INVESTMENT STRATEGY

RICCA SUPERANNUATION SCHEME

30 JUNE 2018

SMSF Strategies Investment Strategy
SMSF Strategies Pty Ltd
T. 07 5554 5398
F. 07 5554 5192

Contents

1. INTRODUCTION

A key area of responsibility for Trustees of self managed superannuation funds ("SMSFs") is investment management. Under the Superannuation Laws the Trustee of every SMSF is required to prepare and implement an investment strategy for the fund. The strategy must reflect the purpose and circumstances of the super fund and have particular regard to:

- Investing in such a way as to maximise member returns for retirement purposes and in that regard consider the risk associated in holding the investment.

- Ensuring that there is appropriate diversification in investments and consideration of the benefits of investing across a number of asset classes (for example shares, property, fixed deposits);

- The ability of the superannuation fund to pay benefits as well as other costs of the superannuation fund as they become due and payable which may include the repayment of principal and interest where the Trustee of the fund undertakes SMSF Borrowing.

An appropriate investment strategy may set out the investment objectives of the super fund and detail the investment methods the Trustee of the fund may use to achieve those objectives. Trustees must ensure all investment decisions are made in accordance with the investment strategy and that they are in writing.

The Trustee should be able to demonstrate through Trustee minutes or other documentation that they have taken into account all the circumstances of the fund in formulating the investment strategy.

Investment Rules are one of the most important requirements of the Superannuation Industry (Supervision) Act 1993 (SISA) and breaches of this requirement can result in the Trustee being fined or sued for loss or damages. In addition, the super fund can lose its complying status.

Whilst Trustees are not prevented from engaging or authorising other persons to act on or to do certain things on their behalf (eg. engaging the services of an Investment adviser), they are bound to retain control over the fund. Ultimate responsibility and accountability for running the fund in a prudent manner lies with the Trustees.

For more information read the ATO publication - Running a SMSF:
http://www.ato.gov.au/super/content.aspx?doc=/content/46427.htm

2. KEY RESPONSIBILITIES

Trustees of self managed superannuation funds (SMSFs) are ultimately responsible for the running of their fund. It is a requirement of the Superannuation Laws that each Trustee understands the duties, responsibilities and obligations of being a SMSF Trustee. Rules exist to ensure the protection of the assets in the fund until they are needed at retirement or when required as per the Superannuation Laws.

There are significant penalties imposed on Trustees who fail to perform their duties.

KEY RESPONSIBILITIES

A Trustee of an SMSF must act in accordance with:

- The provisions of the Supervision Industry Supervision Act 1993 (“SISA”);
- The clauses of the superannuation fund trust deed; and
- Other general rules, for example those imposed under tax law and trust law.

THE SISA COVENANTS

The SISA contains covenants or rules that impose certain requirements on Trustees and are deemed to be included in the trust deed of every regulated fund.

These covenants reflect the duties imposed on a Trustee under trust law in general.

They require the Trustees to:

- Act honestly in all matters;
- Exercise the same degree of care, skill and diligence as an ordinary prudent person;
- Act in the best interest of the fund members;
- Keep the assets of the fund separate from other assets (eg. the Trustee’s personal assets);
- Retain control over the fund;
- Develop and implement an investment strategy – section 52(2)(f);
- Allow members access to certain information.

SISA: SECTION 52(2)(F) AND SIS REGULATION 4.09(2) – INVESTMENT STRATEGY

Covenants to be included in the Governing Rules of the Fund’s Trust Deed require Trustees to:

> “Formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the entity, including, but not limited to the following:

- The risks involved in making, holding and realising, and the likely return from, the entity’s investments having regard to its objectives and its cash flow requirements;
- The composition of the entity’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;
- The liquidity of the entity’s investments having regard to its expected cash flow requirements;
- The ability of the entity to discharge its liabilities; and

- For a self-managed superannuation fund—whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

The latter requirement in relation to insurance strategy has only come into effect from October 2012. However it should be noted that the SMSF Strategies Trust Deed which ties into this investment strategy document has had the option of the Trustee considering an investment strategy since 2007 – see Rule 12.

3. ATO Audit Guideline – The Commissioners View

The ATO has released important guidelines in relation to investment objectives and investment strategies for Trustees of a SMSF and their advisers. An investment strategy should set out the investment objectives of the fund and detail the investment methods the Trustees may adopt to achieve these objectives.

The ATO guidelines can be found in the audit guidelines (10-120) or in the ATO fact sheet Investment Strategy and Investment Restrictions SMSF (NAT 2063).

The key principles raised by the ATO concerning investment objectives and strategy are:

- The Trustees of a SMSF are solely responsible and directly accountable for the prudential management of their member's benefits. They can use an adviser but ultimately, it is the Trustee who retains responsibility;

- As part of this prudential responsibility the Trustees of a SMSF are required to prepare and implement an investment strategy for the superannuation fund;

- The strategy must reflect the purpose and circumstances of the fund and have particular regard to the membership profile, benefit structure, tax position and liquidity requirements of the fund;

- An investment strategy should set out the investment objectives of the fund and detail the investment methods the Trustees may adopt to achieve those objectives;

- It is the Trustees duty to make, implement and document decisions about investing fund assets and to carefully monitor the performance of those assets;

- The Trustees must ensure all investment decisions are made in accordance with the investment strategy; and

- Breaches of the investment strategy requirement may result in the Trustees being fined or sued for loss or damages. In addition, the fund could lose its complying status.

