

The Trustee, the Victorian Traditional Owners Funds Ltd (VTOFL), presents the Report Card for the 2019 financial year for Victorian Traditional Owners Trust - Gunaikurnai Land & 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 trust agreement has a duration of 20 years of which 12 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 invested the funds in secure term deposits with the National Australia Bank.

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

The 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).
- achieve a targeted capital sum on the termination date, 4th October 2031, of \$10,000,000 (being the settlement sum) adjusted for inflation.

The investment strategy to 30 June is to earn an average annual return of CPI + 3.8% (after fees) with a probability of negative returns once in 5.7 years.

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 strategic asset allocation of the combined investment in the three VFMC investment products is cash (33%) fixed interest (29.5%) Australian equities (26.75%) and international equities (10.75%). 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 2019 and 2018. 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 2019 and 2018:

	<b>2019</b>	<b>2018</b>
	\$	\$
VFMC Capital Stable	6,525,373	6,149,471
VFMC Balanced	7,327,449	7,068,735
VFMC Growth	751,310	738,241
Total investments with VFMC	<u>14,604,132</u>	<u>13,956,447</u>
Other Assets less accrued expenses	134,454	61,124
Total Equity	<u><u>14,738,586</u></u>	<u><u>14,017,571</u></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 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**

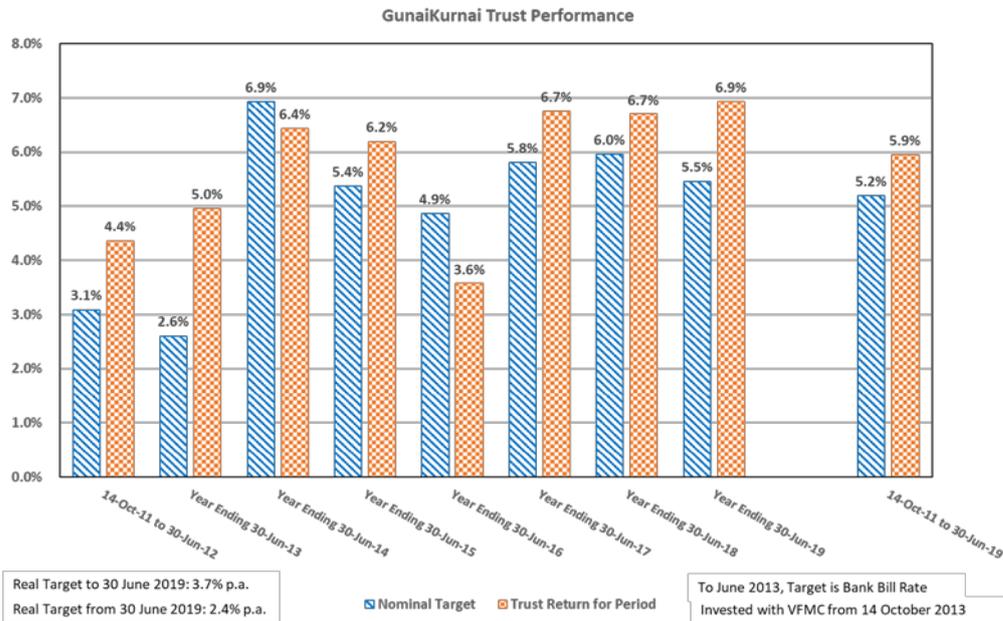


Table 2 below shows the actual performance of the Gunaikurnai Trust against its investment target.

**Table 2 Actual Performance Against Investment Strategy Target**

	CPI growth	Margin	Target	Trust Growth %
Jun-12	1.2%	1.9%	3.1%	4.4%
Jun-13	2.4%	0.2%	2.6%	5.0%
Jun-14	3.1%	3.8%	6.9%	6.4%
Jun-15	1.6%	3.8%	5.4%	6.2%
Jun-16	1.1%	3.8%	4.9%	3.6%
Jun-17	2.0%	3.8%	5.8%	6.7%
Jun-18	2.2%	3.8%	6.0%	6.7%
Jun-19	1.7%	3.8%	5.5%	6.9%
	Per annum			Ave Per annum
Past eight years combined	2.1%	3.1%	5.2%	5.9%

For the 2019 financial year the Gunaikurnai Trust met its investment target of CPI (1.7%) plus the Margin (3.8%), or a Target of 5.5%. The actual return was 6.9%.

The average annual return since the Gunaikurnai Trust was established has been 5.9% compared with a target of 5.2%.

Table 3 below summarizes the key changes in the balances over the last eight years.

Financial year ending	Balance at start	Growth	Withdrawal	Balance at end	Growth
Jun-12	\$ 10,000,000	\$ 435,697	-	\$ 10,435,697	4.4%
Jun-13	10,435,697	517,306	-	10,953,003	5.0%
Jun-14	10,953,003	703,729	-	11,656,732	6.4%
Jun-15	11,656,732	721,308	(100,000)	12,278,040	6.2%
Jun-16	12,278,040	438,532	(145,000)	12,571,572	3.6%
Jun-17	12,571,572	848,012	-	13,419,583	6.7%
Jun-18	13,419,583	897,988	(300,000)	14,017,571	6.7%
Jun-19	14,017,571	971,015	(250,000)	14,738,586	6.9%
		5,533,586	(795,000)		

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 \$5,533,386. Distributions have been \$795,000.

The initial capital sum adjusted for changes to the Consumer Price Index was \$11,480,000 at 30 June 2019.

