

SMSF Investment Strategy Explanatory Document



Reg 4.09 of the Superannuation Industry (Supervision) Regulations 1994 requires the Trustee of a Self Managed Super Fund (SMSF) to maintain a current Investment Strategy. Bell Direct is not authorised to produce investment strategies for its clients. An Investment Strategy must be prepared by the Trustees, who may seek professional advice in the preparation of the strategy. This explanatory document is intended as a guide only to assist Trustees in the development of the Investment Strategy.

This pro-forma Investment Strategy is written in such a way that it can be used by the Trustee of an SMSF to develop their own strategy for their fund. However, it is only a guide and we would encourage you to add to it to take into account the particular aspects of your fund.

What is an Investment Strategy?

An Investment Strategy is a detailed financial plan made by the Trustees of an SMSF based on consideration of the sole purpose of the fund. It takes into account the current and or future financial needs of each of the fund members and is framed in the context of their risk preferences.

Why should we have an Investment Strategy?

A SMSF is a form of Trust. It operates under a variety of Governing Rules including a Trust Deed and SIS legislation. The cornerstone to the SIS legislation is that a SMSF must exist for the sole purpose of providing retirement or death benefits. Much of the legislation is built around this purpose including the covenant contained in Reg4.09 which requires the Trustee:

to formulate, review regularly and give effect to an Investment strategy that has regard to the whole of the circumstances of the fund.

The logic behind this covenant is that the Trustees of the SMSF have the responsibility for running the fund on behalf of the fund members. In order for the ATO to be satisfied that the Trustees are operating in accordance with this sole purpose, there needs to be evidence to show that the Trustees have considered the member specific circumstances and have formed a plan on how they will manage the investments in order to meet the sole purpose.

The ATO treats the Investment Strategy with significant importance and it is likely to be one of the first documents requested should an audit be undertaken. Other benefits of an Investment Strategy are:

- Member specific risk and return expectations are established providing a clear framework for the Trustee to make investment decisions and monitor results;
- It may reduce the potential for making rash and risky investment decisions.
- Trustees can engage professional assistance from investment advisers and use the document to establish a framework for the investment adviser to use when making investment recommendations;
- The Trustees have greater surety that investment advisers truly understand and operate in their best interests.

Contravention and non-compliance

Contravention of the Covenant in Reg 4.09 is not an offence and does not result in the invalidity of a transaction. However, the ATO indicates in several of their publications that the existence of a valid and current Investment Strategy is an important factor when testing the Trustees compliance with the sole purpose test. If the ATO determines the fund is non-complying, you risk:

- Losing the tax concessions;
- Disqualification as a Trustee;
- Prosecution and/or penalties;
- All of the assets held within the fund being taxed at the top marginal personal tax rate.

When should we formulate and review our Investment Strategy?

The Trustee should formulate the Investment Strategy upon establishment of the SMSF. The Investment Strategy precedes the investment decisions. By its very nature, decisions should be made that fit within the strategy; the strategy should not be set to fit with current investments.

Every time the Trustees contemplate an investment decision, they should refer to the Investment Strategy to ensure it will align. The strategy should not necessarily be restrictive on the Trustee, it is something that can and should be revised at any time and on a regular basis to reflect changing circumstances.

Examples of times where it is wise to review and if necessary, update the Investment Strategy include:

- Identification and intent to invest in a specific investment opportunity that does not fit with the current strategy;
- Change in risk tolerance of the member(s);
- Change in financial needs or expectations of the member(s) over time;
- Adding or removing a member of the fund;
- Commencement of a pension for a member (likely to require higher cash liquidity);
- Death or change in health of a member;
- Marriage breakdown;
- Change in SIS legislation regarding permitted investments.

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Key Aspects of the Investment Strategy

The Investment Strategy must take into account all circumstances of the fund including:

- Risk tolerance in making, holding and realising investments;
- Minimum and desired rate of return;
- Asset allocation and diversity;
- Liquidity having regard to anticipated cash flow requirements;
- The ability of the fund to discharge existing and future liabilities.

Trustee Responsibilities

Trustees need to consider the risk involved in transacting within a SMSF and review and monitor the returns on their investments. They should look at historical and projected returns to determine if they will meet their overall fund objectives.

One of the key roles is determining the underlying assets you wish to invest in. When considering these assets, Trustees need to ensure they are allowable under SIS legislation, and that they demonstrate appropriate diversity in their asset selection.

SIS Act Requirements Bind Trustees to:

- Act honestly in all matters concerning the fund;
- Exercise the same degree of care, skill and diligence as an ordinary prudent person in managing the fund;
- Act in the best interest of all fund beneficiaries;
- Keep the money and assets of the fund separate from other money and assets (for example, your personal assets);
- Retain control over the fund;
- Not enter into contracts or behave in a way that hinders Trustees from performing or exercising their functions or powers;
- Allow members to access certain information; and
- Develop and implement an Investment Strategy.

