



Silver Thatch Pensions

BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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Your Silver Thatch investments:

Evolving to match your lifestyle changes

Your reasons for saving can change over time. Early in your career, the focus may be on buying a new car or saving for a house. By mid-career, it may be saving for your children's education. And as you approach the end of your career, the priority is likely saving for retirement.

Your Silver Thatch Pension Plan recognizes that your needs and goals are not static. It also recognizes that your tolerance for investment risk can change over time. That's why the plan provides three different investment portfolios – each designed to reflect where you are in the life cycle. These include the:

1. **Growth portfolio:** a higher-risk mix of investments made up of 70% equities, 18% bonds, 9% alternative investments, and 3% cash;
2. **Balanced portfolio:** a medium-risk mix of investments consisting of 45% equities, 41% bonds, 11% alternative investments, and 3% cash; and
3. **Conservative portfolio:** a lower-risk mix of investments made up of 65% bonds, 19% equities, 13% alternative investments, and 3% cash.

The basic contributions made by you and your employer are invested automatically in one (or two) of these investment portfolios based on your age, income range and marital status. Even better, your savings are shifted automatically from one portfolio to the next as your circumstances change. For example:

- If you are a married employee earning \$50,000, we'll start shifting your savings from the Balanced portfolio to the Conservative portfolio once you turn 60.
- If you are a 30-year-old, married employee and get a raise that pushes your income above \$40,000, we'll start shifting your savings from the Balanced portfolio to the Growth portfolio.
- If you are a 26-year-old single employee earning \$27,000, we'll start shifting your savings from the Growth portfolio to the Balanced portfolio if you get married.

The transfer of savings from one investment portfolio to the next typically takes place over an 18-month period. This gradual transition helps to avoid large and unexpected changes in the value of your investments.

Member Services

For more information, please contact us at www.silverthatch.org.ky, call us at 345-943-7770, or email: support@silverthatch.org.ky



Matching

This "lifestyle" approach to investing helps to ensure that your investments reflect your "risk tolerance" (the ability to withstand investment losses). Here are some examples of why that matters:

- If you are a younger member, you have more time until retirement, which means you have more time to recoup any investment losses. As a result, you are probably in a better position to tolerate the higher risk levels of the Growth portfolio.
- As you get closer to retirement, you have less time to recoup investment losses. As a result, as you get older, it probably makes sense for us to shift your savings to a less risky investment portfolio (Growth to Balanced or Balanced to Conservative).
- If you earn a higher salary, you'll be contributing more to your pension (this is because contributions are based on income). Because you are saving more, you may be better positioned to tolerate the higher risk levels associated with the Growth portfolio.
- If you are a married member, the plan assumes that two people may be depending on your pension when you retire. That means you may be better off with a more conservative (less risky) investment portfolio – to avoid unexpected losses.

Exceptions to this lifestyle approach may be approved (by the Board of Trustees) for "qualified investors" – members who can demonstrate an advanced or accredited investment knowledge. Qualified investors can choose their own portfolio mix for their basic contributions.

This bulletin provides a summary of certain provisions of your Silver Thatch Pension Plan. Complete descriptions are contained in the official Plan documents and contracts. Every effort has been made to provide an accurate summary. If there are any differences between the information contained in this document and the legal documents, the legal documents will apply. The Board of Trustees reserves the right to change, amend or terminate the Plan subject to regulatory approvals, and may be required to do so in response to regulatory or legislative updates.

