



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 - Taungurung Clans Aboriginal Corporation**

The Trustee, the Victorian Traditional Owners Funds Limited (VTOFL), presents the Report Card for the 2023 financial year for Victorian Traditional Owners Trust - Taungurung Clans Aboriginal Corporation (TLAWC Trust).

The TLAWC Trust holds the funds for the Taungurung Land and Waters Council (TLAWC). The TLAWC was established under a Trust Deed signed on 13 September 2011 between Robert Clark the Attorney General of Victoria and the Trustee, VTOFL. The Trust Deed was amended under an amendment deed signed on 25 September 2018 by the then Attorney General of Victoria and VTOFL.

### 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

Elizabeth Helen Eldridge, retired 12 September 2022

Glen Gerald Brennan (PSM)

Susanne Dahn

Kim Bowater, appointed 27 October 2022

### GOVERNANCE CHANGES

Ms Kim Bowater was appointed as a Director on 27 October 2022 and brings extensive investment experience to the board.

### PRINCIPAL ACTIVITIES

The principal activity of the TLAWC Trust is to invest settlement funds received on behalf of the Taungurung People represented by TLAWC. The settlement between the Taungurung People and the State of Victoria was under the Native Title Settlement Framework.

The State of Victoria and the Taungurung People reached a settlement on 26 October 2018 and the Participation Agreement was executed on 26 October 2018. In accordance with the terms of this Participation Agreement the State of Victoria paid the settlement amount of \$24,093,250 to the Victorian Traditional Owners (VTOT) on 21 September 2020.

The TLAWC Trust has a duration of 20 years of which 18 years remain, based on a terminal date of 20 September 2040.

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

## **TLAWC TRUST AND INVESTMENT STRATEGY**

The objectives and the investment strategy were developed after meetings with TLAWC where TLAWC outlined its long term and short term objectives and its tolerance for risk.

VTOFL has developed investment objectives and an investment strategy for the TLAWC Trust.

The TLAWC Trust was established with \$8,000,000 of core long term funds and \$16,093,250 of short term funds.

The TLAWC Trust's objectives in relation to the \$8,000,000 core long term funds are as follows:

- pay the minimum annual funding amount of \$320,000 per annum adjusted for changes in the Consumer Price Index (CPI); and
- achieve a targeted capital sum on the termination date, 20 September 2040, of \$8,000,000 (being the settlement sum) indexed for inflation over the investment period.

The investment strategy has a target average annual return of CPI + 2.5% (after fees) with a probability of negative returns once in every 4.2 years.

The target allocation for the Trust is 35% Growth / 65% Defensive. As at the end of June 2023 and due to the defensive positioning of the Mercer funds, there is a variance of 0.5% 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.

Modelling undertaken by Willis Towers Watson shows that the investment strategy with its return target of CPI +2.5% and an asset allocation of 65% defensive assets and 35% growth assets will not achieve the targeted capital sum on the termination date. The modelling shows that there is a 50% chance that the capital sum on the termination will be \$7.9 million.

The TLAWC Trust's core long term funds were transitioned during October and November 2021 from VFMC to the Mercer Conservative Growth Fund to achieve a 35% growth and 65% defensive asset allocation.

The short term funds invested with VTOFL were initially managed by BlackRock in the BlackRock Cash Fund, and were transferred to the Mercer Cash Fund in November 2022, to be managed by Mercer.

Table 1 below sets out the value of funds invested with Mercer as at 30 June 2023 and BlackRock and Mercer as at 30 June 2022. It also reports the other assets of the TLAWC 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 2023 and Mercer & BlackRock Funds at 30 June 2022:

