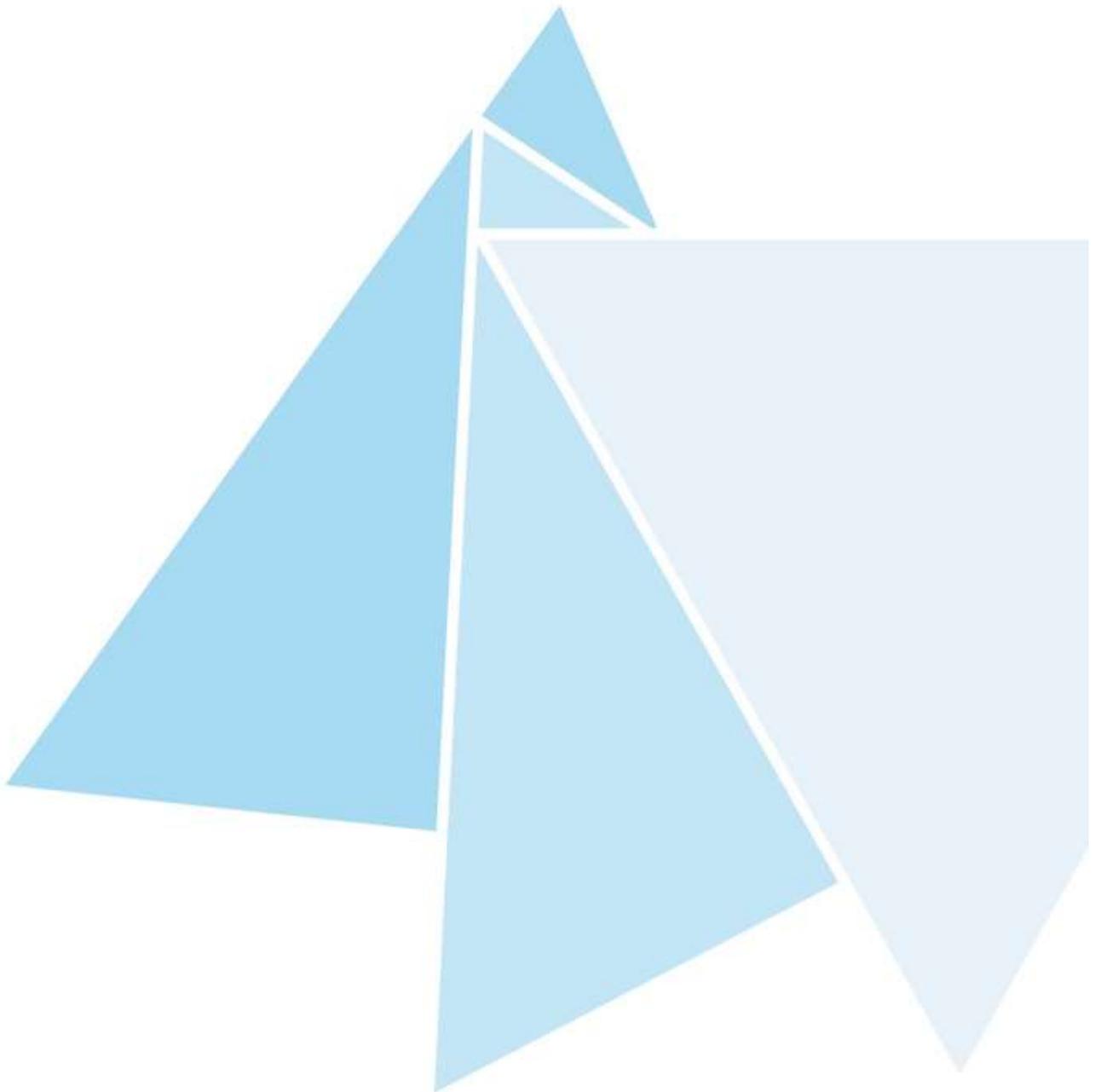


VFMC Modern Slavery Statement 2020-2021



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 entity's:</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: Our Approach to Modern Slavery Risk</i> Page 8
<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: Our Approach to Modern Slavery Risk</i> Page 9-10
<i>Describe how the reporting entity assesses the effectiveness of these actions</i>	<i>Section 4: Our Approach to Modern Slavery Risk</i> Page 10-11
<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 11

