The Hills Superannuation Fund

Investment Strategy

Date: 10/07/2021

SMSF Corporate Trustee: Hills Super Investments (Aust) Pty Ltd

This document sets out the investment strategy for **The Hills Superannuation Fund** (the Fund)

Investment Objective

The sole aim of the investment strategy of the Fund is to accumulate funds for the payment of superannuation benefits as set out in the trust deed governing the Fund's operations (Trust Deed).

The investment objectives which have been considered by the trustee of the Fund (the Trustee) in formulating the investment strategy are:

- ensuring that there is sufficient liquidity to meet benefit payments as they become due;
- achieving a minimum investment return (net of tax and charges) that exceeds any increase in the Consumer Price Index over any five year period by not less than 2% per year;
- having a low expectation of negative returns in any 12 month period;
- establishing within the Fund a tolerance to short term fluctuations in income and capital values given the profile of the members' ages; and
- before investment in any particular asset, having due regard to the balance between risk and return to maximise the rate of return on members' entitlements subject to an appropriate level of risk.

Investment Strategy

With regard to the investment objectives detailed the Trustee has had regard to the whole of the circumstances of the Fund and has adopted an investment strategy of seeking in the long term a diversified portfolio mix of some or all of the following asset classes:

- real property including both direct investment and indirect investment by the acquisition of units in property holding unit trusts;
- shares, options, and other rights to shares including both direct investment and indirect investment through equity trusts or other pooled investment vehicles;
- cash, including fixed interest term deposits, bonds, cash management trusts and appropriate derivative products; and
- other alternative assets that the Fund is permitted to hold under the superannuation laws.

The Trustee considers that no specific percentage range for each of the above asset classes should be adopted at present but that each asset class should be considered on its own investment merits at the particular time that an investment is proposed to be made by the Fund having due regard to always maintaining an appropriate degree of diversification.
In considering which investments to buy, hold and sell, and how to achieve the desired level of diversification, the Trustee will consider:

- the risk involved in making, holding and realising, and the likely return from, the Fund's investments, having regard to the investment objectives and the Fund's expected cash flow requirements;
- the composition of the Fund's investments as a whole including the extent to which the investments are diverse or involve the Fund in being exposed to risks from inadequate diversification;
- the liquidity of the Fund's investments, having regard to its expected cash flow requirements; and
- the ability of the Fund to discharge its existing and prospective liabilities.

A single asset strategy may be adopted for the Fund if the asset in which it is proposed to invest meets the investment criteria of the Fund but in the event that a single asset strategy is adopted the Trustee will endeavour to diversify the investment portfolio at a later date as further contributions are made to and income is derived by the Fund. If a single asset strategy is adopted, then a suitable mechanism to provide liquidity to enable the payment of benefits to members in accordance with the terms of the Trust Deed at any time is to be adopted. This could include the payment of benefits by way of in-specie transfers of investments in whole or in part.

The Trustee will give due consideration to investing in investments suggested by members of the Fund provided that the suggestions refer only to asset classes and not to particular assets with the exception that in the case of the real property asset class the Trustee will consider particular investments provided that such investments fulfil the investment objectives of the Fund.

All investments by the Fund must be on an arm's length basis and will be acquired, maintained, or disposed of on commercial terms at market rates of return.

The Trustee considers that this investment strategy will fulfil the principal aim of maximising returns to members having due regard to risk and is consistent with the investment objectives of the Fund.

The Trustee may consider borrowing under a limited recourse arrangement in order to acquire investments. In the event that such borrowing occurs the Trustee will endeavour to ensure that there is sufficient liquidity, and income being derived by the Fund, to enable the Trustee to pay interest and to repay the principal of the borrowing. The detail relating to this part of the strategy is shown in the attached gearing and bare (nominee) trusts appendix.

Insurance

The Trustees is required to consider whether it should hold a contract of insurance that provides insurance cover for one or more of the members of the fund.

In determining whether insurance cover will be held in the Fund, the Trustee will review the current life and disablement insurance arrangements for each member, and, where applicable, seek appropriate advice in relation to the implications of the Fund holding such insurance for the members.

