

SMSF investment strategies

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Welcome

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WEBINAR

Presenter

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Garth has worked in the Australian Superannuation industry for over 25 years with a specific focus on self-managed super funds. He provides ongoing support and training to individuals as well as to professionals working in the superannuation area, including advisers, accountants and lawyers.

Garth is a regular contributor to industry publications and to the leading professional bodies including Chartered Accountants Australia & New Zealand (CA ANZ) & CPA Australia (CPA).



Important

Disclaimer

The information covered within this webinar is intended to be general in nature and is not personal financial (or financial product) advice. It does not take into account your objectives, financial situation or needs. Before acting on any information, you should consider the appropriateness of the information provided having regard to your objectives, financial situation and needs.

In particular, you should seek independent financial advice prior to making any investment decision.

You should consider the appropriateness of this information having regard to your individual situation and seek taxation advice from a registered tax agent before making any decision based on the content of this presentation.

Any examples within this presentation are provided for illustrative purposes only. They should not be relied on.

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Today's session

Super Rules &
Requirements



ATO & Auditor
Expectations



Tips & Traps



Writing your SMSF investment strategy (including templates)

Plumy Pryor • Updated 8 August 2020

Reading time: 8 minutes

On this page

- What is an SMSF investment strategy?
- What to consider
- What to do following a market correction
- Considering insurance
- How do I create an SMSF investment strategy document?
- What do I do with the investment strategy?
- SMSF investment strategy templates



SMSF investment strategy health checklist

Plumy Pryor • Updated 27 February 2020

Reading time: 3 minutes

On this page

- Is it comprehensive enough?
- Is it up to date and do you review it regularly?
- Is your investment strategy appropriately diversified?
- Do you need to rebalance?
- Are all investments allowed under your fund's trust deed?
- How long since you considered insurance needs of members?
- Have you minuted any changes?
- Is it filed appropriately?

The bottom line

Please refer to SuperGuide article SMSF Investment Strategy

Example 1: A standard investment strategy

Smith SMSF investment strategy

The following document details the investment strategy of Smith SMSF:

The members of the fund are John Smith (aged 48) and Jane Smith (aged 42). Both members of the fund are in accumulation stage and the fund has combined assets as at 1 January 2019 of \$500,000.

OBJECTIVES

The fund will target an overall

The overall composition of the

The fund can invest in equities

The fund may, depending on the

After consideration of the exp

- Equities 0-70%
- Australian 0-60%
- Global 0-20%
- Cash or fixed income 0-30%
- Property 10%
- Listed property trusts 0
- Unlisted property trusts 0
- Alternatives 0-5%

It, due to significant market

Please refer to SuperGuide article SMSF Investment Strategy

Example 2: An investment strategy for an SMSF with a business real property asset.

Jones SMSF investment strategy

The following document details the investment strategy of Jones SMSF:

The members of the fund are John Jones (aged 48) and Jane Jones (aged 42). Both members of the fund are in accumulation stage and the fund has combined assets as at 1 January 2019 of \$500,000.

OBJECTIVES

The fund will target an annual return of CPI (currently 1.9%) plus 2% per year.

The overall composition of the fund's assets and their diversification will be given appropriate consideration. When doing so, members' assets held outside of their SMSF will also be taken into consideration.

The fund can invest in equities (both Australian and global), fixed income and cash and property.

It may, depending on the opportunity, consider alternative investments for a small portion of the balance, or derivatives, when investing in derivatives a derivative risk statement outlining the expertise of the trustee will be attached.

The trustees have considered the expected risk and return of investments, appropriate diversification, the liquidity of certain investments with regard to the fund's expected cash flow requirements and the fund's ability to discharge its liabilities. They have agreed that the fund will invest directly or indirectly in a commercial property.

The trustees have agreed that although the business real property investment is a significant allocation of the Jones SMSF, the advantages to both trustees' retirement outcomes of holding the business within the accumulation fund outweigh any risk of concentration of assets.

Within the allocation to Australian equities, the fund will seek a significant portion of quality large cap companies that prioritise dividends in order to maximise and maintain the fund's value. A small allocation to cash or fixed income should provide the fund some security during volatile market periods.

