Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan | Volume 11 | Number 3 | October 2016

Casting new light on AVCs

Proposed changes to the National Pensions Law could soon allow you to unlock and withdraw Additional Voluntary Contributions (AVCs) from your pension account (outlined in the June edition of this bulletin). AVC withdrawals would be permitted to help with medical expenses, temporary unemployment, purchase of a home, or any educational purpose. Currently, AVC withdrawals are only permitted at retirement from age 60.

Loosening restrictions on AVC withdrawals is intended to help you see your pension accounts as a more attractive place to save for a variety of financial needs and ultimately create momentum to grow your retirement savings.

Five reasons to start or increase your AVCs

1. **Easy to contribute** – Contributions are made directly from your pay (automatically) and are easily increased, reduced, stopped and restarted whenever you need.
2. **Home ownership and rainy day savings** – Under the pending new rules, you will be able to access your AVC savings whenever you need your money for a down payment on a home, or other critical financial needs. And unlike a bank account, you'll be restricted from dipping into your AVCs for non-critical financial needs like a new television.
3. **Built-in diversity** – AVCs can be invested in your choice of Silver Thatch Pensions' investment portfolios. These include a diverse mix of assets representing U.S., Global and Emerging markets, including bonds, equities, and alternative investments. Because not all investments perform well at the same time, holding a variety of investments may help offset the impact of poor performance in one or more investments, while taking advantage of the earning potential of the rest.
4. **Earnings potential** – Savings held in a Cayman bank account will usually earn annual interest of 0.1% to 0.5%, and a five-year term deposit or guaranteed investment certificate will earn no more than 0.5%-1.0%. That's usually not enough to beat inflation. In comparison, Silver Thatch's portfolios offer attractive returns over the long term. The five-year average annual returns as of June 30, 2015 are as follows:
   - **Conservative Portfolio: 5.39%**
   - **Balanced Portfolio: 7.34%**
   - **Growth Portfolio: 9.23%**
   - **Aggressive Portfolio: 10.26%**

   Keep in mind, as with most investment vehicles the Silver Thatch portfolios can rise and fall with financial markets and sometimes provide returns below the overall market.
5. **Low cost** – As professionally managed funds, the portfolios carry investment and administrative costs. In 2015, these fees ranged from 1.5% to 1.6%. In comparison, retail mutual fund investments carry total investment and administrative costs that typically range between 1.5% and 2.5%, and sometimes more. Also, retail investment fund expenses are paid and reported in many different ways, so it can be very difficult to clearly understand the true cost.

Contributing just 1% can make a difference

The table to the right illustrates the growth of saving 1% of earnings as AVCs to age 65, with compound growth of 5%.

These calculations were created using the retirement calculator on the Silver Thatch Pensions website at **www.silverthatch.org.ky/resources/retirement-calculator**. Use the calculator to estimate your own AVC contributions.

Current annual employment earnings	AVCs: 1% contribution in 1st year (and increases based on employment earnings growth of 2% each year)	Current age and projected AVC balance at age 65 with a compound growth rate of 5%		
		35	45	55
$15,000	$150	$13,444	$6,251	$2,195
$30,000	$300	$26,888	$12,502	$4,390
$45,000	$450	$40,332	$18,753	$6,585
$60,000	$600	$53,777	$25,005	$8,780
$75,000	$750	$67,221	$31,256	$10,975

Contact us

For more information on starting or increasing AVCs, please contact the plan's client service agent, Saxon Pension Services at 1-345-943-7770, or by email at **support@silverthatch.org.ky**.

Investment Review For the quarter ended June 30, 2016

The total value of savings in the Silver Thatch Pension Plan on June 30, 2016: **US$472.1 million**.

The table below shows the three month returns 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 June 30, 2016 [1, 2, 3]	Quarter (three months)	12 months	Long term strategic asset allocation
Conservative Portfolio Conservative Portfolio Benchmark	2.03% 2.03%	1.54% 3.47%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	1.33% 1.75%	-1.43% 1.23%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	0.57% 1.47%	-4.26% -1.39%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	0.30% 1.18%	-5.85% -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

The following is a summary of a commentary on the second quarter of 2016 prepared by Deutsche Bank, Silver Thatch's investment manager.