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:

- VFMC Equity Trust 1
- VFMC Equity Trust 2
- VFMC International Equity Trust 1
- VFMC International Equity Trust 2
- VFMC Emerging Markets Trust
- VFMC Investment Trust IV
- VFMC Inflation Linked Bond Trust
- VFMC Opportunistic Strategies Trust

All other investment trusts are controlled entities of VFMC, and below the \$100m threshold requirement.^[1] This is VFMC's second 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 so as to apply to, all of 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 2021 (FY21).

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

Signed – James MacKenzie, Chairman	
Date: 9 th December 2021	

^[1] See note 13 to the financial statements in VFMC's 2020-2021 [Annual Report](#) for a list of investment Trusts of which VFMC acts as trustee.

3 About VFMC

VFMC is a Victorian-based for-profit entity incorporated in Australia and established under the *Victorian Funds Management Corporation Act 1994*. We are a public authority and a body corporate governed by an independent Board of directors whose members are appointed by the Governor in Council. The Chair is appointed by the Treasurer.

3.1 Purpose

We are a diverse team 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 drawing on our unique investment approach, tailored portfolios, asset mix and sustainable outlook.

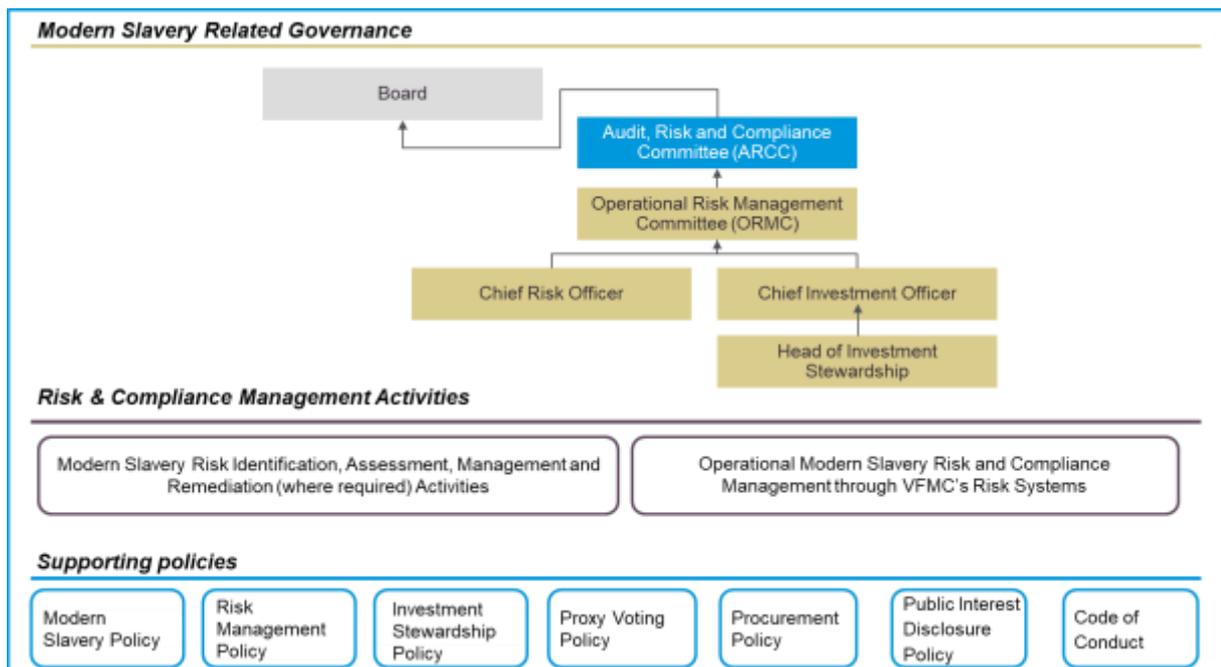
As at 30 June 2021, we managed funds of over \$74.5 billion for 31 Victorian public authorities and related organisations.

