

Investment Strategy Template

Instructions

The following two pages provide a background on the need for an SMSF to have an Investment Strategy and guidance on use of the Investment Strategy document template. These two pages do not form part of the Investment Strategy document and should be removed from the final printed document.

Background and SIS Requirements

SMSF trustees are required to:

- Consider insurance for members as part of the fund's investment strategy;
- Develop, implement and regularly review their investment strategy;
- Keep money and assets of the fund separate from those held by a trustee; and
- Value assets at market value for reporting purposes.

This Investment Strategy template may assist in meeting the first two of these requirements. It is however only a template which Trustees will need to customise to their specific requirements and circumstances. Points which require customisation by Trustees are **[highlighted as bold and via square brackets]**. Wherever there are square brackets or bold text please review and amend as appropriate for the fund/Trustee. There is no prescribed layout for the Investment Strategy so please insert or delete words as appropriate for your funds specific circumstances

The legislation does not prescribe what time period constitutes "regularly" reviewing an Investment Strategy. General consensus is that anything less than an annual review would probably not be regarded as regular. Accordingly we would expect that either the annual fund minutes make a clear statement saying "we have reviewed and are happy with the fund's current Investment Strategy settings" or alternately for this document to be reviewed, updated if necessary, signed and filed on an annual basis.

As noted above, Trustees are required to consider "whether the trustees of the fund should hold a contract of life insurance that provides insurance cover for one or more members of the fund". This does not mean insurance is compulsory for members but it does mean Trustees need to be able to demonstrate their consideration of the requirement for insurance. Whilst the legislation does not specify how this is done most commentators recommend including a comment in either the Investment Strategy or the fund's annual minutes. Whilst there is some debate in legal circles as to whether Trustees should explain their decisions regarding insurance (some legal commentators believe that explaining why insurance was not put in place may create an avenue for future litigation), we expect most Trustees will provide some basis for their decision. Note : a fund may elect to have insurance for one member but not for others.

In September 2019 the ATO began an email campaign targeting Trustees of funds where more than 90% of the fund's assets were held in property and the fund reported having a Limited Recourse Loan. The ATO highlighted that Trustees are legally required to consider diversification, risk, return and liquidity and that failure to be able to demonstrate this could represent a breach of SIS rules potentially resulting in a penalty of up to \$4,200.

Audit Approach

As an auditor I am required to consider if the fund has satisfied the SIS rules in relation to the Investment Strategy. My approach can be summarised as follows:

- A fund is not necessarily required to be diversified. It may be reasonable for a fund to have a 100% cash allocation (eg a fund in pension phase with low risk tolerance) or for funds to hold more than 90% as shares (noting the share portfolio may have many different shareholdings)

- Where a fund is not diversified I would expect some statement explaining the rationale for the lack of diversification eg
 - “we are conservative investors who are seeking maximum capital protection”, or
 - “we are aggressive young investors seeking maximum capital growth over the next 20 years and therefore have decided to invest the majority of our assets in listed shares”; or
 - “we are familiar with property investment and believe a geared property investment represents the best combination of risk and return given that we have many years until retirement and have secure stable jobs with ongoing SGC contributions”
- The ATO has no right to dictate what is an appropriate level of diversification or what asset classes funds should invest in (ACCOUNTANT WARNING : Unless you are a licenced financial advisor you must avoid making any recommendation as to asset allocation decisions or specific asset recommendations. You can however outline the benefits of diversification and the advantages and disadvantages of specific asset classes)
- The generic Investment Strategy summaries produced by the main SMSF software accounting packages do not sufficiently demonstrate how the Trustees have considered risk/return/diversification and liquidity. Rather they merely state that Trustees have considered the issue without setting out any personal conclusions. I do not believe this is sufficient to demonstrate that Trustees have adequately considered the issues and reached personalised conclusions. Where a fund has in place a detailed Investment Strategy document with personalised conclusions demonstrating that Trustees have considered risk/return/diversification and liquidity, I will accept the “Investment Strategy” generated by the software as satisfying the annual requirement to “regularly review the Investment Strategy and consider the need for life insurance”
- Where a fund’s circumstances have materially changed I will look for an update of the detailed Investment Strategy document. Typically this may be when:
 - Trustees circumstances have changed (eg a member has retired/made large contributions or fund member has changed due to new or deceased members)
 - asset allocations are outside any previously documented ranges (eg as market values move)
 - fund has undertaken a large new investment (particularly purchased property via LRBA)
- Where funds are not diversified I will look for this to be clearly noted with consideration of the implications (refer to “Single Asset Strategy” paragraph below) eg “we expect better returns from a concentrated strategy and understand this entails higher than normal levels of risk” or “this is a temporary situation and other assets will be purchased in coming years via additional contributions”.
- Where funds have Limited Recourse Borrowing arrangements in place this should be specifically noted (refer to Geared asset paragraph in document). This confirms the Trustees understand the additional risks associated with borrowing to invest. I will also look for an outline of how Trustees plan to pay down the borrowings, and how fund liquidity will be maintained, particularly where assets are negatively geared. Examples may include statements such as:
 - The Fund intends to retain an amount in cash equivalent to approximately 3 months loan repayments
 - The Fund plans to repay the loan via ongoing SGC contributions and rental receipts over the next 10 years
 - The Fund expects to repay the loan from the sale of the property in 5 years at which time we expect the value to have increased significantly
 - The loan will be repaid from a large non concessional contribution which is expected from the sale of business/downsizer contribution/inheritance
- Where necessary I may ask Trustees to revisit the Investment Strategy document prior to audit sign off if I do not believe the current Investment Strategy document may not be adequate to satisfy the ATO requirements

