Investment Strategy

SMSF trustees must formulate and give effect to an investment strategy and objectives, in line with SIS requirements.

Making the most appropriate investment decisions for the SMSF comes down to a number of factors

Overview

Investing member entitlements is one of the most important aspects of being an SMSF trustee. The ability of trustees to make adequate returns in line with the fund's long term investment strategy is vital and making the most appropriate investment decisions for the SMSF comes down to a number of factors including:

- skill and knowledge of trustees,
- any independent advice which may be taken, and
- setting adequate objectives and strategies for the fund.

Requirements

It is a SIS requirement that superannuation funds must formulate and give effect to an investment strategy as well as regularly reviewing that strategy. When preparing the strategy, the trustee must give consideration to the following factors:

- **Risk and return** — the risk involved in making, holding and realising investments and the likely return from the investments, having regard to the fund's objectives and its expected cash flow requirements.
- **Diversification** — the composition of the fund's investments as a whole, including the extent to which the investments are diverse or involve the fund being exposed to risk from inadequate diversification.
- **Liquidity** — the liquidity of the fund's investments having regard to its expected cash flow requirements.
- **Liabilities** — the ability of the fund to pay member benefits and any other liabilities, both current and prospective.
- **Insurance** – whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

A trustee could implement an investment strategy to invest in one class of asset, or even one single asset (for example, direct property) provided it could demonstrate it has considered the suitability of the strategy in light of the above issues.

Investment strategy: what to consider?

An investment strategy is simply a plan for making, holding and realising investments that reflect the fund's objectives and circumstances. It is used as a means of pursuing one or more investment objectives and is rarely concerned with individual investments. Instead, an investment strategy should consider the various asset classes. In establishing an investment strategy the following major factors should be taken into account:

Develop a fund profile

A fund profile is a summary of the SMSF itself. It should identify the facts, characteristics and the experience of the fund and its members. It should refer to the type of plan and how and when benefit entitlements are determined and paid, including any reserving and insurance policies. It should also consider the profile of the fund's membership, details of the current assets of the fund and its anticipated cash flow, by way of contributions and benefit payments.

Develop investment objectives

This is the goal that the trustee wants to achieve. It can be expressed in a number of ways but is normally some indication of the type or amount of return that the fund is trying to achieve. The trustee may establish different investment objectives for different members.

Set a strategy to achieve the investment objectives

This is the means employed to achieve the stated investment objectives. It should detail the types of assets that may be considered to achieve the objectives and the asset allocation ranges and benchmarks.

Monitor the objective and strategy

The trustees should regularly monitor the performance of the fund against its stated objectives. This is one area which trustees of SMSFs do not generally focus on. It is important to measure the fund's performance in light of its investment objectives and prevailing market conditions.

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