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Silver Thatch Pensions

BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

Market volatility:

How safe are your retirement savings?

Question: What is studied, analyzed, discussed and fretted over by more people than any other activity on the planet? Answer: The rise and fall of financial markets.

Despite this broad following, many investors are still surprised (and even shocked) when the markets drop – like they have in past weeks.

The market volatility (ups and downs) has lots of investors stressed and a little uncertain about how to respond. We've all heard the adage, "buy low and sell high." Unfortunately, the knee-jerk reaction for individual investors who manage their own portfolios is to do just the opposite. They tend to:

- sell the equities that have sunk, and
- buy fixed income investments to float through the rough waters.

As a result, they lock in their investment losses and overpay for the short-term security that comes with fixed income investments. In essence, they sell low and buy high.

It's precisely for this reason that investment professionals urge us to stay the course and keep a long-term focus. And that's precisely what your Silver Thatch Pension Plan does.

Managing risk

As a member of the Silver Thatch Pension Plan, you can rest easy knowing that your retirement savings are managed under an investment structure designed specifically to help mitigate risk in the short-term – while helping to grow (and ultimately preserve) your money over the longer term.

This doesn't mean your Silver Thatch account is entirely immune from losses. However, it does mean that you are protected from unnecessary risk and locking in your losses (intentionally or otherwise).

As a primary feature, your basic or "core" contributions are directed automatically to one (or in some cases, two) of the three available ***Profile*** investment portfolios – **Growth**, **Balanced** or **Conservative** – matched to your age, income and marital status. This unique structure helps to ensure that your core savings are invested in a way that keeps risk in check, while achieving the long-term returns needed to meet your personal retirement profile.

A focus on diversity

In general, investment markets do not all move in the same direction at the same time. What is good news for stocks is often bad news for bonds – and vice versa. And when one economy is in recession, markets can be booming in other countries or regions of the world.

... continued on page 2

What's inside

The Silver Thatch *Profile* investment portfolios offer several key advantages:

- **Simplicity and ease of investments automatically matched to your personal needs.**
- **A professional portfolio management team takes care of the day-to-day investment decisions.**
- **Designed to meet your needs over a lifetime and geared to your target retirement.**
- **Asset mix becomes gradually more conservative as you approach your retirement horizon.**
- **Effectively diversified at all times.**
- **Monitored continuously and automatically rebalanced to keep the asset mix on track.**

How safe are your retirement savings? *... continued from page 1*

The rise and fall of financial markets are a fact of life. The goal is to minimize the prospect of short-term investment losses by managing risk without eliminating the prospect for attractive investment returns.

Investing carries an element of risk for plan members. Here are some of the types of risk that Silver Thatch has on our radar screen.

- **Capital risk** – The risk of losing the money you've already saved.
- **Currency risk** – The risk that the value of your investment will be eroded by currency exchange.
- **Geographic risk** – The risk that the value of your investment will be reduced by an underperforming economy.
- **Political risk** – The risk that political instability or upheaval will affect the value of your investment.
- **Timing risk** – The risk that markets will decline shortly after you buy an investment.
- **Inflation risk** – The risk that inflation will go up more quickly over time than the value of your investment.
- **Interest rate risk** – The risk that interest rates will go up (which typically undermines the value of bonds and can have a negative impact on stocks).

While we can't eliminate investment risk, we can manage it. The primary way to reduce the risk – inflation risk, market risk, and so on – is to diversify.

The Silver Thatch *Profile* portfolios are all well diversified. This is achieved by investing in a mix of:

- **Asset classes** – investing in a range of equities (stocks), fixed income (bonds), cash equivalent investments (treasury bills, money market) will largely determine your level of investment risk.
- **Geographic regions** – ensuring exposure to opportunities in Europe, the U.S. and markets around the world.
- **Investment styles** – such as growth or value funds, helping to offset significant under- or over-performance during extreme phases in financial markets.

The portfolios are also rebalanced on a regular basis – especially when market performance causes the asset mix to drift off target. When an asset class over-performs (or increases in proportion to other assets in the portfolio), the portfolio manager will sell a portion of the outperforming asset class and buy other asset classes to bring the asset mix back on target. This ensures that the gains are captured – and that the asset mix stays in line with the portfolio's long-term objectives.

Finally, by making regular payroll contributions, you are taking advantage of a principle called **dollar cost averaging**. Rather than investing large amounts of money all at once, you are investing smaller amounts at regular intervals (e.g., each pay period). This way, you avoid jumping into the market with all your money just as the market peaks.

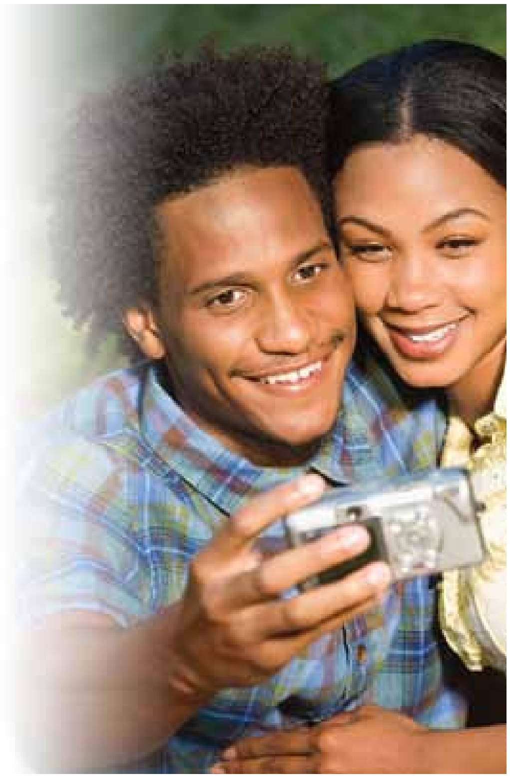
Correction

There was an error in the article titled *Following your lead*, in the May edition of the Silver Thatch educational bulletin. The article, which outlined portability options for members who leave the Cayman Islands, incorrectly stated that "if your Silver Thatch investments are less than C$15,000 in total value, you can redeem these savings in cash within three months."