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.

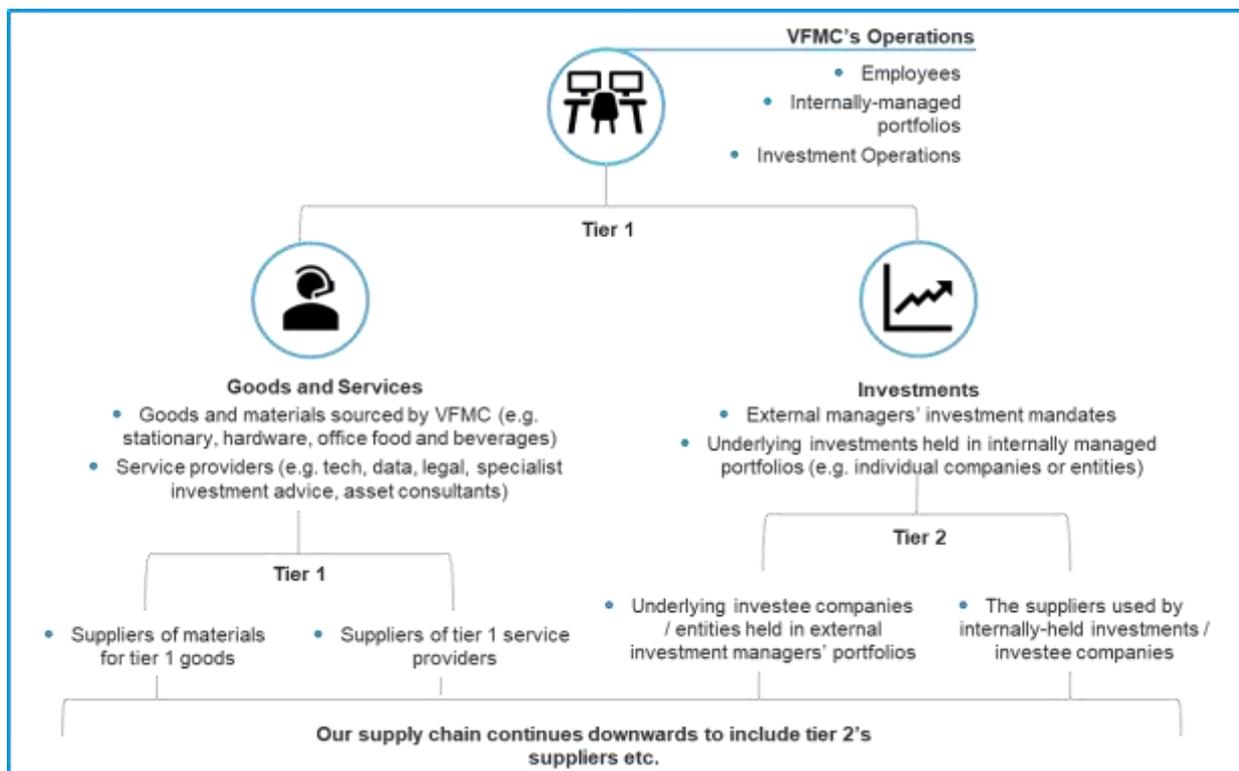
Figure 1: VFMC Modern Slavery Governance Structure



3.3 Our Operations

In considering the risks of modern slavery and developing VFMC's Modern Slavery Policy and Risk Management Approach, we have considered the nature of VFMC's activities across our operations and supply chains where modern slavery risks may exist. An indicative overview of VFMC's operations and supply chains are outlined below in Figure 2.

