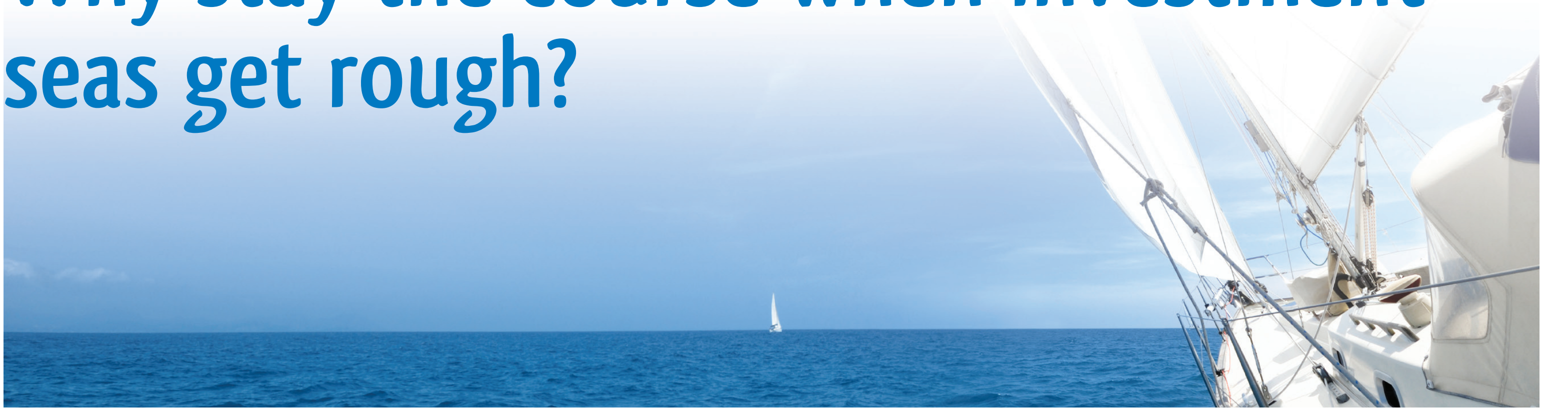
Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan | Volume 10 | Number 4 | November 2015

Why stay the course when investment seas get rough?



Silver Thatch gets a lot of questions from members about how their savings are invested. When market returns are down, as they are now, members wonder why the plan stays the course and doesn't quickly shift some savings into the most conservative portfolios.

Like the Caribbean Sea, financial markets can be highly unpredictable at times, and investors can expect to see some losses over short-term periods. However, market history shows positive growth over the long-term. As a pension plan, Silver Thatch invests to suit members' best financial interests, and generally does not change investment policies based on short-term ups or downs.

The number crunchers and retirement experts say the best approach is to stick with a diverse portfolio rather than chasing after safety or high returns. By staying the course you're less likely to "buy high and sell low," and you don't lose out on big jumps in the markets when they do occur. For instance, the S&P 500 U.S. equity index earned a 9.85% average annual return from 1995 through 2014. However, missing the 10 best market performance days during the same period would have reduced the average annual return to just 6.1%. That's a 38% reduction in performance.

The experts also recommend contributing regularly – like you do with your payroll contributions to Silver Thatch. This ensures that when values are low, you stand a better chance of higher growth.

Silver Thatch invests your savings using a strategy called "lifecycle investing." Your basic contributions are invested in a mix of three portfolios – Growth, Balanced, or Conservative – suited to your current age, income range and marital status. As you grow older, your income changes or your marital status changes, your money is transferred automatically to the appropriate mix of investments.

Growth

When you are younger and in the earliest stage of your career, your savings are generally directed into the Growth portfolio. This is mainly invested in stocks. This higher-risk/higher-return mix takes advantage of the long-term trend of positive returns for stocks. And because younger members have a longer investment horizon, there is time to recover from any short-term market losses.

Balanced

By middle age or mid-career, your savings are slowly shifted to the Balanced portfolio which is invested in a medium-risk/medium-return mix of both stocks and bonds. The Balanced portfolio is designed to help ease your savings toward slightly more conservative investments while maintaining moderate growth.

Conservative

By the time you are an older, late-career member, your savings are gradually shifted into the Conservative portfolio with a mix of more bonds and fewer stocks. This lower-risk/lower-return portfolio is intended to help to protect your savings balance by minimizing negative returns as you near retirement – when you have less time to recover from possible short-term losses.

There is one exception to Silver Thatch's lifecycle investing approach. You are free to choose how your additional voluntary contributions (AVCs) are invested. In addition to the Growth, Balanced and Conservative portfolios, you also have the option to direct your AVCs into the Aggressive portfolio. The more AVCs you hold, the greater your say in how your Silver Thatch savings are invested.

Investment mix details on each portfolio are included in the table on page 2

Investment Review For the quarter ended September 30, 2015

The total value of savings in the Silver Thatch Pension Plan on September 30, 2015: **US$436.6 million**.

