

# Deryk and Jodi Proudlock SMSF

## Investment Strategy

This document sets out the investment strategy for the Deryk and Jodi Proudlock SMSF. The key areas that the strategy addresses are:

- The overall objective of the Fund
- The Fund's risk profile
- The diversification of investments and asset allocation benchmarks
- Investment range
- Gearing
- Derivatives
- Collectibles
- Expected returns
- Insurance
- Performance Monitoring
- Liabilities, cash and liquidity
- Costs
- Investment Strategy Review

### **Overall Objective of the Fund**

The primary objective of the Fund is to provide benefits for members of the Fund at retirement or as otherwise allowed under superannuation regulations.

In order to achieve this objective the Fund will be a vehicle for the acceptance of concessional and non-concessional contributions and transfers from other superannuation funds.

In addition to providing benefits at retirement, the Fund will provide for benefits to be provided in the event of the death or disablement and will allow access to unrestricted non-preserved benefits.

The Fund may also provide pension benefits to members as permitted by superannuation regulations including pensions payable from preserved benefits where permitted.

The Fund is to be administered in accordance with prevailing legislation, the provisions of the Trust Deed and the following investment strategy.

The Trustees will ensure that all investments are authorised under the trust deed of the Fund and are made for the sole purpose of providing benefits to members and the dependants of members. The Trustees will also ensure that the investments are permitted by the legislative requirements applicable to complying superannuation funds.

### **The Fund's Risk Profile**

It is recognised that there are many different risk types and many different investments which display varying levels of investment volatility and returns.

Developing and managing the Fund's investment portfolio is not just about considering the return expectations. It is vital to determine the level of risk that the trustees are prepared to accept in order to achieve the desired return.

One of the major components in controlling investment risk is the allocation of investments across differing asset classes. Essentially, an investor's appetite for risk is reflected in their allocation to growth assets e.g. shares and property. The higher the portfolio weights to growth assets, the greater the propensity to take risk and the greater the volatility of the portfolio.

The main risk profiles that the trustees have considered in determining the level of risk to be taken with the Fund are Conservative, Balanced, Growth, High Growth, and Aggressive as outlined in Attachment A.

The trustees have determined that the overall risk profile of the Fund be aligned with that generally classified as High Growth.

### The Diversification of Investments and Asset Allocation benchmarks

The degree to which investments are diversified across different classes of assets is also an important tool in managing risk. The Trustees will have regard for the composition of the Fund's investments but may examine this in conjunction with a member's other known assets where necessary.

Typical asset allocation models for generally used risk profiles are:

Risk Profile	Cash	Fixed Interest	Australian Shares	International Shares	Listed Property	Total
Conservative	35%	25%	20%	10%	10%	100%
Balanced	15%	25%	30%	20%	10%	100%
Growth	10%	7.5%	45%	25%	12.5%	100%
High Growth	7.5%	0.0%	55%	25%	12.5%	100%
Aggressive	2.5%	0.0%	62.5%	25%	10%	100%

The Fund has designated target assets. The types of assets which can be included in your portfolio are shown in the following table.

Sector	Details
Cash	Comprise cash management account or cash management trust holdings and bank guaranteed short Term Deposits
Fixed Interest and/or Income	Bank deposits, bank bills, debentures, mortgage funds and managed fund investing in interest rate securities. Convertible notes, preference shares and hybrid securities issued by companies within the ASX200.
Australian Equities	Shares within the ASX 300, diversified managed funds and theme based managed funds.
International Equities	Shares listed on major world exchanges, Managed funds with diversified regional exposure and funds which are invested in specific regions.
Property	Direct property, Listed Property Trusts with the ASX200 Property Index and managed property funds, trusts or syndicates.
Alternative and other Assets	Quality collectibles & specialised assets with no formal exchange market and other managed investments such as infrastructure and hedge funds.

### Investment Range

The Trustees will endeavour to spread investments of the Fund across the various asset sectors as follows and although a benchmark sector allocation is fundamental to the operation of the Investment Strategy, it is recognised that there may be periods throughout the investment cycle where it is appropriate to hold a greater or lesser allocation to the designated sectors. Hence, the range of allocation to the various sectors will be as follows:

	Range %	Optimum %
Cash	0 - 100	10
Fixed Interest	0 - 50	0
Australian Equities	0 - 50	0
International Equities	0 - 50	0
Property	0 - 100	90
Other	0 - 50	0

### Returns

The Trustees believe that, given the proposed asset allocation of the Fund, the likely overall investment return of the Fund in the medium term (3-5 years) should be no less than 3.0% above the average rates of inflation over the period.

## Insurance

The Trustees will consider whether they should hold a contract of insurance that provides insurance cover in respect of one or more members of the fund. In meeting this requirement, the Trustees have regard to the personal circumstances of the members of the fund and other legislative requirements.

In considering insurance the Trustees examine the impact on the provision of enhanced death, permanent or temporary incapacity benefits for members, or the provision of liquidity and ability to extinguish liabilities. Refer the attached appendix in respect of insurance policies put in place.

