	3.8%	6.9%	7.0%
30-Jun-2015	1.5%	3.8%	5.4%	5.7%
30-Jun-2016	1.0%	3.8%	4.9%	3.6%
30-Jun-2017	1.9%	3.8%	5.8%	6.8%
30-Jun-2018	2.1%	3.8%	5.9%	6.7%
30-Jun-2019	1.6%	3.8%	5.4%	7.0%
30-Jun-2020	-0.3%	2.4%	2.0%	1.3%
30-Jun-2021	3.8%	2.4%	6.3%	10.4%
To 30 June 2021	**(cumulative %)**		**60.3%**	**75.0%**
To 30 June 2021	**(% p.a.)**		**5.0%**	**5.9%**

For the 2021 financial year the Gunaikurnai Trust outperformed its investment target of CPI (3.8%) plus the Margin (2.4%), or a Target of 6.3%. The actual return was 10.4%.

CPI was the highest reading since 2008 amid a rise in tobacco excise, resetting of the Medicare and Pharmaceutical Benefits, the introduction, continuation, and conclusion of a number of government schemes and home building grants.

The average annual return since the Gunaikurnai Trust was established has been 5.9% compared with a target of 5.0%.

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

Table 3	Total Trust Opening Balance $	Net Investment Gain $	Withdrawals $	Closing Balance $	Gain in Net Assets	VTOFL Investment Objective
FY Ending						
30-Jun-2012	10,000,000	435,687	-	**10,435,687**	4.4%	3.1%
30-Jun-2013	10,435,687	517,306	-	**10,952,993**	5.0%	2.6%
30-Jun-2014	10,952,993	756,420	-	**11,709,413**	6.9%	6.9%
30-Jun-2015	11,709,413	668,627	(100,000)	**12,278,040**	5.7%	5.4%
30-Jun-2016	12,278,040	438,532	(145,000)	**12,571,572**	3.6%	4.9%
30-Jun-2017	12,571,572	848,012	-	**13,419,584**	6.7%	5.8%
30-Jun-2018	13,419,584	897,988	(300,000)	**14,017,571**	6.7%	5.9%
30-Jun-2019	14,017,571	971,014	(250,000)	**14,738,585**	6.9%	5.4%
30-Jun-2020	14,738,585	191,856	(175,000)	**14,755,441**	1.3%	2.0%
30-Jun-2021	14,755,441	1,548,636	(178,640)	**16,125,437**	10.5%	6.3%
To 30 June 2021	**10,000,000**	**7,274,078**	**(1,148,640)**	**16,125,437**	**74.8%**	**60.3%**

The original settlement amount of $10 million was received by the Gunaikurnai Trust on the 11th of October 2011 and over the life of the trust, the cumulative earnings and franking credits after expenses have been $7,274,078. Distributions have been $1,148,640.

The initial capital sum adjusted for changes to the Consumer Price Index was $11,904,000 as at 30 June 2021.

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

Table 4 **Detailed Movements Over the Past Two Years**

	2021	**2020**
	$	**$**
Trust Equity at beginning	14,755,441	14,738,586
Add		
Return from funds invested	1,534,922	157,749
Franking credits	18,224	38,177
Resources received free of charge	107,000	136,096
Other income		769
Less		
Trust's share of VTOFL expenses	(107,000)	(136,096)
Audit fees	(4,510)	(4,840)
Distributions paid	(178,640)	(175,000)
Trust Equity at end	16,125,437	14,755,441

REPORT ON SIGNIFICANT CHANGES AND LIKELY DEVELOPMENTS

During the 2021 financial year Mercer Australia (Investment) Limited (Mercer) undertook a Strategic Review of the Gunaikurnai Trust's investment strategy and financial objectives. The review used Mercer's latest capital market aware assumptions (December 2020). Overall Mercer sees lower interest rates and therefore lower market returns and the risk of higher inflation. The Review indicates that the Gunaikurnai Trust only has a 41% chance of achieving its current real return target of 2.4% per annum with its current investment strategy and asset allocation. The Review indicates the Gunaikurnai Trust has a 50% chance of achieving a real return of 2% per annum with its current investment strategy and asset allocation. For the Gunaikurnai Trust to maintain a 50% chance of achieving its current real return target it would be necessary to increase the level of growth assets and hence the Trust's level of volatility. Following discussions with GLAWAC VTOFL has determined to amend the Gunaikurnai Trust's real return target and asset allocation. The new investment target will be a real return of 2.6% per annum and an asset allocation of 52% defensive assets and 48% growth assets. This will result in an increase in the Gunaikurnai Trust's level of volatility. The modelling shows that with this asset allocation there is a 50% chance that the assets at the termination of the Gunaikurnai Trust will be $22,195,195. VTOFL will report against the new real return target from the start of the March Quarter 2022.