ATO CHECKLIST

The Australian Taxation Office has designed a checklist for Trustees of SMSFs to be aware of with respect to the investment operations of the fund.

- Is the investment expressly permitted by the trust deed?
- If the deed is silent on whether a particular investment(s) is permitted, is it an allowable trust investment under the State in which the SMSF operates Trust Law?

- Is the investment in accordance with the requirements of the fund's investment strategy?
- Is the purpose of making the investment to further the retirement benefits of the members of the fund?
- Is it clear that the investment does not constitute financial assistance or a loan to the fund members or their relatives?
- Is the amount and type of investment within the in-house asset provisions of SIS?
- Is the investment transaction being undertaken on an arms-length basis?

This checklist is designed to draw attention to some of the more important rules under SISA and details that Trustees must be aware of and comply with:

PURPOSE OF THE FUND:
The fund is managed and maintained by the Trustees for the sole purpose of providing retirement benefits for members or for the benefit of their dependants or legal estate in the event of the member's death.

COMPLIANCE:
If the fund complies with ALL the SISA rules and the fund's trust deed it can take advantage of tax concessions thereby enhancing member benefits.

SET UP OF THE FUND:
The members of the fund are also Trustees or as preferred – directors of a special purpose corporate trustee of the fund.

INVESTMENT STRATEGY:
The fund should have a medium to long term investment strategy given that it is to provide retirement benefits all through a member's retirement. The objective of the fund's investment strategy is to increase member's benefits for retirement purposes.

INVESTING
The assets of the fund are kept separate at all times from those of the members, the Trustees and the employers.

TRANSACTIONS ARE AT ARM'S LENGTH:
All transactions by the fund are conducted on a strict commercial basis. The fund can demonstrate that the market value has been paid and received on all transactions.

IN-HOUSE ASSETS:
The Trustees are aware that special rules apply to restrict certain investments in assets when dealing with a related party of the fund. These are known as in-house assets.

WHY AN INVESTMENT STRATEGY IS IMPORTANT

Where the fund does not complete an investment strategy or the ATO is of the view that the purported investment strategy does not amount to an investment strategy at all then there may be a breach of section 52(2)(f) of the SIS Act.

The breach may result, as noted in the ATO guidelines, in the following:

- The Trustee being liable to a monetary fine; the Trustee being able to be sued for any loss or damage caused as a consequence of the Trustee making an investment not covered by an investment strategy;

- SISA section 55(5) provides a defence to Trustees against an action for loss or damage suffered as a result of the Trustee making an investment. This defence is available when the Trustee can show that the investment was made in accordance with an investment strategy formulated and implemented under the investment strategy covenant.
- The existence of a statutory defence allows Trustees to focus on the overall risks of the total investments, rather than the risk attached to each investment in isolation. This enables the Trustee to invest fund assets according to the investment strategy in what might, when considered in isolation, appear to represent a rather risky investment.

This emphasises the importance for Trustees to document their considerations and approaches to investment decision.

4. INVESTMENT RESTRICTIONS

SMSFs are restricted in the investments they can make. These restrictions aim to protect superannuation fund members from being overly exposed to risk and aim to ensure that the assets of the fund may be available to provide retirement income rather than providing current day support. In accordance with SISA the Trustees may not:

- Lend money or give other financial assistance to a member or a relative of a member of the fund. The use of superannuation assets by a member or members relative for no cost or on a guarantee to secure a personal loan would be in breach of the investment restrictions [SISA S65(1)].
- Intentionally acquire an asset from a member or a relative of a member of the fund (related party) unless it meets the following criteria: [SISA S66]
    - The asset is business real property, or a listed security; and
    - Is acquired at market value;
    - The asset is an "in-house asset" which, after being acquired by the Trustees would not result in the level of "in-house assets" of the fund exceeding more than 5% of the superannuation fund assets.
- Borrow any funds, other than to overcome cash flow problems in the payment of benefits or surcharge liabilities. Any borrowings may be restricted to a period not exceeding 90 days and may not exceed 10% of the market value of the fund's total assets. [SISA section 67]. However the trustee of the fund may borrow pursuant to a limited recourse loan arrangement under SISA sections 67A and 67B to acquire property that is allowed to be acquired by the Trustee of the fund.
- Acquire any fund assets for amounts other than arm's length consideration. Investments must be made and maintained on a strict commercial basis and any related party arrangement must not favour the related party although in certain conditions it may favour the Trustee of the SMSF. The purchase and sale price of super fund assets and the income from the assets should duly reflect a true market rate [SISA section109].
- SISA identifies certain requirements that Trustees must consider when developing and implementing an investment strategy, but does not prescribe specific types of investments. Fund investments should be made with the fundamental objective of providing for member's retirement.

- Trustees should consider the costs associated with the asset (i.e.: insurance costs particularly where there is a SMSF Borrowing). Also where a fund acquires an asset which is utilised by the member at no cost, a breach of the Sole Purpose Test may have occurred.

5. THE FUND'S INVESTMENT GUIDELINES

Trustees of SMSFs are responsible for determining investment strategies and selecting investments for each strategy consistent with the fund's investment objectives and more importantly the fund's purpose. The Trustee is responsible for monitoring on an ongoing basis whether investments remain consistent with investment strategies and remain appropriate for the fund. The Trustees are also responsible for periodically informing members of the fund's investment strategies and objectives. The Trustee of the fund may make and maintain an investment strategy for a single member of the fund or a specific superannuation interest in the fund such as a member's pension.

