

INVESTMENT STRATEGY

INFORMATION SHEET 2025-26

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1. Background

- 1.1 The obligation of a self managed superannuation fund to have an investment strategy is both a statutory covenant and a prescribed standard. The investment strategy obligation imposed upon the trustee is to formulate and give effect to an appropriate investment strategy for the fund.
- 1.2 Section 52B(2)(f) of the *Superannuation Industry (Supervision) Act 1993* imposes the investment strategy obligation as a statutory covenant (so far as the obligation applies to SMSFs). This section expressly imposes on trustees of SMSFs the obligation to regularly review the investment strategy. Previously, the obligation to regularly review the investment strategy was implied from other sections of the SIS Act.
- 1.3 Reg 4.09 of the SIS Regulations provides that the investment strategy obligation is a prescribed operating standard. As a prescribed standard an intentional or reckless breach of the investment strategy standard is an offence.
- 1.4 Reg 4.09 requires trustees of self managed superannuation funds to consider, as part of the investment strategy of the fund, whether insurance cover should be held by the trustees in respect of one or more of the members of the fund.
- 1.5 Consequently, Reg 4.09 requires trustees of self managed superannuation funds to have an appropriate investment strategy for the fund.
- 1.6 Additionally, SIS Reg 4.09 imposes an obligation upon the trustees of self managed superannuation funds to regularly review the investment strategy.
- 1.7 While neither the SIS Act nor the SIS Regulations requires the risk insurance and investment strategy for self managed superannuation funds to be in writing, having a written investment strategy which has been formally adopted by the trustees will satisfy the evidentiary requirements of both the auditor of the fund and the Australian Taxation Office as to the formulation, review and adoption of an investment strategy.

2. Policy justification

- 2.1 The provision of retirement age financial support, whether in the form of lump sums or an income stream, is the primary purpose of a superannuation fund. Proper and effective management of the assets of a superannuation fund is vital to the achievement of the primary purpose of superannuation.
- 2.2 The discipline of devising and documenting an appropriate insurance risk and investment strategy will assist a superannuation fund to achieve its primary purpose.
- 2.3 The policy intent of this requirement is that members' retirement financial support is not adversely affected by reckless, ad hoc or uncoordinated investments.

3. Regulatory consequences

- 3.1 Where the trustees have breached the investment strategy prescribed standard by not having an investment strategy, or the investment strategy is not appropriate, or the trustees have not regularly reviewed the investment strategy, then:
- (a) any person who has suffered loss or damage by reason of that breach may claim compensation from the trustees;
 - (b) individual trustees and corporate trustees may be liable to regulatory penalties of up to \$6,600 (20 penalty units at \$330 per penalty unit) for each breach; and
 - (c) the trustees, where the breach is intentional or reckless, may be liable to criminal penalties of up to \$33,000 (100 penalty units at \$330 per penalty unit) per breach.
- 3.2 A breach of the investment strategy prescribed standard could occur by the trustees:
- (a) by not having a strategy;
 - (b) by having an inappropriate strategy; or
 - (c) by not implementing and complying with the strategy – for example, by not investing according to the asset allocation of the strategy or by not effecting the insurance covers specified by the strategy.
- 3.3 Administrative penalties apply from 1 July 2014 in respect of breaches which occur on or after 1 July 2014.

4. Objectives and strategies

- 4.1 An investment objective differs from an investment strategy. The investment strategy can only be developed once the investment objective has been formulated.
- 4.2 The relationship between strategy and objectives is that the investment objective is the intended outcome of the investing activities of the superannuation fund and the investment strategy is the plan as to the investing activities which are to be undertaken to achieve the intended outcome.
- 4.3 The investment objective should be *'measurable, formally documented and clearly communicated'*. A statement of investment objectives would ordinarily include a *"clear expression of a measurable target investment return and a measurable target level of risk exposure"*.

- 4.4 The target investment return should be “specific and measurable”. The target return would normally be expressed “*with a defined investment horizon and stated as either a return relative to a quantifiable benchmark return or an absolute percentage return*”. Examples of the target return would be:

‘a return objective expressed as a rate of return matching or exceeding by XX percentage points, a benchmark index over a period of YY years’

or

“a return objective to provide real long-term growth, where measured, over at least YY years.”

- 4.5 In short, the investment objective is a desired return while an investment strategy is a plan to achieve that desired return.
- 4.6 While there is no explicit obligation in the SIS Act for a superannuation fund to have an investment objective, it is implicitly required because of the above; a plan without an objective would be meaningless.

5. Single or multiple investment objectives

- 5.1 The SIS Act does not limit a superannuation fund to only one investment objective. There could be circumstances where having two or more investment objectives for a particular superannuation fund will be required.
- 5.2 For instance, a fund may have members still in the workforce, who are building up their superannuation benefits, and other members in retirement, who are taking their benefits by way of pension. In this case, the fund may be justified in having two investment objectives to fund for both cases: one for the members still in the workforce; and the other for members in pension phase.
- 5.3 For each investment objective of the fund, there must be a corresponding investment strategy.

6. Member investment choice

- 6.1 The SIS Act permits trustees of superannuation funds (including trustees of self managed superannuation funds) to offer to members the choice of which investment strategy is to apply to that member.
- 6.2 Generally, trustees of self managed superannuation funds would need not offer members investment choice as the trustees are able to treat members with common attributes (such as being in pension phase) as a sub-plan and provide a separate investment strategy for those members (or the superannuation interests of those members) who are included in the sub-plan.