Figure 2: VFMC's high level supply chain



3.4 Our Internal Operations

VFMC employs around 125 people, all of whom are based in Australia. Our workforce consists of predominantly permanent employees across a variety of professional roles. A breakdown of employees is provided in our Annual Report.

Our principal business activity is to manage investment risks, asset class allocations and optimise portfolio returns on behalf of Victorian public authorities and related organisations. Our investment and related services include:

- Developing strategic asset allocations for clients.
- Designing and offering suitable investment products for other public authorities and related organisations.
- Offering investment consulting and guidance.
- Implementing investment strategies.
- Portfolio Management across a range of asset classes
- Providing integrated investment stewardship (environmental, social and governance) services and advice, including proxy voting services.
- Monitoring of risk and compliance.

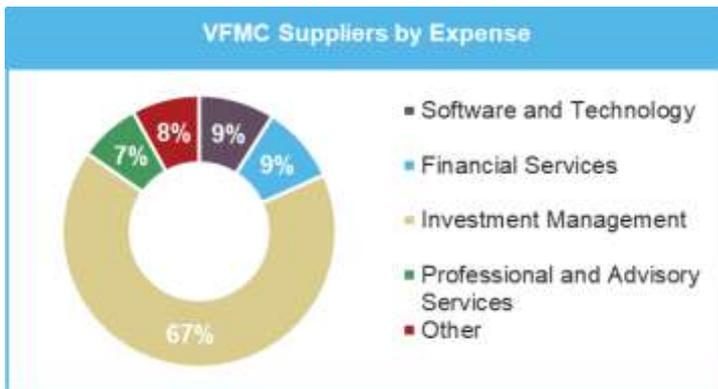
We deliver these services through a mix of internal and external funds management. Internal management is undertaken for sub-portfolios within the Australian equities, international equities, fixed interest and cash asset classes, as well as a strategy overlay portfolio.

Integral to our investment processes is effective management of environmental, social and governance (ESG) risks. VFMC became a signatory to the UN-supported Principles for Responsible Investment (PRI) in 2007.

3.5 Our Suppliers

Irrespective of whether or not they are themselves captured by the MSA, VFMC expects its investment managers and other 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.

Figure 3: VFMC's Suppliers by Expense



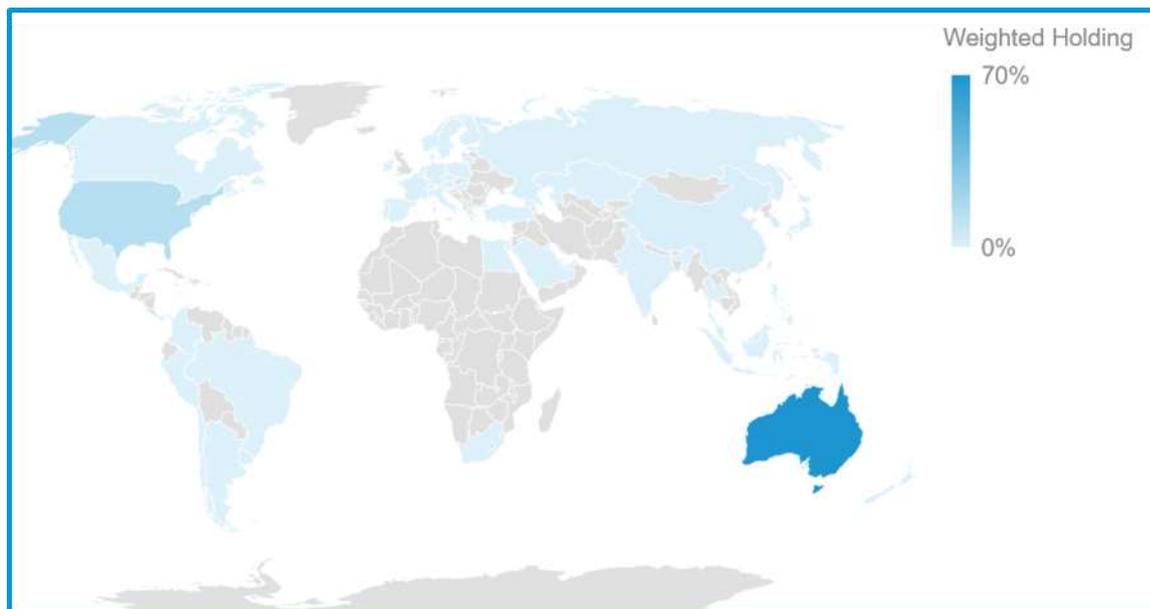
VFMC has over 200 suppliers, including investment managers, with the main supply chain categories comprising professional and advisory services, software and technology, financial and investment management expenses. These categories account for 77% of suppliers by number and 92% of supplier spend. In addition to identifying and managing modern slavery risks in its supply chain, VFMC has a social procurement strategy that seeks to use VFMC's buying power to generate social