To give effect to the investment objectives of the fund ("to maximise the retirement income of members of the Fund whilst providing as much death benefits as can be provided, given the member's retirement income needs to the member's dependants or legal estate upon the member's death") the Trustees have determined the fund may be permitted to invest in any or all (but not limited) to the following investment types:

5.1 CASH MANAGEMENT TRUST

Prior to investing or realising any cash management funds the Trustee may consider the rate of return and security of such investment against the expected rate of return offered by alternative investments to cash.

5.2 DEBENTURE/FIRST MORTGAGE

Prior to investing in any debenture/first or even second mortgage the Trustee may consider the period of investment, the security offered, the accessibility of funds, the return, and likely interest rate movements.

5.3 UNIT TRUSTS

Prior to acquiring or disposing of any units in an unlisted unit trust the Trustee may:

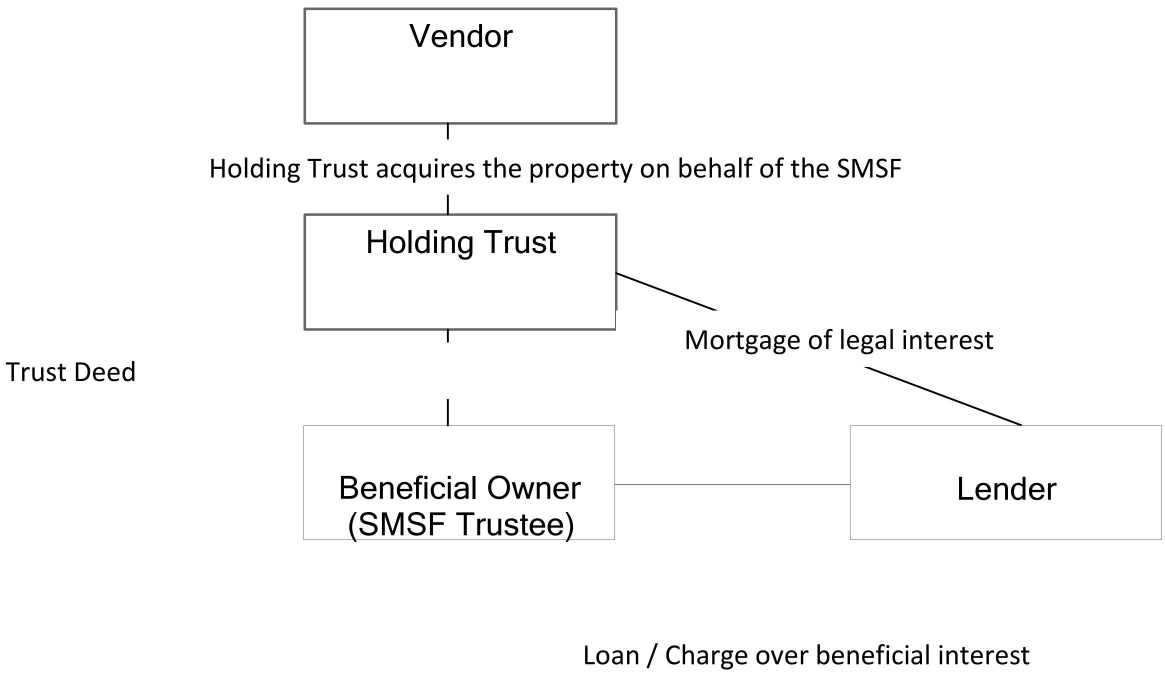
- Obtain appropriate advice on whether the investment would constitute an impermissible in-house asset of the fund under SISA; and

- Obtain and consider valuations of all real and other property held by the unit trust to ensure the price of the units reflect true market value.

The Trustee may also ascertain the intentions of the Trustee of the unit trust in relation to borrowings (if any) and the use of the property as security.

5.4 Limited Recourse Loan Arrangement - SMSF Borrowing

SMSFs can now borrow via a limited recourse loan arrangement pursuant to section 67A of the SISA. This must be done with the following structure:



Prior to using a Holding Trust for the purposes of a limited recourse loan the Trustee of the fund is to secure appropriate borrowing, ensure the arrangement meets the limited recourse lending rules under the Superannuation Laws, does not breach any other laws and that the underlying property to be acquired is one that can be acquired by the Trustee.

The trustee is to include the value of the attached liability for the purposes of this investment strategy either directly or as a net value of the single acquired asset subject to the limited recourse loan arrangement.

5.5 Shares (Public Company)

Prior to acquiring (or disposing) of any shares in public companies, the Trustee may consider the portfolio profile of the fund and the diversification of shareholding across different market sectors (industrial, retail, banking etc) with a view to attempting to obtain a reasonable diversification within the available assets. The Trustee may also take into account advice in relation to expected capital growth and dividend income.

5.6 Shares (non-associated Proprietary Companies)

Prior to acquiring (or disposing) of any shares in non-associated proprietary companies, the Trustee may obtain a valuation to satisfy itself that the price of the shares reflect true market values and constitute a prudent investment/disposal.

The Trustee may also take into account the saleability, security and dividend return of the shares and may ensure that the acquisition is not an in-house asset beyond acceptable limits.

5.7 Direct Property

Prior to acquiring or disposing of any property to be held directly by the fund both within and outside Australia the Trustee may obtain and consider property and rental valuations to satisfy itself that the price of the property reflects true market value and constitutes a prudent investment/disposal on an arm's length basis.

