Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

Volume 10 | Number 1 | March 2015

Your pension is a team game

Running a pension is a big job. Your Silver Thatch plan, like all pension plans, is guided by a team of experts working together to make sure the plan can grow your savings and pay pensions now and into the future. The plan is governed by a six-member Board of Trustees, elected by the membership at an annual general meeting.

The Board of Trustees has overall responsibility for running the plan according to all applicable laws and in the best interest of plan members. But it can't do this alone. One of the Trustees' most important tasks is to choose a team of experts to help run the plan, and then oversee the work of these experts. The following are some of the key members of that team.

Actuary: The plan's actuary, Eckler Ltd., provides expertise in the mathematics of risk. The actuary's job includes offering the Board of Trustees advice on plan design, and conducting regular pension valuations to measure the plan's financial health.

Administrator: The administrator, Intertrust (Cayman) Limited, takes care of plan accounting, fund calculations, financial statement preparation, and payment review and processing.

Client services agent: Saxon Pension Services looks after the day-to-day activities of the plan. These activities include helping members enroll in the plan and apply to receive pensions, and making sure members receive important communication highlighting plan news and updates. You should report any personal changes (your employer, mailing address or beneficiary information) to Saxon.

Investment managers: Your personal and employer contributions are invested by a team of world-class investment managers under the direction of Deutsche Bank. The Board of Trustees regularly monitors the investment managers' performance, to make sure they are investing the plan's assets in the best interests of members.

A commitment to you

The Board of Trustees of the Silver Thatch pension plan recently decided to adopt and follow the Certified Financial Analyst Institute Code of Conduct for members of a Pension Scheme Governing Body.

Pension trustees have an important duty to grow plan assets while also making sure they do everything possible to protect members' retirement income. The code of conduct outlines a set of ethical guidelines created with your best interests in mind. By agreeing to the code, your plan trustees are committing to:

- make plan decisions in a careful and reasonable manner;
- be independent and avoid conflicts of interest;
- be fair and impartial in their interactions with all plan participants; and
- communicate in an open and honest way with plan participants.

Adopting the code makes Silver Thatch a leader among pension organizations in the Cayman Islands..

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 Saxon Pension Services.

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 December 31, 2014

The total value of savings held in the Silver Thatch Pension Plan as of December 31, 2014, stood at US$429.7 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 December 31, 2014 [1, 2, 3]	Quarter (three months)	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	0.73% 1.02%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	1.33% 0.77%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	1.69% 0.56%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	2.03% 0.39%	• 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

- U.S. equities led the global market rally in the fourth quarter. The S&P 500 (+13.7%) was the best performing major global region in 2014. Seven out of 10 S&P 500 sectors improved during the fourth quarter, led by utilities (+13.2%) and consumer discretionary (+8.7%). Energy was the only sector to fall for the full year; outlooks over lower oil prices sent the sector down -7.8% in 2014. Small cap U.S. equities (Russell 2000, +9.7% quarter over quarter) also grew, but underperformed the S&P 500 in 2014 by the widest margin since 1998.
- Global equities rose, as measured by the MSCI AC World Index (+0.5), and posted the fourth consecutive yearly gain (+4.7%). This performance was helped by accommodative central banks and strong U.S. economic growth. In U.S. dollar terms, Japan (MSCI Japan, -2.4%) and Europe (MSCI Europe ex U.K., -4.3%) declined in the fourth quarter, but both were up in when measured in local currency. Emerging markets (MSCI EM, -4.4% US$) underperformed developed markets (MSCI EAFE) for the first time in three quarters, but outperformed the latter over the full year (-1.8% vs. -4.5% US$). Asian emerging markets (MSCI Asia ex Japan, +0.1%) outperformed Latin America (MSCI LatAm, -13.4%) by the widest margin since the second quarter of 2002.
- The tone for fixed income in the fourth quarter was set by U.S. treasury securities, which were up +1.9 on lower inflation expectations and uncertainty over global growth. In 2014, treasury securities (+5.1%) posted their best annual return in three years. The Barclays US Aggregate Index (+1.8%) grew for the fourth consecutive quarter, and posted its best annual return (+6.0%) in three years.

Portfolio performance

- Our asset allocation stance didn't change much in the fourth quarter. We continued to be overweight in U.S. equities, while reducing our overweight to struggling European and Japanese equities. Most equity fund managers in the developed markets struggled to keep pace with their benchmarks in the quarter. Among our U.S. equity managers, only MFS US Value (+5.7%) and Goldman Sachs US Equity (+5.7%) outperformed the S&P 500 (+4.9%). For the year, none of our active U.S. equity managers beat the S&P 500; Alger American Asset Growth (+13.2%) was our top performer, while the small-mid cap focused Schroder US equity (+3.2%) was the worst performer.
- Currency volatility and declines versus the U.S. dollar compelled us to take drastic measures in overseas equity markets. We sold off our exposure to active European funds with local currency exposure. These funds were replaced with the Wisdomtree Europe Equity Hedged ETF, which helps address this currency risk.
- It was a tough fourth quarter for emerging markets. The JP Morgan Emerging Markets Opportunities Fund (-0.9%) was our top performer in this category, outperforming the MSCI EM Index (-4.4%). For the year, the Templeton Asian Growth Fund (+8.3%) was the only positive performer.
- In fixed income, we favoured short term bonds over long term bonds in 2014. However, this did not help our relative performance, as long term bonds did better than short term bonds. In the fourth quarter, the Wellington Bond Fund (+2.2) and PIMCO Global Investment Grade (+1.4%) – our longest-duration funds – were the top performers. These funds were also the top performers throughout 2014, gaining more than 7%. All of our fixed income managers had positive absolute returns for the year.

Outlook

- We forecast growth for the U.S. at 3.2% in 2015, with consumer confidence and solid employment gains outweighing lower expected capital expenditure activity. We expect the U.S. Federal Reserve Board to increase rates in the second half of 2015, and forecast the 10-year Treasury rate to be at 2.6% by the end of the year.
- We expect to see earnings growth in U.S. equities at 8% to 10% for 2015. Our positive outlook is driven by: accelerating global GDP growth; the continuing elevated levels of the ISM Manufacturing Index, which has maintained a high correlation with S&P 500 earnings; and increased earnings from sectors including technology, consumer staples and discretionary, which are helping to offset the downturn in energy. If the S&P 500 ends 2015 in positive territory, it will mark only the third time in history that the index has had seven or more consecutive years of growth.
- We are optimistic about the outlook for Europe and Japan. While both economies continue to struggle, the strengthening dollar bodes well for European and Japanese exporters. Eurozone GDP should rise between 0.7% and 1.2% in 2015, helped by monetary, fiscal and structural reform. Growth in Japan (forecast at 1.2% in 2015) should be supported by a weak yen, global recovery and aggressive policy action.

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