Victorian Traditional Owners Funds Limited
A Company Limited by Guarantee
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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 2022 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, retired 12 September 2022

Glen Gerald Brennan (PSM)

Susanne Dahn

Neil Donald Westbury (PSM)

Kim Bowater, appointed 27 October 2022

GOVERNANCE CHANGES

Chairperson and Director, Elizabeth Eldridge, retired from VTOFL when her appointment expired in September 2022. Fellow Directors noted Ms Eldridge's outstanding leadership and contribution to VTOFL over many years dating back to its original establishment. This was further reflected by the fact she had attended every meeting of the Board during her appointment.

As a result of Ms Eldridge's departure fellow Board member Neil Westbury assumed the role and responsibilities of Chairperson.

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 9 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 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.

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.

The Gunaikurnai Trust funds were transitioned during October and November 2021 from VFMC to the Mercer Conservative Growth Fund (30%) and the Mercer Moderate Growth Fund (70%).

The investment strategy target split between defensive and growth assets of 52% and 48% respectively.

Table 1 below sets out the value of funds invested with Mercer as at 30 June 2022 and VFMC at 30 June 2021. It also reports 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 2022 and VFMC Funds at 30 June 2021:

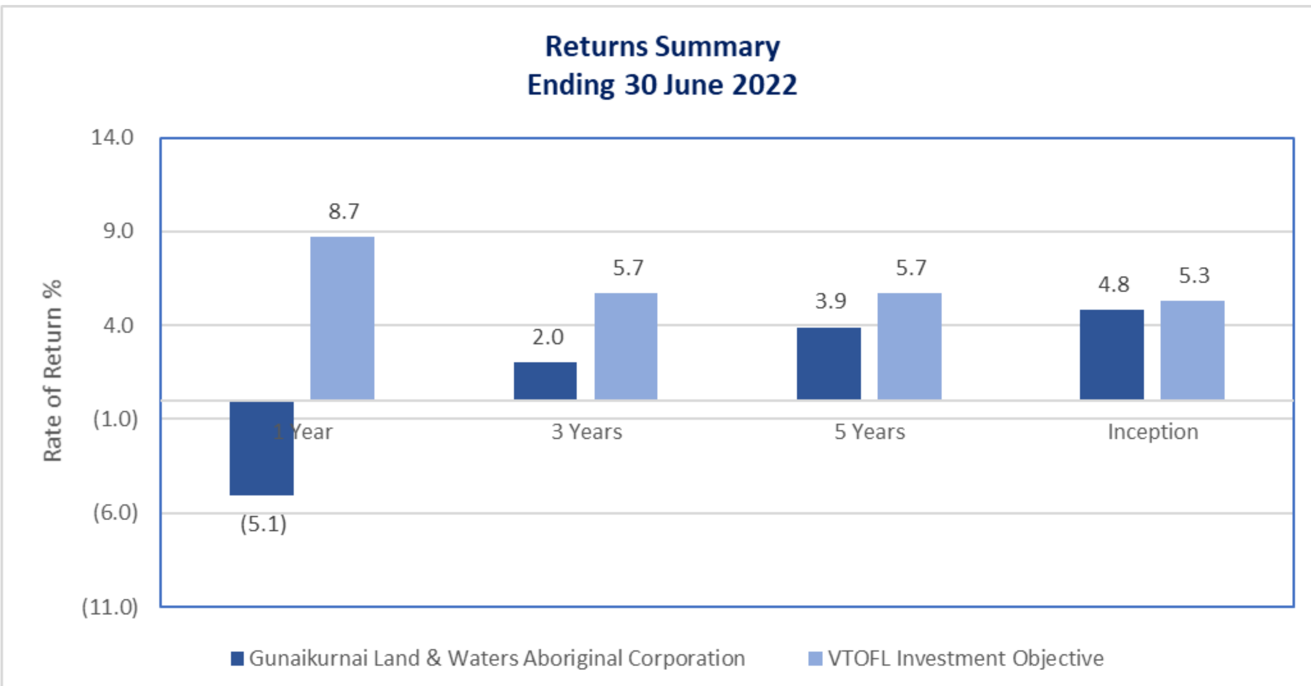
	2022	**2021**
	$	**$**
Mercer Moderate Growth Fund	10,495,975	
Mercer Conservative Growth Fund	4,559,150	
VFMC Capital Stable		6,994,455
VFMC Balanced		8,284,419
VFMC Growth		822,930
Total Funds	15,055,125	16,101,804
Other Assets less Accrued Expenses	78,531	23,633
Total Equity	15,133,656	16,125,437

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, Mercer and franking credits less expenses.
The investment target was changed during the year, so the current year figure is blended.

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 actual performance of the Gunaikurnai Trust against its investment target.

Table 2	Total Trust			
	CPI Return	Margin	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%
30-Jun-2022	6.1%	2.6%	8.7%	-5.1%
To 30 June 2022 (cumulative %)			**74.3%**	**66.0%**
To 30 June 2022 (% p.a.)			**5.3%**	**4.8%**

For the 2022 financial year the Gunaikurnai Trust under performed against its investment target of CPI (6.1%) plus the Margin (2.6%), or a Target of 8.7%. The actual return was -5.1%.