In obtaining a tenant (if any) for any property held by the fund, the Trustee may only enter into a lease with a fund member, employer sponsor or their SISA Part 8 Associates where to do so would not constitute an impermissible in-house asset of the fund under SISA and provided that a written lease agreement is made and the transaction is entered into on an arm's length basis with regular rental reviews.

In determining the proportion of fund assets to be invested directly in property, the Trustee may take into account the liability profile and liquidity requirements of the fund.

5.8 Agribusiness Investment

Prior to investing in Agribusiness, the Trustee should consider the profile of the fund and seek expert advice on the appropriateness of the investment. Trustees should consider the protection, performance, risk and return (capital growth, liquidity and potential income) before acquiring investments in agribusiness. The Trustee should also consider the costs associated with the asset such as ongoing rent and maintenance and insurance costs.

5.9 Artwork/Antiques/Collectibles

Prior to acquiring any collectibles as an investment of the fund the Trustee may obtain an independent professional valuation from a qualified valuer or person experienced in the artwork of the particular artist. It may investigate future saleability of the asset and the likely price movements in future as well as taking into account any brokerage on the sale of the artwork.

Prior to leasing any collectibles held by the fund to any party the Trustee may determine the commercial rental rate having regard to advice which the Trustee may obtain from a qualified source. Any such lease should be made on an arm's length basis with an obligation for full maintenance and insurance.

Prior to disposing of any collectibles held by the fund, the Trustee may obtain an independent professional valuation from a qualified valuer. The Trustee may also determine whether the proposed timing of the disposal is in the best interest of members having regard to the fluctuations in the value of the type of collectible of which the Trustee wishes to dispose.

5.10 Derivatives

Prior to investing in derivatives, the Trustee should have in place appropriate policies for their use, adequate controls on the use of derivatives and adequate checks on compliance with those controls.

For the derivative transaction to be allowed, the Trustee must have prepared a Risk Management and Risk Management Statement (RMS).

5.11 In-House Assets and Acquisition Restrictions

The Trustee may only undertake investment activity which constitutes an in-house asset under SISA if the Trustee determines that it is in the best interest of fund members to do so.

The Trustee must not acquire an asset contrary to the restrictions contained in SISA with respect to fund members, employer sponsors or their Part 8 associates under SISA.

If in any doubt about the validity of an investment decision, the Trustee should seek professional advice or contact the ATO for assistance.

6. The Fund's Valuation Guidelines

SIS Regulation 8.02B requires that for the year of income 2012-13 and any later year of income, when preparing accounts and statements required by subsection 35B(1) of the SIS Act, an asset must be valued at its market value. SMSFs must begin to value their assets at market value when preparing the fund's accounts and statements for the 2012-13 year of income.

The term 'market value' takes the same meaning as provided in subsection 10(1) of the SIS Act, that is, the amount that a willing buyer of an asset could reasonably be expected to pay to acquire the asset from a willing seller if the following assumptions were made:

- that the buyer and seller dealt with each other at arm's length in relation to the sale;
- that the sale occurred after proper marketing of the asset;
- that the buyer and seller acted knowledgeably and prudentially in relation to the sale.

SMSFs were generally able to choose either the historical cost or market valuation accounting method to value their assets when preparing their financial statements. SMSFs paying a pension or those with in-house assets are currently required to value assets at market value each year.

7. INSURANCES IN THE FUND

The SISR have been changed to include a requirement for Trustees of the Fund to investigate whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund. In that regard the Explanatory Memorandum to the Regulation changes noted that:

"Regulation 4.09 requires trustees to formulate, regularly review and give effect to an investment strategy having regard to the whole circumstances of the fund. One circumstance SMSF trustees must have regard to is whether the trustees should hold insurance for their members, such as life insurance. The Super System Review panel noted that less than 13 per cent of SMSFs have insurance and that SMSF members were more likely to hold appropriate levels of insurance, or be able to hold insurance outside their superannuation, than members of other superannuation funds. In making its recommendation, the panel wanted to ensure that trustees consider holding insurance for SMSF members.

Trustees of SMSFs are expected to be self-reliant in determining the type and level of insurance cover members might require whether within or outside their SMSF. In meeting this requirement, trustees should have regard to the personal circumstances of their members and other legislative requirements such as the sole purpose test in section 62 of the Superannuation Industry (Supervision) Act 1993 (the SIS Act). Trustees may evidence this requirement by documenting decisions in the fund's investment strategy or minutes of trustee meetings that are held during the income year."

8. INVESTMENT POLICY STATEMENT

The SISA places certain duties, responsibilities and restrictions on Trustees when making investment decisions. They aim to protect and increase the member benefits for retirement, transition to retirement income stream and estate planning purposes. All investments must be made in accordance with the investment strategy.

A. DETAILS OF THE FUND

The RICCA SUPERANNUATION SCHEME was established on the 29 June 2004 and the current trustee of the fund is RICCA HOLDINGS PTY LIMITED - ACN: 109 745 566 of 11 DANIEL STREET, GRANVILLE NSW 2142. The fund has been established to provide retirement benefits for the members of the fund. Membership of the fund is voluntary, and upon joining, members are required to provide certain minimum information to the Trustees.

The fund is maintained as a Self Managed Superannuation Fund under the Superannuation Industry (Supervision) Act 1993 ("SISA"), and regulated by the Australian Taxation Office.

A.1 MEMBER

The members of RICCA SUPERANNUATION SCHEME are:

Name
Carlo Chiavaroli
Valerio Chiavaroli
Mirella Chiavaroli
Manuela Chiavaroli

A.2 BENEFITS

The current intention is to pay one or more benefits before or at retirement of the member when the member meets a condition of release for their superannuation benefits including the payment of:

- A lump sum
- An Income Stream
- A Transition to Retirement Income Stream, or
- Such other superannuation benefit as the Superannuation Laws allow.