Also, during the 2021 financial year Mercer commenced reporting to VTOFL on a quarterly basis on the performance of the Gunaikurnai Trust's investment portfolio.

Finally, during the 2021 financial year VTOFL carried out a selective tender seeking expressions of interest to manage the investments of the Gunaikurnai Trust. Following a review of the tenders VTOFL resolved in October 2021 to transfer the management of the Gunaikurnai Trust's investments to the Mercer Conservative Growth Fund (30%) and Moderate Growth Fund (70%). The Gunaikurnai Trust's investments were transferred to Mercer during October and November 2021.

REPORT ON VFMC's INVESTMENT STEWARDSHIP & ENVIRONMENTAL, SOCIAL AND GOVERNANCE INTERGRATION

VFMC reports its overarching investment stewardship approach aims to improve risk-adjusted returns by being a responsible steward of client's capital and managing Environmental, Social and Governance (ESG) risks alongside other investment factors.

VFMC's four key pillars of activity are:

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

VFMC's enabling policies are:

- ESG Investments Policy;
- Proxy Voting Policy;
- Climate Change Position Statement;
- Modern Slavery Policy; and
- Exclusions Policy.

VFMC works to ensure it remains across and engages on material and emerging ESG risks and themes, many of which are also of direct relevance and interest to clients. These material issues and themes fall primarily into three categories: environmental, social, robust corporate governance and examples of each are set out below. These themes underpin its broader investment stewardship activities across ESG Integration, Major ESG Projects, and Collaboration and Knowledge Sharing.

Examples of material ESG issues and themes that VFMC engage on:

Environmental

- Climate change risk
- Affordable and clean energy
- Management of natural resources
- Circular economy and reduction of pollution and waste
- Responsible consumption

Social

- Social and community impact
- Work and labour standards, including modern slavery
- Workplace health and safety
- Cultural heritage
- Diversity and inclusion
- Sustainable cities and communities

Governance

- Board structure, composition and skills mix
- Risk management and internal controls
- Reporting frameworks
- Executive compensation and incentives

Examples of VFMC's activities during the 2021 financial year are outlined below.

Engagement with investee companies regarding modern slavery risk
In speaking with one company whose products are shipped internationally, VFMC became aware of the fact that management believed that its responsibility regarding modern slavery ceased as soon its product was loaded onto ships for export (this also being the point at which product ownership was legally transferred). VFMC communicated its view that:

- Modern slavery is a risk for which companies are responsible up and down their supply chains
- To some extent, one's responsibility follows their products
- Companies should engage with relevant stakeholders to raise awareness and drive positive change

In this instance, the nexus between the product and ship, even though legal ownership had ceased, was very close (e.g., it was not an instance in which ownership had ceased and the product had then passed through 'multiple sets of hands'). Further, their product was going directly onto ships, and the global shipping industry has been identified as being particularly susceptible to the risk of modern slavery given seafarers are often from nations with human rights, labour rights and corruption challenges.

As a result of VFMC's engagement, the company committed to evaluating how it could influence better practices with the shipping companies with whom it interacts.

Engagement regarding climate risk management
Climate change is a systemic issue, presenting a material financial risk to underlying assets and companies within VFMC's investment portfolio. VFMC and its external investment managers undertook a range of activities in FY 2021 to better understand and manage climate change risk. These have included both quantitative and qualitative evaluations of carbons emissions, understanding changes in regulatory frameworks and measuring transition risks associated with these. VFMC engages with investee companies and external fund managers regarding climate risk management and net-zero commitments to both encourage the transition to a low carbon economy and responsible allocation of capital.

In its Climate Change Position Statement issued in June 2021, VFMC supports the aim of the 2015 Paris Agreement to limit global warming to well below 2 degrees (moving toward 1.5 degrees) to minimise the worst impacts of climate change. This will require the economy to achieve net zero emissions by 2050. VFMC believe that the transition to a net zero economy needs to be carefully planned and managed to best reduce and manage the impact of potential shocks that may occur as part of this transition, as well as realise opportunities that come with this economic transformation. VFMC has, accordingly, committed to net zero portfolio greenhouse gas emissions by 2050.