Investment Strategy Review

This represents the formal Investment Strategy of the Fund as required by the provisions of the Superannuation Industry (Supervision) Act 1993.

The Trustees are committed to review the strategy on a regular basis.

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Colin Hills
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Colin Hills (Trustee Director)

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Appendix 1. Gearing and Bare (Nominee) Trusts

The Trustees may from time to time borrow for investment purposes provided that the Fund ensures that is meets the superannuation regulations as applicable at the time of borrowing and on an ongoing basis. The Trustees will ensure that they have determined a plan for meeting any potential future liabilities or obligations in relation to the borrowing. The Trustees must also ensure that any borrowing is secured by the asset which is the subject of the borrowing and that the lender has no recourse to the other assets of the Fund. The *Superannuation Industry (Supervision)* Act 1993 ("the SIS Act") permits borrowing provided that:

- The borrowed money is applied for the purposes of acquiring an asset other than one which the Fund is prohibited from acquiring:
- The asset is held on trust so that the Fund acquires the beneficial interest in the asset:
- The Fund has a right to acquire legal ownership of the asset: and
- The rights of the lender against the Superannuation Fund for default on the borrowing, or on the sum of the borrowing and charges related to the borrowing, are limited to rights relating to the asset.

Effectively this means that any borrowing arrangement that is allowed under Section 67 (4A) of the SIS Act must be done so on a limited recourse basis. Consequently, the existing assets of the Fund may not be used as security regardless of the performance of the new investment.

Permitted Assets
There is no specific limit on what asset can be acquired from gearing with the exception that the asset must be an asset that the Fund could have acquired under the superannuation law without gearing. The practical issues here are that the asset that is being acquired must be identifiable and this permits the acquisition of real property, share and managed funds.

Prohibited Assets
The reference to assets which the Fund is prohibited from acquiring is a reference to Section 66 of the SIS Act, which prohibits the Trustee or an investment manager of a regulated superannuation fund from intentionally acquiring as asset from a Member or from an associate of a Member, unless that asset is an 'excepted asset'; i.e. business property and listed securities. Acquisitions must also be made at the present market value.

Beneficial Ownership
The Fund is not allowed to be the legal owner of the investment; however, it must be the beneficial owner of the asset. For that reason, an entity must hold the asset on trust for the Fund, such as a separate Trustee Company (i.e. not the Corporate Trustee of the Fund). Furthermore, the trust must not be an "active trust" as there may be adverse capital gains tax consequences if the Fund calls for transfer of the legal title. The entity holding the asset will hold it as a Bare Nominee as a result, the asset must be managed by the Fund, for example if the asset is real estate the Fund must collect rent and attend to repairs.

Funding
There is no requirement as to whom the lender might be, but the most obvious arrangement is for a financial institution to lend directly to a Fund. An alternative is for a Member to borrow from a source and lend those borrowed monies to the Fund, or for the Member to lend to the Fund their own capital. As security, the Fund can only provide the proposed asset itself and income generated from the asset. In some circumstances the Member may also be required to provide the lender with additional security as collateral over the borrowing.

Gearing
The sole purpose of the trustee in borrowing to invest in assets is to achieve growth from the assets and hence enhance, over the medium to long term, the investment performance of the Fund. While the Trustees will require cash flow from the asset(s) to assist in meeting debt commitments it is recognised that income received by the Fund may be insufficient to meet interest expenses incurred by the Fund. Any shortfall will be met by other Fund income, cash reserves and may also be met by way of contributions made to the Fund. In order to manage the additional risk to the Fund, the Trustees will ensure that the level of borrowing will not exceed 80% of the value of the asset being acquired and not greater than 80% of the total value of the Fund assets.

Interest
The trustees have ensured that they have adequate cash flow to meet interest commitments for a period of one year without relying on the income generated from the asset which is encumbered. Alternatively, the structure of the arrangement is such that it is self financing and hence additional cash flow is not required.