



## Investment strategy

It is essential that the trustee establishes and documents a sound investment strategy that takes into account:

- the fund's liquidity requirements, and
- the goals and objectives of the members of the fund, and
- the members' risk tolerance and circumstances, and
- members' ages and investment time frame, and
- investment powers of the trustee (as detailed in the trust deed).

Trustees of SMSFs can be penalised if they fail to put an investment strategy in place. A member who suffers loss as a result of a breach of this requirement can sue the trustees to recover the loss. To ensure the trustee is protected from legal action by a member suffering any loss as a result of this breach, the underlying investments of the fund need to be considered in light of the investment strategy.

The investments/assets also need to be appropriate to meet the sole purpose test.

## Sole purpose test

The sole purpose test requires that the fund be maintained for the sole purpose of providing its members with retirement benefits, or providing its members' beneficiaries or dependants with benefits in the event that the member dies before retirement. Certain other "ancillary" purposes are permitted within the sole purpose test, including payment of disability benefits for a member's retirement due to ill-health or in other circumstances approved by APRA. It is absolutely imperative that SMSF monies are kept separate from monies for other purposes (such as living expenses). This will include keeping an entirely separate set of bank accounts, investments and accounts.

Contravention of the sole purpose test may arise where there is no retirement purpose behind the investment decision, or where funds are used for non-investment purposes. It is not the type of investment which is relevant for the sole purpose test but rather it is the intention for which the investment is made and maintained that determines its appropriateness.

An investment which is undertaken as part of a properly considered and formulated strategy, and which complies with the arm's length rule and other SIS investment restrictions, is unlikely to cause the fund to fail the sole purpose test unless exceptional circumstances exist. Failure to comply with the sole purpose test may also result in the fund becoming a non-complying superannuation fund for taxation and Superannuation Guarantee purposes. Employer contributions to a non-complying fund do not satisfy the employer's obligations under the Superannuation Guarantee scheme.

Given the significant penalties for trustees of SMSFs for breaches of legislation, it is essential that the trustee has the structure and compliance of the SMSF reviewed on a regular basis by a qualified professional. Specialised SMSF administration services may also be of assistance.

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