

VFMC Modern Slavery Statement

FY2023



Improving the future prosperity of Victoria

1 Australian Modern Slavery Act 2018 (Cth) Reporting Criteria

Criterion	Reference Page
<i>Identify the reporting entity</i>	<i>Section 2: Reporting Entity</i> Page 3
<i>Describe the reporting entities':</i> <ul style="list-style-type: none"> • <i>Structure</i> • <i>Operations</i> • <i>Supply chains</i> 	<i>Section 3: About VFMC</i> Page 4 Page 5 Page 6
<i>Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities it owns or controls</i>	<i>Section 4: Approach to Modern Slavery Risk</i> Page 7
<i>Describe the actions taken by the reporting entity and any entities it owns or controls to assess and address these risks, including due diligence and remediation processes</i>	<i>Section 4: Approach to Modern Slavery Risk</i> Page 9
<i>Describe how the reporting entity assesses the effectiveness of these actions</i>	<i>Section 4: Approach to Modern Slavery Risk</i> Page 10
<i>Describe the process of consultation with any entities the reporting entity owns or controls (a joint statement must also describe consultation with the entity giving the statement)</i>	<i>Section 2: Reporting Entity</i> Page 3
<i>Provide any other relevant information</i>	<i>Section 5: Modern Slavery Activities for the year ahead</i> Page 13

2 Reporting Entity

Victorian Funds Management Corporation (**VFMC**) provides investment and funds management services to Victorian public authorities.

VFMC and the following investment trusts, of which it is the sole trustee, are reporting entities of this joint Modern Slavery Statement (**Statement**):

- VFMC Fixed Income Trust
- VFMC Cash Trust
- VFMC Equity Trust 1
- VFMC Equity Trust 2
- VFMC International Equity Trust 1
- VFMC International Equity Trust 2
- VFMC Low Volatility Equity Trust 1
- VFMC Low Volatility Equity Trust 2
- VFMC Emerging Markets Trust
- VFMC Investment Trust IV
- VFMC Inflation Linked Bond Trust
- VFMC Emerging Markets Debt Trust 2
- VFMC Opportunistic Strategies Trust
- VFMC Growth Fund

VFMC is the trustee for other Investment [unit] trusts, which are below the \$100m threshold requirement, as set out in the FY23 Annual Report. This is VFMC's third Statement under the Australian *Modern Slavery Act 2018* (Cth) (**MSA**), and it is a joint statement made pursuant to section 14 of the MSA, on behalf of VFMC in its own right and as trustee of the entities listed above. The trusts do not have employees and are used solely to facilitate VFMC's investments. As these entities are under the sole operation and governance of VFMC as trustee, VFMC policies and processes (including arrangements under the modern slavery program) were formulated in connection with, and apply to, all the investment trusts. VFMC is a single entity, but it is recognised as a separate reporting entity in its capacity as Trustee for each of the investment trusts listed above. In this respect consultation across those respective reporting entities is effectively achieved through the joint consideration, approval and application of its policies and processes by the VFMC Board of Directors, its Executives, Corporation Secretary, Investment Stewardship team and supporting business units.

This Statement outlines the actions taken by VFMC and all entities it owns or controls to identify and address the risk of modern slavery in its business operations, supply chain and investments for the year ending 30 June 2023 (FY23).

This Modern Slavery Statement was approved by the Board of Victorian Funds Management Corporation.

Signed – <i>Lisa Gay, Chair</i>	
Date <i>30/11/2023</i>	

3 About VFMC

VFMC is a contemporary public authority investing for the benefit of all Victorians, managing funds of \$73.7 billion¹ for 31 Victorian public authorities and related organisations.

It was established under the *Victorian Funds Management Act 1994* and is governed by an independent Board of Directors, whose members are appointed by the Governor in Council. The Chair and Deputy Chair are appointed by the Treasurer.

3.1 Purpose

VFMC’s diverse team is united by a single purpose: Improving the future prosperity of Victoria.