The average annual return since the Gunaikurnai Trust was established has been 4.8% compared with a target of 5.3%.

Table 3 below summarises the key changes in the balances over the last 11 years.

Table 3	Total Trust					
	Opening Balance $	Net Investment Gain $	Withdrawals $	Closing Balance $	Gain in Net Assets	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%
30-Jun-2022	16,125,437	(806,291)	(185,500)	**15,133,646**	-5.0%	8.7%
To 30 June 2022	**10,000,000**	**6,467,787**	**(1,334,140)**	**15,133,646**	**66.0%**	**78.7%**

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 $6,467,787. Distributions have been $1,334,140.

The initial capital sum adjusted for changes to the Consumer Price Index was $12,635,200 as at 30 June 2022**.**

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

	2022	2021
	$	$
Trust Equity at Beginning	16,125,437	14,755,441
Add		
Return from funds invested	(1,042,040)	1,534,922
Realised gain on sale of investments	165,359	-
Franking credits	75,450	18,224
Resources received free of charge	120,000	107,000
Other income		
Less		
Trust's share of VTOFL expenses	(120,000)	(107,000)
Audit fees	(5,060)	(4,510)
Distributions paid	(185,500)	(178,640)
Trust Equity at end	15,133,646	16,125,437

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. It is intended that from 2023 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.

REPORT ON SIGNIFICANT CHANGES AND LIKELY DEVELOPMENTS

During the 2022 financial year, Gunaikurnai Land & Waters Aboriginal Corporation (GLaWAC) Trust's investments were transferred from VFMC into the Mercer Conservative Growth Fund (30%) and the Mercer Moderate Growth Fund (70%). Furthermore, the investment objective changed from CPI +2.4% to CPI +2.6%, effective from 1 January 2022.

Additionally, Mercer Australia (Investment) Limited (Mercer) undertook a strategic review of the GLaWAC Trust's investment strategy and financial objectives using Mercer's March 2022 capital market aware assumptions (CMAs). Geopolitical turbulence, the Russia-Ukraine conflict, tightening financial conditions and sharply rising global inflation have defined the past financial year and has resulted in challenging market conditions. Despite this, given rising yield rates, 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 GLaWAC Trust has a probability of around 75.4% of achieving its current real return target of 2.6% per annum. Following the strategic review, no changes have been made to the current asset allocation and there is expected to be a median balance of around $26.1 million in the Trust when the Trust terminates.

MERCER'S ANNUAL INVESTMENT REPORT

Sustainability

At Mercer, sustainability is a key investment belief. Mercer believe a sustainable investment approach is more likely to create and preserve long-term investment capital, and more specifically, that:

- Environmental, social and governance (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 in the best interests of all investors.

Key highlights from Mercer's annual sustainable investment report were:

- Climate Change
  - Net zero carbon emissions implementation and tracking underway
  - All key asset classes at an aggregate level had weighted average carbon intensity below the benchmark
- Diversity, equity and inclusion (DEI)
  - 89% of Mercer's appointed investment managers have a firm-wide DEI policy
  - 24% of Mercer's appointed investment managers' decision makers identify as non-male
- Investments
  - Continued to focus on sustainability themed allocations within the sustainability labelled funds and investment options
- Exclusions
  - Continued to monitor and ensure compliance with Mercer's fund wide (tobacco and controversial weapons) exclusion commitments
- Modern Slavery
  - Identified no modern slavery red flag holdings in any of the Mercer Funds

Mercer's policies include:

- Sustainable Investing Policy (this includes our Proxy Voting Policy and Exclusions framework)
- Investment Approach to Climate Change
- Modern Slavery Policy
- Investment Approach to Modern Slavery

Over the 2021 financial year Mercer delivered on their policy and portfolio implementation commitments, whilst strengthening their position on climate change by announcing a net-zero by 2050 target for investments managed by Mercer with an expectation to reduce emissions by 45% from 2020 baseline levels by 2030.

The importance of social factors ('S' of ESG) emerged as a key trend during the pandemic and this received much focus in Mercer's engagements with investment managers as well as companies. For instance, Mercer initiated tracking diversity statistics of their appointed investment managers. Data capture on ESG metrics is an integral first step to be able to engage effectively and influence positive change. Mercer also recently published their inaugural Investment Approach to Modern Slavery document that outlines their framework for assessing modern slavery risk within their funds.

Active Ownership
Mercer believes that active ownership is one of the most powerful mechanisms to effect meaningful and lasting change. It is an opportunity to enhance the value of companies and markets through voting and engagement.

While proxy voting is typically outsourced to investment managers and may sometimes lead to mixed votes, Mercer retains the right to direct a 'Super Vote' which overrides the investment manager's votes on any resolution in circumstances where Mercer believes that a significant matter is in the best interest of investors. A brief example of recent engagement with Rio Tinto where a supervote was used is below.

