



Victorian Traditional
Owners Trusts

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 - 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 2024 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:

Neil Donald Westbury PSM, Chairperson

Glen Brennan PSM, retired 12 December 2023

Susanne Dahn AM

Kim Bowater

Professor John Evans, appointed 12 December 2023

GOVERNANCE CHANGES

Mr Glen Brennan retired after serving on the board for 6 years.

VTOFL's sole Member changed from the Department of Justice and Community Safety to the Department of Premier and Cabinet on 17 October 2023.

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 8 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 Premier and Cabinet.

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 objective is a return of CPI + 3.8% pa to 30 June 2019, CPI +2.4% pa to 31 December 2021 and CPI + 2.6% pa thereafter.

The target allocation for the Trust is 52% Growth / 48% Defensive. As at the end of June 2024 and due to the defensive positioning of the Mercer funds, there is a variance of 1.6% between the actual and target growth and defensive allocations. All sector allocations remain within IPS SAA ranges. The current Investment Policy states where a split moves by 5% or more it must rebalance.

VTOFL 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.

Table 1 below sets out the value of funds invested with Mercer as at 30 June 2024 30 June 2023. It also reports on the other assets of the Trust, which comprise franking credits receivable less accrued expenses.

Table 1

The funds were invested and valued in the following Mercer Funds as at 30 June 2024 and 30 June 2023:

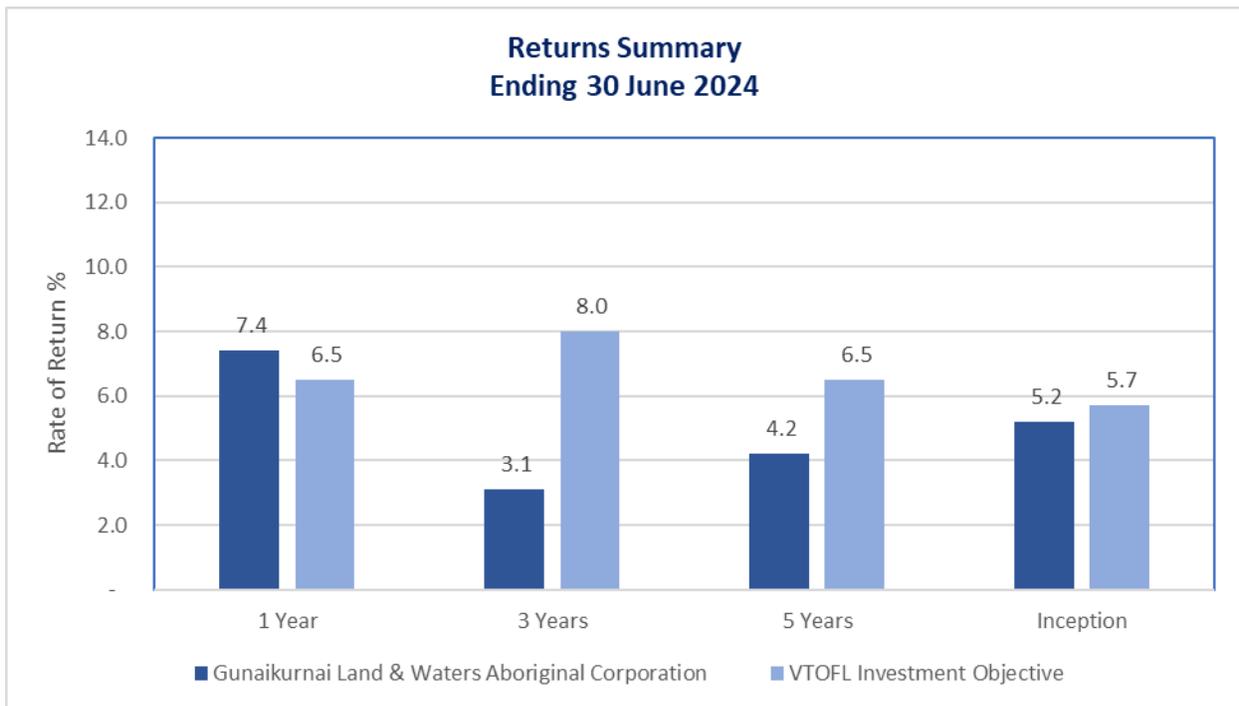
	2024	2023
	\$	\$
Mercer Moderate Growth Fund	8,101,026	11,315,178
Mercer Conservative Growth Fund	8,974,848	4,774,476
Total Funds	<u>17,075,874</u>	<u>16,089,654</u>
Other Assets less Accrued Expenses	31,655	53,422
Total Equity	<u>17,107,529</u>	<u>16,143,076</u>

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 Mercer 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, CPI + 2.4% p.a. to 31 December 2021 and CPI + 2.6% p.a. thereafter.