The Trustee may invest fund assets having regard to the need to realise the investments at the members' dates of retirement, age preservation age, 60 (or such later date as the member nominates in accordance with the rules governing the payment of benefits from complying superannuation funds) or in the event of disability – whether permanent or temporary or upon death of a member of the fund.

B. Investment Objectives of the Fund

B.1 Core Purpose of the Super Fund

The Trustees declare that the fund is being maintained for at least one of the following core purposes:

- Paying benefits to members on or after retirement from gainful employment; or
- Paying benefits to members when they have reached age 65; or
- Paying benefits to other members upon the death of a member. This may require the benefits being passed on to a member's dependants or legal representative.

ANCILLARY PURPOSE

Ancillary purposes for maintaining the fund include the provision of benefits to members in the following circumstances:

- Termination of the member's employment with an employer who, at any time, had made contributions to the fund for that member
- Cessation of employment due to ill-health (whether physical or mental);
- Death of the member after retirement where the benefits are paid to the member's dependants or legal representative;
- Death of the member after attaining a prescribed age where the benefits are to the members dependants or legal representative;
- Other ancillary purposes approved in writing by the Tax Office including the payment of a transition to retirement income stream.

This last ancillary purpose allows a fund to provide benefits in situations of financial hardship and/or on compassionate grounds as well as the payment by a Trustee of a fund of a transition to retirement income stream. The Trustee may at all time act prudently to pursue the maximum rate of return possible, subject to acceptable risk parameters, and the maintenance of diversification that can be achieved with the available assets.

The Trustee may ensure that all investments are authorised under the trust deed, are made for the sole purpose of providing benefits to members and the dependants of members, and are made in accordance with the legislative requirements applicable to complying superannuation funds.

The Trustee may invest to ensure sufficient liquidity is retained within the fund to meet benefit payments due, and may adjust its specific objectives where it believes the risk profile of the fund has changed.

The Trustee may make investments involving fund members, employer sponsors or their SISA Part 8 associates, provided these are undertaken on an arm's length basis, and do not exceed in-house asset limits or breach any other legislative requirements. Such investments may only be made where the Trustee is satisfied that the fund is complying with SISA as a result of the Trustee making the investment.

The Trustee may consider suggestions from members for specific investments in relation to members generally or for an individual member, and may make investments in accordance with those suggestions provided that they fall within the scope of the investment strategy of the fund. However it is the Trustee's responsibility to enter into any and all investments of the Fund.

B.2 Specific Objectives

The Trustees of the Fund have the following investment objective:

> "To maximise the retirement income of members of the Fund whilst providing as much death benefits as can be provided, given the member's retirement income needs, to the member's dependants or legal estate upon the member's death."

C. Asset Management Strategy

In order to give effect to the investment objective of the fund, the Trustee may have regard to the investment principles outlined in the Fund Rules in the implementation of its strategy and the actual making of its investments.

The Trustee must also satisfy that the proposed investment:

- Is permitted by the Trust Deed
- Complies with the law
- Is within the asset allocation of the adopted investment strategy

The Trustee may generally accept the following investments provided they comply with the investment strategy:

- Private or closely held unit trusts
- Private or unlisted companies
- Private business premises
- Domestic and international residential and commercial property
- Domestic companies listed on other exchanges
- Listed International securities
- Collectables, including art, coins, antiques
- Agribusiness investments
- Derivatives with limited investment risk

The Trustee may not accept these investments unless authorised by the Regulator:

- Family home
- Any mortgage where the family home is security
- Derivatives that have unlimited investment risk unless a Risk Management Strategy has been put in place by the Trustee
- In-house assets exceeding more than 5% of the superannuation funds assets
- Assets not considered at arm's length or on a strict commercial basis

D. Asset Class

It was resolved that the fund may also be permitted to invest in any or all of (but not limited to) the following investment types:

D.1 Investment Type

- Cash
- Property – both commercial and residential
- Australian Shares – both listed and unlisted shares

It was resolved that investments may be made directly or indirectly via unit trusts, instalment warrants, holding trusts or other vehicles as permitted under relevant statutes and regulations that may be deemed suitable by the Trustees.

Given the Trustees desire to maintain flexibility of the fund, the Trustee has reserved the right to alter the investment mix of the fund at any time, in the manner they believe is the best at that time for the purpose of achieving the funds objectives. The Trustees reserve the right to invest in any asset class not covered in the tables above.

D.2 Investment Risk and Return

It has been noted and accepted by the Trustees that growth assets such as Australian and International shares and property present greater potential risk and volatility than cash and fixed interest investments.

The Trustees recognise that the taxation benefits associated with the use of growth assets such as Australian and International shares and property may assist in achieving the fund's investment objectives. If the Trustee of the fund enters into a limited recourse loan or other borrowing arrangement in respect of the acquisition of a fund asset then return may be enhance however any market risk on the downside may be magnified. The Trustees of the fund are authorised to borrow and will take into account the benefits of leverage in their risk/return profile for the fund's investments.

E. Investment Management and Review

To monitor the success of the investment policy in achieving the investment objective, the Trustee may take the following action:

(a) compare investment returns against investment objectives on an annual basis;

(b) compare the investment performance of the fund against a sample group of superannuation master funds;

(c) compare investment returns against cash rates available over a 12 month period

The fund's investment strategy is to be reviewed at least annually to ensure that it remains appropriate to the objectives and circumstances of the fund and its member(s). The Trustee undertakes to communicate with the members should they feel that any change in strategy should be contemplated in order to better achieve the fund objective.