The dollar amount should have read C$5,000. In other words, if the total value of your Silver Thatch investments is less than C$5,000, you can redeem these savings in cash within three months of leaving the Cayman Islands. The editors apologize for any inconvenience the error may have caused.

Don't leave home (or your job) without it!

Photo ID required



At key stages in your Silver Thatch membership, you may be required to provide certified identification. For example, you will be asked for photo ID when you apply for membership, change your marital status, terminate your employment, leave the country, and retire.

In most cases, this photo identification is critical. With the strict nature of Anti-Money Laundering legislation in the Cayman Islands, photo ID is a must. More importantly, it helps to safeguard your retirement savings from any type of false claim or fraudulent payout.

Your ID should include a current photograph, your full name, address, date of birth and nationality. Several types of identification may be requested, depending on the nature of your inquiries, as follows:

1. Passport
2. Driver's licence
3. Elector's registration card

For more information, please contact Saxon Administration Ltd.:

- Call **1 (345) 943-7770**
- Fax **1 (345) 943-7771**
- Email **support@silverthatch.org.ky**

Keep us informed

We all get caught up in our daily lives, but it's important to take a few minutes to keep your personal information up to date. Please notify Saxon Administration Ltd. immediately by completing the appropriate form (found in the Forms section under Member Services on our website at www.silverthatch.org.ky) if any of the following events occur:

- birth, adoption or death of a dependant,
- change in employer/employment status,
- change of beneficiary,
- change of address,
- change of name,
- change in marital status, or
- termination of residence.

Keeping your Silver Thatch records up to date helps to protect your retirement savings, and ensures your member profile and your investments are accurately matched.

Investment review

For the quarter ended June 30, 2011

As of June 30, 2011, the combined value of savings held in the Silver Thatch Pension Plan stood at US$303.7 million.

The table below shows the rates of return as of June 30, 2011, for each of the investment portfolio options offered under the Silver Thatch Pension 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, 2011[1,2,3]	Quarter (three months)	Twelve months	Long term strategic asset allocation[3]
Conservative Portfolio 2011	1.25%	9.46%	• 75% bonds • 17.5% US equities • 7.5% international equities
Conservative Portfolio benchmark	*0.48%*	*7.90%*	
Balanced Portfolio	0.67%	14.80%	• 50% bonds • 35% US equities • 15% international equities
Balanced Portfolio benchmark	*0.04%*	*14.04%*	
Growth Portfolio	0.21%	20.92%	• 25% bonds • 52.5% US equities • 22.5% international equities
Growth Portfolio benchmark	*-0.37%*	*20.02%*	
Aggressive Portfolio	-0.35%	25.14%	• 70% US equities • 30% international equities
Aggressive Portfolio benchmark	*-0.64%*	*24.83%*	

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: Barclays U.S. Aggregate Bond Index, S&P 500 Composite Index and FTSE World ex U.S. Index.

Manager comments

The portfolios delivered modest returns over the first half of the year, but relative performance was undermined by higher level of investments in emerging equities, which underperformed amid rising inflation and interest rates. A lower level of investment in outperforming U.S. equities likewise weighed on relative performance. Investments in gold were a significant positive contributor to year-to-date performance.

A preference for corporate over government bonds also broadly helped relative returns over the first half, and we maintained this bias given the healthier state of corporate versus government finances. We believe emerging-market inflation should peak in the months ahead, helping to reverse the first-half underperformance of emerging equities. Similarly, we look to extend our underweight in Europe, as we expect euro weakness and sovereign strains to continue.

Market review and outlook

Weakness in the consumer, financial and public sectors means that for a multi-year period growth in developed economies – which make up 60% of the global GDP – will be lower and more fragile than in the era before the global financial crisis. While these risks have escalated at a surprising speed in recent weeks, we have been aware of them for some time and have already made a great deal of structural changes in our portfolios accordingly.

Our expectation is that zero/near-zero interest rates will remain in place for a multi-year period and that the U.S. Federal Reserve (Fed) and the Bank of England will engage in further quantitative easing (increases in money supplies). More recently, the Fed confirmed that short-term interest rates are unlikely to be increased before 2013. A good outcome over the coming years would be annualized U.S. growth of 2.0%. However, with the fragile economic recovery and limited policy options, the risks are to the downside.

Corporate balance sheets are in better shape than governments', and high-quality companies are more likely to provide return of capital than some weaker sovereigns. As of the end of July, corporate bonds had outperformed global government bonds in the year to date, and should remain supported by healthy financials.

The stronger growth of Asian and emerging markets will be a considerable lure for investors and help these markets to outperform. Emerging-market bonds are expected to benefit from strong currencies and gold should continue rising.