

INVESTMENT STRATEGY
for
Taylormade4BG Super Pty Ltd
ATF Taylormade4BG Retirement Fund

Prepared by Trustees
Barbara G. Taylor and Graham T. Taylor

Dated: 30 October 2018

Overall Aim of Fund's Investment Strategy

The Trustees overall aim of the fund are in accordance with section 52(2)(f) of the Superannuation Industry (Supervision) Act 1993 ('SIS Act) and are as follows:

- Maximize member returns with regard to the risk associated in holding the investment;
- Achieve appropriate diversification by investing across a number of asset classes (eg. shares, property, cash and term deposits);
- Ensure the superannuation fund can pay benefits as well as other costs as they become due and payable.

The Trustees general investment intention is to achieve real SHORT to LONG term growth, while maintaining a low level of capital volatility.

To achieve this aim, the Trustees have determined the fund will have the ability to invest in the following areas:

- Equities and stocks including the participation in dividend reinvestment programs, rights issues and any other investments offered in this area.
- Property trusts and associated investments.
- Managed investments and associated products.
- Direct/real property.
- Cash/interest bearing securities.
- Any other investments legally able to be made.

It is noted that the Trustees may from time to time seek professional advice in the formulation of an investment strategy and the asset mix.

In determining this strategy, the Trustees have taken into consideration the fund's objectives and appropriate legislation ... AS WELL AS current personal assets of the sole member and her spouse (including an existing annuity, individually held share portfolios, real property and a Defence Force Retirement Pension).

Specific Objectives

The fund's investment strategy seeks to implement the following specific objectives:

- Achieve cash related returns subject to the requirement that the capital value of the Fund is preserved over rolling five-year periods to avoid negative returns over that timeframe.
- Achieve a long-term rate of return in excess of CPI. It is expected that year-on-year returns will vary considerably with a moderate probability of a negative return in any one year given ongoing uncertainty and volatility in global and local markets.
- To provide retirement benefits for the member. In the event of the member's death to provide benefits for the member's dependants.
- To ensure that sufficient liquid assets are available to meet benefit payments when those payments are due...**without the need for life insurance.**¹

¹ In accordance with current regulations, Trustees consider life insurance is not necessary as total assets are well in excess of liabilities.

Policies

The policies adopted by the Trustees to achieve these objectives are as follows:

- Regular monitoring of the performance of investments, rates of return, risk analysis and expected cash flow requirements.
- Balancing the asset portfolio as a reflection of market conditions.
- Monitoring the tax policies of both Federal Labor and Conservative Parties.

The Trustees will ensure investments continue to comply with the strategy, although they reserve the right to alter the strategy at any time.

Compliance

The Fund is a complying superannuation fund under Part IX of the Income Tax Assessment Act 1936 and Section 45 of the Superannuation Industry (Supervision) Act 1993.

Fund Profile

Fund benefit design:	Allocated Pension Fund
Fund structure:	Self Managed Superannuation Fund
Current size of the Fund:	\$1,671,333 as at 30 June 2018 Pension portion \$213,009 Accumulation component
Annual pension drawdown this financial year:	\$85,000.00 (5% of pension portion)
Percentage of unrestricted non-preserved benefits in Fund:	100%

Risk Tolerance

The Fund is paying an allocated pension. Investments should be made in risk adverse assets, which combine reasonable security of capital with the prospect of long-term growth, with the view to prolonging the duration of pension payments.

Statement on Risk

Investment risk is borne by the member, as fluctuation in investment returns will affect the level of member benefits.

Asset Mix

After due consideration of the level of risk, diversity, liquidity, the member's age and the ability of the fund to discharge its existing and prospective liabilities, the following asset mix is deemed to appropriate:

	Low %	High %		Low %	High %
Australian Equities	20%	95%	Mortgages	0%	15%
International Equities	5%	25%	Direct/Real Property	0%	40%
Cash/Term Deposits	3%	40%	Listed Property	5%	25%

Debt Securities/Bonds	0%	20%	Unlisted Property	5%	25%
International Fixed Interest	0%	20%			

Liquidity

Number of existing members	One
Time Horizon of Fund	2010 - 2035

Age distribution of members as at 30 October 2018

Number of Members	One
Age	69-74 years

Anticipated membership growth: Nil

Statement on Liquidity

- The Trustees will monitor the liquidity position to ensure that there will be sufficient liquid assets to meet the benefit payments as and when they fall due.
- Pension payments are paid monthly. The difference between the total of monthly pension payments and the annual drawdown will be taken as a lump sum each financial year.
- Anticipated benefit payments as at 30 October 2018 are as follows:

Timeframe	Member's Age	Minimum drawdown
Dec 2013 – Nov 2021	66-74	5% of Fund's value as at 30 June each year
Dec 2021 +	75+	6% of Fund's value as at 30 June each year

Economic Overview

In October 2018, the International Monetary Fund (IMF) released its semi-annual World Economic Outlook.²

- *In advanced economies, economic activity lost some momentum in the first half of 2018 after peaking in the second half of 2017. Outcomes fell short of projections in the euro area and the United Kingdom; growth in world trade and industrial production declined; and some high-frequency indicators moderated. Core inflation remains very different across advanced economies—well below objectives in the euro area and Japan, but close to target in the*

² <https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018>

United Kingdom and the United States. Across emerging market and developing economies, activity continued to improve gradually in energy exporters but softened in some importers.

