

# VFMC Modern Slavery Statement

March 2021



Improving the future prosperity of Victoria

## 1. Introduction

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 International Equity Trust 2
- VFMC Investment Trust IV
- VFMC Fixed Income Trust
- VFM Global Small Companies Trust
- VFMC Inflation Linked Bond Trust
- VFMC International Equity Trust 1
- VFM Emerging Markets Trust
- VFMC International Fixed Income Trust
- VFMC Equity Trust 1

All other investment trusts are controlled entities of VFMC, and below the \$100m threshold requirement.<sup>1</sup>

This is VFMC's first 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. This Statement outlines the actions taken by VFMC and all entities it owns or controls<sup>2</sup> to identify and address the risk of modern slavery in its business operations, supply chain and investments for the year ending 30 June 2020 (FY20).

The key focus for this year has been to:

- Better understand our modern slavery risk exposure through an in-depth risk assessment of our operations, suppliers and investments.
- Increase the awareness and capability of our people to identify and manage modern slavery risks in their work.
- Take action to address modern slavery risks, including through investment manager due diligence and engagement, and engagement with investee companies.
- Participate in the Investors Against Slavery and Trafficking; an investor-led collaborative initiative.
- Assess the effectiveness of our modern slavery related actions to identify opportunities for improvement over time.

## 2. About Us

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.

In FY20, we managed funds of over \$63.9 billion for 31 Victorian public authorities and related organizations.

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<sup>1</sup> See *note 13 to the financial statements* in VFMC's 2019-2020 Annual Report for a list of investment Trusts of which VFMC Acts as trustee.

## 2.1 Our Commitment

Modern slavery involves the most serious forms of exploitation and includes human trafficking; slavery; servitude; forced marriage; forced labour; debt bondage; deceptive recruiting for labour or services; and the worst forms of child labour. VFMC is committed to responsible labour practices and is against all forms of slavery.

Our approach to implementing this commitment has the following key areas of focus, using the arrangements described in our ESG Policy (discussed below):

1. Staying informed of emerging trends and material issues impacting the risk of modern slavery practices in our operations and supply chains (including in our investment portfolios)
2. Understanding the potential risk of modern slavery practices connected with our operations and supply chain (including our investment portfolios)
3. Embedding due diligence in our processes
4. Responding to identified cases of modern slavery

## 2.2 About our Operations, Supply Chain and Investments

### Our workforce

VFMC employs over 100 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.

VFMC is committed to the health and safety of all employees. VFMC embraces a proactive approach to identifying and managing its workplace health and safety responsibilities.

### Our investment business activity

Our main business activity is to invest funds on behalf of Victorian public authorities and related organisations. We do this by using a mix of internal and external management across a range of different asset classes. Our investments span most countries and industries around the world.

Internal management is also undertaken, for example, for sub-portfolios within the Australian equities, international equities, fixed interest and cash asset classes, as well as a strategy overlay portfolio. Each asset class is managed by a VFMC team that is responsible for undertaking detailed research and due diligence on investment opportunities.

We also partner with external investment managers who execute investment strategies and make active investment decisions on our behalf. Our external managers represent a range of specialist investment organisations that operate in Australia and overseas.

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, and we are an active member of the Investor Group on Climate Change (IGCC).

Our approach to Investment Stewardship (IS) and ESG is governed by our Investment Stewardship Policy (Policy). We treat modern slavery as a sub-set of the social risks considered under our IS Policy.

The VFMC Board has responsibility for oversight of overall corporate strategy and VFMC's Investment Stewardship strategy. The Board receives reports on progress against the IS strategy, and other IS and ESG matters.

The Investment Stewardship team has responsibility for identifying, managing and monitoring IS and ESG issues, with ultimate oversight and ownership by the Chief Investment Officer. Where relevant, IS issues are escalated to the CEO and the Executive Investment Committee.