7. Investment objective – formulation

7.1 As noted in para 4.4, investment objectives must be clearly expressed, specific and measurable. An objective must have these attributes in order to determine whether the objective has or has not been reached.

7.2 Examples of clearly expressed, specific and measureable objectives are set out below:

“to obtain a rate of return matching or exceeding, by a specified amount, a benchmark (for example, the All Ordinaries Accumulation Index or CPI) over a specified period (for example, five years)”.

“to provide real (ie excess of an inflation measure index) long-term (at least x years) capital growth of at least y% compounded and a level of income of no less than z% from a balanced portfolio”

7.3 In determining an investment strategy, the trustees should have regard to the whole of the circumstances of the fund; ie all the relevant circumstances. These could include the:

- (a) investment time horizon of the members;
- (b) expected contributions flows for the members;
- (c) likelihood of benefit transfers/rollovers to the fund;
- (d) amount of investible funds;
- (e) cash requirements of the fund for administration, costs (including insurance costs) and taxation liabilities;
- (f) the debt-servicing requirements on assets acquired pursuant to limited recourse borrowing arrangements;
- (g) form in which benefits are likely to be taken (lump sum, allocated pension, complying pension);
- (h) type and level of investments the members have outside of the fund (whether in other superannuation funds or outside of superannuation); and
- (i) risk profile of the members.

8. Investment strategy – formulation

8.1 Investment strategies may (but this need not be the only method of expressing a strategy) be expressed using formal asset allocation ranges. This approach involves the trustee setting allocation ranges and a benchmark position for asset class.

For example

The investment strategy is to invest in a balanced portfolio exposed to all major domestic asset classes as follows:

Asset Class	Range	Benchmark
Cash	0% - 20%	10%
Fixed interest	20% - 40%	25%
Australian equities	50% - 70%	50%
Property trusts	10% - 30%	15%

The assets classes, ranges and benchmarks set out above are only for illustrative purposes.

8.2 In determining the investment strategy to achieve the investment objective, the trustee is required to consider the relevant circumstances of the fund and have regard to the following matters:

- (a) *(Fund circumstances)* – such as whether the fund is in pension phase or accumulation phase, the likely level of contributions and membership movements;
- (b) *(Diversification)* – the extent to which investments are diverse or involve the fund in being exposed to risks of inadequate diversification, such as asset class concentration, sector or geographic concentration;
- (c) *(Risk and return)* – the investment risk of each asset class and the likely investment return from each investment class and the volatility of that return from year to year;
- (d) *(Liquidity and cash flow)* – the need to retain and the level required of liquid assets to meet the expected cash flow requirements;
- (e) *(Liabilities)* – the need to be able to pay present and expected prospective liabilities - such as fund expenses, insurance premiums, pension payments and loan repayments (arising from limited recourse borrowing arrangements).

9. Concluding comments – investment strategy

- 9.1 The investment objectives/strategies of a superannuation fund should be regularly reviewed (at least annually) and, when circumstances warrant (for example, when a new member is admitted, a member retires or the level of funds able to be invested materially increases or decreases, member commences a pension or the fund enters into a limited recourse borrowing arrangement) should be reconsidered and, if required, altered and restated.
- 9.2 The document setting out the current investment objectives/strategy is an important document and must be kept with the records of the fund.

- 9.3 Any review and alteration of the investment objective/strategy by the trustee must be clearly documented in the trustee's minutes, including referring to any supporting documents (eg investment adviser's advice) relevant to the trustee's decision to retain the current strategy or to modify that strategy.

10. Risk insurance standard

- 10.1 To comply with the risk insurance prescribed standard, trustees of self managed superannuation funds will have to:
- (a) identify the insurance covers currently held on the lives of the members whether in the superannuation system or held outside the superannuation system (this can only be achieved by requesting each member to disclose this information to the trustees);
 - (b) consider whether cover and, if so, the type and amount of cover the trustees should have in respect of a member; and
 - (c) effect the cover the trustees have determined should be held in the fund for or in respect of the member.
- 10.2 The risk insurance standard requires the trustees to consider whether cover (type and amount) should be held for or in respect of each member of the fund. The standard does not require that any cover be held for or in respect of the member. However, if the trustees decide that cover should be held for or in respect of the member, then the trustees must implement that decision and effect that cover.
- 10.3 The decision of the trustees may be that no cover is required for a particular member as sufficient cover is held in other funds or outside the superannuation system. If so, the trustee should record both the decision that no cover will be effected for or in respect of the member and the reason for such decision: that sufficient cover is held in respect of the member in other funds.
- 10.4 Where the decision of the trustees is that cover (type and amount) should be held for or in respect of the member, then the trustees must effect that cover subject to the normal insurance underwriting processes.
- 10.5 Where the decision of the trustees is that cover should be held for or in respect of the member but due to underwriting requirements or premium weightings such cover is not obtainable or only obtainable at very significant premiums, the trustees must record both the decision and the reason for not implementing the decision.

11. Concluding comments – risk insurance standard

- 11.1 While the standard does not require the trustees to effect cover on any or all members, the trustees must apply (and be able to show that they have applied) their minds to the issue.

- 11.2 By having a documented process to consider whether cover should be effected which has been followed and the outcome of that process (to take cover or not take out cover) recorded and implemented, the trustees will have demonstrated compliance with the standard.