

VFMC CASE STUDY

Local Government Sector

As at 31 August 2023 VFMC is responsible for managing over \$80 billion of assets on behalf of 31 eligible state agencies. In 2022, the Minister for Local Government Victoria provided approval enabling all Victorian Local Councils to invest with VFMC via the Pooled Funds for their longer-term investments.



Local Council Requirements and Challenges

Local Councils require a solution to invest excess cash to generate a return with a relatively low degree of risk to assist with the funding of strategic initiatives and community services. For many Local Councils, investing with a fund manager is a new approach requiring guidance and support. Developing an investment strategy can present a series of challenges not limited to:

- How to develop an investment governance framework including an investment policy with appropriate target return, risk, and liquidity requirements;
- How to access a diversified portfolio with a wide range of securities and/or asset classes;
- How to manage reporting requirements;
- How to manage the various compliance requirements; and
- How to manage the ongoing oversight of investments.

In 1994 the State of Victoria established the Victorian Funds Management Corporation (VFMC) to create efficiencies by pooling the State's assets into a centralised investment model, managed by dedicated investment specialists. Since June 2022, Local Councils have received a blanket approval to access four diversified investment options with varying target return and risk profiles at a competitive fee, which may otherwise be inaccessible to smaller pools of funds. Prior to June 2022, individual Local Councils, needed to obtain approval from the Minister for Local Government to invest with VFMC.

VFMC provides guidance and portfolio modelling to Local Councils to assist them to develop an Investment Policy that meets the organisation's risk and liquidity requirements.

Regular reporting and investment updates are provided to clients to assist in managing any reporting requirements. This includes detailed information on the performance of investments and how a well-defined active approach to investment stewardship/environmental, social and governance (ESG) is integrated into the investment portfolios managed on behalf of Local Councils.

VFMC's Prudential Supervisor is DTF who undertake regular audits which can be relied upon by Local Councils, thereby reducing their own in-house governance and oversight requirements. Investing through VFMC's Pooled Funds also reduces other complex know your client (KYC) and anti-money laundering (AML) requirements when opening a new account. VFMC has a streamlined onboarding process and application forms for any new Local Councils.



VFMC Local Council Partnership

Corangamite Shire Council was the first Local Council to invest into VFMC's Pooled Fund offering in 2019.

The investment came at a time when interest rates were low and returns from cash and term deposits were decreasing, posing a challenge for the investment of longer-term funds seeking a return above inflation.

VFMC was able to provide guidance and portfolio modelling to Corangamite Shire Council to assist them in setting an appropriate investment objective and then select VFMC Pooled Fund investment options with an appropriate return and risk target for their funds.

Over the course of the investment period since 2019, VFMC has provided regular reporting to Corangamite Shire Council to assist with their own stakeholder reporting requirements, including VFMC's quarterly Client Investment Forums and ESG Seminars.

VFMC has also presented to the sitting Council and Audit and Risk Committee to provide updates on performance, the investment outlook and VFMC's active investment stewardship/ESG activities. The presentations allow Corangamite Shire Council to remain informed about their investments and provide an opportunity to ask questions.

VFMC also provided guidance when Corangamite Shire Council undertook a review of its investment objective and target return/risk appetite.

"Since investing with VFMC, we have seen improved returns for our long-term investable funds, which has reduced the burden on our rate payers." Corangamite Shire Council

The Client Services team can discuss VFMC's investment offering further and how it may benefit your Local Council. Contact details are below.

