

# INVESTMENT STRATEGY Guidance Statement

MORRIS SUPERANNUATION FUND

**MORRIS SUPERANNUATION  
FUND ("The Fund") INVESTMENT  
STRATEGY**

**The Commissioner's Guidelines on Investment Strategies for SMSF Trustees**

**1. What needs to be included in my SMSF's investment strategy?**

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.

Relevant circumstances may include (but are not limited to) personal circumstances of the members such as their age, employment status, and retirement needs, which influence your risk appetite. Your strategy should explain how your investments meet each member's retirement objectives.

In particular, under the super laws your strategy must consider the following specific factors in regard to the whole circumstances of your fund:

- risks involved in making, holding and realising, and the likely return from your fund's investments regarding its objectives and cash flow requirements
- composition of your fund's investments including the extent to which they are diverse (such as investing in a range of assets and asset classes) and the risks of inadequate diversification
- liquidity of the fund's assets (how easily they can be converted to cash to meet fund expenses such as the cost of managing the fund and income tax expenses)
- fund's ability to pay benefits (such as when members retire and require a lump sum payment or regular pension payments) and other costs it incurs
- whether to hold insurance cover (such as life, permanent or temporary incapacity insurance) for each member of your SMSF.

When formulating your investment strategy, it is not a valid approach to merely specify investment ranges of 0 to 100% for each class of investment. You also need to articulate how you plan to invest your super or why you require broad ranges to achieve your investment goals to satisfy the investment strategy requirements.

The percentage or dollar allocation of the fund's assets invested in each class of investment should support and reflect your articulated investment approach towards achieving your retirement goals. 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.

## **2. Are there any restrictions under the super laws with respect to my SMSF investments?**

You are free to choose what type of assets you may invest in, providing those investments:

- are permitted by your fund's trust deed
- are not prohibited by the super laws
- meet the sole purpose test.

For instance, you need to be aware of the in-house asset rules and acquisitions from related party rules. You also need to be aware of the non-arm's length income rules for income tax purposes.

Where your investments breach the super laws, we can take compliance action against you. Depending on the severity of the breach, we may apply penalties and potentially disqualify you as trustee.

## **3. What does having regard to diversification mean and can I invest all my retirement savings in one asset or asset class?**

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. This is called a diversified portfolio which helps to spread investment risk.

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.

Asset concentration risk is heightened in highly leveraged funds, such as where the trustee has used a limited recourse borrowing arrangement to acquire the asset. This can expose members to a loss in the value of their retirement savings should the asset decline in value. It could also trigger a forced asset sale if loan covenants (for example, the loan to valuation ratio) are breached.

Super laws also require trustees to invest in accordance with the best interest of all members. You need to be aware of any legal risks that may result from investing in one asset class.

## **4. What does giving effect to my investment strategy mean?**

The super laws require that you as trustee must formulate and regularly review your fund's investment strategy. You must also give effect to an investment strategy that has regard to the whole of the fund's circumstances.

This means ensuring your fund's investments are in accordance with your investment strategy so that you are on track to meet your retirement goals. To help meet this requirement, you could consider specifying appropriate allocations or percentage or dollar ranges for each class of investment ranges that you have chosen for your strategy. These allocations or ranges typically allow some flexibility for market fluctuations.

However, broad investment ranges between 0 to 100% in a broad range of assets do not reflect proper consideration in satisfying the investment strategy requirements. Your strategy must articulate how you plan to invest your super in order to meet your retirement goals.

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.

## **5. How often do I need to review my SMSF's investment strategy?**

Your investment strategy should not be a 'set and forget' document. You should review your strategy regularly to ensure it continues to meet the current and future needs of your members depending on their personal circumstances.

Certain significant events should also prompt you to review your strategy, such as:

- a market correction
- when a new member joins the fund or departs a fund
- when a member commences receiving a pension. This is to ensure the fund has sufficient liquid assets and cash flow to meet minimum pension payments prior to 30 June each year.

You should also review your strategy at least annually and document that you have undertaken this review and any decisions made arising from the review. For example, you could do this as part of the annual trustee meeting minutes. You should then provide these minutes or other evidence of a review to your auditor. This will show that you've met the requirement to review regularly and, where necessary, revised your investment strategy.

