



SMSF Investment Strategy Diversification Requirements

NOVEMBER ISSUE

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The Australian Taxation Office (ATO) has recently issued correspondence to self-managed superannuation fund (SMSF) trustees who hold greater than 90% of their assets in a particular asset category, stating that the diversification section of the Superannuation Industry (Supervision) Regulations 1994 (SIS act) must be considered.

In most cases, the asset in question is commercial and non-commercial real estate.

Whilst the ATO limited the correspondence to these trustees, it is noted that all SMSF trustees should consider diversification when formulating their investment strategy.

How does this impact you and your SMSF?

As a trustee you are ultimately responsible for ensuring your investment strategy meets requirements under the law. You could also be liable for an administrative penalty of \$4,200 if your investment strategy fails to meet these requirements.

Investment strategy requirements

Your investment strategy sets out your fund's investment objectives and specifies the types of investments your fund can make. Under the SIS act, your investment strategy is required to consider:

- members' needs and circumstances (e.g. age, risk tolerance and retirement needs)
- investment risk and likely return
- diversification (investing in a range of assets and asset classes)
- liquidity of assets (how easily they can be converted to cash to meet fund expenses)
- the fund's ability to pay benefits (when members retire) and other costs it incurs
- whether to hold insurance cover for members

Your investment strategy should be in writing and must be reviewed regularly to ensure it continues to reflect the purpose and circumstances of your fund and its members.

How can trustees ensure they comply?

All SMSF trustees should ensure they have an investment strategy in place that complies with the requirements listed above and accurately reflects the current situation of the members.

In addition, if your fund holds more than 90% of assets in a particular asset category, you should specifically consider the risks associated with inadequate diversification within your SMSF when reviewing your investment strategy.

Trustees should continue to review their investment strategy at least on an annual basis, such as when the financial statements are prepared, and update it if and when applicable.



How we can assist

Please note, under the Future of Financial Advice (FOFA) legislation, the investment strategy is deemed a financial product. Consequently, it is important to note that certain information provided by us in relation to your investment strategy may constitute financial advice.

We understand this can be a confusing area for trustees to navigate in terms of administering their SMSF. Therefore, if you have any questions or would like to discuss anything outlined in this article, please contact us and we will be more than happy to assist.

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If you have any questions or would like more information, please contact our office:

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