Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan | Volume 11 | Number 4 | December 2016

You can predict the future

Do you worry that you haven't saved enough for retirement and feel unprepared? If so, you can take a small measure of comfort in knowing that most people feel the same way.

Getting a clear picture of your retirement readiness is complex, but not as difficult as you may think. Predicting the future is really just applying common sense to your retirement plan.

Traditional financial thinking says that your retirement savings will need to replace between 50% and 70% of your income in your final year of working. But that won't tell you whether or not you'll retire on a tight budget.

Income vs living standard

Leading retirement researcher Bonnie-Jeanne MacDonald (Dalhousie University) argues that retirement planning should focus on how much it will cost to continue your living standard in retirement. By aiming for a 100% living standard replacement rate, you are looking to buy the same goods and services after retirement as you did before.

Retirement planning should focus on how much it will cost to continue your living standard in retirement.

Your living standard is a factor of your overall earnings, your spouse's income, the number of dependent children living with you, home ownership status, everyday household expenses, healthcare costs, and any debt you may have. It is all of the income and expenses that are part of your family budget.

To plan for retirement, you'll need to predict how your post-retirement budget is likely to differ from your current budget. Everyday work expenses will end (like clothing, tools, commuting costs), as well as the need to set aside retirement savings. If you own a house, you may be mortgage-free by the time you retire. Basic expenses – things like food, car/transportation, entertainment, home maintenance or rent, utilities, insurance, and others – should stay about the same. And you may plan to make some lifestyle changes during retirement that will directly affect your budget, like travelling more, eating out less, downsizing your home or moving to a preferred location.

Once you have a picture of your retirement budget and income needs, you can begin to match it against how much you're saving today and estimate whether or not you will have enough at retirement to maintain your lifestyle. Use the retirement calculator at **http://silverthatch.org.ky/resources/retirement-calculator/** to help with your estimate. If there is a shortfall – your expected savings are less than what you'll need – you can begin to look for ways to save more.

Contact us

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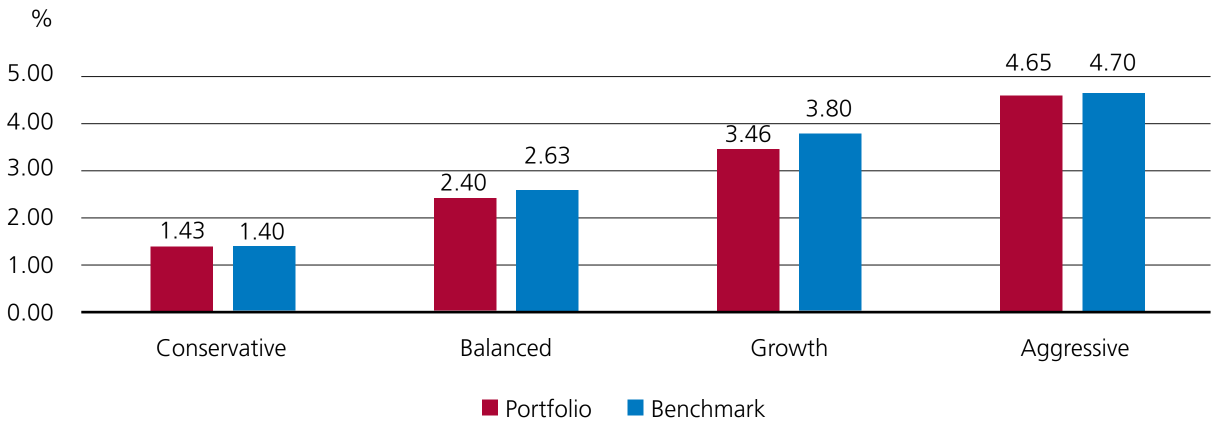
Investment Review For the quarter ended September 30, 2016

The total value of savings in the Silver Thatch Pension Plan on September 30, 2016: **US$489.7 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.