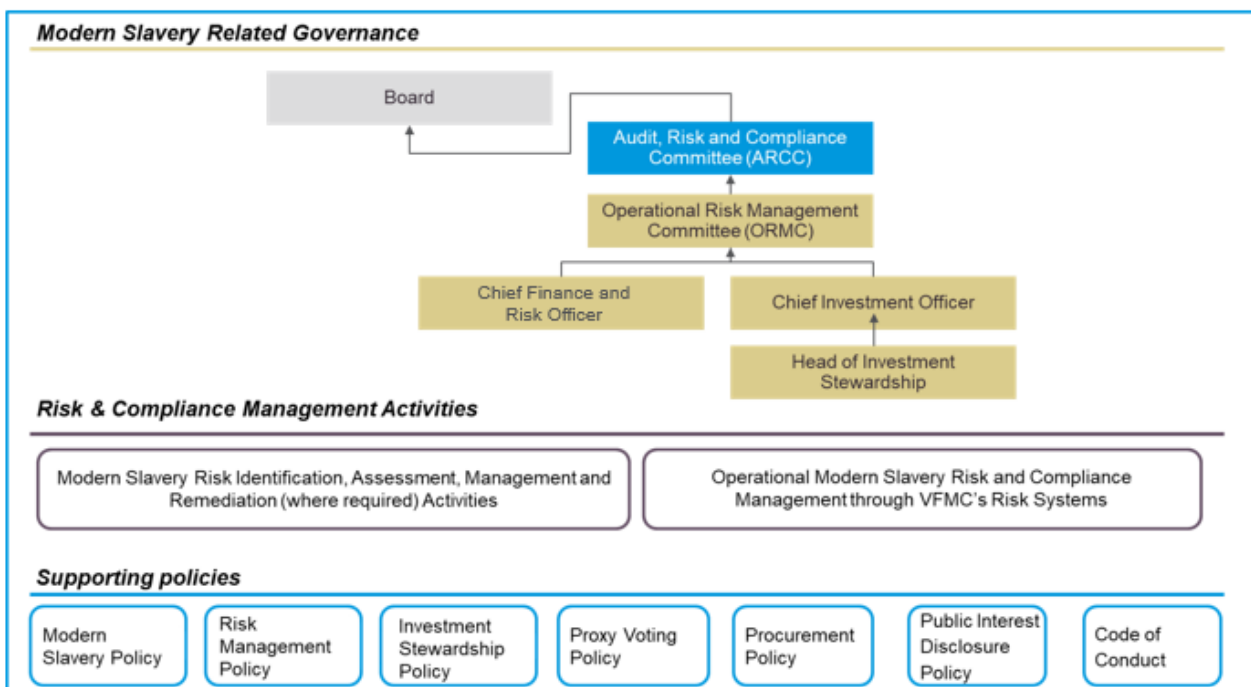
VFMC’s main objective is to manage the long-term investments of Victorian State Government entities using our well-defined investment approach, including tailored asset mixes where appropriate and incorporating sustainability considerations.

3.2 Governance and Policy Framework

The Investment Stewardship team has responsibility for identifying, managing and monitoring modern slavery related issues, with ultimate ownership by the Chief Investment Officer and oversight by the Board by way of a range of risk and compliance related committees.

A number of policies, as set out in Figure 1 below, support VFMC’s modern slavery risk and compliance activities. Please refer to VFMC’s corporate [website](#) for further information on its approach to corporate governance.

