SMSF INVESTMENT STRATEGY

Trustees of self-managed superannuation funds (SMSFs) are obligated to create and implement an investment strategy that outlines the permissible investment options for the fund.

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Trustees of self-managed superannuation funds (SMSFs) are obligated to create and implement an investment strategy that outlines the permissible investment options for the fund. All investment choices must align with this strategy. Some crucial factors to consider when formulating an investment strategy for a fund encompass:

1. Defining the fund's investment objectives.
2. Recognising the value of diversification by spreading investments across various asset classes (e.g., fixed interest, property, and stocks).
3. Evaluating the fund's liquidity to ensure it can meet member benefit payments and other expenses.
4. Determining whether to maintain insurance coverage for members.
5. Assessing the individual circumstances of each member, including age, income needs, and retirement objectives.

It's essential for the investment strategy to be documented in writing, as this provides trustees with clear guidance and aids auditors in preparing the annual report. Additionally, the strategy must be reviewed at least annually and whenever there are changes in the fund, such as new member additions or existing members transitioning to pension phase.

Here's a summary of key aspects to consider within an investment strategy:

Objective

The investment strategy should articulate the fund's investment objectives and the methods for achieving them. These objectives should include benchmark targets, such as achieving an average yield from investments 2% above the inflation rate. When setting objectives, trustees should account for each member's unique needs, including their time until retirement, risk tolerance, and growth targets. Different investment strategies can be devised for members with varying risk profiles.

Risk and Return

Risk involves the potential for investment losses. Trustees must establish an acceptable level of risk and volatility according to the fund's circumstances, considering factors like market volatility, liquidity, credit, operational, and legislative risks. Procedures for identifying, monitoring, and managing these risks should be included in the investment strategy.

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Diversification

Diversification is a fundamental risk management strategy that disperses and mitigates risk while reducing investment return volatility. Diversification can be achieved through various means, including investing in different asset classes, multiple assets within a single class, both domestic and international investments, and employing various management styles. If the fund lacks diversification, such as when most funds are invested in a single property, the strategy should acknowledge this and explain how the risk will be managed.

Liquidity and Cash Flow

Adequate liquidity is necessary to meet financial obligations as they arise, including taxes, pension payments, administrative costs, and other fund expenses. Holding a cash reserve or readily sellable investments can assist in maintaining liquidity. The strategy should outline whether borrowing is allowed and any constraints on permissible investments.

Insurance

Trustees should assess the insurance needs of each member, considering death and disability coverage, as well as appropriate coverage levels. Types of insurance to contemplate include life, total and permanent disability (TPD), and income protection. The outcomes of this evaluation, including the decision to not hold insurance for members, should be documented in minutes, along with the rationale for the decision.

References

You may wish to refer to the following websites for further information about SMSF Investment Strategy:

- www.moneysmart.gov.au
- www.ato.gov.au

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