Please refer to SuperGuide article SMSF Investment Strategy Health Checklist for explanations about the checklist

SMSF investment strategy health checklist

- Is it comprehensive enough?
 - Yes
 - No, needs work
- Is it up to date and do you review it regularly?
 - Yes
 - No, need to schedule regular reviews
- Is the asset allocation still appropriate?
 - Yes
 - No, may need adjusting
- Do you need to rebalance?
 - No, my asset allocation is OK
 - Yes, it is out of whack
- Are all investments allowed under your fund's trust deed?
 - Yes
 - No, need to amend trust deed
- How long since you considered insurance needs of members?
 - Recently
 - Not recently
- Have you minuted any changes?
 - Yes
 - No, need to do
- Is it filed appropriately?
 - Yes
 - No, not ready

Articles

Pro-Forma Strategies

Checklists

Myths: Busted

- My SMSF admin provider will provide me with a complying investment strategy included in the annual paperwork
- My SMSF must hold a Diversified portfolio of assets
- We must include asset range %'s within the investment strategy
- My SMSF must have insurance for members
- We only need to review our SMSF investment strategy once a year

Super rules and requirements

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SIS rules and regulations

<p>SIS Regulation 4.09</p>	<p>“The trustee of the entity must formulate, review regularly and give effect to an investment strategy that has regard to the whole of the circumstances of the entity”</p>
<p>Specific Areas to Consider</p>	<ul style="list-style-type: none"> • Risk, Return & Cashflow requirements • Diversification • Liquidity • Ability to meet liabilities & pay benefits • Whether to hold insurance for the fund members

Considerations	Actual wording in Legislation / Regulations
Risk, Return & Cashflow Requirements	(a) the risk involved in making, holding and realising, and the likely return from, the entity's investments , having regard to its objectives and expected cash flow requirements
Diversification	(b) the composition of the entity's investments as a whole, including the extent to which they are diverse or involve exposure of the entity to risks from inadequate diversification;
Liquidity	(c) the liquidity of the entity's investments , having regard to its expected cash flow requirements;
Ability to meet liabilities & pay benefits	(d) the ability of the entity to discharge its existing and prospective liabilities;
Whether to hold insurance for the fund members	(e) whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

Considerations	Actual wording in Legislation / Regulations
Risk, Return & Cashflow Requirements	Consider how these relate to the underlying fund assets and their appropriateness for the fund members at this stage of life & how the fund investments will meet members retirement objectives
Diversification	No strict requirement for diversified portfolio BUT trustees MUST consider overall SMSF investments, benefits from being diversified, AND if not diversified, what risks or increased risks exist
Liquidity	Sufficient cash at bank &/or liquid assets to meet upcoming fund expenses including member benefit payments, taxation payments, professional & regulatory fees
Ability to meet liabilities & pay benefits	
Whether to hold insurance for the fund members	No strict requirement for insurances to be held over fund members. BUT trustees MUST maintain evidence regarding decision making process , considerations included in that process and the outcomes from that process

ATO expectations and commentary

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ATO expectations

In writing	Must consider & address specific requirements of the Super rules	Make sure that the investment strategy is implemented
Tailored & specific to your relevant circumstances (age, employment status, retirement needs)	Specify asset class ranges OR set out details on material assets	Make sure that the investment strategy is regularly reviewed: At least annually but also at times when the funds position may change
Articulate how assets will achieve retirement goals	Maintain <u>evidence</u> on what TRUSTEES have done (not Accountant, Adviser, Admin etc)	

ATO commentary

- “Your SMSF investment strategy should be in writing. It should also be tailored and specific to the relevant circumstances of your fund rather than a document which just repeats the words in the legislation.”
- “While a trustee can choose to invest all their retirement savings in one asset or asset class, certain risks such as return, volatility and liquidity risks can be minimised if a trustee chooses to invest in a variety of assets.”
- “We don't consider that short term variations to your articulated investment approach, including to specified asset allocations, constitute a variation from the investment strategy.”