Table 2 below shows the key changes in the balances over the last 12 years and the actual performance of the Gunaikurnai Trust against its investment target.

	Total Trust					
	Opening Balance	Net Investment Gain	Withdrawals	Closing Balance	Arithmetic Investment Objective	Investment Return
	\$	\$	\$	\$		
FY Ending						
30-Jun-2012	10,000,000	435,687	-	10,435,687	3.1%	4.4%
30-Jun-2013	10,435,687	517,306	-	10,952,993	2.6%	5.0%
30-Jun-2014	10,952,993	756,420	-	11,709,413	6.9%	7.0%
30-Jun-2015	11,709,413	668,627	(100,000)	12,278,040	5.4%	5.7%
30-Jun-2016	12,278,040	438,532	(145,000)	12,571,572	4.9%	3.6%
30-Jun-2017	12,571,572	848,012	-	13,419,584	5.8%	6.8%
30-Jun-2018	13,419,584	897,988	(300,000)	14,017,571	5.9%	6.7%
30-Jun-2019	14,017,571	971,014	(250,000)	14,738,585	5.4%	7.0%
30-Jun-2020	14,738,585	191,856	(175,000)	14,755,441	2.0%	1.3%
30-Jun-2021	14,755,441	1,548,636	(178,640)	16,125,437	6.3%	10.4%
30-Jun-2022	16,125,437	(806,291)	(185,500)	15,133,646	8.7%	-5.4%
30-Jun-2023	15,133,646	1,206,170	(196,750)	16,143,066	8.8%	7.8%
30-Jun-2024	16,143,066	1,172,953	(208,500)	17,107,520	6.5%	7.4%
To 30 June 2024	10,000,000	8,846,910	(1,739,390)	17,107,520	102.0%	91.7%

For the 2024 financial year the Gunaikurnai Trust out performed its investment target of 6.5%. The actual return was 7.4%.

The average annual return since the Gunaikurnai Trust was established has been 5.2% compared with a target of 5.7%.

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 \$8,846,910. Distributions were \$1,739,390.

Table 3 below shows the detailed movements in the Gunaikurnai Trust over the last two financial years, and the distributions paid.

Table 3 Detailed Movements Over the Past Two Years

	2024	2023
	\$	\$
Trust Equity at Beginning	16,143,066	15,133,646
Add		
Return from funds invested	930,555	1,170,763
Realised gain on sale of investments	220,666	3,767
Franking credits	27,665	37,210
Resources received free of charge	130,000	105,000
Other income	669	
Less		
Trust's share of VTOFL expenses	(130,000)	(105,000)
Bank fees		-69.79
Audit fees	(6,600)	(5,500)
Distributions paid	(208,500)	(196,750)
Trust Equity at end	<u>17,107,519</u>	<u>16,143,066</u>

Difference in Equity from Table 1 and Table 3 is the \$10 Settlement Sum

CONSULTATIVE ADVISORY COUNCIL

Given that over time Traditional Owner Groups will take responsibility for managing the funds VTOFL has initiated a Consultative Advisory Council (CAC) made up of nominated representatives from the Traditional Owner Corporations to enhance understanding, knowledge, and transparency on a range of matters directly relevant to their managed investments.

The CAC met in June 2022, June 2023 and November 2023. It is intended that it will meet twice a year.

The Terms of Reference for CAC are:

- Share and discuss information with Traditional Owner Groups regarding VTOFL's process for establishing and maintaining an Investment Policy and an Investment Strategy, including the role of financial and economic modelling.
- Share and discuss with Traditional Owner Groups the products in which VTOFL invests and the reasons those products have been selected.
- Share more detailed information with Traditional Owner Groups as to the performance of the funds VTOFL manages and trends and developments in financial markets.
- Enable Traditional Owner Groups to access VTOFL's financial advisers and fund managers.

- Serve as a forum where Traditional Owner Groups can discuss investment issues with VTOFL and its financial advisers and investment managers.

MERCER UPDATE

Report on Significant Changes and Likely Developments

The 2024 financial year resulted in strong investment markets as inflation continued to moderate across most developed countries and investors looked forward to interest rate cuts. Further, most economies were relatively resilient despite the restrictive monetary conditions.

