



## SUPERANNUATION

### Self Managed Super Fund Investment Strategies

Trustees of Self-Managed Super Funds would not be totally surprised at research released by the Australian Stock Exchange revealing the drafting of an investment strategy as the hardest job.

Under superannuation laws it is something all trustees of all super funds have to do but few SMSF trustees say they find the job easy.

Part of the trustee's difficulty lies in the fact that nearly all of them use the 'cart before the horse' method. They decide what assets they want their super fund to own and then attempt to write their investment strategy to justify the purchasing or holding of those assets.

This process is unavoidable if a trustee has been running a fund for some years and is trying to correct inadequate or inappropriate documentation.

Most people currently setting up SMSFs often make this same mistake. Ideally these people should set up their fund, develop their investment strategy and then decide what assets to purchase.

There is widespread confusion and doubt about precisely what the law requires in relation to what an investment strategy should contain. Consequently some SMSF trustees ignore these requirements while others adopt a strategy which wouldn't survive an impartial review by the Australian Tax Office.

Despite the uncertainty, all relevant ATO SMSF documents clearly state that a SMSF investment strategy is not only an important legal obligation but is also a good practical requirement for trustees. Real guidance to assist in understanding this duty is not provided.

It is therefore left to trustees to work out whether or not the investment strategy and the implementation and regular review of that strategy all get pass marks.

When examining a SMSF investment strategy the ATO will not make a judgement as to its quality from an investment perspective. The length of your investment strategy document is not important. It could be three lines or three hundred pages. The key issues are, is it in writing, does it comply with all the legal requirements, has it be reviewed regularly and can the trustees show how it has been implemented?

It is here that the law and its administration by the ATO are deficient. The law provides no guidance. The ATO appears unwilling to help trustees to understand where borderline cases are unacceptable except on a case-by-case basis during formal auditing of a fund's documents.

A strategy cannot exist without objectives and you can't set objectives unless you have some idea of where you are currently at and what you want to achieve.

Before drafting an investment strategy, trustees should consider solving two important issues, understanding the fund and developing some fund investment objectives.

The following questions may help a trustee to know their fund a little better. Why does the fund exist? Can the fund take risks? If so, who will ultimately bear those risks? What is the time horizon of the fund? What is the expected growth (members, contributions, acquisition or disposal of assets) in the fund? What are the fund's cash flow requirements over the short, medium and long-term including catering for likely cash flow requirements and unforeseen events?

Once a trustee has a better understanding of a fund it's easier to work on establishing the fund's investment objectives. The finished objectives might deal with a SMSF's purpose, expectations, risk profile and time horizons.

Once you know what the fund is set up to achieve, you can turn your attention to developing the investment strategy. The superannuation legislation requires a trustee to take into account risk and return, diversification, liquidity requirements and ability to discharge existing and prospective liabilities of the whole fund. Some trustees build a spreadsheet model of their fund and then they change the assumptions to see

how robust their strategy is.

Trustees might also find it helpful to decide at what point corrective action may be required with their investment strategy and asset holdings if the fund's investment objectives are not being met.

For example, economists believe that three consecutive quarters of negative growth means an economy is in recession. Five negative quarters normally signifies a depression has hit an economy. What corrective action might be taken in these circumstances?

An investment strategy must also comply with the fund's trust deed and all other investment restrictions and obligations contained in the super laws.

Developing, implementing and reviewing an investment strategy will require an investment of time and effort. Generally we would advise Trustees to seek professional advice on the practical and legal aspects of establishing and reviewing investment strategies

If you would like to take advantage of our free consultation or would like to know more about our services please contact us on (07) 3832 6020, Email [info@bridgewaterafs.com.au](mailto:info@bridgewaterafs.com.au) or visit our website on <http://www.bridgewaterafs.com.au>

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