

Investment Objectives and Strategy for the IS & AM Petherick Superannuation Fund

1 Introduction

The purpose of this document is to record the investment objectives and strategy formulated by the Trustees, Ian & Alison Petherick of the IS & AM Petherick Superannuation Fund ('the Fund') in relation to the investment of the assets of the Fund.

Background

Under Paragraph 52B(2)(f) or Paragraph 52C(2)(f) of the Superannuation Industry (Supervision) Act 1993 ("SIS Act"), the Trustees are required to take into account all of the circumstances of the Fund in formulating the objectives and strategy of the Fund, including, but not limited to the following:

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

The Trust Deed of the Fund provides the Trustees with broad authority to invest the Fund's assets.

Prohibited investments (which are either specifically spelt out in the Trust Deed or are deemed to apply because of legislation) are as follows:

- i. Loans to members;
- ii. Assets acquired from members (limited exceptions apply);
- iii. In-house assets exceeding 5% of the value of the Fund.

The membership profile of the Fund as at 21/06/2021 was as follows:

Name	Age	Expected years to retirement age	Accumulation phase/pension phase
Ian Petherick	75	N/A	Retired
Alison Petherick	73	N/A	Retired

Investment objectives

The investment objectives of the Fund are created in compliance with Paragraph 52B(2)(f) or Paragraph 52C(2)(f) of the SIS Act to fulfil the principal objective of maximising member returns, with specific regard to the following:

- i. The prudent management of risk in holding and realising investments, with consideration to the likely return, the Fund's objectives, and the expected cash flow requirements.
- ii. Ensuring the composition of the Fund's investment portfolio is appropriately diversified through the application of exposure limits for individual asset classes.
- iii. Ensuring there are sufficient assets providing an appropriate level of liquidity to meet benefit and liability payments as they fall due and in accordance with the Trust Deed.
- iv. Maintaining sufficient cash flow to discharge administration expenses and other outgoings.
- v. Regularly assessing the opportune balance between short term returns and long term growth in excess of the CPI; tailored to member's expectations and circumstances.
- vi. Considering the provision of insurance cover for one or more members of the Fund.
- vii. Preserving the capital of the fund where possible through the investment cycle, particularly in regard to assets with moderate to high volatility.
- viii. Providing member benefits for retirement.

Investment strategy

Trustee considerations

The investment strategy in fulfilling the objectives has been formed to reflect current market conditions and the requirements of the members, which were assessed based on a number of factors including:

- i. The risk tolerance of members;
- ii. Asset class preferences and diversification;
- iii. Income and cash flow requirements;
- iv. The members' retirement objectives;
- v. Contributions made by members;
- vi. The time the members have until they retire;
- vii. Market risk, legislative risk, liquidity risk and inflation risk.

Member preferences and risk tolerances

With the obligation to be prudent and exercise a degree of care, skill and diligence under the SIS Act, Trustees need to carefully consider the Fund's level of acceptable risk. The differing expectations and risk tolerance profiles of the Fund's members can be assessed by the Trustees in determining the mix of asset classes they choose to adopt in the Fund's investment strategy.

There is always a degree of uncertainty and risk inherent in each investment, exacerbated by unpredictable economic and financial factors to create variable returns. The resulting fluctuations in the return on investment (ROI) will affect the level of benefit on withdrawal, hence it is acknowledged that the associated risk and returns are ultimately borne by the Fund members. However, these risks may be managed or reduced by spreading the investments across a range of assets to minimise the variability of investment returns. This strategy is referred to as diversification.

Diversification

Diversification can be achieved by including assets with differing patterns of return in the Fund's portfolio, often through a mix of Australian and international investments and across different asset classes as opposed to a single asset type. Diversifying between asset classes will reduce concentration and underperformance risk. The size of the fund in terms of the dollar value held will also affect diversification decisions.

Asset allocation

In assembling a portfolio of assets there are three broad types of investments to consider in line with the objectives and cash flow requirements of the Fund:

- i. **Defensive assets:** e.g. cash and term deposits that are highly secure with a low risk of capital loss.
- ii. **Moderately defensive assets:** eg Government bonds, investment grade corporate bonds and subordinated debt, which have fixed income characteristics with added costs and varying degrees of risk.
- iii. **Growth assets:** e.g. Australian and International equities, property trusts, direct property, commodities, currencies, collectibles, and derivatives, which offer the highest potential for return, yet involve the trade off of high volatility and the risk of capital loss.