## **6. What is my auditor's role in relation to my SMSF investment strategy?**

When conducting the annual audit on your fund, your auditor will check whether your fund has met the investment strategy requirements under the super laws for the relevant financial year. This means they will check that:

- your SMSF had an investment strategy in place for the relevant financial year that considered the factors outlined above

- your fund's investments during the relevant financial year were in accordance with that strategy
- your strategy had been reviewed at some stage during the relevant financial year.

Where you don't comply with the investment strategy requirements, your auditor may need to notify us about this by lodging an auditor contravention report (ACR).

## **7. What happens if my SMSF investment strategy is not compliant?**

If your auditor identifies that you have breached the investment strategy requirements, then you should fix the breach. If your strategy failed to adequately address some of the factors mentioned above, such as the risk of inadequate diversification, you can fix this by attaching a signed and dated addendum to the strategy or a trustee minute which adequately addresses the requirements. You should then show this to your auditor prior to finalisation of the audit.

If you failed to invest in accordance with your strategy, you should revise your strategy to ensure it reflects your fund's investments and how those new investments will meet your retirement objectives. You should then make sure you regularly review and adhere to your new strategy in the future.

Your auditor will only need to lodge an ACR notifying us of the breach if it meets the ACR reporting criteria. For most funds, the criteria will be met if either:

- the auditor has identified the same breach in a previous income year and it has been repeated in the current income year
- it is a breach from a previous year that remains unrectified at the time of audit.

However, the criteria may also be met if the fund is less than 15 months old and the value of any single breach exceeds \$2,000.

## **8. What action will the ATO take if my auditor lodges an ACR in relation to my SMSF's investment strategy?**

If your auditor is required to lodge an ACR and the breach has not been rectified, we will ask you to rectify the breach.

A penalty of \$4,200 (as indexed each 1 July) can be applied on each individual trustee or the corporate trustee for a breach of the investment strategy requirements. The directors of a corporate trustee are jointly and severally liable to pay this penalty.

## **9. Who can help me prepare, update or review my investment strategy?**

We cannot assist you with preparation of your SMSF investment strategy as this could amount to the provision of financial advice.

If you require assistance with the preparation of an investment strategy, you should consider seeking advice from your usual SMSF adviser or a licensed financial adviser.

Note that your usual SMSF adviser may not be a licensed financial adviser and legally capable of assisting you. They may be able to guide you on where to obtain resources such as an investment strategy template. Take care when obtaining standard investment strategy templates as these may not satisfy the super rules. They must be appropriately tailored to your fund's particular circumstances as discussed above and reviewed regularly as required by the super rules.

# TRUSTEE MEETING: ACCEPTANCE OF THE FUND'S INVESTMENT STRATEGY

**DATE:** 21 June 2018

**NAME OF FUND:** MORRIS SUPERANNUATION FUND

**CURRENT INCOME YEAR ENDING:** 30 June 2018

## **ATTENDED BY THE TRUSTEE:**

ROSEMARY MORRIS OF 17 PARR STREET, NAIRNE, SOUTH AUSTRALIA 5252 AND MARIETTE MORRIS OF 12 WISSEL STREET, BRIDGEWATER, SOUTH AUSTRALIA 5155 ACTING AS TRUSTEES OF MORRIS SUPERANNUATION FUND.

**HELD AT:** 17 PARR STREET, NAIRNE, SOUTH AUSTRALIA 5252.

**CHAIRPERSON:** ROSEMARY MORRIS

## **TRUSTEE: ADOPTION OF INVESTMENT STRATEGY**

The Trustee has reviewed the Fund's proposed investment strategy – attached in this minute and has considered the adoption of the investment strategy for the Fund. The purpose of the Investment Strategy is to maximise the Fund's members retirement benefits, including income streams and lump sums, as well as maximising any death benefits if the member's superannuation benefits are not being used for pension purposes. Further the Trustee has reviewed the Investment Strategy for its adherence to the SIS Act and Regulations.


## **TRUSTEE RESOLUTIONS:**

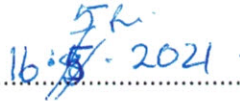
It was resolved by the Trustee:

1. To cease the Funds former investment strategy; and
2. Adopt the current investment strategy – as detailed in this document to take effect from the date of execution of this Investment Strategy meeting until it is revoked or amended;
3. The Trustee shall keep this current Investment Strategy on file for the benefit of Members of the Fund.

**SIGNED BY THE TRUSTEE:**

**i. Signed by: Rosemary Morris**

  
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Rosemary Morris  
Trustee

  
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Date

**ii. Signed by: Mariette Morris**

  
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Mariette Morris  
Trustee