Figure 1: VFMC Modern Slavery Governance Structure



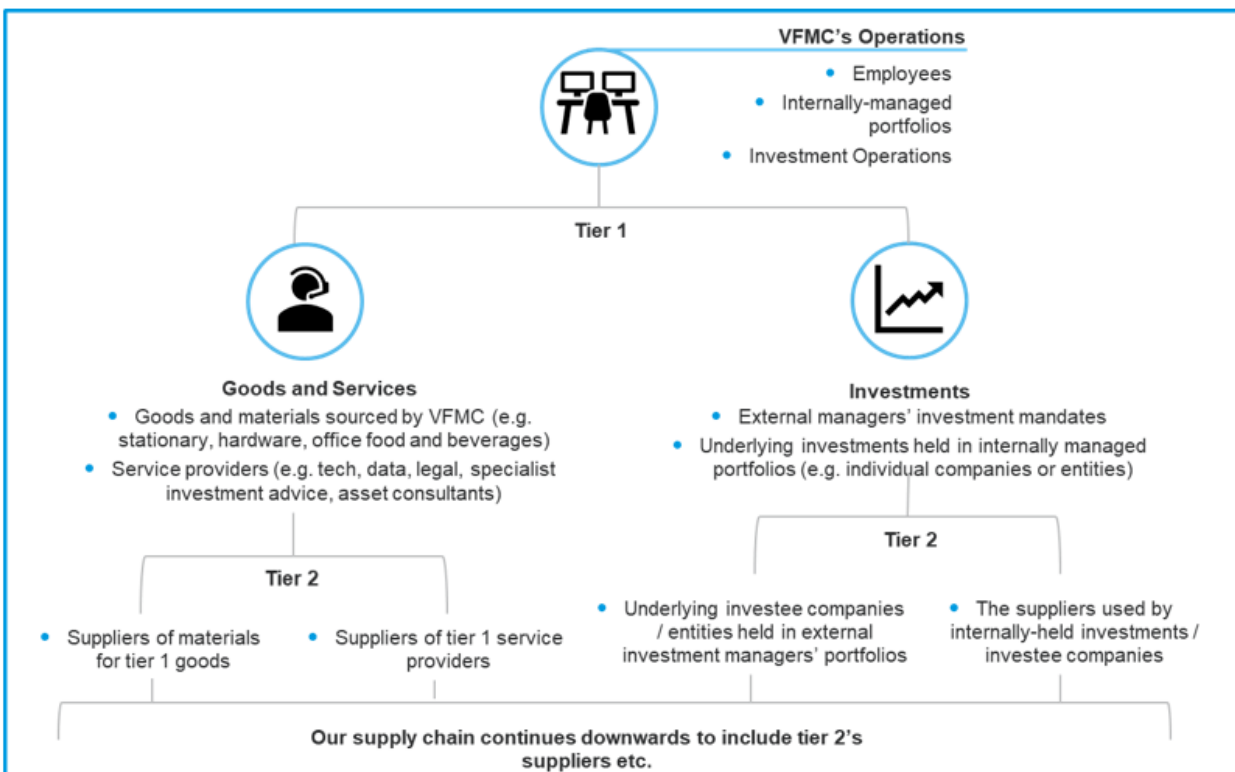
¹ As at 30 June 2023

3.3 VFMC's Supply Chain

VFMC recognises the value of human capital within organisations. It seeks to ensure investee companies and managers embrace business practices that safeguard labour rights and promote safe operating environments for their people.

In developing VFMC's [Modern Slavery Policy](#) and approach to managing modern slavery risk, VFMC has considered the nature of activities across its operations and supply chains where modern slavery risks may exist. VFMC's operations and supply chain include third parties and outsourced providers appointed for the purpose of providing investment services and supporting the business operations, which are asset management related. An indicative overview of VFMC's operations and supply chains are outlined below in Figure 2.

Figure 2: VFMC's high level supply chain



VFMC Operations

VFMC employs 135 people, and its operations are headquartered in Melbourne, Victoria in Australia. In the general course of business and as part of our commitment to flexible and hybrid ways of working, some of our people may work in locations outside Victoria, from time to time in accordance with our Flexible Working Policy. All of these arrangements are undertaken in line with Australian employment law. VFMC's workforce consists of predominantly permanent employees across a variety of professional roles. A breakdown of employees is provided in the VFMC Annual Report.

VFMC manages investment risks and builds portfolios that aim to optimise returns and meet client objectives. Its operations and supply chain include third parties and outsourced providers appointed for the purpose of providing investment services and supporting business operations which are asset management related.

VFMC offers a range of investment and related services, including:

- developing strategic asset allocations for Foundation Centralised Investment Management (CIM) clients;
- designing and offering suitable investment products for other public authorities and related organisations;
- implementing investment strategies;
- offering investment guidance;
- providing internal funds management;
- selecting external fund managers and monitoring their performance;
- providing integrated investment stewardship (environmental, social and governance) services and guidance;
- providing proxy voting services; and
- monitoring of risk and compliance.

VFMC offers its clients the benefits of scale, by providing access to opportunities and investment management expertise that may not be directly available to them at a competitive cost. This expertise is drawn from a combination of internal investment management and external fund managers. Internal management is utilised where VFMC has the capabilities to generate superior risk adjusted performance net of fees. Approximately 26% of VFMC's funds are managed internally.

VFMC also provides clients, including their boards and committees, with monthly updates, detailed quarterly performance reports and regular insights on investments and broader global trends. This keeps clients informed of the current performance of their investments, as well as potential drivers of and impacts on future performance.

