Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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Change is near on National Pension Law

Important and extensive changes to the National Pensions Law were unanimously approved in second reading by the Legislative Assembly on May 12, 2016. All that is needed now is final reading and the Governor's signature to make the changes into law.

These pending changes will have a major impact on retirement and pension contributions, including:

- Increasing the retirement age from 60 to 65. This gives members more time to contribute and build their pension savings. It also means that employers must continue contributing for members who work to age 65.
- Increasing the maximum earnings for required member and employer contributions from CI$60,000 to CI$87,000.
- Requiring employers to start making pension contributions for work-permit employees earlier – at six months instead of nine months. Employers must continue contributing on behalf of Caymanian employees as soon as they start working.
- Curbing the ability to refund pension savings beyond a future date to be determined by Cabinet.

  The move to abolish refunds has been a key part of pension reform discussions over many years. The change is intended to reduce the possibility of pension members using up their pension benefits before retirement and then depending on the government for financial support. Once the new law is in effect, Cabinet will need to set a date after which pension plan members can no longer obtain a pension benefit cash refund.

  Until that date the current rules continue to apply: pension plan members who have ended their employment but are not retired can get a refund of their pension savings after there have been no contributions for two years and they have not been a resident of the Cayman Islands for six months.

  Following that date, refunds will only be available under three conditions:

  - at the administrators discretion for cash values of less than CI$5,000; or
  - where a member reaches age 65 and wants to but is unable to transfer their pension benefit to an approved pension plan, retirement savings account or similar arrangement, or a life annuity; or
  - early retirement at age 55.

  Funds can also be transferred to a qualified registered international pension plan after the member has resided outside of the Cayman Islands for three years.

Access to your AVCs before retirement

The changes will also allow members to withdraw all or part of their additional voluntary contributions (AVCs) before retirement to address special financial needs, including:

- medical needs where health insurance is inadequate;
- temporary unemployment of up to six months;
- housing needs, including constructing or buying a house or paying a mortgage, but not for rent or similar purposes; and
- any educational purposes.

The government believes the ability to unlock AVCs will encourage members to boost their pension contributions. When your financial priorities change, your voluntary pension savings can be used to help meet your immediate needs.

The rules and conditions to be used by plan administrators to review and approve member applications for AVC withdrawals will be provided by the government after the law goes into effect and Cabinet issues supporting orders. Plan administrators like Silver Thatch will need time to adjust systems and procedures.

Silver Thatch Pension's encourages all members who may be considering an AVC withdrawal to seek qualified financial planning advice. A professional financial planner will help you explore all the options available, including other sources of financing, and help you to understand your best choices.

More information on the pension law amendments outlined above and more is available at **http://www.education.gov.ky/portal/page/portal/mehhome/pressroom/Pensions%20Amendment%20Bill%20Passed**.

Contact us

For more information on updating your personal information or termination of residence, 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 March 31, 2016

The total value of savings in the Silver Thatch Pension Plan on March 31, 2016: **US$463.1 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 March 31, 2016 [1, 2, 3]	Quarter (three months)	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	0.30% 2.29%	• Cash: 3% • Bonds: 65% • Equities: 19% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-0.83% 1.65%	• Cash: 3% • Bonds: 41% • Equities: 45% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-1.81% 0.96%	• Cash: 3% • Bonds: 18% • Equities: 70% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-1.92% 0.37%	• Cash: 3% • Equities: 90% • Alternative Investments: 7%

1. Returns are after all investment management fees.
2. While an *Income Portfolio* is made available to members through additional voluntary contributions, no contributions have accumulated to date.
3. Each portfolio 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.

Market review

- After its worst start to a new year on record, the S&P 500 delivered its best 32 day rally since August 2009 and ended the quarter up 1.3% over the previous quarter. Eight of the 10 sectors rallied for the quarter, led by telecom (+16.6%), utilities (+15.6%) and staples (+5.6%). Financials (-5.1%), and healthcare (-5.5%), declined.
- Japan was the worst performing developed market (MSCI Japan USD -6.4%) as investors grew weary of the negative impact that a strong yen may have on earnings. After falling 13% through February 11, the MSCI Europe ex UK posted a solid recovery but ended the quarter with a modest decline (-2.4%).
- Volatility in risky assets, aggressive global central bank actions, an optimistic Federal Reserve and mixed economic data boosted fixed income in first quarter. The Barclays Aggregate Index (+3.0%) posted its best quarter since third quarter 2011. International sovereign bonds were the best performing fixed income sector as the European Central Bank's aggressive "easing" policy (to hold or lower interest rates) pushed many sovereign yields into negative territory. The Barclays Global G7 ex U.S. Index (+9.2%) posted its best quarter since third quarter 2010. Emerging market hard currency bonds (Barclays EM Index +4.5%) posted their best quarterly performance since third quarter 2012.

Portfolio performance

- For the first quarter, most of our active equity managers underperformed their respective benchmarks. Among U.S. equity managers, only Cullen NA High Dividend (+2.16%) and Schroder ISF Small and Mid Cap (+3.21%) were able to outperform the S&P 500 index (+1.35%) by over 80 and 180 basis points respectively.
- Our European managers also detracted from performance as both Blackrock BGF European Fund (USD Hedged) (-8.22%), and the Wisdom Tree European Equity Hedged ETF (-3.83%), underperformed versus the MSCI Europe Index (-2.51%). Both vehicles struggled from being hedged to the U.S. Dollar, as the Euro gained 4.44% versus the dollar for the first quarter.
- Emerging markets had one of their best quarters since 2014 (MSCI EM (+5.71% US). However our EM managers were unable to beat the broad based MSCI EM Index. The Matthews Pacific Tiger fund (-0.07%) struggled given its exposure to China and the Asia ex-Japan region (+0.48%).
- During the first 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 (+2.45%). Our top performing fund, the iShares Corporate Bond UCITS ETF, rose 4.78% for the quarter.

Outlook

- In the U.S., rates should continue to remain low. For the 10 year Treasury, we anticipate yields of 2% or lower over the next 12 months. Demand should intensify as the European Central Bank is expected to buy more than twice the debt that European governments will issue next year. Fund flows into U.S. Treasuries have been strong, and we expect this trend to continue.
- We foresee choppiness in the U.S. equities market this quarter. That said, we anticipate earnings growth rising to double-digit levels on a steadily improving economy, an end to the weak oil prices that has been a drag on earnings growth, and end to the dollar rally that has been a headwind for earnings growth in recent months.
- Stock markets in Europe and Japan may offer more upside potential this year than in the U.S. Both markets have plenty of capacity for margin expansion that, in turn, could support earnings growth. Historically, the S&P 500 has underperformed international markets during the 12-month period after a Federal Reserve tightening cycle has begun. However, we continue to participate in international stocks, on a currency hedged basis.
- Emerging market economies will continue to be challenged. We continue to prefer Asian markets over Latin American. Valuations in Latin America have become expensive. Earnings in Latin America have also been revised down continually since September 2014. Asia, with its lower valuations, seems like a wiser choice in this environment.

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