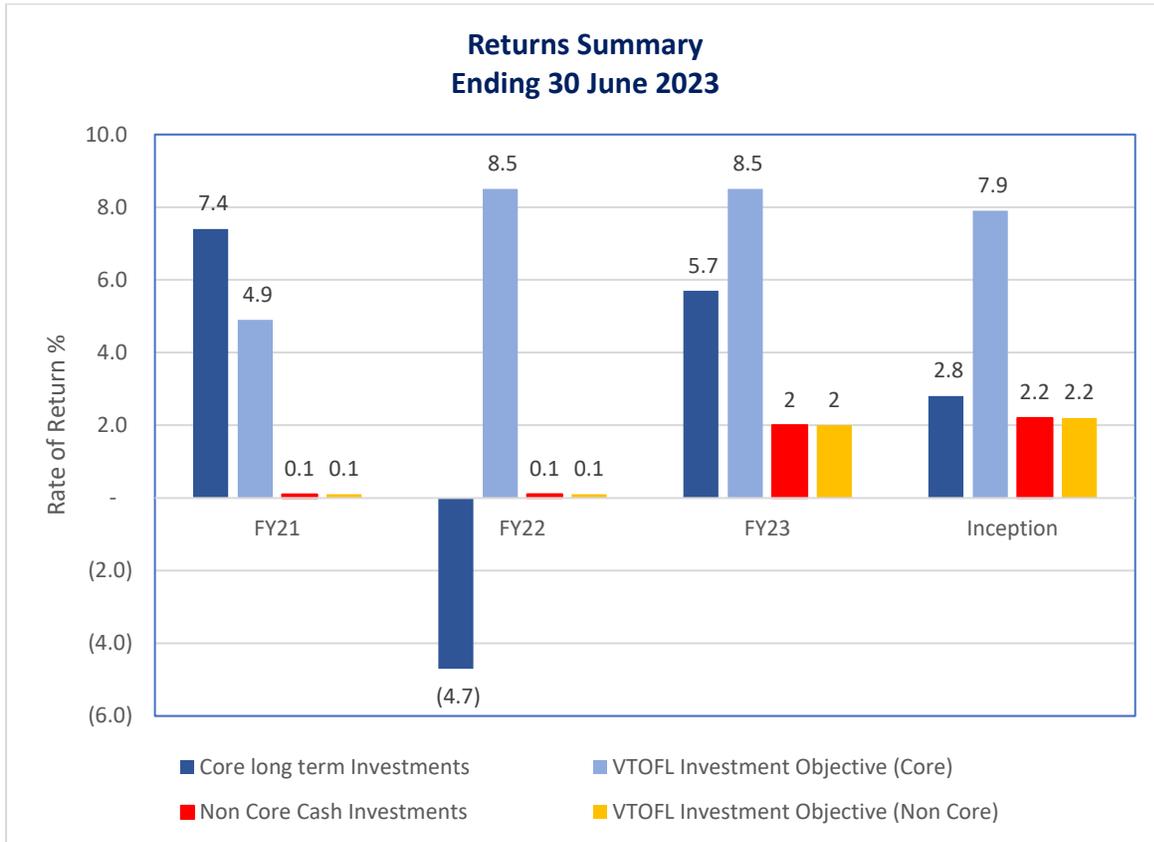
	2023	2022
	\$	\$
Mercer Conservative Growth Fund	8,632,337	8,170,741
Mercer Cash Fund	15,877,384	
BlackRock Cash		15,435,105
<b>Total Funds</b>	<b>24,509,721</b>	<b>23,605,846</b>
Other Assets less Accrued Expenses	38,924	33,237
<b>Total Equity</b>	<b>24,548,645</b>	<b>23,639,083</b>

## REPORT ON TLAWC 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 core long term funds and the short term funds managed by Mercer against their investment targets for the current year and since establishment. The long term investment performance includes earnings and franking credits less expenses. The non core cash investments just include performance.

**Chart 1. Performance of the Taungurung Trust’s Investments against Target Returns**



Note: Inception for the TLAWC Trust is 21 September 2020. The VTOFL Investment Objective is a return of CPI + 2.5% p.a. for the core long term investments managed by Mercer. The bank bill rate is the Investment Objective for short term investments managed by Mercer.

Table 2 below shows the actual performance of the TLAWC Trust core long term investments against its investment target.

	Total Trust			
	CPI Growth	Margin	Arithmetic Investment Objective*	Investment Returns
<b>FY Ending</b>				
30-Jun-2021	2.8%	2.1%	4.9%	2.5%
30-Jun-2022	6.1%	2.5%	8.6%	-1.5%
30-Jun-2023	6.0%	2.5%	8.5%	4.2%
<b>To 30 June 2023 (cumulative %)</b>			<b>24.0%</b>	<b>5.1%</b>
<b>To 30 June 2023 (% p.a.)</b>			<b>7.9%</b>	<b>1.8%</b>

For the 2023 financial year the TLAWC Trust core long term investments under performed against its investment target of 8.5% (CPI 6% plus a margin of 2.5%). The actual return was 4.2%.

During the 2023 financial year the short term investments were transferred from BlackRock to Mercer. Since inception the short term investments have returned 2.2%.

Table 3 below summarises the key changes in the Trust's balances over the last 3 years.