ATO commentary

- "...it is not a valid approach to merely specify investment ranges of 0 to 100% for each class of investment"
- "If you choose not to use allocated portions or percentages in your investment strategy, you should ensure material assets are listed in your investment strategy. You should also include the reasons why investing in those assets will achieve your retirement goals."
- "Investing the predominant share of your retirement savings in one asset or asset class can lead to concentration risk. In this situation, your investment strategy should document that you considered the risks associated with a lack of diversification. It should include how you still think the investment will meet your fund's investment objectives including your fund's return objectives and cash flow requirements."

Auditor requirements and expectations

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Increased auditor focus area

- A number of recent SMSF Legal Cases have resulted in SMSF Auditors becoming the focus of regulator attention
- SMSF Auditors now increasing their focus on SMSF investment strategies & Trustee obligations
- ATO focus area in FY 2019–2020 with letters sent to around 18,000 SMSFs – created a lot of industry & trustee concerns
- Recent changes to SMSF Auditor “Independence” rules have also resulted in a resurgence in SMSF admin focus; including investment strategies



Auditor requirements – GS009

<p>Formulate</p>	<p>“... in writing and the auditor assesses that the trustees have properly considered all the circumstances of the SMSF, however the auditor is not required to assess whether the investment strategy is adequate to meet the long term investment needs of the SMSF and the auditor states in their report that “no opinion is made on the investment strategy or its appropriateness to the fund members”</p>
<p>Given Effects</p>	<p>“... to determine whether the trustees have given effect to the investment strategy, the auditor assesses whether the investments made during the period are invested according to the documented investment strategy as approved by the trustees”</p>

Auditor requirements – GS009

Regular Review

“... auditor obtains evidence as to whether the trustees have reviewed or modified their investment strategy during the period to accommodate the SMSF’s changing needs and changes in the investment environment.”

“The frequency that a trustee should review the fund’s investment strategy in order to satisfy the requirements of regulation 4.09 of the SISR is not specified, and it is the role of the trustee to determine what is appropriate to meet the requirement. The expectation from the ATO is that this would be at least annually. The role of the auditor is to use professional judgement in determining if this requirement has been met. ”

Meeting auditors expectations

Documented: In writing	Investment & Activities throughout the year are in line with the strategy: Assets, Insurance etc.	Changes in SMSF position are in line with overall investment strategy
Addresses key requirements		Clear evidence on how decisions were made
Trustee involvement in development: Not just a software generated document	Investment strategy in line with Trust Deed rules	Evidence of review taking place and what action was taken. Where no action taken – evidence as to why
	Investment strategy is specific to the SMSF & the members	

Increased auditor focus area

- Auditors expect SMSF Trustees to be involved in process: Not auto generated documents from Fund Administrator. This is a common issue raised
- Ensure Trustees actions & decision-making process is documented
 - The Whys and Why nots.
 - “Decided not to take out insurance”- WHY
 - “Decided not to Diversify”- WHY
 - “Decided to invest in “X” – WHY
- Auditors expect to see the above as part of the investment strategy. SO include this in the actual investment strategy documents rather than in an attached “Trustee Minute” auto generated by software
- Use clear and concise wording on what was done.....

Investment strategy: Wording considerations

- The trustees have assessed the **personal position** (liabilities etc.) **relevant for each fund member** & have **considered any existing insurances** held by the members external to the SMSF
- The trustees have **assessed the SMSFs liabilities** and **reviewed the outcomes or consequences for the SMSF** following the death of a member
- The trustees have **assessed the potential needs of the member's dependants** following their death or Total & Permanent Disablement
- The trustees have **assessed the appropriateness of life insurance, TPD insurance and income protection** insurance products available
- The trustees have **assessed the cost of insurance** cover being held within the SMSF
- The trustees have assessed **the need for insurance cover over assets** owned within the SMSF

Wrap up

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Final thoughts

- Make sure that investment strategy paperwork clearly shows:
 - What has been considered
 - What has been done
 - Who carried this out (the Trustees)
 - When it was carried out
- Using standard (external) documentation is acceptable so long as it is tailored to your SMSF & you were involved in the development, implementation & review process
- Use Trustee “wording” – do not regurgitate Legislation
- MAINTAIN EVIDENCE ON WHAT YOU HAVE DONE!
 - Absolutely essential!

Questions

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