Investment market highlights

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

Market review

- Global equities rose during third quarter based on accommodative global central bank policies and expectations for accelerated growth and earnings in the second half of 2016. Emerging markets (MSCI EM +9.2% US$) outperformed the international developed markets (MSCI EAFE +6.5% US$) for the third consecutive quarter. Japan (MSCI Japan +8.8% US$) improved for the second consecutive quarter with the introduction of another monetary policy tool (e.g. yield curve targeting) from the Bank of Japan.
- Small cap U.S. equities (Russell 2000 +9.0%) outperformed large cap U.S. equities by the widest margin since fourth quarter 2010. The S&P 500 (+3.9%) rallied for the fourth consecutive quarter to a record high (2190). Improving U.S. economic data and accommodative global monetary policies boosted U.S. equities. Seven of the 11 S&P 500 sectors rose in third quarter led by cyclical sectors such as info tech (+12.9%) and financials (+4.6%). Europe (MSCI Europe ex UK +6.1% US$) was up for the first time in three quarters on expectations of additional monetary policy easing.
- The Barclays Aggregate Index (+0.5%) grew for the third consecutive quarter. High yield credit (+5.6%) was up for the third consecutive quarter as spreads (extra yield over treasuries) fell to the lowest level (490 bps) since August 2015. Emerging market hard currency bonds (US$) (Barclays EM Index +3.1%) rose for the fourth consecutive quarter. The Barclays Investment Grade Index (+1.4%) rose for the third consecutive quarter. All three major investment grade sectors (industrials +2.8%, financials +1.2% and utilities +0.8%) were up during the quarter. TIPS (+0.6%) improved for the third consecutive quarter as inflation expectations rose (+18bps) while10-year real yields were unchanged. International sovereign bonds grew modestly due to ongoing monetary policy easing. The Barclays Global G7 ex U.S. Index (+0.05%) rose for the third consecutive quarter.
- Some of our active equity managers outperformed their respective benchmarks in third quarter. Among U.S. equity managers, the Alger American Asset Growth fund (+6.0%) was able to outperform the S&P 500 index (+3.85%) by over 215 basis points. The MFS Meridian US Value fund (+2.18%) struggled as stock selection effects from technology, financial services, and basic materials significantly underperformed the broad index.
- Our European managers had mixed performance compared to their benchmarks. The Blackrock BGF European Fund (US$ Hedged) (+2.35%) underperformed the MSCI Europe Index (+5.4%) while the Wisdom Tree European Equity Hedged ETF (+7.63%) outperformed. At the beginning of the third quarter, we added the Franklin European SmMid Growth fund as a dedicated active manager in small to mid-cap equities. For Japan, our new passive investment, the iShares MSCI Japan ETF, rose 8.54% during the quarter but slightly underperformed the MSCI Japan in yen by six basis points (+8.6%).
- Our Emerging Market mangers both posted positive returns for the third quarter and performed mixed relative to their benchmarks. The Matthews Pacific Tiger fund (+7.27%) underperformed the MSCI EM USD index by 176 basis points, while the JPM Emerging Markets Opportunities fund (+11.32%) outperformed the index.
- During the third quarter, most of our fixed income investments achieved positive absolute and relative returns versus our internal benchmark, the BarCap US Gov/Credit Intermediate Index (+0.16%). The M&G Optimal Income fund was the best performer and rose 3.86% for the quarter. The PIMCO Global Investment Grade Credit (+2.62%), Wellington Global Bond Hedged (+0.23%), TCW MetWest Total Return Bond (+0.82%), and the iShares Corporate Bond ETF (+1.34%) outperformed the benchmark.

Market outlook

- Equities should remain supported by low interest rates, attractive valuations relative to bonds and expectations for accelerated earnings over the next 12 months. But volatility seems likely to pick up, perhaps presenting buying opportunities. Our September 2017 price/earnings targets are lower than current levels, with returns mainly driven by an expansion in earnings.
- In fixed income, global sovereign debt is expected to rise modestly over the next 12 months. The Federal Reserve Bank will likely raise rates twice over the next 12 months but the European Central Bank will likely prolong its quantitative easing (QE) program to September 2017 and the Bank of Japan may also remain very accommodative. All this will maintain the appeal of holding assets longer term and we stay keen on investment grade bonds (which may also benefit from a potential reduction in supply) and, on a selective basis, emerging markets hard currency debt.
- At close of the third quarter, U.S. economic growth was expected to rebound from the disappointing level seen in the first half of the year (+1.1% YTD). Third quarter GDP showed stronger than expected results (+2.9% actual vs +2.5% expected).

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