	Total Trust					
	Opening Balance	Net Investment Gain	Withdrawals	Closing Balance	Gain in Net Assets	Investment Objective
	\$	\$	\$	\$		
<b>FY Ending</b>						
30-Jun-2021	24,093,350	609,172	(690,000)	<b>24,012,522</b>	2.5%	4.9%
30-Jun-2022	24,012,522	(373,437)	-	<b>23,639,085</b>	-1.6%	8.6%
30-Jun-2023	23,639,085	945,873	(36,212)	<b>24,548,645</b>	4.0%	8.5%
<b>To 30 June 2023</b>	<b>24,093,350</b>	<b>1,181,607</b>	<b>(726,212)</b>	<b>24,548,645</b>	<b>5.0%</b>	<b>24.0%</b>

Since the original settlement amount of \$24,093,250 was received by the TLAWC Trust (plus \$100 to maintain the bank account) the cumulative earnings and franking credits after expenses have been \$235,735. Distributions have been \$690,000 and payments to BlackRock for fees were \$37k.

Table 3 below shows the detailed movements in the TLAWC Trust over the last financial year, and the distributions paid.

**Table 3 Detailed Movements Over the Past Two Years**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Trust Equity at Beginning	23,639,083	24,012,422
Add		
Return from funds invested		
Realised gain on sale of investments	136,107	65,940
Core long term investments	654,677	(478,025)
Short term investments (Mercer/BlackRock)	149,303	16,316
Franking credits	11,909	27,486
Resources received free of charge	99,000	60,000
Other income	196	4
Less		
Trust's share of VTOFL expenses	(99,000)	(60,000)
BlackRock fees	(37,059)	
Audit fees	(5,500)	(5,060)
Bank fees	(70)	
Distributions paid	-	-
Trust Equity at end	<u>24,548,645</u>	<u>23,639,083</u>

### **CONSULTATIVE ADVISORY COUNCIL**

Since 2011 VTOFL has managed the funds of three Traditional Owner Groups and expects to manage funds for additional Traditional Owner Groups in the next two to three years.

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 had its first meeting in June 2022 and its second meeting in June 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 2023 financial year saw a sharp rise in interest rates alongside peaking global inflation, which has defined the past financial year and has resulted in challenging market conditions. However, inflation has seemingly peaked across most major economies and is expected to decline in the coming quarters but remains firmly above central bank targets this year.

During the 2023 financial year, Mercer Australia (Investment) Limited (Mercer) undertook a strategic review of the Taungurung Trust's investment strategy and financial objectives, using Mercer's March 2023 capital market aware assumptions (CMAs). Given the rising yield rates over the past year, the return assumptions within our CMAs have improved the expected returns for both equities and fixed income assets. The strategic review indicated that given the current, expected investment returns, risk, investment strategy and asset allocation, the Taungurung Trust has a probability of around 89.6% of achieving its current real return target of 2.5% per annum over the next 18 years. As of 30 June 2023, no changes have been made to the current asset allocation and there is expected to be a median balance of around \$11.6 million in the Trust when the Trust terminates.

Following the June 2023 quarter end and after consideration by the Board, Taungurung approved to increase the growth allocation of the Trust from 35%/65% growth defensive split, to 48%/52% growth defensive split, whereby the probability of the Trust achieving its current real return target of 2.5% per annum over the next 18 years has increased, from 89.6% to 97.5%. Furthermore, the expected Real Return of the Trust has increased, from 3.6% p.a. to 4.4% p.a. As such, in September 2023, a partial redemption has been made from the Mercer Conservative Growth Fund, with the proceeds being invested into the Mercer Moderate Growth Fund to support the increased growth allocation.

## **MERCER'S ANNUAL SUSTAINABLE INVESTMENT REPORT**

Mercer Investments (Australia) Limited ("MIAL", "we", "us" or "our") provides investment management and implemented consulting services to a range of superannuation, insurance, endowment and foundation clients. MIAL is the Responsible Entity ("RE") (or Trustee, where applicable) for a number of investment funds and other managed investment schemes ("Mercer Funds" or "the Funds").

MIAL is responsible for establishing, monitoring and implementing investment strategies for the Funds. MIAL does not directly select securities; instead, MIAL appoints and relies on specialist third-party investment managers to invest on our behalf. MIAL may rely on specialist third party environmental, social and governance ("ESG") providers and their methodology for implementing the MIAL Sustainable Investment Policy including determining the securities to be excluded based on Fund exclusion criteria.

### **Our 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.

### **Portfolio activity highlights from 2022**

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.

Some key activities and achievements are summarised below.