Effective management of environmental, social and governance (ESG) risks is integral to VFMC's investment processes. VFMC believes that being an active steward of investment capital adds value to clients' portfolios by managing risks, identifying opportunities and influencing positive ESG outcomes in the value chains of its operations and portfolio. VFMC became a signatory to the UN-supported Principles for Responsible Investment (PRI) in 2007 and regularly collaborates with peer investors and other industry participants.

VFMC Suppliers

VFMC has a significant network of local and global suppliers, with goods and services procured to support its investment management operations. VFMC has 250 Tier 1 suppliers, including investment managers, with the main supply chain categories comprising professional and advisory services, software and technology, financial, and investment management expenses. These categories account for approximately 80% of suppliers by count and approximately 90% of supplier spend.

Irrespective of whether they are themselves captured by the MSA, VFMC expects its suppliers to actively implement adequate measures to identify, assess and address the risk of modern slavery in their own operations, supply chains and investment activities.

As a Victorian Public Sector Entity, VFMC's current procurement activity is governed by the Victorian Government's Social Procurement Framework, which seeks to use VFMC's buying power to generate social value above and beyond the value of the goods and services being procured.

VFMC's procurement activity also aligns with the Victorian Government's Code of Conduct for suppliers, which works to ensure that businesses and supply chains meet expectations around integrity, conflict of interest, corporate governance, labour and human rights, health and safety and environmental management. If requested by the State, suppliers must provide evidence and confirmation of their compliance with the Code of Conduct, including the provision of documents and records that support their compliance.

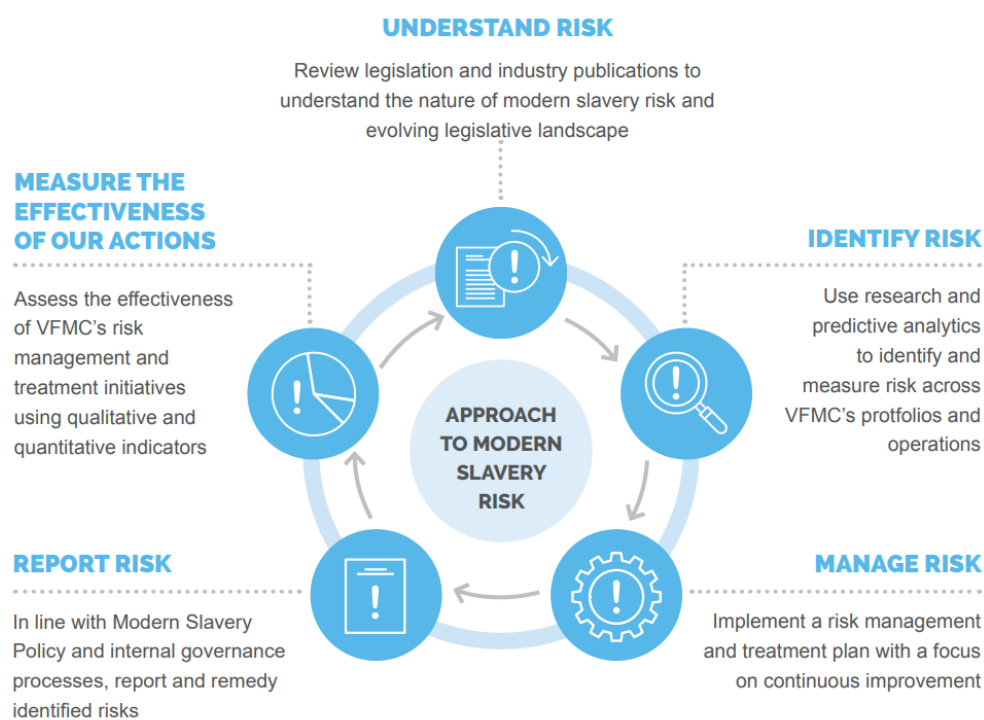
VFMC Investments

VFMC's internally and externally managed portfolios are invested across a range of asset classes and across the globe, with Tier 1 and 2 investments spanning 66 countries. These include Australian and International Equities, Infrastructure, Property, Hedge Funds, Private Credit, Emerging Market Debt, Inflation Linked Bonds, Australian Bonds, US Bonds and Cash. Figure 4 below provides a breakdown of VFMC's investment portfolio by geography.

