Silver Thatch Pensions

BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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Is borrowing from your pension a good idea?

Grand Cayman's pension home loan program continues to grow. Since the program's start in November 2011, the Department of Labour and Pensions has approved over 506 pension home loans, with a total value of $10.3 million. This is up significantly from 137 pension home loans, with a total value of $2.65 million, approved in the first year of the program. Despite the growth, debate continues over the pros and cons.

The program allows Caymanians (expats are excluded from participating) to borrow up to $35,000 from private pension savings like your Silver Thatch plan to buy or build a home, pay off an existing mortgage of $35,000 or less, or purchase residential land. To pay back a pension home loan, you must increase your pension contributions by 1% of earnings until the earliest date you have:

- completed 10 years of additional contributions,
- additional contributions equal to the amount borrowed from the plan,
- retired, or
- reached your retirement age (the first of the month on or after your 60th birthday).

While borrowing from your pension to help finance your home has its attraction, you should carefully consider the real cost of borrowing from your pension savings. Before you jump in, it's best to consider the pros and cons of a pension home loan.

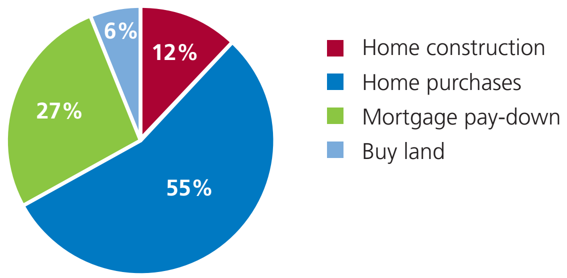
The advantages

1. Withdrawing money from your pension to make a larger down payment on a home or pay down your mortgage can reduce your long term borrowing costs.
2. With a smaller mortgage you may have added room in your budget to make larger voluntary contributions to your pension.
3. If you are age 50 or older (less than 10 years from retirement age), part of your pension home loan may not need to be paid back if you retire or reach age 60 before completing the additional contributions required.

The disadvantages

1. Compare the mortgage interest rate you will pay against the investment returns you could be earning on your savings over the long term. With current interest rates at very low levels, the cost of borrowing more money under a mortgage may in fact be lower than a loan from your pension where your money could earn a higher return.

Pension home loans since 2011



2. Borrowing from your pension will temporarily reduce your savings balance and undermine compound growth in the long term. That could leave you with a smaller savings balance at retirement. By keeping your money in the plan, you maximize the benefit of compound growth over time.
3. There is a risk if you sell the property that your pension home loan was invested in before you complete your required payments. On sale of the property, you must repay either the remaining amount of your pension home loan or 10% of the fair market value of the property, **whichever is greater**. Depending on how much your property value rises over time, you may have to repay more than you actually borrowed. While your retirement savings balance will benefit tremendously, this may not suit your financial goals.

If you need help deciding on the best approach, you are urged to speak with an independent financial advisor.

Make sure your contributions are accurate

Your pension contributions are reported regularly on your paystub. Don't forget to check that the amounts on your paystub are accurate. You will get credit only for amounts that are actually reported. You should also log into your Silver Thatch member account to confirm that your matching employer contributions are accurate. If you find a mistake, contact the plan administrator.

Changes in your life

Don't forget to let Silver Thatch know about a change of address, the birth or adoption of a child, or a change in marital status, within 31 days. Contact our client service agent, Saxon Pension Services, at 1-345-943-7770, or **support@silverthatch.org.ky**.

Investment Review For the quarter ended September 30, 2014

The total value of savings held in the Silver Thatch Pension Plan as of September 30, 2014, stood at US$429.8 million.

The table below shows the rates for each of the investment portfolio options offered under the Plan. Also shown (in blue) are the corresponding benchmarks. (A benchmark is the standard against which a fund's performance is judged).

For the period ended September 30, 2014 [1, 2, 3]	Quarter (three months)	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	-1.18% -0.33%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-1.22% -0.98%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-1.43% -1.59%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-1.31% -2.07%	• Cash: 3% • Alternative Investments: 7% • Equities: 90%

1. Returns are expressed net of all investment management fees.
2. While the income portfolio is made available to members through additional voluntary contributions, sufficient contributions have not accumulated to date in order to implement the portfolio.
3. Each of the portfolios is managed against its own composite benchmark. Within these benchmarks, bonds, U.S. equities and international equities are represented by the following indices, respectively: US$ 1-month LIBOR, Barclays Capital Eurodollar Index, Barclays Capital US Treasury Bond Index, MSCI All Country World Index and HFRI Fund of Funds Composite Index.