#### **Policy and disclosure**

- Commenced review and updates to our Sustainable Investment Policy (finalised in May 2023).
- Published our inaugural TCFD-aligned Investment Approach to Climate Change report
- Published our second annual Sustainable Investment Report
- Investment specific content was included in Marsh McLennan Pacific's second annual Modern Slavery Statement

#### **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).
- 81% of Mercer's underlying manager strategies have an ESG rating that is better than their respective universe.

#### **Net zero climate transition strategy**

- We are continuing to implement climate-related governance and sustainable investment considerations, including climate change, in broader reviews of governance and committee structures.
- Applying Mercer's latest global Climate Scenario Analysis Tool ('CAST') to a range of Mercer diversified portfolios in 2022, to inform our climate and broader investment strategy into 2023.
- Building on our climate risk management approach through ongoing and enhanced analysis and engagement, leveraging our proprietary Analytics for Climate Transition ('ACT') tool.

- Our total assessed portfolio Absolute Emissions per \$M invested have decreased by 31.5% from the 2020 baseline, and progress is well ahead of our expected decarbonisation trajectory as at 31 December 2022.
- Total assessed portfolio Weighted Average Carbon Intensity (WACI) has decreased against the 2020 baseline – with two potential outcomes depending on different data assumptions in infrastructure. Data reliability outside listed equities is low and involves high degree of estimation, and we have seen a high level of variability in the 6 monthly tracking. Further attribution analysis will be completed in 2023 as part of Mercer’s three-year Net Zero progress review.

### **Diversity, equity and inclusion (DEI)**

- DEI continues to be a priority engagement area for Mercer.
- 88% of our investment managers have a firmwide diversity, equity and inclusion policy.

### **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.
- 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.

### **Investment**

- Mercer believes that including some exposure to investment managers that identify longer-term environmental and social themes and who seek to invest in companies delivering solutions to environmental and social challenges, are likely to lead to improved risk management and new investment opportunities.
- Our investment manager selection and monitoring processes, as well as strategic asset allocation reviews, may seek to consider including sustainability themed investment opportunities where this is aligned with the investment strategy and objectives of a Fund.
- Further, MIAL’s sustainability-labelled funds may aim for a higher allocation to sustainability themes via the appointed investment managers.
- 65% and >50% respectively of the Sustainable Plus Australian and International Shares Funds, by Funds Under Management (FUM), were invested in manager strategies that explicitly seek to invest a portion of the strategy in sustainability themes and solutions.

### **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.

## Industry recognition

- Mercer was recognised by the Responsible Investment Association Australasia (RIAA) as a Responsible Investment Leader in 2022

## Looking forward

In April 2023, Mercer completed the merger of BT Super with Mercer Super, as well as the acquisition of Advance Asset Management Limited (“AAML”). This brings exciting opportunities for the combined entity. As such, ensuring alignment of approach to sustainable investment across the new combined entity will be a key area of focus this year.

As always, industry best practice remains at the core of Mercer’s priorities. This year there has been a strong focus on ESG-related regulation by the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission. Following the reform by the International Sustainability Standards Board, the Australian Government also announced the introduction of mandatory climate reporting for companies and financial institutions, expected in 2024. Ensuring compliance with, and endeavouring to stay ahead of, these developments will play a large part in Mercer’s strategic priorities.

Mercer’s target to achieve net zero absolute carbon emissions will also shape the key focus areas. Implementing the Climate Plan will see climate change a core priority across integration, active ownership and sustainability-themed investment activities. Providing clear reporting and communications on the progress in these areas is important to Mercer.

## Investment Market Overview

The peaking of global inflation and interest rates, slowdown of economic growth and the possibility of a soft-landing scenario have defined 2023 and materially impacted markets over FY23. Over the 12 months to June 2023, Australian Equities increased by 14.4%, as quality stocks drove performance. Globally, international equities delivered strong returns with the IT sector in the first half of 2023, led by the rally in the ‘Magnificent 7’ tech stocks, leading. Drivers that played into the outperformance of the IT stocks included the rise of artificial intelligence, and preference for quality stocks that are highly profitable with low debt levels, given recessionary concerns.

Fixed Interest produced mixed returns over the past financial year, with Australian Government Bonds up 0.6% and Overseas Government Bonds down by -2.6%. Key themes that impacted bond markets include bond yields remaining elevated for longer and interest rate cuts not expected until the later half of 2024. Despite this, interest rates have likely peaked, or are close to peaking with interest rate hikes from Central Banks somewhat possible, signalling a potential end to the rate hiking cycle in the near future.