4 Approach to Modern Slavery Risk

VFMC's approach to understanding, identifying, assessing and managing modern slavery risks in its operations and supply chain is informed by regulation, industry guidance and research resources. An overview of VFMC's approach is set out in Figure 3.

Figure 3: VFMC's approach to Modern Slavery Risk Assessment Management and Mitigation



4.1 Understanding Modern Slavery Risk

Modern slavery refers to situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception, or abuse of power. It is a hidden crime that affects every country in the world².

In complying with the MSA and in line with the UN Guiding Principles on Business and Human Rights, VFMC seeks to continually develop its understanding of modern slavery, its risk, and prevalence in its value chains, to better address human rights risks related to business activities. This understanding also supports VFMC's efforts to create resilient and stable operating environments, minimising the potential risk of business disruptions, penalties for non-compliance with human rights-related regulations, productivity challenges and broader reputational issues.

Key activities undertaken by VFMC in FY23 sought to progress its collective understanding of modern slavery risk in the context of its value chains; and reviewing and understanding the evolving regulatory and policy landscape.

² Walk Free (2022) "What is Modern Slavery?" <<https://www.walkfree.org>>

Examples of activities within these two streams of work are set out below.

Activities undertaken to develop understanding of Modern Slavery Risks

- Analysed the summary findings of the Modern Slavery Act 2018 Review and evaluated impacts to the organisation.
- Contributed to ACSI's written submission to the Modern Slavery Act 2018 Review; building on our experience in company engagement.
- Hosted a Modern Slavery Sovereign Wealth Fund Forum where VFMC shared insights and knowledge on the proposed changes to the Modern Slavery Act and implications for Asset Owners;
- Participated in ACSI's Social Factors Working Group where ACSI and its member funds look at developing research, policy positions and engagement with companies on certain social ('S') issues
- Participated in the Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative. This is an investor-led, multistakeholder project. It was established in 2020 to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. Specific IAST activities undertaken in FY23 to develop modern slavery risk comprehension included:
 - Participation in 10 IAST Training and Knowledge Sharing events.
 - Participation in Modern Slavery Data Development sub-working group, with a focus on understanding what data is available now. Progress was made towards developing a data framework for evaluating modern slavery risks for investee companies. The framework adopts a "Find it; Fix it; Prevent it" methodology.
 - Engagement with target companies to evolve their analysis to tier 2 and tier 3 suppliers.

Developments in the Modern Slavery Risk and Regulatory Landscape

Modern Slavery Act 2018 Review

The Review was tabled in Parliament in late May 2023 and made 30 recommendations, aimed at strengthening corporate Modern Slavery responses and increasing regulatory oversight of the law, including:

- Amending the MSA to require entities have a due diligence system in place;
- Introducing penalties for non-compliance with statutory reporting requirements (the Government has previously committed to the imposition of penalties);
- Lowering the reporting threshold from \$100M to \$50M;
- Strengthening the administration of the Act through proposed legislative amendments and expanded administrative guidance;
- Introducing new mandatory reporting criteria that would require an entity to report on:
 - modern slavery incidents or risks and track performance in addressing them;
 - grievance and complaint mechanisms made available by the entity to staff members and broader stakeholders; and
 - internal and external consultation undertaken by the entity on modern.

4.2 Identifying VFMC's Modern Slavery Risk

The prevalence of modern slavery and human rights risks are influenced by factors such as labour force structures, social, political and environmental conditions in the geographies within which it and its suppliers operate, regulatory and governance regimes, as well company specific organisational values. As supply chains are becoming increasingly global, dynamic, and complex, companies are increasingly exposed to business risks stemming from human rights issues embedded in or associated with their supply chains. To tackle the complexity of this risk, in FY21, VFMC used a proprietary model³ to analyse the inherent risk of modern slavery in its supply chains by examining the relationship between industry and country risk factors.

VFMC's modern slavery risk model incorporates the following key risk assessments:

1. Assessments of company-specific risk factors, reporting and risk management efforts

Bottom-up company specific assessments, and third-party assessments of modern slavery risk reporting, disclosure, remediation, and ongoing risk management efforts. These additional elements buttress the risk identification process and extend the assessment to capture actual instances of modern slavery in addition to residual risk.