During the 2023 financial year, Mercer Australia (Investment) Limited (Mercer) undertook a strategic review of the GLaWAC Trust's investment strategy and financial objectives, using Mercer's March 2024 capital market aware assumptions (CMAs). Since the previous review the CMAs have evolved to account for interest rates and yields stabilising at higher levels and the strong performance of equities reducing the attractiveness of valuations. As a result, Mercer CMAs have higher returns and risk assumptions for fixed income relative to last year, and lower forward-looking returns for equities.

Following the strategic review, no changes were recommended or have been made to the investment structure as the Trust is considered to be in a very strong capital position to meet both its MAFA requirements and TTV, with an expected median balance of around \$23.8 million in the Trust at maturity.

Mercer's Sustainable Investment Philosophy

Sustainability is one of our key investment beliefs.

We believe a sustainable investment approach is consistent with an objective of creating and preserving long-term investment capital, and more specifically, that:

- ESG factors can have a material impact on long-term risk and return outcomes and these should be integrated into the investment process
- Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities
- Climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes
- Stewardship (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, we believe that a sustainable investment approach that considers these risks and opportunities is likely to be in the best interests of all investors.

Key Highlights from the Mercer Investments (Australia) Limited Annual Sustainable Investment Update

Mercer continues to drive forward our portfolio implementation activities in line with our sustainable investment policy, noting positive results across a number of sustainability metrics.

1. Integration

ESG ratings

- Where relevant and aligned with achieving investment objectives, Mercer expects its appointed investment managers to assess and reflect ESG risks and opportunities when they select securities or assets and construct portfolios, acknowledging that the degree of relevance or materiality varies across asset classes and the type of investment strategy.
- A manager's approach to ESG is rated under Mercer's ESG ratings (rating scale is ESG1-4 with 1 being the highest and 4 lowest).
- The weighted average ESG rating of Mercer's total portfolio continues to be higher than that of the benchmark, at 2.21 vs. 2.54.

Net zero climate transition strategy

- In 2021, Mercer established a target to achieve net zero absolute portfolio carbon emissions by 2050 for all assets under management in Australia. Mercer also established an expectation that portfolio carbon emissions would reduce by 45% by 2030, from 2020 baseline levels.
- Since the initial baseline assessment, there have been new industry developments in best practice methodology, as well as improvements in coverage and quality of emissions metrics. This has driven a comprehensive methodology review, which has led to an update to Mercer's emissions measurement approach and reporting metrics from the 31 December 2023 analysis period, and an update to the 2020 Net Zero Target baseline.
- When Mercer conducted its original 2020 Net Zero Target baseline assessment, a metric called Weighted Average Carbon Intensity (WACI) was used as the primary emissions reporting metric as it was the industry preferred metric for emissions measurement at the time. Today, new industry developments and improvements in data have made emissions reporting on an Absolute Emissions per \$M Invested basis possible – a metric more relevant for asset owners due to the linkage between investment ownership and atmospheric emissions. WACI will continue to be reported as a secondary metric and used by internal portfolio management teams for investment decision making.
- As at December 2023, Mercer's progress on portfolio emissions reduction (vs. a 2020 baseline) is on track against the IPCC 1.5°C reference pathway, an internationally recognised Paris-aligned mitigation pathway supported by key investor frameworks - with a 22.5% emissions reduction recorded across Mercer's total assets under management (including assets from the 2023 BT Super acquisition).

2. Investment

Sustainable Development Goals

- Mercer's listed portfolio alignment with the Sustainable Development Goals is slightly better than the aggregate benchmark, with a portfolio impact rating of 0.53 (vs. 0.51 for the benchmark).
- Social Objectives: The portfolio has a positive absolute impact to most of the social objectives, particularly in the areas of No Poverty, Decent Work & Economic Growth and Quality Education.
- Environmental Objectives: The portfolio's absolute impact is more muted across environmental objectives. However, there is a reasonably positive absolute impact regarding Responsible Consumption & Production and Life on Land.

3. Active ownership

- Mercer believes that stewardship, or active ownership, helps the realisation of long-term investor value through voting and engagement.
- As a multi-manager, Mercer's approach to identifying, monitoring and engaging on ESG factors is centred on interaction with our appointed investment managers.
- Mercer's appointed investment managers voted on Mercer's behalf at 99% of Australian and global meetings. 8.1% of votes were against management's recommendation.
- We continue to monitor portfolios and engage with our investment managers on key thematic areas including climate change, modern slavery and severe UN Global Compact breaches.

4. Exclusions

- As an overarching principle, Mercer prefers an integration and engagement-based approach to sustainable investing rather than an exclusions-based approach. There are, however, a limited number of instances in which we apply exclusions.
- We continue to monitor and seek to ensure ongoing compliance with exclusions criteria as relevant to each Fund.
- In addition, Mercer's listed portfolio is routinely screened for UN Global Compact and modern slavery red flagged incidents. Mercer surveys our investment managers annually on their monitoring and management of these incidents, and we utilise the results of this survey along with our internal screening assessment, to guide our manager engagement process based on exposure and materiality.
- There were no breaches for direct holdings during 2023 as per the custodian's daily monitoring.