value above and beyond the value of the goods and services being procured. Most of the direct suppliers with whom we have a contractual relationship are located in Australia.

3.6 Our Investments

VFMC's internally and externally managed portfolios are invested across a range of asset classes and across the globe. 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 the investment portfolio by geography.

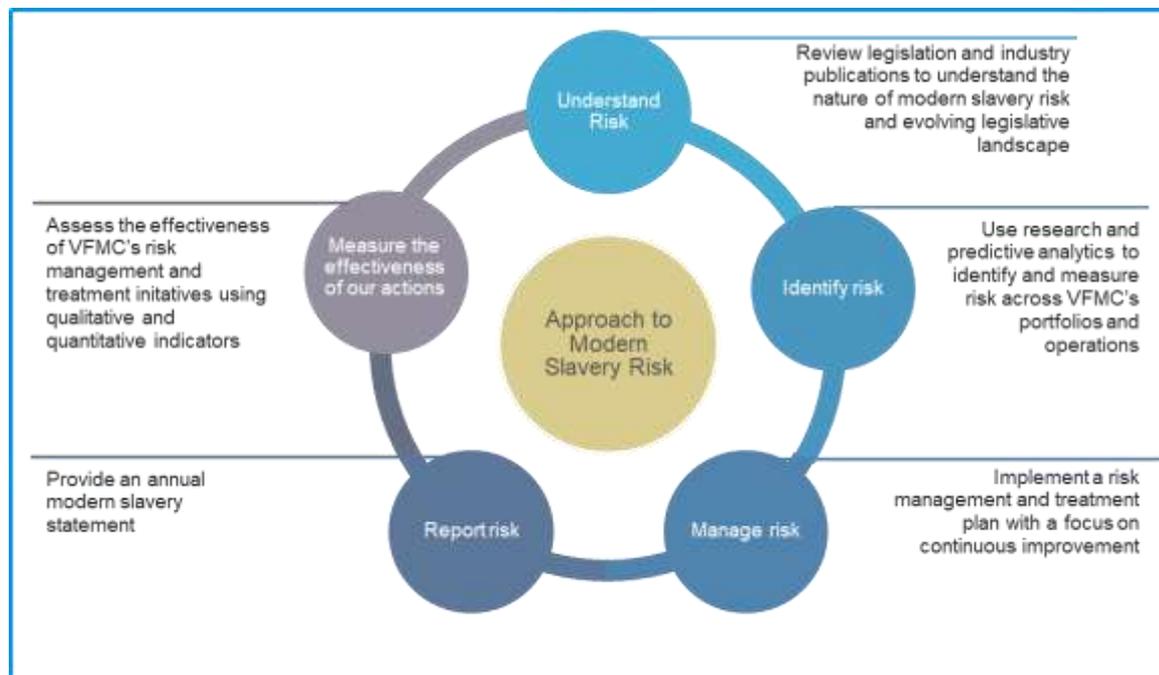
Figure 4: Portfolio by Geographic Region (Indicative), effective 30 June 2021



4 Our Approach to Modern Slavery Risk

VFMC’s approach to understanding, identifying, assessing and managing modern slavery risks in our operations and supply chain has been informed by regulation, industry guidance and research resources. An overview of our approach is set out in Figure 5/ Figure 6 below.