This process update enables VFMC to monitor and assess identified modern slavery risks, incidents, United Nations Guiding Principles on Business and Human Rights (UNGP) breaches, remediation and ongoing risk management efforts. It also reflects industry best-practice guidance from ACSI, Investors Against Slavery and Trafficking (IAST), UNPRI, KMPG, Monash University and the Global Slavery Index.

2. Country Risk Data inputs

The Forced Labour Index calculates the prevalence of non-compliance with International Labour Organization (ILO) forced labor indicators and is supplemented by public domain and satellite data. Examples of violations include recruitment fees, retention of identity documents, forced overtime, restriction of movement and withholding of wages.

Where the Forced Labour Index does not cover a country, VFMC uses its 2020-2021 country risk assessment model, drawing from the following sources:

- Freedom in the World Report;
- Children's Rights Report;
- Human Trafficking Report;
- Corruption Perception Index;
- Civil Freedoms Index; and
- Global Slavery Index.

Overview of Modern Slavery Risk Identification Process in Investments

Figure 4 below details the three key steps that form VFMC's updated approach to modern slavery risk identification. This approach is deployed periodically as part of VFMC's modern slavery risk management process across the portfolio and complemented by live data alerts and due diligence ahead of new investments or manager appointments.

Figure 4: Overview of Modern Slavery Risk Identification Process in Investments

Stage A) Top-Down Multi Factor Risk Assessment (Country and Industry risk factors)

- Inherent Country Risk as determined by The Force Labor Index calculated based on the prevalence of non-compliances in accordance's with ILO forced labour indicators (MSCI ESG Manager, ELEVATE)
- Inherent Sector Risk based on the prevalence of high-risk modern slavery factors because of their characteristics and processes, such as widespread use of low skilled labour or reliance on outsourcing.

Stage B) Bottom-up Company Assessment of Risk Factors, looking at issues including:

- Identification of severe and very severe human right controversies counter to UNGPs and Global Norms
- Actual identified cases of "Labour Controversies" and "Working Conditions" controversies
- Workers' payment related factors like minimum wage, overtime and working hours can be combined to highlight the companies with best practices in place as per their supplier code of conduct

Stage C) Overlay 3rd Party Assessments of Modern Slavery Reporting and Risk Management Efforts

ASX300 Holdings

Ca) Overlay ACSI and Monash University assessments of Modern Slavery Reporting in ASX200 and ASX300

All Other Holdings

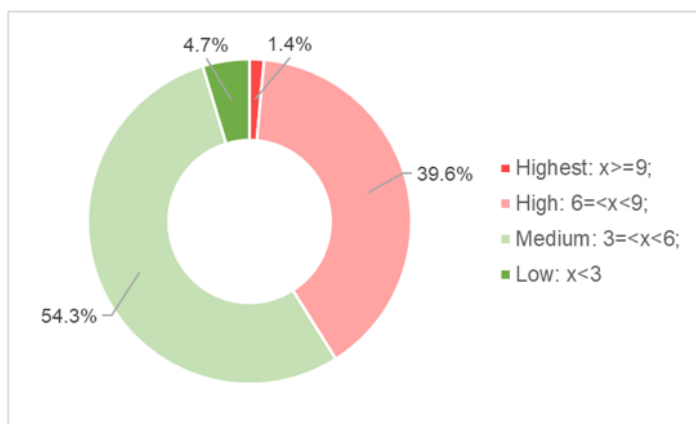
Cb) Overlay measures from data vendors MSCI and Bloomberg including general transparency, reporting quality, disclosure of non-compliance or violations, and remediation actions measures

4.2.1 Risk Assessment Results

Investments

VFMC undertook assessment of 23,796 holdings held within the Foundation Centralised Investment Model (FCIM) client portfolios as at 30 June 2023, across inherent country risk and inherent sector risk. \$71.3 billion in total is invested via FCIM portfolios, constituting 97% of the total funds under management at VFMC. However, country and sector-specific data coverage limitations meant the final results reflected 19,771 holdings, representing 83.1% of the holdings assessed.