Investment Review

For the quarter ended June 30, 2014

The total value of savings held in the Silver Thatch Pension Plan as of June 30, 2014, stood at US\$424.1 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, 2014 ^{1, 2, 3}	Quarter (three months)	Fiscal Year to date (12 months)	Long term strategic asset allocation	
Conservative Portfolio <i>Conservative Portfolio Benchmark</i>	2.01% <i>2.37%</i>	9.65% <i>7.69%</i>	<ul style="list-style-type: none"> Cash: 3% Bonds: 65% 	<ul style="list-style-type: none"> Equities: 19% Alternative Investments: 13%
Balanced Portfolio <i>Balanced Portfolio Benchmark</i>	2.45% <i>3.26%</i>	13.67% <i>12.78%</i>	<ul style="list-style-type: none"> Cash: 3% Bonds: 41% 	<ul style="list-style-type: none"> Equities: 45% Alternative Investments: 11%
Growth Portfolio <i>Growth Portfolio Benchmark</i>	2.85% <i>4.12%</i>	17.36% <i>17.70%</i>	<ul style="list-style-type: none"> Cash: 3% Bonds: 18% 	<ul style="list-style-type: none"> Equities: 70% Alternative Investments: 9%
Aggressive Portfolio <i>Aggressive Portfolio Benchmark</i>	3.31% <i>4.77%</i>	19.91% <i>21.62%</i>	<ul style="list-style-type: none"> Cash: 3% Equities: 90% 	<ul style="list-style-type: none"> Alternative Investments: 7%

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 U.S., equities markets continued to show strength. The S&P 500 rallied for the sixth consecutive quarter (+5.2%) – the longest stretch since 1998 – and hit a record high of 1,962. All 10 S&P 500 sectors gained ground during the second quarter, led by energy (+12.1%), utilities (+7.8%) and info tech (+6.5%). Financials gained 2.3%.
- Global equity markets rallied for the fourth consecutive quarter, gaining 5.2% (in US\$) during the three-month period ending June 30. The gains in the European market were led by Spain (+7.4%), France (+2.4%) and Switzerland (+2.4%). Japan rebounded and was the best performing developed market (+6.7%) in second quarter.
- For the first time in seven quarters, emerging markets (+6.7%) outperformed developed countries during the second quarter. Gains in the MSCI Asia ex Japan Index were led by India (+12.7%) and Taiwan (+10.4%), while Brazil (+7.7%) and Mexico (+6.6%) helped push the MSCI Latam Index (Latin America) higher by 7.0%.
- Fixed income markets continued their upward trend during the second quarter, while mutual funds saw their largest quarterly inflows in over 12 months (\$27.6 billion). The Barclays Aggregate Index posted its best start to a new year (+3.9%) since 2010, and its best quarter (+2.0%) in two years. Emerging market bonds (+4.5%) led all fixed income returns by rallying for the fourth consecutive quarter, while local bonds outperformed (+5.4%) hard currency bonds (USD +4.5%).

Portfolio performance

- Despite positive second-quarter performance from most of the equity funds in the various Silver Thatch portfolios, these funds generally struggled to keep pace with their asset class benchmarks. Within U.S. equities, only Alger American Asset Growth (+5.8%) managed to outperform the S&P500 (+5.2%).
- All European funds in the various Silver Thatch portfolios underperformed the benchmark (MSCI AC Europe EUR, +3.99%);

BlackRock BGF Continental European was the worst performing fund of the group (-2.37%).

- Within emerging markets (MSCI EM USD, +6.6%), the top two performing funds beat their benchmark and achieved the best performance of all funds in the overall Silver Thatch portfolio this quarter. Templeton Asian Growth (+9.51%) benefited from investments in India, China and Thailand, while Aberdeen Global EM Smaller Companies (+7.8%) benefited from an overweight position in India and positive stock selection in Brazil, Malaysia and Mexico.
- In contrast to the equity funds, most fixed income funds in the portfolio outperformed their benchmark. Most of the portfolio's investment grade managers outperformed the BarCap US Intermediate Gov/Credit USD (+1.2%), with PIMCO Global Investment Grade Credit (+3.0%) being the best performing fund. Longer duration positioning was the key contributor to its second quarter returns, as central bank rhetoric and actions in developed markets drove the rate movements. In emerging markets debt (JPM ELMI TR USD, +1.77%), Templeton Global Total Return (+2.57%) outperformed its benchmark.

Outlook

- We continue to see the global economic recovery gaining traction, but at a more gradual pace than at the start of the year. As a result, we've lowered our forecast for global economic growth to 3.4% from 3.7%. Despite this reassessment, we still foresee an economic upswing led first by the U.S., followed by Japan and the Eurozone. Even with strong second-quarter equity gains in the developed market and strong valuations, we expect a range of factors to drive markets higher: an improving economic environment, central-bank policy, and upward corporate-earnings revisions. For this reason, we continue to prefer equities over bonds and developed-market equities over emerging-market equities.

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