Engagement regarding Cultural Heritage and First Nations communities
The destruction of the sacred Juukan Gorge caves by Rio Tinto in early 2020 elevated the need for cultural heritage to be a key consideration for all investors. VFMC is invested in Rio Tinto through its equities portfolio. Following the devastating destruction of the Juukan Gorge caves, VFMC joined with other peer investors to engage with the company to learn how the caves, with a 46,000-year history of continual occupation by Traditional Owners, had been allowed to be destroyed. VFMC spoke with Rio Tinto to encourage timely and public disclosures of the work it has been doing to improve how it operates, meet Parliamentary recommendations, and rebuild confidence – to ensure such an event never happens again. A key focus for VFMC was on ensuring executive and board accountability at Rio Tinto for the incident. VFMC collaborated with other investors to identify transparent measures for Rio Tinto to disclose against, including rebuilding trust with First Nations communities, improvements to culture and operations, and advocacy on sector-wide improvements to cultural heritage.

In addition to engagement with Rio Tinto, VFMC has also undertaken the following activities related to cultural heritage during FY 2021:

- Engaging with investment managers and underlying investee companies to better understand their relationships with First Nations groups and community as part of their ongoing ESG engagement
- Attending seminars and briefings regarding cultural heritage across various issues, including the intersection of indigenous land management and carbon farming, Australian mining and Indigenous heritage and the empowerment of Indigenous communities

VFMC voted against Rio Tinto Ltd.'s Remuneration Report due to Rio's classification of the three departing senior executives as 'good leavers' for remuneration purposes in the wake of the destruction of the Juukan Gorge caves.

Engagement with Woolworths to avoid the harmful impact of a Dan Murphy's outlet developed near three Indigenous dry communities
Alcohol consumption, and its negative health and social side-effects, are serious issues in Northern Territory, which has enacted some of Australia's strictest licensing laws. When VFMC became aware of Woolworths' application to build its first Dan Murphy's outlet in the Northern Territory on a site close to three 'dry' indigenous communities, VFMC engaged not only with Woolworths (both directly and via ACSI) but also with the owner of the land (one of our external investment managers) on which the proposed store was to be located. VFMC also participated in engagement with one of the leading opponents, the Foundation for Alcohol Research and Education (FARE), as well as Darwin's Danila Dilba Aboriginal Health Service. Subsequently, following significant investor and stakeholder pressure, in FY2021 Woolworths announced that it has disbanded the Dan Murphy's store plans at this proposed location.

VFMC REPORT ON INVESTMENT CLIMATE

VFMC advised that the 2020-21 year was a year of recovery in markets from the COVID-19 sell-off in the previous year. Equity market returns were very strong, 28.5% in Australia and 36.8% hedged internationally. Bond yields also rose, 67 bps in Australia and 80bps in the US to close at 1.53% and 1.45% respectively. The AUD appreciated 9.0% against the USD as commodity prices rebounded strongly with Oil up 87% and Iron Ore over 100%. Breakeven inflation rates (the difference between real and nominal rates) rose 147bps to 2.49%. The three Multi Strategy Funds outperformed their benchmarks over the year, with those more heavily weighted in Equities, namely the Growth and Balanced Funds, experiencing the more significant outperformance.

VFMC says it is now over a year since the COVID-19 pandemic emerged unexpectedly, creating an acute health crisis and then an overwhelming economic crisis, as policymakers adopted stringent containment measures to save lives, which plunged the global economy into a historically deep recession. Starting in the second half of 2020, the global economy rebounded more strongly than anticipated as timely, forceful and concerted fiscal and monetary policy prevented a more extended downturn.

VFMC noted that transfers, loans and guarantees shielded firms and households, giving them precious oxygen to recover. Indeed, in many countries, personal disposable income increased and, in some countries, such as the United States, at the strongest rate in decades. Saving rates also increased substantially leaving households with a large pool of “excess savings”. Widespread furlough schemes bolstered firms’ bottom lines and shored up employment. Monetary policy also played an important role. An extraordinarily accommodative policy stance underpinned exceptionally easy financial conditions. These were supported later in the period by positive news about vaccines and anticipation of the boost to the economy from fiscal stimulus in the United States. Consequently, private consumption has been the main engine of growth, allaying initial and widespread fears of lingering risk aversion and contagion worries.

