

Self-Managed Superannuation Fund Investment Strategy

SMSF Test Fund

Cleardocs Sample

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Investment Strategy of the SMSF Test Fund

This investment strategy of the SMSF Test Fund (**Fund**) (as amended to from time to time), is created in compliance with the *Superannuation Industry (Supervision) Act 1993* (Cth) (**SIS Act**) and *Superannuation Industry (Supervision) Regulations 1994* (Cth) (**SIS Regulations**). In developing this investment strategy, the Trustee has considered the needs and circumstances of the Fund's members including age and retirement needs.

This investment strategy revokes any earlier investment strategies created for this Fund.

1. Investment objectives

The Fund has the following investment objectives:

- 1.1 to protect and enhance the members' retirement benefits;
- 1.2 capital growth by maximising returns on investments for the members taking into account associated investment risks;
- 1.3 a pre-tax investment return for the Fund equal to the Consumer Price Index (All Groups Weighted Average);
- 1.4 to hold assets in a form which will enable the Fund to discharge its existing and future liabilities;
- 1.5 that the Trustee has and must continue to have proper regard to the risks associated with the investments given the Fund's objectives and cash flow requirements;
- 1.6 that the Trustee has and must continue to invest to ensure sufficient liquidity is retained within the Fund to meet benefit payments and other liabilities as they fall due;
- 1.7 that the Trustee has and must continue to consider the composition of the Fund's investments as a whole, including the extent to which its investments are diverse or involve the Fund in being exposed to risks from inadequate diversification;
- 1.8 that the Trustee has and must continue to consider their ability to discharge the Fund's existing and prospective liabilities;
- 1.9 that the Trustee has and must continue - before investing in a particular asset – to have proper regard to the balance between the risk and return, so as to maximize the rate of return on members' entitlements subject to an appropriate level of risk; and
- 1.10 that the Trustee has and must continue to consider whether the Fund should hold a contract of insurance that provides insurance cover for the members.

2. Compliance with laws and advice to Trustee

- 2.1 The Fund is compliant with current superannuation laws and regulations and the governing rules of its trust deed.
- 2.2 Set out in Annexure 1 is a summary of relevant trustee investment obligations under the SIS Act and SIS Regulations.

3. Investment policies

The Trustee will comply with the following investment policies in giving effect to this investment strategy:

- 3.1 to regularly monitor the performance of the Fund's investments including the spread of those investments and the expected cash flow requirements of the Fund; and
- 3.2 to consider market volatility and its potential impact of the Fund's current investments at any given time.

4. Investment considerations

The Trustee will take into account the following investment considerations:

4.1 *Diversification*

- 4.1.1 To ensure diversity of the Fund's investments, the Trustee may invest in a number of different investments but, in doing so, will consider this investment strategy as a whole. The Trustee acknowledges that diversification of investments avoids the risk of the Fund relying on the rates of return (whether income return or capital growth), from one or a small number of investments which ultimately may not be as profitable as the Trustee anticipated.
- 4.1.2 The Trustee will consider diversification in light of the size and maturity of the Fund. The Trustee acknowledges that where the Fund has a larger sum of money to invest, it is easier to achieve diversification.
- 4.1.3 The Trustee may at any given time change the mix of investments in order to give effect to those investment considerations.
- 4.1.4 The Trustee must when formulating, and when conducting future reviews of, this investment strategy consider the factors set out in item 1 of Annexure A of this investment strategy.
- 4.1.5 The Trustee has considered the level of risk associated with its current investment portfolio, and will continue to do so, by reference to the extent to which the Fund is exposed to risks from concentration of the Fund's investments in a particular asset class (**concentration risk**).

4.2 *Single Asset Investment Strategy*

A single asset strategy may be adopted by the Fund if the asset proposed to be invested in is considered by the Trustee to satisfy the investment objectives and provided that the Trustee has considered the relevant concentration risk.

4.3 *Risk*

- 4.3.1 The Trustee acknowledges that there is a strong correlation between risk and return on investments.
- 4.3.2 The Trustee acknowledges and agrees that it will:
 - (a) from time to time, determine the acceptable level of risk and volatility of returns in the light of the Fund's circumstances; and
 - (b) give priority to an overall objective of preserving the Fund's capital.

4.3.3 The Trustee will, consistent with paragraph 4.3.2, separately review the risk profile of each member as member risk profiles may vary depending upon the member's age and other circumstances.

4.3.4 The Trustee acknowledges that in order to maximise returns in appropriate circumstances, the Trustee may invest the Fund's assets in volatile investments if the Trustee has appropriately balanced the Fund's investment portfolio. Volatile investments may be profitable for the Fund in the long term.

4.4 *Liquidity*

The Trustee will ensure that there are enough liquid investments in the Fund at any one time which may be quickly and easily converted to cash, in order to meet the payment of member benefits and Fund expenses, having regard to the Fund's expected cash flow requirements.