The table below shows the rates of return for each of Silver Thatch's investment portfolio options. Also shown (in blue) are the corresponding *benchmarks* used to measure each portfolio's performance.

For the period ended September 30, 2015 [1, 2, 3]	Quarter (three months)	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	-1.79% -1.45%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-4.64% -4.13%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-7.41% -6.66%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-9.41% -8.62%	• Cash: 3% • Alternative Investments: 7% • Equities: 90%

1. Returns are after all investment management fees.
2. While the income portfolio is made available to members through additional voluntary contributions, no contributions have accumulated to date.
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

The following is a summary of a commentary prepared by Deutsche Bank, Silver Thatch's investment manager.

In review

- U.S. equities (S&P 500 -6.4% US$) posted a third quarter decline, the first in 11 quarters, and the worst since third quarter of 2011. Nine out of the 10 S&P 500 sectors declined for the quarter, led by energy (-17.4%), materials (-16.9%) and health care (-10.7%).
- Despite improvements in the economy, concerns over future global growth, lower commodity prices and weaker emerging markets' currencies weighted heavily on the global equity markets. Global equities (MSCI AC World Index -9.3% US$) declined for the first time in four quarters.
- Europe started to feel the effects of a slower economy with the MSCI Europe excluding UK (-8.0%) declining for the fourth time in five quarters. The German DAX was down more than 20% during the quarter. Japan also remains weak (MSCI Japan -11.7% US$). The decline was mainly due to global growth concerns, particularly in Asia, and fears that recent strength in the yen could reduce export activity.
- Emerging markets (MSCI EM Index -17.8% US$) were led lower by both commodity producers and fears of spillover effects from China's economic slowdown in other Asia economies. During the quarter the recession in Russia deepened and Brazil entered one.
- Fixed income/bond markets were aided by weak equity markets which triggered a "flight-to-safety" supported fixed income assets and reminded us of the benefits of a diversified portfolio. The U.S. Federal Reserve's decision not to hike the Fed Funds Rate also helped the fixed income rally. U.S. Treasuries (+1.8%) rose for the sixth time in seven quarters and the Barclays Aggregate Index (+1.2%) rallied for the sixth time in seven quarters.

Portfolio performance

- Our active managers had a disappointing third quarter, with most equity and bond managers underperforming their respective benchmarks.
- Among overseas developed market equity managers, Blackrock BGF European Fund performed in-line with its benchmark, while the Wisdom Tree European Equity Hedged ETF suffered because of its overweight investment in German stocks and no exposure to U.K. stocks.
- Emerging markets were an area to avoid during the quarter given global growth concerns, plummeting commodity prices and weakening currencies. All four of our active managers outperformed the broad MSCI EM Index. Given the concerns about Chinese growth and market declines in Asia, both of our Asia-centric funds performed well and outperformed the benchmark by over 100 basis points each.
- In our bond portfolio, having a slightly shorter portfolio duration than that of the benchmark hurt our performance, as yields fell on concerns about global growth. Also, we carried an overweight position in credit versus treasuries and that reduced performance as safe-haven trades dominated the market. We reduced our emerging markets debt during third quarter.

Outlook

- As we enter 2016, Deutsche Bank's view is that global growth will slowly rise from 3.2% in 2015 to 3.5% in 2016. This growth will be driven mainly by the developed world as the U.S., Europe and Japan are all expected to grow faster in 2016. We expect the Chinese economy to slow down to 6% in 2016 from 6.8% in the current year. Rising inflation in the developed world should more than compensate for declining price levels in China and other major emerging market countries.
- The global equity pullback made equity valuations more attractive going into the fourth quarter of 2015, which is historically the strongest quarter of year. Also, volatility in the second quarter brought equity valuations back to normal levels and allowed us to move back to a neutral to slightly overweight equity allocation. We continue to favour developed markets over emerging markets; and within developed markets we recommend a slight overweight in U.S. large cap equities, Europe and Japan. Earnings, dividends and buybacks remain strong and will continue so over the fourth quarter. We favour an underweight position in emerging markets, and favour Asia over Latin America due to more attractive valuations and fundamentals.
- With low gasoline prices, continued improvement in the labour market and robust consumer confidence the fourth quarter is projected to be strong and grow above the 10 year historical average. Information technology has been one of the best performing sectors year to date behind consumer discretionary and consumer staples. We continue to favour the technology sector with its high cash flow and attractive margins. We project the S&P 500 to reach 2,160 by September 2016.
- The Federal Reserve's decision to not raise rates in September was not a surprise. The Fed's rate hike is now likely to start between December 2015 and early 2016, and we think the pace of rate hikes will be more gradual than historical cycles. We expect that European and Japanese bond markets will remain well supported by policies from the European Central Bank and the Bank of Japan. We think demand for US$ debt (both sovereign and corporate debt) to remain high and provide a ceiling for yields. The 10-year yield will likely inch upwards to 2.25% by next September.

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