For further details on our Mercer's approach to sustainable investment, please refer to the Mercer Investments (Australia) Limited Annual Sustainable Investment Update.

FY-24 Investment Market Overview

Beginning with Equity Markets, the strong performance in Global and US Equities, up 20% and 24% respectively for the financial year, continued to be driven by a few key themes. In particular, the narrow leadership we saw in FY-23 has continued into FY-24.

Narrow leadership came from A.I. related stocks across developed markets, emerging markets and in Australia, outshining the broader index as investors price in significant future demand. Perceived exposure to A.I. led to increased dispersion in the Mega-Caps. Momentum was by far the strongest factor in the financial year, as Quality-Growth leadership continued to leave Value opportunities behind.

Regarding the domestic equity market, which returned 12% in the financial year, we also saw narrow leadership. The Big 4 Banks, which make up around 20% of the market cap of the ASX300, accounted for almost 50% of its returns in FY-24. The strength in local banks was driven by a more resilient economy than expected, low bad debts, share buy-backs, and offshore buyers.

Turning to fixed income markets, FY-24 saw significant volatility in bond yields as Central Banks grappled with sticky inflation as well as the prospect of a recession. The yield on the US 10-year Treasury, which influences many other interest rates, ranged from 3.7% to 5% over the financial year, traversing a number of peaks and troughs over this period. The key reason for such volatility was that whilst inflation has moderated, it has done so at an uneven pace. This has caused markets to wax and wane in their expectation of when and how fast Central Banks will cut rates. In addition, investors are increasingly focused on other economic indicators as concerns of a recession re-emerge. For example, weakness in labour markets are likely to drive monetary policy from here on in. In contrast to the rates volatility, credit spreads remained resilient. In the case of investment grade corporates, this is underpinned by strong corporate balance sheets.

Elsewhere, real assets performance was mixed, with listed property performing very strongly, meanwhile unlisted property lagged. Meanwhile infrastructure posted modest single digit gains.

Trust Investment Outcomes

As it relates to GLAWAC, the Trust has returned 7.4% over the financial year to date, outperforming its CPI objective by 0.9%, despite inflation remaining more resilient than expected. Mercer continue to have confidence in the Trust's current Strategic Asset Allocation (SAA) to deliver on the stated Investment Objective over the longer term. This confidence is drawn from the SAA Healthcheck, which showed a high probability of the Trust achieving its Investment Objective over the full investment period.

Economic Update

The global economy continues to do reasonably well, underpinned by strong income growth and a bottoming in the global manufacturing cycle. While the US has slowed, other developed economies are beginning to improve. Economic growth has disappointed in Japan, but there are good reasons to believe a notable pickup is near, while the structural improvement remains in place. Most emerging economies continue to do well. China is doing OK with some sectors very strong (e.g. autos), but the property sector remains very weak.

Inflation rates have fallen globally. US inflation is showing signs of moving towards to 2%, with 2% possible next year. In the Eurozone, the pace of disinflation has slowed but the central bank target is within a line of sight. Inflation in Japan is above 2%, but underlying price pressures remain given tight labour market and rising wages, strong exports from the weak Yen and the potential for strong investment. Emerging Market (EM) inflation rates broadly declined.

The US Federal Reserve (Fed) revised lower its rate cut projections. Over 40% of G10 central banks have now cut interest rates. The Bank of Japan (BoJ) left rates unchanged, but adopted a somewhat hawkish tone, suggesting further hikes are likely this year. EM central banks slowed the pace of rate cuts.

TRUSTEE'S COMMENTS

Mercer continue to have confidence in the Trust's current Strategic Asset Allocation (SAA) to deliver on the stated Investment Objective over the longer term. This confidence is drawn from the SAA analysis undertaken during the year which showed a high probability of the Trust achieving its Investment Objective over the full investment period. While, in the short term, because of increased economic uncertainty and related continued market volatility the range of potential investment outcomes remains unusually wide, we continue to monitor investment markets for the opportunity or need to reconsider the current GLaWAC SAA and investment strategy. In this context Directors also closely assess and engage with Mercer regarding its own performance in meeting both the individual Trusts and VTOFL's requirements.

As approved by the Directors of VTOFL.



Neil Westbury PSM
Chairperson
18 November 2024



Lisa Norden
Company Secretary
18 November 2024