F. INVESTMENT STRATEGY

In order to achieve the investment objective of the fund, the Trustee wishes to adopt and pursue the strategy set out hereunder. The Trustee reserves the right to implement more than one strategy as it sees fit, and to offer separate strategies to members and even for member superannuation interests. The Trustee also reserves the right to implement separate and different action plans in the acquisition and disposal of assets pursuant to this strategy.

The Trustee may consider the implementation of this objective through a single asset strategy where it considers it to be appropriate provided all other investment strategy criteria are met.

F.1 INVESTMENT STRATEGY

The investment strategy detailed below is a plan for making, holding and realising the assets of the fund to meet the specific objective of the Trustee of the fund as outlined above.

F.2 PORTFOLIO ALLOCATION

It was resolved in order to give effect to the investment objective of the fund:

> "To maximise the retirement income of members of the Fund whilst providing as much death benefits as can be provided, given the member's retirement income needs, to the member's dependants or legal estate upon the member's death,"

that the Trustee has determined RICCA SUPERANNUATION SCHEME may be permitted to invest in any or all of
(but not limited to) the following asset classes and managed around the following ranges:

Asset Class	Asset Allocation Range	**Notes**
Cash	0-100%	
Fixed Interest	0-10%	
Property	0-98%	
Australian Shares	0-15%	
International Shares	0-2%	
Other	0-10%	
Total		

F.3 *PORTFOLIO* DIVERSIFICATION

In considering the degree of diversification appropriate to the fund, the Trustee has determined to take into account the following:

(a) the existing assets of the fund;

(b) the existing assets of the family other than assets held in the fund;

(c) its access to expert investment advice

(d) the existing and projected membership and assets of the fund;

F.4 LIABILITIES

The fund will need to have adequate funds held in cash/fixed interest to meet short term liabilities including insurance premiums, pension payments, lump sum payments, tax liabilities, annual return fees, accounting fees, audit fees and other operation expenses of the fund. Further monies may be retained from time to time is cash/fixed interest in order to take advantage of investment opportunities as they arise. The Trustees of the fund are of the opinion that the investment strategy is structured in such a manner that the fund is sufficiently liquid to discharge its current and future liabilities.

Where the Trustee of the fund has undertaken a limited recourse lending arrangement the Trustee will need to ensure that it maintains cash flow to cover any interest and principal repayments, insurance premiums and other expenses associated with the arrangement.

Liabilities of the Fund

Limited Recourse Loan Repayments
Insurance
Other

F.5 Cash Flow and Liquidity

As the fund has a long term profile and has been established to accumulate wealth to provide for the members retirement in the future, there is no need to currently have short term liquid funds available.

F.6 Fund Demographics

The Trustee has implemented its strategy taking into account the dates of retirement of the members of the fund. It has also taken into account the expressed intention of the members to receive their benefits as a lump sum / account based pensions upon retirement.

F.7 Performance Monitoring

To monitor the success of the investment strategy in achieving the investment objectives, the Trustee may take the following action:

- compare investment returns against cash rates and CPI available over a 12 month period; and

- may review this strategy on an annual basis or on such other basis as it believes appropriate.

F.8 Benchmarks

The Trustee may measure its success criteria against certain benchmarks and indices although there is no requirement to do so. The nominated benchmarks for performance may be as follows:

(a) Australian shares - all ordinaries accumulation index;

(b) Liquid assets - average cash management trusts;

(c) Australian fixed trusts - commonwealth all series, all maturities and accumulation index;

(d) Property trusts - average of composite property accumulation index;

(e) Such loans as may not be prohibited by SIS, and whether or not the loan may also count as an in-house asset of the fund - average rate for comparable loans from major banks;

(f) Such leases of fund property as may be permitted by SISA, and whether or not the lease may also count as an in-house asset of the fund – at a commercial rate obtained by the Trustee from a qualified source;

(g) Such acquisitions of assets as may not be prohibited by SISA, and whether or not the acquisition may also count as an in-house asset of the fund - for a commercial price reflected in comparable markets.

(h) Moses/Myer index for Investment Grade Artwork

(i) A residential property index in the area where the Trustee invests.

F.9 INSURANCE

The Trustee (s) of Fund have considered whether the fund should hold a contract of insurance that provides insurance cover for one or more members of the Fund.

The Trustee(s) of the Fund have considered the following insurance options for their Members:

- Life insurance;
- Total and Permanent Disablement (TPD);
- Temporary Disablement Cover (also known as “salary continuance” or “income protection insurance”)

INSURANCE OF THE MEMBER

The Trustee has had regard to the personal and other circumstances of the Members of the Fund and in their opinion those Members listed below and also the amount of Insurance cover is suitable for Members of this Fund and if no Insurance is listed below then the Trustees are of the view that Members are adequately catered for outside the Fund in terms of insurance or non-insurance.