- *Global growth is forecast at 3.7 percent for 2018–19, 0.2 percentage point below the April 2018 WEO projection, and is set to soften over the medium term. Global financial conditions are expected to tighten as monetary policy normalizes; the trade measures implemented since April will weigh on activity in 2019 and beyond.*
- *An intensification of trade tensions, and the associated rise in policy uncertainty, could dent business and financial market sentiment, trigger financial market volatility, and slow investment and trade. Higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. More import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately. Still-easy global financial conditions could tighten sharply, triggered by more aggressive monetary policy tightening in advanced economies or the materialization of other risks that shift market sentiment. Such developments would expose vulnerabilities that have accumulated over the years, dent confidence, and undermine investment (a key driver of the baseline growth forecast).*

In October 2018, the Reserve Bank of Australia released the following Minutes in relation to Domestic Economic Conditions:³

- *Real GDP had increased by 0.9 per cent in the June quarter, and upward revisions to growth in earlier quarters had taken GDP growth over the year to 3.4 per cent, which was the strongest year-ended rate of growth since 2012. More recent data had pointed to further solid growth in GDP in the September quarter, although growth was expected to have moderated a little from the strong rates recorded over the first half of the year.*
- *Household consumption growth had picked up in the June quarter and had remained elevated over the preceding year in the face of the weak income growth reported in the national accounts. More recently, retail sales values had been flat in July and information from liaison with retailers had continued to point to below-average growth in nominal retail spending.*
- *Dwelling investment had increased in the June quarter and over the year. The increase had been concentrated in New South Wales and Victoria, where capacity constraints in the construction industry were apparent. A decline in residential building approvals since mid 2016 suggested dwelling investment was likely to be close to its peak in the current cycle. Nonetheless, the large pipeline of work yet to be done was expected to support a high level of dwelling investment in the period ahead.*
- *Public sector spending had continued to grow relatively strongly, with both public consumption and investment having contributed to GDP growth over the year to the June quarter. Recent data on work yet to be done on infrastructure projects had suggested public investment would remain high over the following couple of years. The final federal budget outcome for 2017/18 revealed that the deficit had been smaller than expected, owing to higher revenue and lower-than-expected spending.*
- *Mining investment had risen strongly in the June quarter, partly reflecting higher expenditure on machinery and equipment as well as a sharp increase in exploration activity. Non-mining*

³ <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2018/2018-10-02.html>

investment had declined somewhat in the June quarter, but had increased strongly over the preceding year. Overall conditions in the business sector had remained positive. Farm production was expected to decline in 2018/19 because drought conditions in some key farming regions were expected to reduce crop yields.

- *Employment had risen strongly in August, driven by full-time employment, and employment growth had been stronger than population growth over the year. The participation rate had been little changed at a high level in 2018. Having been around 5½ per cent for the preceding year, the unemployment rate had declined a little to 5.3 per cent in July and August. The underemployment rate had also edged lower.*
- *Despite ongoing improvements in labour market conditions, the national accounts measure of average earnings growth had been weak in the June quarter and had increased by only 2 per cent over the year to the June quarter. Other components of household income, including government transfers, had also recorded below-average growth in the recent period. Members noted that growth in unit labour costs, which adjust hourly earnings for productivity growth, had been subdued for a number of years, averaging less than 1 per cent in year-ended terms and had led to downward pressure on underlying inflation.*

Diversification

The Trustees recognize that diversification is best achieved by investing in a mix of quality assets across a range of classes and companies including those operating in international markets. However, while diversification can reduce exposure to volatility and risk, it can also result in lower returns. Furthermore, there are only a certain number of quality Australian assets in the equities market. The strength of some lies in providing solid dividend income while others provide growth in the share price.

Current Objectives

- Given continuing low interest rates, investment in term deposits will remain at the lower end of the end of the asset mix at less than 3%. Subordinated and Capital Note type products or Options will remain an alternative, but need to be monitored given the impact of misconduct allegations across the banking and financial sectors.
- Investments in Australian equities will continue to dominant the Asset Mix over the 2017-18 financial year. However, as the Trustees recognize risks and volatility associated with this asset, the focus will be on the ASX Top 50 companies, and where possible the portfolio will include a range of industries and sectors. Opportunities will also be sort to sell shares that have a history of non-performance with a view to re-investing for capital gain to off-set the losses. The intention is to maximize income return to fund pension payments, while at the same time achieving capital growth in the longer term.
- The member and spouse will also continue to examine the spread of their joint investments within the broad context of asset allocation, bearing in mind that they carry no debt.

Ability of Fund to discharge existing and prospective liabilities

Sufficient cash flow will be maintained to discharge administration expenses and other outgoings including benefit payments. The Fund is structured as an account-based pension with a small accumulation component and the member is entitled to benefit payments in accordance with ATO drawdown requirements.

Federal Labor's proposed tax policies for the SMSF sector, especially those associated with banning franking credits will, if implemented, have a significant impact on the Super Fund's capability to generate enough income to pay the required percentage pension paid each financial year and would see capital reduced to fund those payouts. Hence the life of the Super Fund would be shortened.

Cash Strategy

The Fund operates a Macquarie Bank Cash Management Account with a minimum balance (given low interest rates) equivalent to one year's drawdown plus operating expenses. In addition, the Fund also operates a Commonwealth Bank Investment Account which is linked to the Fund's CommSec Trading account. It also acts as a reserve for any share rights issues and the purchase of new shares



Barbara G. Taylor

Date: 30 October 2018



Graham T. Taylor

Date: 30 October 2018

Trustees Taylormade4BG Super Pty Ltd (ACN 145 377 206)