Hedged asset classes underperformed unhedged assets over the year as the Australian Dollar depreciated, due to weakness within the Chinese economy and commodity prices. Global Property and Global Listed Infrastructure returned -5.0% and -2.2% respectively

over the financial year, as these asset classes were also impacted by the rising yield environment.

Overall, most growth asset classes rebounded strongly and returned positive in FY2023 off the back of a broad sell off across markets in FY2022.

## **Market Update**

The global economy remained resilient in the second quarter, despite a slowdown in China. In the US, economic activity remained decent, and the labour market very strong with lots of new jobs being created and wage growth remaining firm. Economic growth in Europe softened a little, staying scarcely in positive territory, whilst China's recovery slowed following the rapid gains experienced earlier in the year with manufacturing soft and the property sector showing renewed signs of weakness. Inflation fell sharply at a headline level, but less so at a core level.

Economic growth in the developed world is expected to remain weak well into 2024, as lagged effects take hold following the monetary policy tightening to date and as some of the factors that have supported growth in 2023 are expected to fade. With inflation seemingly peaked across most major economies, inflation is expected to fall in most of the developed world on the back of base effects, lower commodity and rental prices and supply chain improvements. At a core level, however, inflation is expected to remain above central banks' 2% targets well into 2024, as the tightness in labour markets keeps wage growth high.

Domestically, there has been some softening in data momentum, with economic conditions in Australia remaining remarkably resilient despite the interest rate hikes to date. Labour markets remain tight in Australia with the unemployment rate remaining near multi decade lows at 3.5% as at June 2023. Wage growth appears to be picking up on a year-on-year basis with this trend expected to continue in the near term. Headline inflation has declined with the Consumer Price Index (CPI) reading declining from 7.0% Year-on-Year (YoY) in Q1 2023 to 6.0% YoY in Q2 2023, whilst core inflation has also slowed.

Looking ahead, a slowdown in economic activity is anticipated in the coming quarters with the increase in interest rates and the expiration of fixed rate mortgages (previously secured at low rates) expected to take their toll on consumers and the economy more broadly. Inflation in Australia is expected to moderate this year, albeit the pressures in residential rental and services markets tilts the risk for core inflation to decline more slowly than rapidly. Consequently, the RBA is likely to maintain a restrictive monetary policy stance for some time.

With regards to the AUD, there are some downside risks that may lead to the AUD being lower in the future, such as commodity price weakness and a softer economic outlook in Australia compared to the US.

As at the time of writing, Mercer's base case view of economic conditions is for a soft-landing scenario, where, should a recession occur, it would be at the mild end of the spectrum. We believe that the risks around our base case outlook are equally balanced to the upside and downside, albeit the upside scenario may also experience sticker core inflation and higher RBA cash rates.

As it relates to Taungurung, the Trust returned 5.7% over the financial year to date, although underperforming its CPI objective, which has been elevated in recent times on account of the higher levels of realised inflation (CPI), as investment markets grappled with the radically changing inflationary environment that has not been seen in decades. With the Strategic Asset Allocation (SAA), implemented post FY end, Mercer has confidence in the Trust's investment structure to deliver on the stated Investment Objective over the longer term. This confidence is drawn from the SAA analysis undertaken during the financial year, which showed a higher probability of the Trust achieving its Investment Objective over the full investment period. While, in the short term, the range of potential investment outcomes remains unusually wide, we will continue to monitor investment markets for the opportunity or need to reconsider the current Taungurung SAA and investment strategy.

### **Mercer Superannuation Australia Ltd (MSAL) Update**

The ASIC prosecution is against the trustee of the Mercer Super Trust (MST), and relates specifically to whether statements that previously appeared on the MST website relating to the MST's sustainably labelled investment options were misleading or deceptive, given their absolute rather than qualifying nature. VTOFL is not invested in the MST.

There is no allegation of any irregularities in any Product Disclosure Statement (PDS) or other disclosure document relating to the MST or its sustainably labelled investment options.

Similarly, there is no allegation relating to any of the other funds or services operated by Mercer entities whether in Australia or internationally.

Mercer has co-operated with ASIC throughout and has reviewed its practices in relation to marketing and disclosures for its products.

## TRUSTEE'S COMMENTS

As it relates to the Taungurung Trust the impacts of higher-than-expected inflation meant that its annual investment return fell short of meeting its CPI linked investment return objective. 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, based on an adjustment to its SAA, subsequently agreed to by the Taungurung Board. 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 Taungurung 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  
13 November 2023



Lisa Norden  
Company Secretary  
13 November 2023