Portfolio performance

- For the second quarter, some of our active equity managers outperformed their respective benchmarks. Among U.S. equity managers, both the Cullen NA High Dividend (+5.7%) and MFS Meridian Value (+4.3%) were able to outperform the S&P 500 index (+2.5%) by over 320 and 180 basis points respectively. The Alger American Asset Growth fund (-0.2%) struggled as stock selection and allocation effects from consumer cyclicals, financial services, and technology significantly underperformed the broad index. Lastly, we replaced the Schroder ISF Small & Midcap fund for another dedicated small cap manager, the Aberdeen North American Smaller Companies fund.
- Our European managers performed mixed relative to their benchmarks. Blackrock BGF European Fund (US$ Hedged) (-3.0%) underperformed the MSCI Europe Index (-2.7%) while the Wisdom Tree European Equity Hedged ETF (-1.7%) outperformed on a relative basis. Our passive investment in Japanese equity, the Wisdom Tree Japan Equity Hedged ETF fell 11.5% during the quarter and underperformed the MSCI Japan in yen by over 1000 basis points. Our currency hedged position in Japan detracted as the yen showed continued strength versus the dollar. In early June, we added an active manager, Mathews Japan Equity, which retuned 1.5% for the month of June.
- Our Emerging Market managers both posted positive returns for the second quarter and performed mixed relative to their benchmarks. The Matthews Pacific Tiger fund (+2.0%) outperformed the MSCI EM US$ index by 136 basis points, while the JPM Emerging Markets Opportunities fund (+0.7%) matched the index.
- During the second quarter, most of our fixed income investments were able to generate positive absolute and positive relative return versus our internal benchmark of BarCap US Gov/Credit Intermediate benchmark (+1.6%). The iShares Corporate Bond UCITS ETF continued to be the best performer and rose 4.0% for the quarter. Additionally, PIMCO Global Investment Grade Credit (+3.2%), Wellington Global Bond Hedged (+2.5%), TCW MetWest Total Return Bond (+2.0%), and iShares Core U.S. Treasury Bond ETF (+2.0%) outperformed the benchmark. The M&G Optimal Income (+0.8%) returned positive performance but failed to outperform the benchmark.

Market outlook

- Central bank policies are still driving the markets. The Fed has said that a rate rise is possible in the next few months, and yields along with the U.S. dollar have responded accordingly. This has, however, not stopped an ongoing recovery in oil and other commodity prices, helped by hopes of growing demand and some evidence of reduced supply. As we progress though the late stage of the investment cycle, the focus will remain on corporate earnings – on downward revisions, when earnings are likely to find a bottom and broader issues of how we should interpret them.
- Yields on core government bonds are likely to remain very low, despite signs of continued economic recovery in the Eurozone and some domestic pressures on the Fed to raise rates. In euro investment-grade credit, strong technical indicators and promised European Central Bank (ECB) action may drive spreads tighter in the near term. U.S. investment-grade credit should also gain from tight spreads, but in a less predictable way. The backdrop for euro high yield remains favorable, but U.S. high yield is likely to remain overshadowed by default concerns. Emerging-market hard-currency debt has done well recently, but we would suggest staying selective here.
- Despite the sense of increased risk following the UK's surprise decision to leave the European Union, equity markets experienced a strong rebound to finish off the second quarter. The recent rally has already taken developed-market indices close to – or in some cases past – our 12-month strategic targets. Valuations appear to be at high levels, particularly in the U.S., adding to fears about future volatility. Currency movements are likely to play a significant role in determining the direction of individual equity indices as well as investor returns across markets. For example, any further policy initiatives by the Bank of Japan could have a positive effect on Japanese equities. Emerging-market equities may now find the going tougher as we approach a Fed rate rise. Within emerging-market equities, we favour Asia over Latin America.
- Commodity prices have picked up with the continuing recovery in oil prices and assistance (until recently) from a weaker U.S. dollar. While we expect a further rise in oil prices on a 12-month horizon, we are skeptical that the overall commodities rally can be maintained in the medium term. We expect oil prices will be supported over the long term by a gradual reduction in U.S. production and a gradual increase in global demand.

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