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Portfolio

Make changes a matter of record

Bringing the trustee's investment plans to book . . . documenting decisions is important.

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DIY super

John Wasiliev

Do-it-yourself superannuation funds should make sure that if they change their investment strategy as a result of the current market volatility, such action is correctly recorded.

Accountant Phil Jacquillard of Adelaide-based DIY fund administrator SuperGuardian says fund trustees have a responsibility to ensure their strategy is up to date and reflects the fund's investments.

"No doubt many trustees will be closely monitoring their share investments, given the current market activity," Jacquillard says.

He says that where they feel a need to make any changes to the overall strategy it is important that they record this.

Jacquillard adds, however, that he hasn't noticed any significant strategy changes among the funds he observes as a result of the sharemarket volatility.

"I might have seen a couple of funds where trustees have decided to reduce their involvement in shares," he says.

But in most cases funds set a range of exposures to different assets and simply reduce their holdings that way. The range might be 50 to 70 per cent in shares. Where share sales are within this range there would be no need to change the strategy, but where exposure is reduced below this level Jacquillard says he would expect to see this noted in the strategy.

Jacquillard says trustees should expect the fund auditor to review their strategy and portfolio as part of the annual fund audit.

As the fund auditor must check there is a strategy and that investments are consistent with it, some form of ongoing record is important.

A suggestion is that the trustees not only write down the strategy but, when investments are made, record this with comments as to how the investments fit with the strategy. Such records could be kept in an exercise book where transactions are recorded and dated, any decisions made signed by all trustees.

With the increased focus on trustees' education, having records that show all the trustees are involved in fund decisions is a good idea.

Jacquillard says that if the fund does not have a written investment strategy on file when the audit is conducted, the auditor can demand that this be produced within 14 days.

If it is not forthcoming, the auditor is required to qualify the audit report to the DIY fund regulator, the Australian Taxation Office. An audit may also be qualified if the investments are not consistent with the strategy and there is no explanation why.

A qualified audit report will almost certainly draw attention to a fund and increase the possibility of an official audit by the regulator.

The ATO has recently indicated that it plans to conduct about 11,000 audits this year, and that it will pay special attention to new funds to make sure they get off to a good start.

Jacquillard says auditors won't expect new funds to have a fully implemented investment strategy, given the current market conditions.

He says that running a fund according to its investment strategy need not be an onerous job.

But trustees should be aware that they have a duty to make, carry out and document decisions about investing the assets of the fund, and then carefully monitor its performance.

There are times when an investment review is a wise idea, such as if there is a change in risk tolerance of one or more members.

As far as the actual strategy itself is concerned, issues that trustees might consider include whether any specific objectives should be stated.

The broad objective of super investing should be to invest the assets of the fund in such a way as to protect and enhance the retirement benefits of members.

Trustees should also consider the possible payment of death benefits to any beneficiaries of members and manage the fund investments accordingly.

Whether investments should be segregated should also be considered where this might be an issue.