

INVESTMENT DIVERSIFICATION WITH EXOTIC ASSETS.

Over the past 20 years the share of retirement savings invested through Self-Managed Super Funds has grown to one-third of Australia's superannuation system. Investment flexibility has been an impetus for the growth in the investment structure - some of the most bizarre investments include: cattle, commercial lasers, and ATMs. As funds seek alternative assets in a post-COVID world, we examine the regulations and special conditions associated with holding exotic assets.

Regulatory considerations

To determine if an exotic asset can be held by the fund all the following must be answered in the affirmative:

- Acquisition meets the Sole-Purpose Test,
- Transaction was conducted on an arms-length basis,
- Not a related party transaction however some exceptions apply.

Exceptions include: listed security trades, business real property, and in-house assets. In-house assets refer to loans, investments, or leasing assets of the fund to a related party or related trust of the fund. An in-house asset cannot represent more than 5% of the fund's overall value.

Real property

The allure to invest in real property continues to be a major drawcard for establishing an SMSF. Properties cannot be acquired with a loan unless it was under a Limited Recourse Borrowing Arrangement. Both residential and commercial properties may be acquired however it cannot be acquired from any members' related parties unless it is a commercial property. Additionally, the residential property cannot be occupied by any member or members' related parties.

Commercial property is an exception as it may be acquired from a related party and leased to a fund member for their business. The acquisition and lease terms must be at arms-length. Consideration also needs to be given to the 'lumpy' and illiquid nature of real property relative to listed investments, such as shares.

Precious metals

Regarded as safe stores of wealth during times of economic volatility, gold and silver bullions attract no specific insurance or special storage requirements. Trustees still have a responsibility to ensure the bullions are securely stored. The fund's auditors may request a statement if it is stored at a professional bullion company such as the Perth Mint, or a dated photo of the asset as proof of its existence.

This applies to precious metals where its price reflects its value in weight only. Where the price exceeds its value in weight, e.g. factors in a premium for craftsmanship, the asset is considered a collectable and personal use asset with more stringent conditions applying.

Collectables and personal use assets

Artwork, jewelry, wine, boats, and vehicles belong to this category. Unlike precious metals, insurance and special storage requirements apply. The fund is required to insure the item within seven days of its acquisition. It cannot be stored or displayed in a private residence of a related party or utilised by a related party even if the terms are at arms-length e.g., leased or part of a lease agreement.

As an example, if your fund purchases a car, you are prohibited from driving it, storing it in your garage, or displaying it in your home.

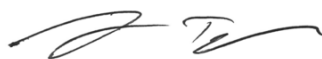
Place of employment

A workplace's most valuable asset is its employees, so why not invest in yourself? Members of funds may invest in their place of employment, be it listed or unlisted. The rules dictating the investment depend on if the member has a controlling interest or not. A controlling interest is defined as having 50% or more voting rights or control. Where the member has a controlling interest the investment is an in-house asset with the 5% holding limit applying. No limitation applies where the member has no controlling interest.

Conclusion

While exotic assets provide a source of diversification, consideration needs to be given to how the asset complements the fund's investment strategy and liquidity needs. If you would like to discuss further please contact your Bell Potter adviser.

Regards



Jeremy Tyzack

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Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).

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