## Additional Fund investment considerations

### Gearing

The Trustees have decided to borrow money with the view to enhancing the return of the Fund. The Trustees may from time to time borrow for investment purposes provided that the Fund ensures that it meets the superannuation regulations as applicable at the time of borrowing and on an ongoing basis. The Trustees will ensure that they have a plan for meeting any potential future liabilities or obligations in relation to the borrowing. The detail relating to this part of the strategy is shown in the attached appendix.

### Performance Monitoring

To monitor the success of the investment strategy in achieving investment objectives, the Trustees will compare investment returns against objectives at least on an annual basis, and compare investment performance against appropriate industry benchmarks regularly.

### Liabilities, Cash and Liquidity

It is the Trustees' intention to ensure that the Fund meets the minimum legislated standards so as to qualify for concessional taxation status on its income.

Furthermore, investments may be purchased that deliver tax-advantaged income and this may further alleviate the Fund's taxation burden. However, it should be noted that investments will not be selected on this criteria alone.

The Trustees recognise that members' benefits represent a liability of the Fund and they will endeavour to predict the level of benefit payments that will be required to be paid during the course of a financial year. It is noted, however, that no terminations or benefits are expected in the short to medium term and therefore there is no intention to avoid investments that require medium term time horizons.

The Trustees will endeavour to meet all Fund liabilities including tax, expenses and benefit payments within 30 days of receiving notification of the liability becoming current. The optimum cash holding is approximately 10.0% of the Fund value, however this will be retained at a higher rate initially or at times of re-allocation of asset sectors.

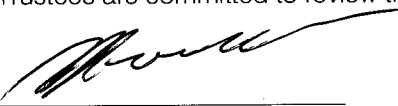
### Costs

These should be reasonable and commensurate with the services provided. Substantial up-front investment costs should be avoided unless there is a very good reason for incurring same. Similarly, exit costs or penalties should be avoided or, at least, minimised.

### 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 an annual monthly basis or more frequently if required.

  
Deryk John David Proudlock (Trustee)

Dated 10.7.2016

  
Jodi Katrina Proudlock (Trustee)

Dated 10.7.2016

## Appendix 1. Insurance policies

The trustees of the fund have determined that it is appropriate to have insurance policies in place for a variety of risk protection objectives.

(Please tick the boxes based on types of cover in place.)

- A policy of insurance on the life of a member designed to result in a direct increase of the Superannuation Death Benefit paid for the member by the amount of cover purchased.
- A policy of insurance on the life of a member designed to result in an increase of the Permanent Incapacity Benefit paid by the amount of cover purchased. It was noted that depending on the insurer's definition of Total & Permanent Disability the premium paid may not result in a full tax deduction to the Fund.
- A policy of insurance for a member designed to result in the Fund's capacity to pay an income stream benefit as the result of temporary incapacity of the member.
- A policy of insurance on the life of a member designed to result in a capital payment to the Fund. This payment will enable the Fund to extinguish a loan established under a limited recourse borrowing arrangement asset acquisition.
- A policy of insurance on the life of a member designed to result in a capital payment to the Fund. This payment will enable the Fund to provide liquidity such that the Fund may make an anti detriment payment as part of the Superannuation Death Benefit in respect of the member.
- A policy of insurance on the life of a member designed to result in a capital payment to the Fund. This payment will enable the Fund to provide liquidity such that the Fund may not be obliged to dispose of an asset to pay the Superannuation Death Benefit in respect of the member.

## **Appendix 2. Gearing and Warrant Trusts**

The Trustees may from time to time borrow for investment purposes provided that the Fund ensures that it 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, shares 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 an 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 capital 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 ~~70~~ % of the value of the asset being acquired and not greater than 50 % 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 ~~12~~ years 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.

Attachment A

Style	Description	Exposure to growth assets	Minimum investment horizon	Long term real rate of return
Conservative	A conservative investor will only accept very minimal capital risk and will expect low volatility. This investor is sacrificing return for increased security. The portfolio structure will generally involve diversification and is appropriate for members who require a sound mix of capital growth and income but understand that negative returns are likely to occur irregularly in the pursuit of investment performance.	40%	2 years	3%
Balanced	A balanced investor is prepared to accept modest capital risk and volatility in the sort to medium term.  The portfolio structure will generally involve diversification and is appropriate for members who require a sound mix of capital growth and income but understand that negative returns are likely to occur irregularly in the pursuit of investment performance.	60%	3 years	3.5%
Growth	A growth investor is prepared to accept capital risk and volatility over the medium term. The portfolio structure will generally involve significant diversification and is appropriate for members who require capital growth and understand that negative returns are likely to occur irregularly in the pursuit of investment performance.	75%	4 years	4%
High Growth	A high growth investor is comfortable accepting significant short term capital risk and volatility. This investor is sacrificing security for increased return. The portfolio structure may encompass under-diversification risk and is appropriate for members who require high levels of capital growth and understand that negative returns are likely to occur periodically in the pursuit of investment performance.	90%	5 years	4.5%
Aggressive	An aggressive investor is seeking high returns and accepts that to do so volatility is inevitable. The portfolio structure may encompass high under-diversification risk and is appropriate for members who require high levels of capital growth and understand that negative returns are likely to occur periodically in the pursuit of investment performance.	95%	5 years plus	5%