Silver Thatch Pensions

BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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Pension law amendments proposed

New bill aims to safeguard pensions and boost savings

Introduced by the government in June, the ***National Pensions (Amendment) Bill, 2015*** is intended to increase retirement savings for private pension plan members, and improve employer compliance and the security of pensions in the Cayman Islands. Public meetings to give all residents an opportunity to discuss the bill and raise any concerns or questions were held in July and during the first two weeks of August. The bill is open for public comment until August 31, 2015.

Key changes proposed in the bill

- **Raise the full retirement age from 60 to 65, and the earliest retirement age from 50 to 55 – delaying when you can access your pension.** This change is based on longer life expectancy and the resulting need for Cayman pensioners to stretch their savings over longer retirement periods. Those who choose to work longer would contribute more to their pension savings over time.
- **Increase the ceiling on annual pensionable earnings for members from $60,000 to $87,000.** This means if you earn more than $60,000 each year, both you and your employer would need to contribute more to your pension – each paying 5% of yearly salary up to the new $87,000 maximum. Under the proposed change, a worker earning $75,000 who currently has a combined employer-employee contribution annual maximum of $6,000 would be eligible for a maximum contribution of $7,500.
- **Eliminate pension contributions for employees who work less than 15 hours per week.** Currently all private sector workers and their employers must each contribute (excluding family-employed domestic workers).
- **Allow employers to delay pension contributions for six-months from the hire date for employees who have newly entered the workforce.** This affects those who have newly entered the island, and Caymanians who are entering their very first job. Currently there is no delay for Caymanians and up to a nine-month delay for non-Caymanians. This change would eliminate the greater starting costs to hire Caymanians.
- **Extend how long you must wait before receiving your pension if you leave the Cayman Islands.** The waiting period would increase from two years after the last contribution to three years. The change would also restrict lump-sum cash payments and favour transfer to an overseas pension plan.

The bill proposes to increase fines for not complying with the National Pension Law and lengthen the timeline for pursuing pension-related criminal or administrative offenses, increasing the limit from five to seven years. The proposed legislation will also shift the responsibility for overseeing pension plans to the newly created Department of Labour and Pension Services and remove the Office of the Superintendent of Pensions.

Other changes would require private sector pension plans to standardize the way they communicate. Plans would be expected to hold annual meetings, file annual audited financial statements with the Department of Labour and Pensions, and increase the frequency of member statements to quarterly. These are all long-held communication practices by Silver Thatch Pensions and a key part of our transparent approach to communication with members, employers and other stakeholders.

For more information or to provide comments

For more details on the bill, go to www.education.gov.ky/labourpensions. We encourage you to submit your comments on the bill to lpl@gov.ky by the Monday, August 31st deadline.

Investment Review For the quarter ended June 30, 2015

The total value of savings held in the Silver Thatch Pension Plan on June 30, 2015, stood at US$457.2 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 June 30, 2015 [1, 2, 3]	Quarter (three months)	12 months	Long term strategic asset allocation
Conservative Portfolio Conservative Portfolio Benchmark	-1.33% -0.95%	0.39% 1.72%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-1.17% -0.42%	2.25% 1.56%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-0.83% 0.10%	4.35% 1.39%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-0.95% 0.50%	5.02% 1.24%	• 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 second quarter of 2015, U.S. equites grew for the tenth consecutive quarter. The S&P 500 (+0.3% US$), although the weakest performance of the ten quarters, grew on strong merger and acquisition activity, share buybacks and better than expected first quarter earnings. Five out of the ten S&P 500 sectors had positive results for the quarter, led by healthcare (+2.8%) and consumer discretionary (+1.9%). Utilities (-5.8%) led declines.
- Global equities grew for the third consecutive quarter (MSCI AC World Index, +0.5% US$). Japan (MSCI Japan, +3.1% US$) led the rally. Europe (MSCI Europe ex U.K., -0.3% US$) fell despite first quarter gross domestic product (GDP) growth at its fastest quarterly pace since the second quarter of 2013. Fears of a Greek default and the possibility of the country's exit from the eurozone outweighed strong earnings and economic performance across the major economies in the region.
- Emerging Markets (MSCI EM +0.82% US$) underperformed the developed markets (MSCI EAFE Index +0.84% US$) for the third consecutive quarter. Latin America (MSCI Latam +3.6% US$) outperformed Asia (MSCI Asia ex Japan +0.7% US$) for the first time in five quarters as commodity producing countries (i.e. Brazil +7.0%) benefited from a rise in commodity prices.
- Improved second quarter U.S. economic performance halted the fixed income rally. The Barclays Aggregate Index (-1.7%) declined for the first time since the fourth quarter 2013 and posted its worst quarterly decline since the second quarter 2013, led by investment grade credit and Treasuries.

Portfolio performance

- Mutual fund managers' performance was mixed in the second quarter with most equity managers outperforming their respective benchmarks, and fixed income managers underperforming theirs. Our European equity manager had the best relative quarterly performance versus its benchmark; BGF European Fund (US$ hedged) outperformed its benchmark (-1.51% vs. MSCI Europe EUR -3.26%).
- Among U.S. equity managers, two out of three outperformed their respective benchmark. Schroder ISF Small & Midcaps (+1.5%) and Alger American Asset Growth (+1.6%) outperformed the S&P500 (+0.3%); while Goldman Sachs US Equity (+0.05%) underperformed.
- Emerging markets managers had a more challenging quarter with the correction seen in the Chinese equity market in June weakening performance. Aberdeen Asia Pacific underperformed its benchmark (-1.97% vs. MSCI EM US$ +0.69%) by the widest underperformance of all active managers in the portfolio; while Aberdeen EM Smaller Companies (+2.73%) was the best performer.
- In the bond portfolio, managers found a very challenging environment to navigate. Among investment grade active managers, Pimco Global Investment Grade underperformed the benchmark by the widest margin (-2.19% vs. BarCap US G/C Intermediate -0.62%); while M&G Optimal Income underperformed by the least margin (-1.16% vs. -0.62%). Our sole emerging market debt manager, Templeton Global Total Return underperformed (-0.58% vs. JPM ELMI+ TR US$ 1.22%).

Outlook

- Global growth continues its upward trend and we expect it to accelerate in second half of 2015, pushed by supportive monetary policies and a low interest rate environment. In the U.S., a lift in housing, consumer spending, manufacturing and trade supports our expected 2.4% GDP growth this year. Solid gains in payrolls and stronger wage growth will likely offer the Federal Reserve the flexibility to start hiking its interest rate in September, dependent on continued improvement in growth and inflation.
- In Europe, exports and manufacturing are benefitting from the weak euro; lending has increased and consumer spending is strengthening. As the European Central Bank remains committed to its 1 trillion euro quantitative easing program, providing support to a weaker euro and a better lending environment, we expect the eurozone GDP growth of 1.4% in 2015 and European inflation to climb.
- Outside the U.S. and Europe, we see Japan's economy solidly emerging from recession with improvements in manufacturing, consumer spending and capital expenditure. A weak yen and global recovery should support Japan's growth forecast at 1.2% for 2015. Emerging Markets are likely to remain challenged in the near term. Focus will continue on Emerging Markets countries with superior economic growth, flexible monetary policy and stronger fiscal health (e.g., Asia over Latin America).
- In the bonds market, we favour a modest overweight to fixed income. In the treasuries market, the increase of nearly 50 basis points in the 10 year Treasury yield over the past two months is likely reflecting the expected Federal Reserve interest hike. Although we expect the rise in yields to continue in the longer term with the acceleration of growth and inflation, it will likely be at a slower pace. We remain neutral on sovereign debt.

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