Investment market highlights

In review

- In the third quarter, U.S. large-cap equities continued to lead performance. The S&P 500 (+1.1%) was the only major developed market in positive territory and hit a record high of 2,019. Seven out of 10 S&P 500 sectors gained ground during the second quarter, led by healthcare (+5.5%), and tech (+4.8%). Energy (-8.6%) and utilities (-4%) showed the weakest performance. Small cap equities (Russell 2000, -7.4%) suffered their worst performance in 12 quarters, and underperformed large cap equities by the widest margin since third quarter 2011.
- Global equity markets fell for the first time in five quarters, as measured by the MSCI AC World Index (-2.2% in US$) driven by growth concerns in Europe and increasing geopolitical tensions in Ukraine, Syria and Iraq. Developed markets (MSCI EAFE Index -5.8%) underperformed the emerging markets (MSCI EM -3.4%) for the second consecutive quarter and by the widest margin since 1st quarter 2012. In Europe, losses were driven by Germany (-11.2%) and France (-8.3%); while China (+1.5%) lifted emerging markets. Japan (MSCI Japan -2.2%) declined for the second time in three quarters.

Portfolio performance

- Being overweight in U.S. equities helped performance, while carrying an overweight in struggling European and Japanese equities reduced returns. (Overweight means holding an excess amount of a security compared to the amount of the same security in the underlying benchmark portfolio. We will hold an overweight amount of a security with the expectation that it will outperform the industry, sector or market.) Most equity fund managers in the developed markets struggled to keep pace with their benchmarks in 3rd quarter 2014. Among U.S. equity managers, only Alger American Asset Growth (+2.58%) managed to outperform the S&P500 (+1.13%). In European equities, all funds in the portfolio underperformed the MSCI AC Europe EUR (+0.79%). Franklin European Small Mid Cap growth was the worst performing fund of the group (-3.26%).
- Most managers in emerging markets equities outperformed the benchmark (MSCI EM US$ -3.49%); with Templeton Asian Growth (+0.19%) the top performer, as the fund benefited from investments in Thailand, South Korea and India.
- A number of fixed income funds in the portfolio outperformed their benchmark. Over half of the portfolio's investment grade managers outperformed the BarCap US Intermediate Gov/Credit US$ (-0.03%), with M&G European Corporate Bonds (+1.21%) being the best performing fund.
- In the emerging markets fixed income, Templeton Global Total Return (-0.35%) outperformed its benchmark, the JPM ELMI TR US$ (-3.93%), helped by its underweight investments in the euro and the Japanese yen. The last week of September, PIMCO's portfolio manager Bill Gross left the firm he had started. We had two funds in our portfolios – PIMCO Low Average Duration and PIMCO Total Return Bond – and, based on our research department's guidance, we liquidated our positions in these funds.

Outlook

- We expect global economic activity to improve by the end of the year. In the U.S., we continue to see the economy pick up; with both, the private and public sectors gaining recovery momentum. As a result, the Federal Reserve will likely end its Quantitative Easing program in October and begin the next tightening cycle in third quarter 2015. We see interest rates increasing gradually over the next year as growth and inflation accelerate, and forecast a 12-month yield target of 3.15% for 10-year Treasury bonds. In light of an eventual interest rate hike, we expect short-term volatility in the market, particularly in equities. However, our long-term outlook on equities remains positive as we believe that the strengthening economic growth will boost corporate earnings and drive equity prices.
- Euro zone equities show recovery potential given the likelihood of additional monetary policy. In European fixed income, we expect yields to be lower than the U.S. market. In Japan, we see the economy rebounding from the negative effects of the consumption tax hike.
- In emerging markets, China shows the brightest prospects. Cyclical factors that have slowed growth in the country in recent years are fading, while recent stimulus packages are giving way to an improving economy. Emerging market bonds should benefit from improving fundamentals, limited supply and an increase in fund flows. However, we remain cautious in emerging markets overall as strength in EM currencies is likely to negatively impact corporate earnings.

A more detailed investment market commentary prepared by Deutsche Bank is available on the Silver Thatch website at **www.silverthatch.org.ky**.