The assessment found that the majority of VFMC holdings were in the low and medium risk category (54.3% and 39.6% respectively), with 1.4% of VFMC holdings in the highest risk category. Results are set out in Figure 5: Multi Factor Risk Model Results below:



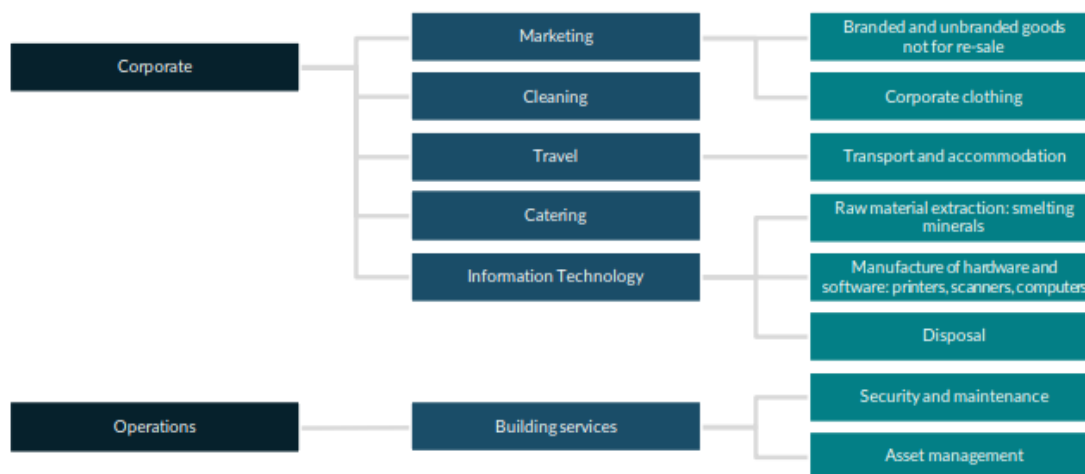
Disaggregating the country and risk factors used as inputs into the model, the following sectors and geographies were assessed to be highest risk for VFMC holdings:

Highest Risk Countries for VFMC's portfolio	Highest Risk Sectors for VFMC's portfolio
1. Liberia	1. Beverages
2. China	2. Construction and Engineering
3. Malta	3. Containers and Packaging
4. Thailand	4. Paper and Forest Productions
5. Philippines	5. Auto components
6. Mexico	6. Health Care Services
7. Venezuela	7. Integrated Oil and Gas
8. Malaysia	8. Reinsurance
9. Indonesia	9. Steel
10. Nigeria	10. Automobile Manufacturers

Goods and Services

Assessment of corporate suppliers across sector and country risk found the majority of VFMC's tier 1 and tier 2 suppliers to be low risk, with a material technology supplier identified as having elevated levels of modern slavery risk. This is consistent with the findings of ACSI and KPMG's research into common high-risk functions across financial services, as outlined in Figure 6 below.

Figure 6: Typical financial services procurement functions responsible for high-risk categories



4.3 Managing VFMC's Modern Slavery Risks

VFMC has integrated modern slavery risk and broad labour rights assessment analysis into its existing ESG assessment processes. It engages directly with many of its largest external investment managers and underlying investment companies as part of its active ownership activities.

Suppliers

In FY23, VFMC:

- progressed a review of its existing third-party contracts without modern slavery provisions, prioritised by risks;
- supported its people to be aware of modern slavery risks through training;
- included modern slavery due diligence into procurement processes through supplier risk assessment, supplier engagement and data gathering; and
- continually monitored and reviewed compliance through partnership between the Legal, Investments and Operations teams.

Investments

In FY23, VFMC:

- integrated Modern Slavery into key investment processes, including pre-investment due diligence, and new legal contracts (where possible);
- participated in various modern slavery and human rights collaborative initiatives, including the Investors Against Slavery and Trafficking (IAST) initiative; and
- voted in support of human rights related shareholder resolutions, where appropriate and relevant.

VFMC also undertook 9 targeted modern slavery engagements with external fund managers, investee companies and suppliers throughout FY23. This was supported by 39 engagements relating to labour and human rights issues more broadly. Drawing from IAST APAC's approach, VFMC structures its engagement around the "Find it, Fix it, Prevent it" approach to modern slavery, with examples of questions set out below.

	Find It	Fix It	Prevent It
Example of engagement questions	<i>Have you found modern slavery in your operations or supply chain?' and 'If not, can you demonstrate that you have rigorous processes in place to look for it?'</i>	<i>Have you effectively reported your actions and the steps taken to prevent a re-occurrence?</i>	<i>Have you effectively reported your actions and the steps taken to prevent a re-occurrence?</i>

Case Study: Engagement with an investee company within the Agriculture sector

Continuing VFMC's multi-year engagement with the company following its identified case of modern slavery, this financial year VFMC engaged with the company's board and management regarding its modern slavery risk management. The engagement was productive, and management was open and candid about the company's challenges and how it is responding to them, and management is looking into options to explore supply chains beyond Tier 1 and the use of labour agencies.