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

	2019	2018
	\$	\$
Trust Equity at beginning	14,017,571	13,419,583
Add		
Return from funds invested	844,584	842,987
Franking credits	142,684	60,410
Resources received free of charge	153,103	113,121
Less		
Trust's share of VTOFL expenses	(153,103)	(113,121)
Audit fees	(16,253)	(5,411)
Other expenses	-	2
Less		
Distributions paid	(250,000)	(300,000)
Trust Equity at end	14,738,586	14,017,571

#### **REPORT ON SIGNIFICANT CHANGES AND LIKELY DEVELOPMENTS**

During the financial year VTOT was wound up and divested into two separate trusts to manage the settlement funds of the two Traditional Owner Groups that had settlement sums paid into VTOT. The separate trusts for each Traditional Owner Group were established with effect from 1 July 2018 by an amendment to the initial Trust Deed signed on 25 September 2018.

During the year VTOFL engaged Willis Towers Watson to review the economic and investment assumptions upon which the investment target and investment strategy were based. The advice is 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;
- the low bond returns are the basis on which other low investment returns are set.

Given the outcomes of the review, VTOFL has set the investment return target for the Gunaikurnai Trust at 4.5% p.a. or 2.4% real p.a. from 1 July 2019. This is a reduction in the real return of 1.4%. The implications for GLaWAC is that if this return is achieved, VTOFL will still be able to meet the minimum annual funding amounts each year, and will be able to achieve a termination amount of \$10 million (CPI adjusted) on 13 October 2031, the termination date of the Gunaikurnai Trust.

During the financial year VTOFL commenced a review of its fund management arrangements. After the end of the financial year VTOFL issued a selective tender to a number of fund managers including VFMC, seeking expressions of interest to manage the Gunaikurnai Trust. VTOFL is currently considering the expressions of interest received.

After the close of the financial year VFMC advised it would make minor changes to the strategic asset allocation of its investment products. These changes include the introduction of an exposure to emerging market debt and US bonds and an increased exposure to international equities and a reduction in Australian equities. VFMC has also moved to give itself more flexibility to manage the exposure to foreign currencies by removing the intent to hedge 50% of the exposure. VTOFL will monitor the introduction and impact of these changes.

#### **VFMC REPORT ON INVESTMENT CLIMATE**

VFMC, in its Annual Investment Report, reported that the 2018-19 financial year provided a roller coaster ride for investors, albeit ending with materially positive returns for both equities and bonds. Equity markets declined sharply in the December quarter as muted inflation pressures, US-China trade tensions and other geopolitical factors increased worries about the trajectory of the global economy. Central banks were forced to shelve plans to tighten monetary policy further and instead signal that policy easing was likely. The switch in policy bias subsequently underpinned a rebound in equities over the second half of the year, although a trade-related hiccup in May highlighted the sensitivity of market sentiment to such developments. VFMC's asset allocation moved to a small underweight in global equities in June, while maintaining a neutral position in domestic equities and bonds and an underweight to the Australian dollar.

VFMC reported that a strong rebound in equity markets over the second half of 2018-19, supported by reassurance from central banks on continuing monetary policy accommodation, led to the Growth Fund recording higher absolute returns than the Balanced Fund which returned higher returns than the Capital Stable Fund, despite very high returns from bond markets as bond yields continued to decline.

VFMC reported that over the year, Australian equities returned over 11% and fixed interest over 9% as the 10yr bond yield halved from 2.64% to 1.32%, while the Australian dollar declined 5% against a strong US dollar. US equities outperformed other international markets, which were relatively weak as growth and trade tensions dominated.

The VFMC explained that the three funds underperformed their benchmarks over the year, with those more heavily weighted in Australian and International equities, namely the Growth and Balanced Funds, experiencing the more significant underperformance, as sector and stock selection strategies in both these asset classes detracted value. In particular, the Value managers in each asset class struggled in a year in which most domestic active managers underperformed.

#### **VFMC's THREE SCENARIO ECONOMIC AND INVESTMENT FRAMEWORK**

VFMC's Central Scenario assumes a manageable global growth slowdown for the remainder of 2019. The patient tone displayed by global central banks from the March quarter and communication over the June quarter suggesting the possibility of rate cuts, should sustain the positive risk sentiment that markets have enjoyed thus far. However, future equity price gains are likely to be more modest given current growth and valuation levels, and geo-political developments still have the power to unleash a renewed risk-off focus.

By contrast, VFMC's Negative Scenario recognises that geo-political developments, principally centred on a reescalation of trade tensions still have the power to upset equities and unleash a renewed risk-off phase in markets. In this context, the risk of a US / global recession later in the year or in 2020 is non-trivial and any signs of a material growth downgrade will be quickly incorporated into asset prices.

The Positive Scenario is one where the stronger capital expenditure and productivity cycles allow a continuation of above trend non-inflationary growth and only modest (or no) central bank policy tightening from here. This allows the global growth cycle to stay strong and extend well beyond 2019.

**VFMC's OUTLOOK**

Over the first half of the financial year, tighter financial conditions, signs of more broad-based global economic weakness and ongoing trade tensions between the US and China served to increase the downside risks to global growth heading into 2019.

This prompted a lift in the probability of VFMC's negative macro scenario from 20% to 30%, which was subsequently moderated as early in 2019 central banks having shelved plans to lift interest rates and trade tensions eased. The June quarter preserved the core macro scenario at 65%, the positive scenario at 10% and the negative scenario at 25%.

As approved by the Directors of VTOFL.



Elizabeth Eldridge

Chair

9-Dec-19



Ian Gaudion

Company Secretary

9-Dec-19