Memorandum Of A Resolution Of Directors Of RICCA HOLDINGS PTY LIMITED as Corporate Trustee of RICCA SUPERANNUATION SCHEME

---

investment strategy

It is noted that the Trustees have formulated investment objectives for the fund and an investment strategy to achieve those objectives, (the investment objectives and investment strategy together as attached) having regard to the whole of the circumstances of the fund, including:

the risk involved in making, holding and realising, and the likely return from the entity's investments having regard to its objectives and its expected cash flow requirements;

the composition of the entity'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;

the liquidity of the entity's investments having regard to its expected cash flow requirements;

the ability of the entity to discharge its existing and prospective liabilities; the fund profile; anticipated future contributions; past investment performance; and the current investment portfolio and asset mix,

The Trustee resolved to adopt the investment objectives of the fund being "to maximise the retirement income of members of the Fund whilst providing as much death benefits as can be provided, given the member's retirement income needs, to the member's dependants or legal estate upon the member's death" and adopt and implement the investment strategy herein.

A copy of this resolution is to be given to all members of the RICCA SUPERANNUATION SCHEME

All directors of RICCA HOLDINGS PTY LIMITED at this date, hereby confirm and adopt the above resolution of the company

..Dated 24/06/2018
Carlo Chiavaroli

..Dated 24/06/2018
Valerio Chiavaroli

Appendix "A" - The Commissioner's Guidelines on Managing SMSF Investments

Managing your fund's investments

One of your key areas of responsibility is to manage your fund's investments. You have certain duties and responsibilities when making investment decisions. They are designed to protect and increase your member's benefits for retirement.

Your investment strategy

You need to prepare and implement an investment strategy for your fund, and review it regularly. The strategy needs to reflect the purpose and circumstances of your fund and consider the following:

- investing in a way to maximise member returns taking into account the risk associated with the investment
- diversification and the benefits of investing across a number of asset classes (for example, shares, property and fixed deposit) in a long-term investment strategy
- the ability of your fund to pay benefits as members retire and pay other costs incurred by your fund
- the needs of members (for example, age, income level, employment pattern and retirement needs).

The investment strategy should set out your investment objectives and detail the investment methods you'll adopt to achieve these objectives.

You need to make sure all investment decisions are made according to the investment strategy of your fund. If in any doubt, you should seek investment advice or appoint an investment manager in writing.

Restrictions

Super laws place restrictions on the types of entities your fund can invest in or with, and the entities that your fund can acquire assets from. Investment restrictions exist because they protect fund members by making sure fund assets are not exposed to undue risks, like a business failing.

The investment rules are one of the most important requirements of the super laws. Failure to comply with the rules can result in your fund losing its complying status and you as trustee of the fund being either:

- disqualified
- removed
- prosecuted, which may result in you being fined or imprisoned.

Securing the assets of your fund

You need to ensure that your fund's ownership of its investments is secure. Your fund's assets should be held in a legally recognised ownership arrangement. We prefer the assets to be in either of the following:

- the names of all of the individual trustees as trustees for your fund
- the name of the company as trustee for your fund in the case of a corporate trustee.

In certain states, legislation may prevent you from holding assets using your fund's name at all. In this circumstance, a caveat, instrument or declaration of trust needs to be executed for the asset.

Loans or financial help to members or a member's relative

You can't lend money or provide direct or indirect financial help (including the provision of credit) from your fund, to a member, or a member's relative. For example, using fund assets to guarantee a personal loan would contravene this investment restriction.

A member or a member's relative means any of the following:

- a parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendant or adopted child of that individual or of his or her spouse
- a spouse of that individual or of any individual specified above.

From 1 July 2008, changes were made to the definition of spouse to include those in same-sex relationships.

Borrowings

You can only borrow money in very limited circumstances. The circumstances include:

- borrowing money for a maximum of 90 days to meet benefit payments due to members or to meet an outstanding surcharge liability. The borrowings can't exceed 10% of your fund's total assets
- borrowing money for a maximum of seven days to cover the settlement of security transactions if the borrowing does not exceed 10% of your fund's total assets. You can only borrow to settle security transactions if at the time the transaction was entered into it was likely that the borrowing would not be needed
- borrowing, using instalment warrants or instalment warrant like arrangements that meet certain conditions.

For more information, refer to Borrowing money or maintaining an existing borrowing of money.

Acquisition of assets from a related party

You can't acquire assets for your fund from a related party of your fund. However, there are limited exceptions to this rule where:

- the asset is a listed security (for example, shares, units or bonds listed on an approved stock exchange) and the asset is acquired at market value
- the asset is business real property and acquired at market value
- the asset is an in-house asset, but the level of your fund's in-house assets does not exceed the threshold for SMSFs of a maximum 5% of total fund assets, or is an asset specifically excluded from being an in-house asset.

A related party of a fund covers all members of your fund and associates, and all standard employer-sponsors of your fund and their associates.

An associate of a particular member of an SMSF includes the following:

- every other member of your fund
- the relatives of each member
- the business partners of each member
- any spouse or child of those business partners, any company a member (or the members and/or their associates) controls or influences and any trust the member (or the members and/or their associates) controls.

Associates of standard employer-sponsors include business partners and companies or trusts the employer controls (either alone or with their other associates), or companies and trusts that control the employer.

A standard employer-sponsor is an employer who contributes to a super fund for the benefit of a member, under an arrangement between the employer and the trustee of a fund. Business real property generally relates to land and buildings used wholly and exclusively in a business.

If business real property is used in a primary production business, such as a farm, it can still meet the test of being used wholly and exclusively in a business, if an area of land, no more than two hectares, contains a dwelling that is used for private or domestic purposes. However, the main use of the whole property can't be for domestic or private purposes.

IN-HOUSE ASSETS

An in-house asset is a loan to, or an investment in a related party of your fund, or an investment in a related trust of your fund. An asset of your fund that is leased to a related party is also an in-house asset. In general, as a trustee you are restricted from lending to, investing in or leasing to a related party of your fund more than 5% of your fund's total assets.