4.5 *Asset allocation*

The Trustee acknowledges the need to have a diversified investment mix and a balanced investment portfolio and will adopt a strategic asset allocation in accordance with the percentage ranges described below:

Asset Class	Range (%)
Cash	0 - 10
Australian Equities	0 - 10
International Equities	0 - 10
Australian Fixed Interest	0 - 10
International Fixed Interest	0 - 10
Managed investments and associated products	0 - 10
Real Estate	0 - 10
Artworks and Collectibles	0 - 10
Any other investment that is legal under the laws of the Commonwealth of Australia and its States and Territories (which the Trustee will consider from time to time on a case by case basis)	0 - 10

4.6 *Investment costs*

The Trustee acknowledges that it will at all times aim to minimise investment costs. Despite this, if the Trustee consider that it is in the best financial interests of the Fund and its members to invest in a product that has upfront costs, then it may do so provided that the investment is in accordance with this investment strategy. Exit costs and penalties may also be part of the cost of carrying out this investment strategy.

4.7 *Borrowing*

The Trustee acknowledges that:

4.7.1 from time to time, it will consider undertaking borrowing on a case by case basis:

- (a) at a loan to valuation ratio for the asset of 0 – 50% for any specific asset; and
- (b) at a LVR for the fund of 0 - 50%; and

4.7.2 any borrowing will be considered in light of consistency with the overall investment strategy.

4.8 *Taxation*

The Trustee will:

- 4.8.1 take all steps as are reasonably necessary to ensure that the Fund continues to obtain concessional taxation status on the income; and
- 4.8.2 consider the tax consequences of all investments made on behalf of the Fund.

4.9 *Payment of benefits to members and other costs*

The Trustee acknowledges that to the extent it is required to pay tax, expenses and benefits, then it will do so promptly on or before the due date for those payments, and will take all steps as are reasonably necessary to ensure that there is sufficient cash to meet such obligations.

4.10 *Insurance*

- 4.10.1 The Trustee will from time to time, consider life, total permanent disability and income protection insurance for the members of the Fund.
- 4.10.2 The Trustees will continue to evaluate available insurance in consultation with the members, and where insurance is in place, the continued suitability of that insurance.

5. Guidance on investments

5.1 *Authorised investments:*

The following are the types of investment in which the assets of the Fund may be invested:

- 5.1.1 Investments in which it is permissible to invest trust funds under the law of any jurisdiction in Australia.
- 5.1.2 Securities in any company incorporated anywhere, whether carrying on business in Australia or not.
- 5.1.3 Deposits (whether secured or not) with a bank, friendly society, building society, credit co-operative, trustee company, or other registered financial institution.
- 5.1.4 Real or personal LVR property, including an improvement to that property.
- 5.1.5 Units (including sub-units) in a unit trust established or situated anywhere in the world by subscription or purchase (including joint subscription or purchase). Whether the units are fully paid or partly paid, and whether their issue involves a contingent or reserve liability is irrelevant.
- 5.1.6 Futures, options or any other synthetic investment.

- 5.1.7 Hedging, swapping or any similar arrangement, even though it is not linked to any property of the Fund.
- 5.1.8 Deposits (whether secured or not) with, or loan (whether secured or not) to, any person (including an employer) on any terms the Trustee thinks reasonable. The fact that the Trustee has a direct or indirect interest in the deposit or borrowing or may benefit directly or indirectly from it is irrelevant.
- 5.1.9 A policy or annuity with an insurer, whether by proposal or purchase.
- 5.1.10 Instalment warrants or receipts.
- 5.1.11 By way of a limited recourse borrowing arrangement.
- 5.1.12 Any other investment allowed by superannuation law that the Trustee thinks appropriate.

5.2 *Forbidden investments*

The Trustee acknowledges that it will not invest any investment that is forbidden by superannuation law and will not make an investment in the form of a loan or other financial assistance to a member or a relative of a member of the Fund.

5.3 *Australian securities*

After research and due diligence, these include investments directly or indirectly in listed and unlisted securities and interests in managed funds (whether or not registered as managed investment schemes) including shares and warrants.

5.4 *International securities*

After research and due diligence, these include investments directly or indirectly in listed and unlisted securities and interests in managed funds (whether or not registered as managed investment schemes) from around the world including shares, warrants, derivatives, derivatives securities and managed funds.

5.5 *Property*

This includes both direct and indirect investments in physical property, in listed and unlisted property trusts and property securities funds.

5.6 *Derivatives*

The Trustee is permitted to invest in derivatives.

Derivatives may be used to:

- 5.6.1 leverage returns;
- 5.6.2 reduce volatility by hedging investments against the risk of adverse movements in market prices;
- 5.6.3 achieve diversified exposure through market indices; and
- 5.6.4 achieve transactional efficiency through reducing the cost of achieving a required exposure or position.