VFMC says that although the recession has turned out to be less severe than initially feared with world GDP returning to near pre-crisis levels, it is important to acknowledge that this masks a clear divide between China, where GDP is now well above its pre-crisis level, and the rest of the world, where it is still generally some way below. Moreover, the recovery has been uneven across sectors, mainly reflecting the evolution of the pandemic and hence the stringency of containment measures. Manufacturing and residential construction have rebounded strongly, while services have lagged on lingering mobility restrictions.

VFMC says financial markets, the economic recovery and exceptionally accommodative financial conditions underpinned rising prices across all growth asset classes, to the point in some equity markets at least, of very stretched valuations. This environment along with a tilt toward longer-dated issuance coalesced to lift long-term sovereign bond yields, although the last few months has seen a partial reversal of this trend. However, credit spreads were compressed even for low-rated firms and corporate bond issuance remained buoyant as the confluence of positive forces supported corporate solvency and were instrumental in reducing business funding costs. House prices rose sharply in many countries.

VFMC'S THREE SCENARIO ECONOMIC AND INVESTMENT FRAMEWORK AND OUTLOOK

VFMC's says that overall it seems the degree of uncertainty about the future is lower compared to a year ago. Economic recovery is no longer imminent but is here and now, although the risks of the pandemic remain as the rollout of global vaccinations is uneven and new waves of contagion may continue to emerge. Nevertheless, COVID-19 seems unlikely to be the primary concern for financial markets going forward. Rather they are likely to be more focused on traditional concerns around growth and inflation trends, company earnings and outlooks, the trend of interest rates and subsequent actions by central banks.

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.

The **base case macro scenario (75% probability, unchanged)** envisages a comparatively smooth, ongoing recovery where the pandemic is steadily brought under control. Monetary and fiscal policy remain broadly supportive, which ensures financial conditions do not tighten significantly. Labour markets continue to recover, which further supports private consumption and sustains the expansion. In the major developed economies, inflation rises towards targets, but any increase beyond them is temporary as the cycle transitions to one where growth will still be strong (just not as strong as the past year) and policy support will be highly accommodative (just not as 'easy' as the past year). This tends to be supportive of continued, albeit more moderate market expansion. However, this does not mean the market will not face difficult times or avoid corrections. Volatility will return at some point even if the macro direction remains on track.

The **upside macro scenario (15% probability, up from 10%)** is one that initially sees even stronger growth, reflecting a larger impact from fiscal policy on demand and a bigger reversal in household saving rates than assumed in the central scenario, possibly supported by better news on the pandemic front. Output gaps (the difference between actual and potential GDP growth) close faster than foreseen while unemployment rates fall rapidly. However, the swifter improvement also brings with it an increased risk that inflation exceeds expectations and financial conditions tighten as market participants anticipate a quicker and possibly more intense monetary policy tightening. Even if any increase in inflation ultimately proves transitory, markets could overreact, anticipating a more sustained inflation trajectory. Either way, the tightening could be substantial, and investors could be caught wrong-footed and be forced to unwind their positions. The prolonged and at times aggressive risk-taking that has prevailed in markets arguably increases the probability of such an outcome. Recent stress, such as the Archegos failure in April (where highly leveraged bets made by a large family investment vehicle went awry) and the losses it inflicted on banks, could turn out to be the proverbial canary in the coal mine.

The **downside scenario (10% probability, down from 15%)** sees the recovery stall, which is more plausible if the pandemic proves harder to control. Renewed lockdowns would likely blunt the impact of government spending on the economy while the deployment of excess savings by households could fall well short of expectations as renewed virus-related uncertainty induces an increase in precautionary behaviour. The retrenchment in spending would be felt most acutely in the business sector and the feared wave of firms' insolvencies, thus far avoided, could materialise. In this alternative scenario, firms' losses could be larger, possibly on a par with those during the Global Financial Crisis (GFC). In turn, banks could feel the strain as there is evidence suggesting some of them have released part of the provisions made earlier in 2020. Other potential pathways that could short-circuit the current recovery would be a spike in geopolitical flashpoints or aggressively premature policy tightening by central banks.

As approved by the Directors of VTOFL.

Elizabeth Eldridge	Lisa Norden
Chair	Company Secretary
15 November 2021	15 November 2021