Future monitoring and engagement in 2024 will focus on:

- the need for the company to provide better transparency of the company's logistics supply chain given the elevated risk of the sector; and
- increased transparency of recruitment/labour agencies used in China. This has been taken on board by management.

Case Study: Engagement with an investee company within the Food and Beverage sector

As part of an Investors Against Slavery and Trafficking (IAST) collaborative engagement, alongside peer asset managers and asset owners and investors, VFMC engaged with the company to achieve:

- improvements to shipping and logistic supply chains with evidence of collaboration and increased disclosure of supplier mapping;
- the establishment of remediation processes in high-risk jurisdictions; and
- the expansion of modern slavery related training, mandated for all staff.

Following the engagement, the company's modern slavery statement demonstrated good progress from 2021 with structured reporting on its supply chain, remediation process and training for staff. However, the statement stopped short of providing a commitment to map Tier 2 supply chains.

4.4 Reporting Risk and Responding to Identified Cases of Modern Slavery Practices

Where incidents of modern slavery are identified in VFMC's indirect operations through its supply chain, VFMC will use its influence to promote a change in the supplier or investee company's business practices. In VFMC's investments, this will typically take the form of engagement with investee companies, fund managers and other suppliers and like-minded investors.

In line with VFMC's governance of modern slavery risk structure (refer section 3.2), any identified instances of modern slavery are reported to VFMC's Audit Risk and Compliance Committee (ARCC) via the Chief Finance and Risk Officer's reports.

VFMC reserves the right to terminate any contract or cease to hold an investment in its portfolio in instances where a modern slavery impact is irremediable, or where an investment manager, other supplier or investee has consistently, over a set timeframe, failed to implement appropriate due diligence measures regarding modern slavery risks in their operations or supply chain. Where required by law, VFMC will report any identified instances of modern slavery practice to the relevant authorities.

4.5 Measuring Effectiveness

Drawing on the MSA Guidance for Reporting Entities, VFMC has developed a framework to monitor the effectiveness of its ongoing modern slavery activities, including tracking the following indicators of progress:

- percentage of VFMC team members trained in modern slavery awareness;
- percentage of VFMC investment team members trained in modern slavery and human rights due diligence;
- percentage of engagements that discuss modern slavery and human rights;
- number of high-risk entities where further due-diligence is undertaken;
- number and percentage of new or renewed contracts containing modern slavery clauses; and
- number and percentage of identified high risk suppliers reviewed, with discussions held around modern slavery compliance.

5 Modern Slavery Activities FY2024

VFMC is planning to undertake the following actions in FY24 as part of its continuous improvement approach:

Policies, Process and Governance	<ul style="list-style-type: none"> • Review and refresh <i>Modern Slavery Policy</i> in line with evolving best practice expectations and updated Modern Slavery Act • Formalise review of modern slavery risk management effectiveness by ORMC • Continue to review legacy contracts for Modern Slavery Clause inclusion, prioritising those pertaining to supply chains with elevated modern slavery risk factors
Procurement and Operations	<ul style="list-style-type: none"> • Develop modern slavery risk training materials and deliver training to procurement and operations teams
Investments	<ul style="list-style-type: none"> • Continuously assess modern slavery risk, human rights related controversies and leading indicators of labour rights abuses, using its external ESG providers • Formalise integration of modern slavery key risk indicators into internally managed equities and fixed income ESG assessments • Engage with modern slavery risk laggards across the portfolio, and report outcomes as part of a multi-year engagement plan

-
- Systematically integrate Modern Slavery Clauses in all Investment Management Agreements (IMAs)

External
collaboration

-
- Continue active involvement in IAST APAC, working towards:
 - Creating a consistent industry framework for assessment modern slavery risk
 - Supporting modern slavery data development
 - Undertaking a coordinated engagement program to encourage companies to adopt best-practice approaches to identifying and mitigating modern slavery risk in company supply chains
 - Participate in UN PRI Advance Human Rights program to engage with high-risk entities around issues of modern slavery and human rights controversies.
-