Disclaimers: This is a template only and needs to be tailored for Trustees individual circumstances. This template does not take into account the circumstances of individual trustees and does not represent any form of financial or legal advice. Please obtain advice from a qualified financial advisor if you require assistance in regard to asset allocation and/or product selection for your SMSF.

Investment Strategy

[Fund name] Superannuation Fund

Background:

The investment strategy outlined below represents an expansion and clarification of the Investment Strategy agreed at the formation of [Fund name] Superannuation Fund (“the Fund”). This Investment Strategy replaces the Investment Strategy document dated [Date of prior Investment Strategy].

Objectives:

The objective of the fund is to:

- Provide superannuation benefits to members and their dependants to meet their retirement needs.
- Ensure that appropriate mixes of investments are held by the fund to support these needs
- Ensure the fund has sufficient liquidity at all times to meet all commitments
- Maximise the tax effectiveness of fund investments thereby delivering the best long term after tax return for members.

The Investment objective of the trustees is to aim to achieve real medium to longer-term growth. In recognition of the [number of years] year investment time frame of members the fund will have a [low/high] proportion of growth assets in the portfolio.

Investment Choice:

The Trustees have determined the fund’s investments may include but not be limited to all or one of the following:

- Direct equities, stocks and derivatives including participation in dividend reinvestment programs and right issues, including the use of geared instalment warrants:
- Property trusts and associated investments:
- Managed investments and associated products:
- Direct residential, industrial and commercial property investment [including geared property investments purchased using allowable limited recourse borrowing arrangements]:
- Deposits and investments with banks and other financial institution securities including Term Deposits, Debentures, Secured and Unsecured Notes and Bonds:
- **[If you have collectables or other non-standard assets, particularly where they comprise a material portion of the funds asset allocation, these should be specifically included in the list of assets]**
- Any other investment that the trustees may feel prudent to achieve the objective of the fund.

The Trustee may from time to time decide to seek professional advice from Accountants, Solicitors or Financial Planners in the formulation or implementation of this or any future investment strategy.

In formulating this strategy the trustees have taken into consideration relevant features of the various investments in accordance with both the fund's objectives and appropriate legislation.

In drafting this investment strategy, the trustees have taken into account all of the circumstances of the fund, including:

- the risks and likely return associated with each investment;
- the range and diversity of investments held by the fund;
- any risks coming from limited diversification;
- the liquidity of the fund's investments;
- the ages and preferences of its members;
- expected cash flow requirements; and
- the ability of the fund to meet its existing and prospective liabilities such as paying benefits to its members.

Policies:

The policies adopted by the Trustees in order to achieve these objectives are:

- Regular monitoring of the performance of the fund's investments, the overall investment mix and the expected cash flow requirements of the fund.
- Re-balancing the fund's investment portfolio due to changes in market conditions through asset sales and new investments as appropriate.

The Trustees will aim to follow the investment strategy, however, they will at all times reserve the right to change the investment mix depending on the market situation and opportunities available to better meet the objectives of the fund.

A copy of the Investment Strategy of the fund will be available to members of the fund on request.

Risk profile and risk tolerance:

The Fund has a [short/medium/long] time horizon. Further **[the members are prepared to endure a reasonable level of volatility of returns in expectation of long term growth/the Members wish to have a conservative asset allocation thereby limiting volatility of returns]. [The members have existing equity and property investments outside superannuation and are familiar with the variability of both returns and capital values which are associated with such investments.]**

Members understand

- the trade-off between investment risk and long term capital and income growth and have indicated **[capital preservation & stability/asset growth]** is a priority
- Investment risk is borne by the members, as fluctuations in investment returns will affect the level of benefits available to members.