It is important to consider that whilst growth assets are expected to yield a higher total return over the longer term than defensive assets, the associated volatility is higher, increasing the likelihood of a poor or negative return in the short term.

Acquiring real estate through the Fund often involves borrowing through a limited recourse borrowing arrangement to fund the acquisition. It is important when considering a direct property investment to first assess the property and rental valuations so that the Trustees are satisfied the price reflects true market value and constitutes a prudent investment on an arm's length basis. A number of factors need to be considered as the value of property often limits the liquidity of assets available and capacity to diversify.

Liquidity and cash flow requirements

A sufficient cash balance in the Fund's bank account needs to be maintained in order to meet its outgoings when they fall due. In addition, Trustees will ensure that the sufficient liquid assets are held, whereby they can easily be sold in the event of an obligation falling due or to meet unexpected cash flow requirements.

Ability of fund to meet its obligations

All existing and prospective liabilities of the Fund will be met through maintaining sufficient cash flow to discharge administration expenses and other outgoings. The members are entitled to the accumulation of contributions and earnings in the members' account on withdrawal.

Depending on the phase each member is in, prospective liabilities of the Fund may include:

- i. expenses that are paid on a semi regular basis;
- ii. pension liabilities paid on a regular or irregular basis;
- iii. tax liabilities paid on an annual or instalment basis;
- iv. death benefits from the unexpected death of a member; and
- v. where a death benefit nomination requires benefit payments to beneficiaries.

The Fund will be able to meet its obligations to the members at these times due to the composition and liquidity of its investments.

Indicative asset allocation

It has been determined that the following spread of investments is appropriate for the Fund. The strategic ranges can be reviewed regularly as circumstances change:

Asset Class	Strategic Ranges	
	From %	To %
Cash	0%	100%
Fixed Interest	0%	30%
Australian Shares	0%	70%
International Shares	0%	50%
Real Property	0%	40%
Other	0%	10%

The Trustees may vary the investments of the fund within the strategic ranges without having to alter the investment strategy.

It is also recognised that market fluctuations may sometimes cause the asset allocation to exceed or fall below the stated percentages temporarily.

Cash reserves

The Trustees may maintain a reserve for the purpose of smoothing investment returns credited to members or the payment of fund expenses. The assets backing the reserve will be invested in accordance with the investment objectives and strategy applicable to the other fund assets.

Insurance for members

The Trustees have considered whether the Fund will hold a contract of insurance that provides insurance cover for its members.

Based on a needs analysis by the Trustees, and taking into account insurance that is held outside of super and the ages of the members, the following was concluded:

Member	Insurance Type	Amount
Ian Petherick	Life	Nil
Ian Petherick	TPD	Nil
Alison Petherick	Life	Nil
Alison Petherick	TPD	Nil

The Trustees have considered the circumstances and needs of the members and have concluded in consultation with the members that no insurance within the SMSF is required. This has been arrived at considering one or more of the following factors:

Absence of personal or business debt;

Borrowing

The Trustees may consider borrowing through a limited recourse borrowing arrangement to fund the acquisition of an investment. In assessing the appropriateness or otherwise of entering into a gearing arrangement the following matters should be considered by the Trustees:

- i. the risks involved in making, holding and realising the investment under a limited recourse borrowing arrangement;
- ii. the likely return from the investment under a limited recourse borrowing arrangement;
- iii. the diversity of investments generally; the liquidity and cash flow consequences of holding the investment under a limited recourse borrowing arrangement;
- iv. the time the members have until they retire;
- v. the fund's cash flow requirements; and
- vi. the investment risk tolerance of the members.

The Fund Trustees may borrow to acquire the beneficial interest in the investment. The lenders' rights on any default of the borrowing or the sum of the borrowing and charges related to the borrowing are limited to rights relating to that investment acquired under the limited recourse borrowing arrangement.

Review

The Trustees may review this strategy as required.

Signature

Signed by the Trustee(s):

Ian Petherick
Ian Petherick (Trustee)

21/7/21
Date

A.P. Petherick
Alison Petherick (Trustee)

21/7/21
Date