The Trustee will review and comply with the Derivate Risk Statement set out in Annexure 2.

5.7 *Currency risk*

The Trustee may invest in overseas assets in the form of, for example, international securities. In this regard, the Trustee will consider whether a foreign currency hedge is appropriate to guard against fluctuations in exchange rates.

6. Professional advice

The Trustee may from time to time seek advice from a professional advisor being either an accountant, solicitor or financial planner, to discuss any aspect of this strategy or any future strategy and its implementation.

7. Review

The Trustee may review and, when considered necessary, amend this investment strategy. The Trustee acknowledges that circumstances where it would be appropriate for the Trustee to conduct a review include where:

- 7.1 acquisition or disposal of a material fund asset;
- 7.2 a new member is added to the Fund;
- 7.3 a member commences, or is about to commence, a pension;
- 7.4 the death or incapacity of a member;
- 7.5 where the members of the SMSF enter into a marriage or domestic relationship, a breakdown of that arrangement;
- 7.6 where there is a change in the financial needs of the members of the SMSF;
- 7.7 there has been significant market volatility; or
- 7.8 the Trustee wishes to undertake new investment activities not permitted by the current investment strategy.

Signed by the Trustee

Dated: _____

Executed by
Corporate Test Pty Limited ACN 601312976,
in its capacity as trustee, in accordance with
section 127(1) of the *Corporations Act 2001*
(Cwth):

Peter Parker, director

Sue Parker, company secretary

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Annexure 1

SUMMARY OF SUPERANNUATION LAW DUTIES OF DIRECTORS OF THE TRUSTEE

DIRECTLY RELATING TO INVESTMENTS

One of the most important duties of a trustee of a superannuation fund is the investment of the fund's assets.

The earnings achieved on the investment of the fund's assets plus the concessional tax rate of 15% that is applied to those earnings helps to maximise the entitlement on retirement.

There are 5 guiding rules that trustees should follow:

1. Establish and implement an investment strategy

All self-managed superannuation funds **must** have an investment strategy.

Section 52(6) of the *Superannuation Industry (Supervision) Act 1993 (Cth)* (**SIS Act**) and regulation 4.09(2) of the *Superannuation Industry (Supervision) Regulations 1994 (Cth)*, require that a trustee must formulate, review regularly and give effect to an investment strategy for the whole of the fund, and for each investment option offered by the trustee in the fund, having regard to:

- the risk [involved](#) in making, holding and realising, and the likely return from, the [investments](#) covered by the strategy, having regard to the [trustee's](#) objectives in relation to the strategy and to the expected cash flow requirements in relation to the [fund](#);
- the composition of the [investments](#) covered by the strategy, including the extent to which the [investments](#) are diverse or involve the [fund](#) being exposed to risks from inadequate diversification;
- the liquidity of the [investments](#) covered by the strategy, having regard to the expected cash flow requirements of the fund;
- whether reliable valuation information is available in relation to the [investments](#) covered by the strategy;
- the ability of the [fund](#) to discharge its existing and prospective liabilities;
- the expected tax consequences for the [fund](#) in relation to the [investments](#) covered by the strategy;
- the costs that might be incurred by the [fund](#) in relation to the [investments](#) covered by the strategy;
- whether the trustee of the [fund](#) should hold a contract of insurance that provides insurance cover for one or more members of the fund; and
- any other relevant matters.

Once the trustee has agreed to an investment strategy, the fund's investments should be consistent with that strategy.

2. Invest in assets that are permitted by the trust deed

The trust deed may place some restriction on the type and class of asset in which the fund may invest. Ensure that the trust deed gives the trustee power to make an investment that may be proposed.

3. Avoid prohibited investments

The SIS Act prohibits certain investments. Restrictions are placed upon:

- the acquisition of assets from related entities;
- investing in, giving loans to and entering leases and lease arrangements with related parties (in house assets);
- borrowing; and
- lending to members.

In addition, all investment activities must be on an arm's length basis.

Ensure that all investments do not contravene the requirements of the SIS Act.

4. Consider ethical investments

In the Product Disclosure Statement, trustees are required to disclose whether labour standards or environmental, social or ethical considerations are, or will be, taken into account when the trustees select, retain or realise an investment. You should review what representations were or are made to fund members about such considerations in the Product Disclosure Statement for the fund. If no representations were or are made, then the trustees should consider incorporating such considerations into its investment strategy.

5. Avoid investments that are totally speculative

While any investment may be regarded as speculative, as trustees are expected to act prudently, the acquisition of assets that are totally speculative should be avoided, as they may be so speculative so as not to be regarded as an investment.

The trustees are required to develop an investment strategy and invest in a manner that satisfies these guidelines and which takes account of the particular needs of fund members.

Annexure 2

DERIVATIVE RISK STATEMENT OF THE SMSF Test Fund

A copy of the DRS is attached.

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