[Geared Investments:]

[If the fund has geared investments eg Property purchased with limited recourse borrowing arrangement the Trustees should make a statement recognising the additional risk associated with investing in geared investments. Insert a paragraph similar to the following]

The Trustees have elected to purchase direct residential property using limited recourse borrowing arrangements. The Trustees have indicated they understand and are prepared to accept the increased volatility of returns associated with borrowing to invest, including the risk of loss, including the risk of total loss of invested assets where such assets are subject to limited recourse borrowing arrangements

[Single Asset Strategy]

[If the fund has a large portion of its assets held in a single asset, typically a property, Trustees need to clarify why they do not have a diversified asset allocation]

The Trustees recognise the higher risk in investing predominantly in growth assets (particularly as a very large portion of the fund's assets are invested in a single property and the volatility associated with shares and property. The volatility will be compensated by the prospect of achieving higher return and growth in the longer term.

[Specialised higher risk assets]

[If the fund has an investment in higher risk or wholesale investments, insert a paragraph similar to the following]

The Trustees have elected to invest up to [___%] of the fund's assets in [describe investment eg distressed debt syndications]. The Trustees understand and are prepared to accept the increased risk associated with these investments and the loss of liquidity normally available via listed/traded investments, including the risk of loss, including the risk of total loss, in order to earn the higher returns potentially available to investors.

Furthermore, Trustees understand they are investing as wholesale investors and will have minimal protection in the event of failure of the underlying investments. Trustees understand they will not have the benefit of normal investor protections such as audited accounts.

Trustees will manage the risk attached to these opportunities by limiting the investment to a maximum of [___%] of the fund's total assets, diversifying across [multiple funds/currencies/borrowers], selecting investments with short (12 – 24 months) terms that make interest and capital repayments throughout the term.

Insurance:

The Trustees have considered whether the Fund should hold a contract of insurance for its members and concluded that: **[select relevant options from below or add as appropriate]**

- **Additional insurance is not appropriate as the members have [pre-existing medical conditions/ are at an age] such that insurance is not available on a cost effective basis**
- **Additional insurance is not deemed appropriate as the members have significant assets inside and outside superannuation with no significant outstanding liabilities**
- **The fund already has insurance for its members which is considered appropriate**
- **The members have appropriate insurance outside the fund via an [industry fund/retail superannuation fund/insurance policy directly held by the member]**
- **The Trustees recognise the need for additional insurance and will take the following actions [describe planned actions and timeframes]**

Liquidity:

The Members of the Fund are aged [___ & ___] and have **[few other/significant]** assets outside of superannuation. At the present time neither expect to access their superannuation prior to age **[65]**. Accordingly there is no anticipated benefit payment in the next [____] years. Cash in excess of anticipated liquidity requirement will be invested in accordance with the Fund's investment strategy.

Asset Allocation:

The targeted asset allocation takes into account the benefits of a diversified asset mix, however, given the investment time horizon of the fund (which is based on the members life expectancies) and the members **[lack of]** significant assets outside of superannuation, the allocation will be focused on **[maximising capital growth/preserving capital/generating stable income streams/generating franked dividends/ensuring capital stability]**.

[The Trustees recognise the higher risk in investing predominantly in growth assets and the volatility associated with shares and property. The volatility will be compensated by the prospect of achieving higher returns and growth in the longer term. In order to minimise this risk Trustees will consider investing in different industries and sectors where possible.]

The final targeted asset allocation will be in the following ranges:

[Note : whilst a table with numeric asset allocation ranges or target is not a legislative requirements it is a simple and clear way for the Trustees to describe the fund's investment objectives. In the table below entering 0-100% for every asset would not be meaningful. Summing the mid-point of the allocation ranges should total around 100%.

In the absence of some form of table with indicative asset allocation ranges we (as auditors) would look for a broad statement as to preferred asset classes and mix eg. "The fund will have a strong

bias towards a diversified mix of listed Australian shares paying fully franked dividends with \$xx cash held to meet liquidity requirements in both cash accounts and term deposits”.]

Growth Assets	Indicative long term range
• Australian listed equities	xx-xx%
• International listed equities	xx-xx%
• Australian listed property	xx-xx%
• [Direct Property]	xx-xx%
• [Collectables]	xx-xx%
Defensive assets	
• Cash and term deposits	xx-xx%
• Australian cash and bond funds	xx-xx%
• International cash and bond funds	xx-xx%
• Bullion	xx-xx%
	100%

All Trustees/Directors of the Trustee Company to sign

Signed & dated

[Trustee/Director of Trustee Company]

[Trustee/Director of Trustee Company]