Figure 5: VFMC’s approach to Modern Slavery Risk Assessment Management and Mitigation



4.1 Understanding Modern Slavery Risk

Key activities VFMC has undertaken in FY21 to progress our collective understanding of modern slavery risk include:

- Undertook 17 targeted modern slavery engagements with external fund managers, investee companies and suppliers
- Training:
 - Increased the awareness and capability of our people to identify and manage modern slavery risks in their work; and
 - Undertook 4 modern slavery related 'capability uplift' sessions with external investment managers.
- 100% of VFMC's new starters provided with an overview of modern slavery risk as part of their ESG induction
- Reviewed and circulated key modern slavery research papers, including:
 - Pillar Two, commissioned by ACSI, (2021), Moving from paper to practice: ASX200 reporting under Australia's Modern Slavery Act;
 - Monash University (2021), Identifying modern slavery: An analysis of Australia's largest companies;
 - Deloitte (2019). Challenges and opportunities, Measuring the effectiveness of actions taken to address modern slavery;
 - KPMG, commissioned by ACSI, (2019), Modern Slavery Reporting - Guide for Investors;
 - Finance Against Slavery and Trafficking (FAST), (2019), A Blueprint for Mobilising Finance Against Slavery and Trafficking; and
 - Responsible Investment Association of Australasia (RIAA) (2018), Human rights with focus on supply chains Investor Toolkit.

- Participated in various modern slavery and human rights collaborative initiatives, including the Investors Against Slavery and Trafficking (IAST) initiative.
- Attended and participated in a diverse range of modern slavery briefings and industry roundtable discussions

4.2 Identifying our Modern Slavery Risk

In 2021, VFMC developed a proprietary risk assessment model to help assess the risks of modern slavery in our operations and supply chains, including investments. The model focused predominantly on the potential risks to people of modern slavery rather than risks to the Fund or Trustee, and considered the potential risks that may possibly cause, contribute and/or be directly linked to modern slavery practices. The approach also drew on supply chain risk modelling developed by an external data provider and referenced the following data sources:

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

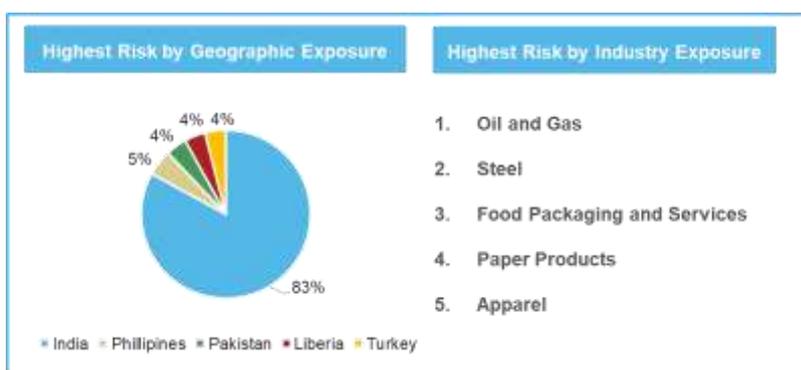
The risk assessment identified and described the inherent risk of modern slavery using a combination of industry-related risk factors (including sector, product and services related risks) and country risk factors. This involved looking at the country in which each supplier and investment manager operated, and the labour related risks associated with their industry and its supply chain. We used data from our direct suppliers to estimate the risk in their underlying supply chains.

