

WHEN DID YOU LAST REVIEW YOUR SMSF INVESTMENT STRATEGY?

Diversification And Liquidity - Now A Current Year Audit Focus

You may be aware that the Australian Tax Office (ATO) has issued letters to nearly 18,000 SMSF trustees as part of a campaign to ensure trustees are aware of their investment obligations.

Of key concern is ensuring that trustees have considered diversification and liquidity of their assets when formulating and executing their fund's investment strategy.

Importantly, it must be noted that the ATO letters are not an attempt to regulate and limit the control and freedom that SMSF trustees have but rather ensuring that if trustees wish to invest their assets in a certain way that they must clearly articulate their reasons for doing so.

An investment strategy should be considering the SMSF's blueprint when dealing with the fund's assets to ensure the SMSF's investment objectives and members' goals are met. It provides the parameters to ensure you invest your money in accordance with that strategy. This is where the ATO has a primary function to ensure that trustees act in accordance with these obligations.

An SMSF Investment Strategy Must Take Into Account The Following Items:

- The risks involving in making, holding and realising the SMSFs investments, their expected return and cash flow requirements of your SMSF.
- The diversification and composition of your SMSF investments.
- The liquidity of your SMSF investments, having regard to expected cash flow requirements.
- The SMSFs ability to pay your current and future liabilities, including benefits to the members.
- Considering whether to hold insurance cover for each member of your SMSF.

An important requirement for you as trustee of your SMSF is to have an investment objective and a strategy to achieve that objective in place, before you start to make decisions about how you want to invest your SMSF money. Of equal importance is that the investment objective and strategy is not set in stone. You can choose to change the investment objectives you have set for your SMSF at any time

Diversification Is A Challenge For Some

It's not uncommon for SMSFs with lower member balances to find diversification a challenge as there is limited money to invest. Nonetheless, you are still required to demonstrate that you adequately understand and mitigate the associated investment risks. If you find yourself in this position, it is important your investment strategy reflects these risks.

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For example, if you have invested in a large illiquid asset such as real property which may form the majority of your fund, it is timely to ensure your strategy reflects the concentration and liquidity risk associated with this investment.

Where you have in place an adequate investment strategy that deals with these risks and can provide the necessary evidence to support your investment decisions, no further action is expected.

Where your fund has not complied with its investment strategy requirements under superannuation law, you may be liable to administrative penalties being imposed by the ATO, as Regulator of the SMSF sector.

Your investment strategy does need to be reviewed at least once a year and this will be evidenced by your approved SMSF auditor. It is also important to review your strategy whenever the circumstances of any of your members change or as often as you feel it is necessary.

The Following Practical Tips Will Help You Keep On Top Of Your Obligations:

- Put your investment objective and strategy in writing
- Set an investment objective that you can comfortably achieve with the underlying investments you are comfortable to invest in
- There is no template for an investment object and strategy, but make sure they reflect how you intend to invest your SMSF money
- The investments you actually make must be accommodated by the investment strategy you have set
- Most importantly, document your actions and decisions, as well as your reasons, and keep them as a record in order to demonstrate that you have indeed satisfied your obligations as a trustee in this important area

Please note this article is for general information purposes only and does not constitute legal or financial advice. We recommend that seek professional guidance from a financial adviser to assist with your specific circumstances. If you do not have a current financial planner please contact us and we can refer you to one inside our network

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