### **Investment Trusts**

This Statement covers VFMC and its controlled entities. These controlled entities are investment trusts for which VFMC acts as the trustee. 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, VFMC policies and processes (including arrangements under the modern slavery program) apply to all of the investment trusts (as listed in the Introduction on page 1). Accordingly, there has been no need for VFMC to separately consult with these investment trusts in relation to this Modern Slavery Statement.

### **Our Suppliers**

Having legal and responsible labour practices among our suppliers is important to VFMC. VFMC expects its investment managers and other suppliers (irrespective of whether or not they are themselves captured by the MSA) to actively implement adequate measures to identify, assess and address the risk of modern slavery in their own operations, supply chains and investment activities.

VFMC has over 250 suppliers, including investment managers, with the main supply chain categories comprising professional and advisory services, IT, fund managers and investment-related and office and administration. These categories account for 75% of suppliers by number and 94% of supplier spend.

In addition to identifying and managing modern slavery risks in its supply chain, VFMC has a social procurement policy 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. Risk Assessment**

We developed a risk assessment methodology to help us assess the risks of modern slavery in our operations and supply chains, including investments. The approach adopted 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.

The risk assessment identified and described the inherent 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. 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.

The risk assessment was conducted at both asset class level and individual investment holding level, using both country and risk factors. We risk assessed all asset classes and individual holdings in the highest risk asset classes. For each investment holding, the risk assessment considered both operational and multi-tier supply chain risk.

### **3.1 Risk Assessment Results**

The assessment identified our 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 prioritized 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).

Our initial analysis of inherent risk found our investments to be the highest risk activity area for VFMC. We have a global investment portfolio spanning most major industries and countries. As such, modern slavery may exist to varying degrees within the operations and supply chains of companies and other entities in our investment portfolios. Within these portfolios, we identified countries such as India, Philippines and Pakistan and sectors such as energy, food and beverage, and materials as the countries and sectors with relatively high exposure to modern slavery risk.

We have used the risk assessment to prioritise and commence engagement focusing on the highest risks first. We have commenced engagement both directly with high-risk 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).

### 3.2 Addressing Risk

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:

- Embedded modern slavery into our ESG and governance arrangements, including integrating modern slavery due diligence considerations into investment decision-making processes.
- 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.
- Incorporated modern slavery terms into all new contracts with suppliers.

Our Modern Slavery Policy outlines our approach to responding to identified cases of modern slavery practices.

### 3.3 Effectiveness Review

Drawing on the MSA Guidance for Reporting Entities, VFMC conducted an effectiveness review of its year-one activities to assess and address modern slavery risk.

The effectiveness of key activities was assessed in the following ways:

- **Raising awareness** - We raised awareness of modern slavery risks by providing training.
- **Modern Slavery Policy** - We developed a modern slavery policy outlining our key commitments, which we plan to publish the next reporting period.
- **Risk Assessment** - We increased our understanding of modern slavery risks across our operations, supply chains and investment activities. We focused our efforts on our highest risk exposures by using our risk assessment output to inform our engagement with our investment managers.
- **Integration** - We integrated modern slavery related considerations into existing processes such as asset and manager due diligence and engagement, and direct engagement with investee companies.
- **Engagement with suppliers and investment managers** - We commenced engagement with managers investing in higher risk geographies or sectors.



- **Collaboration** - Became a member of the investor-led collaborative initiative 'Investors Against Slavery and Trafficking' (IAST)

### 3.4 Continuous Improvement

To continually improve our program, we are planning to undertake the following actions in FY2021:

- Provide further training to our people
- Continue to engage with investment managers, investee companies and other suppliers
- Undertake a review of policies and processes and update where necessary
- Commence to progressively update existing third-party contracts with modern slavery provisions, prioritised by risk

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

Signed - <b>James MacKenzie, Chair</b>	DocuSigned by:  0448E9A9795B4BB...
Date <b>18-02-2021</b>	