Risk Assessment Results

The assessment identified our business operations as a low risk, given the nature and location of our work and direct activities in Australia. Our initial analysis of inherent risk in our direct suppliers found our supply chain to be a lower risk area than our investments, with the majority of our suppliers based in Australia and other low-risk countries and in low-risk industries. As such, we prioritised efforts to address risk within our investment activities. However, our supplier analysis indicated some areas of higher modern slavery risk beyond our direct suppliers (our ‘tier 2’ suppliers).

As such, modern slavery may exist to varying degrees within the operations and supply chains of companies and other entities of our investments. Within these portfolios, we identified countries such as India, Philippines and Pakistan and sectors such as oil and gas, food packaging and services and materials as the countries and sectors with relatively high exposure to modern slavery risk.

Figure 6: Top 5 Highest Risky by Country and Industry Exposure



We have used the risk assessment to prioritise engagement focusing on the highest risks first. We have commenced engagement both directly with companies in our investment portfolios and our investment managers that may potentially be at higher risk of exposure to modern slavery (e.g., as a consequence of their portfolios’ geographic or industry exposures).

4.3 Managing our Modern Slavery Risks

Our modern slavery program is designed to ensure that it evolves over time, driving continuous improvement. In this first year, we have undertaken the following:

- Suppliers**
- Incorporated modern slavery terms into all new contracts with suppliers.
 - Ensured our people are aware of modern slavery risks through extensive, tailored training.
 - Included modern slavery due diligence into our procurement processes through supplier risk assessment, supplier engagement and data gathering.

-
- Investments**
- Integration of Modern Slavery into key investment processes including;
 - Pre-investment due diligence;
 - New legal contracts to include modern slavery (where possible); and
 - Take action to address modern slavery risks, including through investment manager due diligence and engagement, and engagement with investee companies.
 - Participated in various modern slavery and human rights collaborative initiatives, including the Investors Against Slavery and Trafficking (IAST) initiative.
 - Voting in support of human rights related shareholder resolutions, where appropriate and relevant.
 - Contributed to industry knowledge sharing through the preparation of a case study for the UNPRI Infrastructure Advisory Committee highlighting our modern slavery risk assessment approach.
 - Engaged with investee companies to drive the identification and remediation of Modern Slavery.

Case Study

In speaking with one company whose products are shipped internationally, we became aware of the fact that management believed that its responsibility regarding modern slavery ceased as soon its product was loaded onto ships for export (this also being the point at which product ownership was legally transferred). We communicated our view that:

- Modern slavery is a risk for which companies are responsible up and down their supply chains.
- To some extent, one's responsibility follows their products.
- Companies should engage with relevant stakeholders to raise awareness and drive positive change.

In this instance, the nexus between the product and ship, even though legal ownership had ceased, was very close (e.g., it was not an instance in which ownership had ceased and the product had then passed through 'multiple sets of hands'). Further, their product was going directly onto ships, and the global shipping industry has been identified as being particularly susceptible to the risk of modern slavery given seafarers are often from nations with human rights, labour rights and corruption challenges.

As a result of our engagement, the company committed to evaluating how it could influence better practices with the shipping companies with whom it interacts.

4.4 Responding to identified cases on modern slavery practices

Where incidents of modern slavery are identified in VFMC's indirect operations through our supply chain, VFMC will use its influence to promote a change in the supplier's or investee company's business practices.

In our investments, this will typically take the form of engagement with investee companies, fund managers and other suppliers as well as policymakers and other like-minded investors. Where a modern slavery impact is irredeemable 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, VFMC reserves the right to terminate any contract or cease to hold an investment in our portfolio. Any instances of the modern slavery that are identified will be reported to VFMC's Audit Risk and Compliance Committee (ARCC) via the Chief Risk Officer (CRO) report. Where required by law, VFMC will report any identified instances of modern slavery practice to the relevant authorities.