Trustees should implement a due diligence process, promoting well thought-out and responsible decision making. This also protects the Trustee from action by members if the investments turn out to be disastrous.

Prohibited Investments

Trustees must ensure the Investment Strategy complies with SIS legislation, and the SMSF Trust Deed.

When formulating the Investment Strategy, Trustees need to ensure:

- They do not make loans to members or their relatives;
- The investments are on an arm's length basis;
- They do not breach the in-house asset rules;
- They observe the restrictions on acquiring assets from related parties;
- They do not grant security, mortgage or other charge over any assets of the fund;
- They do not borrow money; (unless following the rules found in s67A & s67B of SIS);
- They comply with the sole purpose test.

The Audit Process

Every SMSF is required to appoint an independent Auditor to audit the fund's activity each financial year. The Auditor will review the investments by the Trustees to ensure they are consistent with the Investment Strategy.

If the Investments do not align to the Investment Strategy, the Auditor will report this as a breach of the Covenant contained in Reg 4.09. Whilst the contravention is not in itself an offence, it can potentially draw attention to your SMSF with the possibility of a detailed ATO audit being conducted at considerable expense.

Insurance

Trustees must ensure that they consider the prospect of investing in life insurance for one or more members of the fund. Bell Direct strongly suggests you discuss the issue of insurance with your Financial Adviser.

Preparing the Investment Strategy

Attached with this document is a pro-forma Investment Strategy that you can use to prepare your own strategy. Alternatively, you can utilise one prepared by an Investment Adviser. Many Trustees will engage the advice of Financial Advisers to assist them with assessing their situation and documenting their needs.

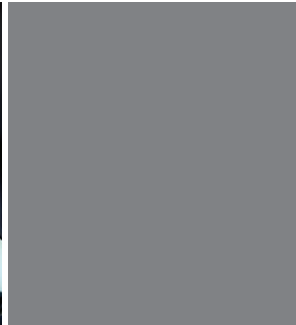
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SMSF Investment Strategy

Overall Investment Objective

The Trustees overall objective is to invest the assets of the fund in such a way as to protect and enhance the retirement benefits and (as the case may be) the death benefits of the members of the fund.

In recognition of the sole purpose test as required in the SIS legislation, this investment strategy is created in compliance with the Superannuation Industry (Supervision) Regulations 1994 and relevant Regulations, and supersedes any existing investment strategy.

Desired Average Rate of Return

The Trustees recognise that investments are made in volatile markets and the rate of return will vary from year to year. In addition, the Trustees recognise that the rate of return is affected by risk.

The desired rate of return is a benchmark target that the Trustees aim to achieve through individual and collective investment decisions.

The Trustees have no liability should the rate of return not be achieved. With this in mind, the Trustees are aiming to achieve a long-term average rate of return of:

% per annum; or

Write Your Own

Trustee's Duty

The Trustees will ensure that no investments are made which would be in contravention of the rules of the SIS legislation, including rules concerning in-house assets, the purchase of assets from members and the sole purpose test.

In making investment decisions, the Trustees will give due consideration to the taxation implications of the investment, including income tax, capital gains tax, land tax, stamp duty and GST.

Liquidity

The Trustees recognise that the fund needs to have sufficient liquidity to pay ongoing expenses, taxation liabilities and members benefits. The Trustees will retain sufficient liquidity in order to meet foreseen expenses in a timely manner.

Cost of Investing

The Trustee will exercise prudence and consider the cost of making investments on behalf of the fund. The Trustee will incur costs from time to time relating to investment and strategic advice, with the intention of maximising investment returns.

Insurance

The Trustees acknowledge the requirement to consider insurance on side the fund as part of this investment strategy. The Trustees have considered insurance for the members of the Fund with due consideration to member and Fund circumstances, an appropriate level and type of cover and the associated costs. The trustees have implemented a suitable insurance strategy as they deem appropriate and agree to regularly review this decision.

SMSF Investment Strategy

Market Influences

The Trustees recognise that market conditions can change from time to time and this Investment Strategy should not limit the Trustees capacity to make investments. The Trustees undertake to upgrade the Investment Strategy should the long term risk tolerance or diversification strategies change.

Risk Profile

Risk is a possibility of loss on an investment. It is commonly measured by reference to the volatility of returns. Factors such as interest rates, political change, market sentiment, risk management techniques and changes of legislation affect risk. The Trustees will strive to identify, measure and manage risks associated with particular investments.

