



The rise and rise of compliant SMSF investment strategies: Why it's more important than ever

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**Superannuation Industry Regulations (Supervision)
1994 – Reg 4.09(2) Investment Strategy**

Prepared by

Trustees of On Just Terms SMSF

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Prepared on 1 July 2020

Introduction

The purpose of this document is to record the investment objectives and strategy formulated by the Trustees of the On Just Terms SMSF ("the Fund") in relation to the investment of the assets of the Fund.

Regulation 4.09(2) of the Superannuation Industry Supervision (Regulations) 1994 requires Trustees of superannuation funds to:

The trustee of the Superannuation Fund must formulate, review regularly 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:

- a) the **risk** involved in making, holding and realizing, and the likely return from, the entity's investments, having regard to its objectives and expected cash flow requirements;
- b) the composition of the entity's investments as a whole, including the extent to which they are diverse or involve exposure of the entity to risks from inadequate **diversification**;
- c) the **liquidity** of the entity's investments, having regard to its expected cash flow requirements;
- d) the ability of the entity to discharge its existing and prospective **liabilities**;
- e) whether the trustees of the fund should hold a contract of **insurance** that provides insurance cover for one or more members of the fund.

Clause 57 of the fund's Trust Deed provides the Trustees with broad authority to invest the Fund's assets.

Prohibited investments (as specified in **Clause 58 of the Trust Deed** or are deemed to apply, because of legislation) are as follows:

1. Loans to Members;
2. Assets acquired from related parties, including members and their associates and;
3. In house assets exceeding 5% of the value of the fund's total assets.

Fund profile

The On Just Terms SMSF was established to provide lump sum and/or pension retirement benefits for members, as well as death/disablement protection for members and the dependents of members.

The Fund is maintained as a Self-Managed Superannuation Fund under section 17(A) of the Superannuation Industry (Supervision) Act 1993 ("SISA").

The membership profile is as follows:

Member	Das	Sal	Shazza	Con
Age	66	51	24	25
Retirement Age	67	65	65	65
Member Balance	\$1.2m	\$450k	\$270k	\$75k
Employment status	Employed	Employed	Employed	Employed

Investment objectives of the fund

The objective of this document is to formulate and give effect to an investment strategy that complies with SIS Reg 4.09(2).

The Trustee will at all times act prudently to pursue the maximum rate of return possible, subject to acceptable risk parameters.

The Trustees will ensure that all investments are authorized under the Trust Deed, are made for the sole purpose of providing benefits to members and the dependents of members, and are made in accordance with the legislative requirements applicable to complying superannuation funds.

Investment Objectives

The On Just Terms SMSF has the following specific investment objectives:

Short term

- To use a majority of Fund assets to hold business real property, collectibles and alternative asset classes such as Bitcoin and Derivatives; *(please refer to Derivatives Risk Statement)*
- To utilize the Members' property and collectible expertise to maximize fund returns

Medium term

- To reduce the probability of negative returns, by investing into alternative and direct investment classes including commercial property, collectibles and alternative asset classes;
- To increase over time the funds exposure to non-property assets including cash fixed income and shares to provide diversification
- To maximize the exposure to growth investments and hence increase the potential of the trustees to achieve the required capital necessary to fulfil the members' retirement pension objectives;

Long term

- To provide retirement benefits to the members of the fund or benefits to their dependents in the event of the death of a member

Investment strategy

After significant research, the Members and The Trustees believe that greater certainty and control of their retirement savings can be achieved by allocating a significant proportion of their member balances to Business Real Property and collectibles. Additional allocation to alternative assets will be allowed subject to the Trust Deed and Regulations, these will however be limited to 10% of the Fund's Balance.

The Trustees have addressed and carefully considered each of the requirements of SIS Reg. 4.09 in formulating this strategy and believe that the risk associated with return; cash-flow; liquidity; diversification and insurance have adequately taken into account the whole of the circumstances of the Fund and the Member's requirements.

- (a) **Returns** – The Trustee has estimated that the returns generated from the Business Real Property will be circa 5% pa (net) annual income via a registered commercial lease, which includes indexed payments to CPI and 3-year market reviews and capital growth at the rate of inflation. The Trustee has also considered the tax effectiveness of the income stream use of the Div. 43 Capital Allowance to further enhance after tax returns.
- (b) **Diversification** – The Trustee has considered the fact that greater than 90% of the Fund's assets will be invested into a single-class asset, being Business Real Property. The Trustees and members are comfortable with the funds lack of diversification as the asset provides the funds required rate of return, manageable risk and control of funds' assets.
- (c) **Liquidity** – The Trustees have considered the funds liquidity and cash flow requirements and will ensure that adequate funds will be held in cash to enable the fund to meet its short-term liabilities for tax, accounting, audit and advice fees and any other operating expenses of the fund. Trustees will decide from time to time on what is an appropriate amount of cash for the fund to hold taking into consideration:
- Contributions to the fund
 - Pension payments to be made
 - Fees, taxes and expenses required to be paid
 - Investment asset running costs.
- (d) **Liabilities** – The Trustee has considered the age of the members and the likelihood that assets may need to be redeemed in the short-term very unlikely. Access to fund capital and/or income will not be required for at least 10-years.
- (e) **Insurance** – The Trustee has reviewed the need for insurance to be held for members of the fund and has determined that there is sufficient insurance cover in place and that no further action is required at this stage to obtain insurance for members of the fund.

Portfolio risks

Risks considered

The Trustees have considered the following risks:

- *Asset concentration* – assets may not produce sufficient cash flow to meet liabilities when due;
- *Capital Gains Tax* - liability may be incurred on the sale of assets;
- *LRBA* - Assets purchased with **borrowed funds** may fall in value to a point where the Fund cannot recover sufficient funds on a sale to repay or reduce debt.
- *Security of employment* - Loss of employment can cause cash flow problems that may require the sale of the whole or part of a portfolio. Depending on when a sale occurs, the fund could crystallize a loss on an investment.
- *Investment Volatility* - The return on the investments may decrease or temporarily cease, which may place a burden on cash flow.

Performance monitoring & Review

The Trustees will monitor the success of the investment strategy in achieving the investment objectives by benchmarking:

- (a) performance against members' retirement objectives on an annual basis; and
- (b) performance against cash rates available over a 12-month period

Adopted by the Trustee/s on 01 July 2020

Signed _____
Das

Signed _____
Sal

Signed _____
Shazza

Signed _____
Con