Case Study

One of our Infrastructure managers' majority-owned portfolio companies entered into a large contract with a local manufacturing company to source infrastructure-related equipment. In turn, this manufacturing company sourced sub-parts and components from over a thousand third-party suppliers across the world via a complex supply chain with multiple tiers. The manager identified the potential for there to be poor labour standards and modern slavery risks, including underpayments and long working hours, concerning several third-party manufacturing suppliers in Asia. Actions undertaken by the manager, the portfolio company, and the local manufacturing company to address such concerns included:

- Proactively communicating with management and the Board of the portfolio company.
- Appointing an external professional service provider to investigate the potential labour practices at certain third-party suppliers.
- Informing key stakeholders and underlying investors including VFMC.
- Confirming that each the portfolio company and the local manufacturing entities had a Modern Slavery Act (MSA) policy in place.
- Engaging and working in partnership with the relevant parties to consider the appropriate risk management approach required.
- Adopting VFMC's approach to undertaking modern slavery due diligence.

While the final report by the external investigator concluded that there was no evidence of mistreatment at third-party suppliers, the manager engaged proactively with its portfolio company to consider all matters and risk management considerations and improved their approach to risk management in relation to dealing with MSA. The case study highlights the importance of having relevant contractual clauses that allow engaging with companies if poor modern slavery risk management and governance practices are identified.

4.5 Measuring the effectiveness of our actions

Drawing on the MSA Guidance for Reporting Entities, VFMC utilised a number of mechanisms to assess the effectiveness of our Modern Slavery risk mitigation and treatment actions during FY21. Examples of these mechanisms are set out below.

- Compliance with key polices through VFMC's internal auditing processes;
- VFMC's ability to identify the risk of modern slavery across our operations, supply chain and investment activities, using a combination of industry-related risk factors (including sector, product and services related risks) and country risk factors;
- The prevalence of the use of grievance mechanisms and monitoring of effective and timely remediation where required in VFMC's portfolio and supply chain;
- The proportion of new contracts which include modern slavery clauses and require modern slavery reporting from investment managers;
- The level of disclosure garnered from suppliers on their modern slavery approaches;
- The effectiveness of our investment modern slavery due diligence and improvement in performance on those factors through active asset management, leading to better long-term returns;
- The impact of our active ownership activities, with a focus on how investee companies have evolved their approaches; and

- The number of managers addressing modern slavery risks and supporting improved labour practices in their investment approach and values chain.

We are currently developing a framework to formalise the assessment of the effectiveness of our actions with a focus on real-world outcomes. The framework will be completed in FY2022 and will follow the follow program logic structure, as set out below in Figure 7.

Figure 7: Indicative Structure of Draft Modern Slavery Effectiveness Framework



5 Modern Slavery Activities for the year ahead

In order to continually improve our program, we are planning to undertake the following actions in FY2022:

Understanding Modern Slavery Risks	<ul style="list-style-type: none"> • Provide ongoing training to asset class teams and new employees • Continue to work with suppliers to raise awareness and mitigate any potential modern slavery risks in their supply chains.
Identifying Modern Slavery Risks	<ul style="list-style-type: none"> • Implement controversies flag through third-party ESG data and ratings provider. • Seek to further understand Tier 2+ supply chains and frameworks.
Managing our Modern Slavery Risks	<ul style="list-style-type: none"> • Support company engagements through investor-led Investors Against Slavery and Trafficking (IAST) initiative Development. • Conduct Asset class specific engagement plan for high-risk managers and underlying investments. • Commence to progressively update existing third-party contracts with modern slavery provisions, prioritised by risks.
Reporting Modern Slavery Risks	<ul style="list-style-type: none"> • Analyse and review current policy and processes and determine which areas require action or amendment.
Measure the Effectiveness of our Actions	<ul style="list-style-type: none"> • Identify, access and work towards minimising data and risk management gaps as part of continuous improvement. • Develop a Modern Slavery Effectiveness Framework.