There is a strong correlation between risk and return. This means that the Trustee should determine an acceptable level of risk and volatility of the returns in light of the SMSF's circumstances. The risk tolerance indicated will be used to set the diversity and nature of the fund's investments as set out below:



Table of Risk Tolerance					
	Low	Low to Medium	Medium	Medium to High	High
Short term volatility	Very Low	Low	Medium	High	Very High
Approx % of Growth Assets	Nil	30%	55%	75%	Over 75%
Anticipated Long-term return	Riskless Rate	Low	Medium	High	Very High
Investment Categories	Capital Secure	Capital Stable	Balanced	Growth	High Growth

Based on the above, individual members of the fund have indicated the following investment preference:

Member Name	Low	Low to Medium	Medium	Medium to High	High
1.					
2.					
3.					
4.					

And:

The Fund as a whole:					
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Diversity of the Member's Fund

Generally, diversification of investments is useful to disperse risk, and reduces the volatility of the returns on the investments. It can be achieved by spreading investments over a number of individual assets, classes of assets, countries or investment managers.

However, it may be difficult to achieve, particularly for a small fund, in the early stages when there is a limited amount of money to be invested. Thus, the level of diversification and how it is achieved depends on the size and circumstances of the SMSF.

Diversity of Individual Investments

The Trustees recognise that diversification in the number of investments is an effective method of spreading the risk of failure in individual investments.

Diversity of Asset Classes

The spread of investments is a reflection of the risk position that the Trustees are comfortable in taking in relation to the activities and objectives of the fund. The diversification of fund investments, and the basis for investment decisions, will begin with the following considerations as adopted by the Trustees (select either A or B by ticking the box):

A: Own Merit

In order to achieve the fund objectives and remain considerate of the Risk Profile, the Trustees will regularly monitor the performance of the fund's investments, the level of diversification and the expected cash flow requirements of the fund. Where prudent and appropriate, the Trustees will rebalance the portfolio due to changes in market conditions or fund circumstances. The Trustees acknowledge that no specific percentage range for asset classes should be adopted within the strategy and promote the premise that each investment will be considered on its own merit.

OR

B: Investment Ranges

In order to achieve the fund objectives and remain considerate of the Risk Profile, the Trustees have determined that the asset spread detailed below is appropriate for the fund. When making investment decisions, the Trustees will review and consider these investment ranges and the associated risks of each investment. When selecting this option please indicate the asset ranges in the table below.

Asset	Example (Range %) (Medium Risk Tolerance)	This Fund
Australian Equities	0 - 75%	
Australian Fixed Interest	0 - 50%	
Cash	20 - 60%	
Direct Property	Nil	
Foreign Cash	Nil	
International Equities	0 - 30%	
International Fixed Interest	0 - 20%	
Listed Property	Nil	
Other Investments	Nil	

Bell Direct Investment Strategy



Investments – Definitions

Australian Equities

Listed and unlisted securities including shares and managed funds.

Australian Fixed Interest

These include deposits in banks, building societies, government and non-government bonds, bank bills, debentures, corporate notes and specialist fixed interest funds.

Cash

Money held within Australia in banks, building societies, lending institutions and cash management accounts and generally at call.

Direct Property

Any freehold or leasehold interest in real property, including residentially zoned properties held for investment purposes and where permitted by law.

Foreign Cash

Money held outside Australia in banks, building societies, lending institutions and cash management accounts and generally at call.

International Equities

Investments directly or indirectly in listed and unlisted shares or managed funds which contain investments in equities from around the world.

Additional considerations, as determined by the Trustees:

International Fixed Interest

These include deposits in banks, building societies, government and non-government bonds, bank bills, debentures, corporate notes and specialist fixed interest funds from around the world.

Listed Property

Property interest held indirectly through a listed property securities trust or fund.

Other

Other investments may include artwork, crypto currency, bullion, water licenses or other collectibles and unique investments that provide capital preservation or returns through capital growth or income.

Geared Investments

Where a limited recourse borrowing arrangement or self funding instalment warrant is held, the Trustees recognise the additional risk of geared investments. The Trustees understand and are prepared to accept the increased volatility of returns associated with geared investments.

Timeframe

The Trustees consider this strategy appropriate in light of the member's and fund's risk tolerances and investment objectives. The investment strategy adopted suitably addresses short term and long term views of investments where appropriate and gives consideration to member circumstances including their age and ability to contribute or withdraw monies from the fund in the future.

Signed by Trustees

This investment strategy has been adopted by the Trustees of the Fund, and will be reviewed annually as part of the financial statements and annual return, or when the Trustees consider it appropriate.

Signed Trustee/Director 1 _____ Date _____

Signed Trustee/Director 2 _____ Date _____

Signed Trustee/Director 3 _____ Date _____

Signed Trustee/Director 4 _____ Date _____