There are some exceptions, including for business real property that is subject to a lease between your fund and a related party of your fund. There is a limited exemption for certain investments in related non-geared trusts or companies.

SPECIAL INVESTMENT RULES

Special investment rules may apply to investments made by funds before 11 August 1999. However, the transition period for in-house asset rules applying to such investments expired on 30 June 2009. If your fund was established before this date and has assets acquired under the rules applying before then, contact us or your adviser for more information.

Investments need to be made and maintained at arm's-length

Any time your SMSF makes an investment, it needs to be made and maintained on a strict commercial basis. This is referred to as an investment at arm's-length. The purchase and sale price of fund assets should always reflect a true market value for the asset. Income from assets held by your fund should always reflect a true market rate of return.

Investing in business real property

You need to ensure the level of investment in business real property still meets the investment strategy of your fund, including diversification of assets, liquidity and maximisation of member returns in your fund. A fund with 100% investment of assets in business real property could have some problems meeting these requirements.

As with other super fund investments there can't be a charge over an asset (that is a loan or covenant).

SAVE ONLY FOR YOUR RETIREMENT

Your SMSF needs to meet the sole purpose test. This means your fund needs to be maintained for the sole purpose of providing retirement benefits to your members, or to their dependants if a member dies before retirement. As a trustee, you need to maintain your SMSF so that it complies with the sole purpose test at all times while your SMSF exists, including when investing fund assets and paying benefits upon retirement of members.
Your fund needs to comply with the sole purpose test to be eligible for the tax concessions available to a complying super fund.
The sole purpose test is divided into core and ancillary purposes. Your fund needs to be maintained solely for either of the following:

- one or more core purposes
- one or more core purposes and one or more ancillary purposes.

CORE PURPOSE

Generally, core purposes are the provision of benefits for each member of your fund, on or after the:

- member's retirement from gainful employment
- member's reaching the prescribed age
- member's death, if the death occurred before they retired from gainful employment or before they attained a prescribed age, where the benefits are provided to their dependants or legal personal representative.

ANCILLARY PURPOSE

Generally, ancillary purposes are the provision of benefits for members in the following circumstances:

- termination of a member's employment with an employer who made contributions to your fund for that member
- stopping employment due to physical or mental ill health
- death of a member after retirement, or after reaching the prescribed age where the benefits are paid to their dependants or legal representative
- other ancillary purposes approved in writing by the regulator.

This purpose lets an SMSF provide benefits where there is financial hardship or compassionate grounds, subject to the super laws, the governing rules of your fund and the approval of the Australian Prudential Regulation Authority (APRA).

CONTRAVENING THE SOLE PURPOSE TEST

One of the main ways we work out if an SMSF has contravened the sole purpose test is to look at the character and purpose of your investments. For example, if you or any party directly or indirectly obtain a financial benefit when making investment decisions and arrangements (other than increasing the return to your fund), it is likely your fund will not meet the sole purpose test.

Working out the purpose for which an SMSF is being maintained requires looking at all of the events and circumstances relating to the SMSF's maintenance.

When investing in collectables such as art or wine, you need to take care to make sure that SMSF members are not granted use of or access to the assets of the SMSF in contravention of the sole purpose test. The most common breaches of the sole purpose test are:

- investments that offer a pre-retirement benefit to a member or associate
- providing financial help or a pre-retirement benefit to someone at a financial detriment to your fund.

PENALTIES FOR CONTRAVENING THE SOLE PURPOSE TEST

Contravening the sole purpose test is very serious and may lead to trustees facing civil and criminal penalties. It can result in a fine of up to 2000 penalty units and/or five years imprisonment for individual trustees, and may result in your fund losing its complying status. Higher penalties apply to corporate trustees. The value of a penalty unit is currently $110.

Check you are managing your fund investments

- Make sure the SMSF complies with the sole purpose test at all times while the fund is in existence, including when investing fund assets and paying benefits upon retirement of members.
- Make sure you developed an investment strategy that you regularly review.
- Ensure your investment strategy takes into account the retirement goals of your members.
- Take into consideration the risks involved in certain investments.
- Take into consideration what bills your SMSF has to pay and allow enough cash to meet these expenses.
- Take into consideration when benefits will need to be paid.
- Consider diversifying your SMSF's investments.
- Have a separate bank account for your SMSF and pay the expenses of your fund from that bank account only.
- Make sure that your fund's ownership of its investments is assured. We prefer the assets to be in the names of all of the individual trustees as trustees for your fund, or in the case of a corporate trustee, in the name of the company as trustee for your fund.

In certain states, legislation may prevent you from holding assets using your fund's name. In this circumstance, a caveat, instrument or declaration of trust needs to be executed for the asset.

- Make investment decisions that will provide for your retirement.
- Don't invest without considering your strategy and your overall goals for retirement.
- Don't mix your SMSF money with other money.
- Don't have the assets of your SMSF in another entity's name.
- Don't provide financial assistance to members or relatives of members.
- Don't make investments to help someone else out. If your SMSF buys art, generally you cannot use it privately.
- Don't buy wine as an SMSF investment and then drink it.
- Don't buy jewellery as an SMSF investment and then wear it.
- Don't use any of the assets of your SMSF for your own personal use or allow members or related parties to use those assets.

We have published a number of final and draft rulings and determinations to provide you with guidance on a range of issues for SMSFs. To obtain a copy of these SMSF rulings and determinations, refer to our Legal Database.