> **Rio Tinto**
> Mercer expects executive remuneration to be aligned and commensurate with long-term stakeholder value creation.
>
> Mercer's key concern in reviewing Rio's 2021 remuneration report related to the size of the unvested equity awards for the former CEO Jean Sebastien Jacques in light of the Juukan Gorge incident. As such, Mercer used a super vote to vote against the company's remuneration proposal.
>
> The company subsequently recorded a remuneration strike at its AGM revealing widespread investor discontent on the issue.

Investment Market Overview
Geopolitical turbulence, volatile markets, tightening financial conditions and sharply rising global inflation have defined 2022 and materially impacted markets over FY22. Over the 12 months of June 2022, Australian Equities have decreased by -6.8%, driven by inflationary pressures, the prolonged Russia-Ukraine conflict and recession concerns. Furthermore, equity valuations have decreased and moved closer to fair value given the increase in interest rates. Fixed Interest also declined over the past financial year, with Australian Government Bonds and Overseas Government Bonds down by -10.8% and -9.3%. This unusually negative result in government bond returns occurred over the year as economies shifted from the 'easy money' environment we have been in for years to one where governments and central banks have reduced stimulus

and increased interest rates rapidly to manage rising inflation brought on by the stimulatory economic environment, supply chain issues brought on by various government initiated lockdowns and the Russia-Ukraine conflict. The rapid increase in interest rates negatively impacted the return on bonds in the first half of the year. Although this is unexpected from a defensive asset class such as Fixed Interest, it does occur from time to time, particularly in periods where this is significant uncertainty around growth and inflation, as previously seen during the 1970s recession, 1987 stock market crash and 2013 during the 'taper tantrum'.

Asset classes more vulnerable to sentiment and economic woes (such as small cap shares and emerging markets) were more severely impacted compared to their developed and large cap counterparts. Hedged asset classes underperformed unhedged asset over the year as the Australian dollar depreciated. High quality direct property and unlisted infrastructure investments were one of the few asset classes to provide capital protection during this period.

The broad-based sell-off across markets in FY2022 comes off the back of an exceptionally strong FY2021 which saw share market returns in excess of 30% and solid returns across listed and unlisted real assets.

Market Update

The global economy has entered a more challenging phase with central banks raising interest rates to explicitly engineer a period of weaker growth to reduce inflationary pressures. Many central banks have signaled that they intend to take interest rates higher than they have been in years, particularly as they which remain at low levels compared to historical averages. This inevitably raises the question of whether this will push economies into recession.

The outlook for inflation is unusually uncertain at the moment. At nearly 10% in many parts of the developed world, current inflation rates are at the highest level in decades. There are good reasons to expect inflation to fall from here although how far and how fast is the key unknown. The inflation rate in energy and some other commodities is set to fall sharply on a year-on-year basis as past rises fall out of the year-on-year numbers. In addition, commodity prices have fallen significantly recently with, for example, wheat prices back at levels seen before the Russian invasion of Ukraine. Finally, there are also signs of some of easing in the supply chains that have contributed to elevated prices in many goods.

Key central banks are set to continue to raise interest rates aggressively in near term regardless of the near path for both growth and inflation. Interest rates are generally still low and central banks want to return them to at least neutral levels in the near term. Neutral is hard to quantify, but Mercer expects 3% in the US, 2% in the Eurozone and Australia. After these initial moves higher, central bank action will depend on what happens to inflation and growth. Mercer expect monetary policy to reach tight levels in the UK and the US, although not necessarily in the Eurozone.

Within Australia, recent economic data releases indicate that the pace of growth remains positive so far, albeit with some areas of weakness. Pleasingly, there have been further signs of the recovery broadening from the COVID-related lockdowns, with increased demand for discretionary goods and services from households. Unfortunately, like most of the world, this has also resulted in a broadening of price pressures as well, leading to inflation indicators to rise notably higher. Looking ahead, the tailwinds to China's economy should be helpful Australian economy, in particular relative to other developed economies.

As at the time of writing, Mercer's view of the base case is for a 'soft' landing or mild recession in the US, in part due to the state of household and corporate balance sheets. However, given the unprecedented conditions we have come from, the range of scenarios is larger than normal at present, particularly to the downside. Sentiment appears to be low and valuations have improved, however changes in valuations in global equity markets do not yet appear to be reflecting a deterioration in earnings expectations but rather appear to have adjusted for a rise in the discount rate only. Mercer has a slightly more favourable view to fixed income compared to recent years, largely reflecting the rise in yields.

TRUSTEE'S COMMENTS

As it relates to the GLaWAC Trust, the normally expected benefits of portfolio diversification did not play out for the most recent financial year, as the investment markets grappled with the radically changing inflationary environment that has not been seen in decades. However, 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 earlier in the year which showed a high 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 continue to monitor investment markets for the opportunity or need to reconsider the current GLaWAC SAA and investment strategy.

As approved by the Directors of VTOFL.

Neil Westbury PSM
Chairperson
20 December 2022

Lisa Norden
Company Secretary
20 December 2022