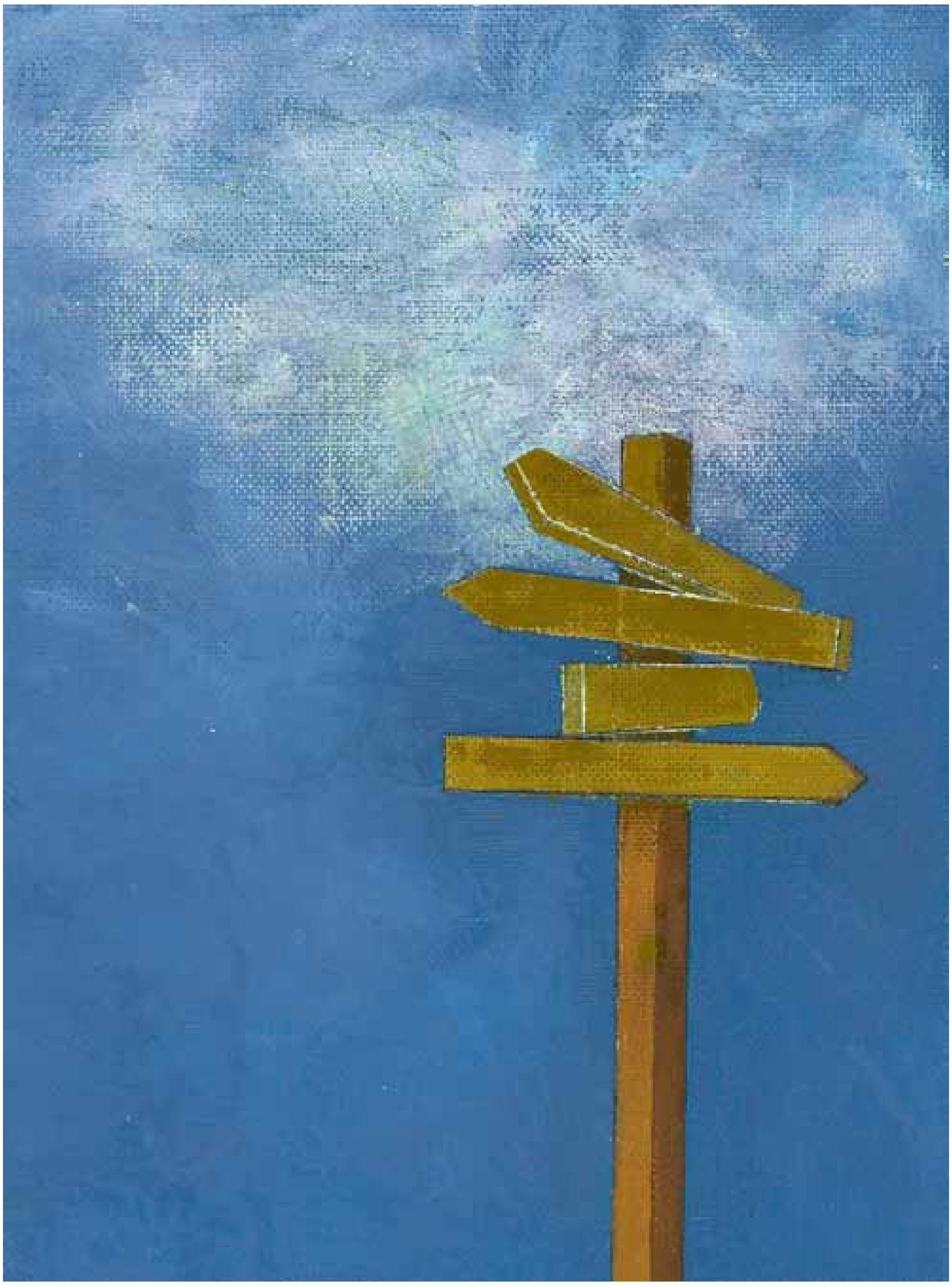
GTC

Formerly Grant Thornton Capital

Trendline

March 2013



Equity market jitters but ALSI delivers positive return

The month of March revealed the fragility of the local equity market as investors faced continued pressure in holding equities. Although the industrial sector regained earlier losses, the sentiment changed mid-month, whereupon retail stock holders, in particular, decided to offload these into the marketplace. At the same time, South Africans saw the Rand weaken against all major currencies.

The main cause of the Rand depreciation continues to be the local equity market sell-off, with foreign investors having begun reducing their exposure to emerging markets in favour of their own developed market equity. Emerging markets have delivered solid returns (for investors with strong stomachs), but currency volatility and commodity-centric economies are less desirable than the diversified, well established markets of developed economies.

Back home, the resource sector has continued to slip lower, with concerns over China's demand (or lack thereof) still causing shockwaves within our own markets. This is illustrated by the sudden fall in resources in February, following China's GDP growth slowdown from 8% to 7.7%. The financial sector remained stronger, both in March and over the quarter, which has contributed to the overall market return. Despite the volatility of the industrial sector during the month, this sector also produced a positive performance.

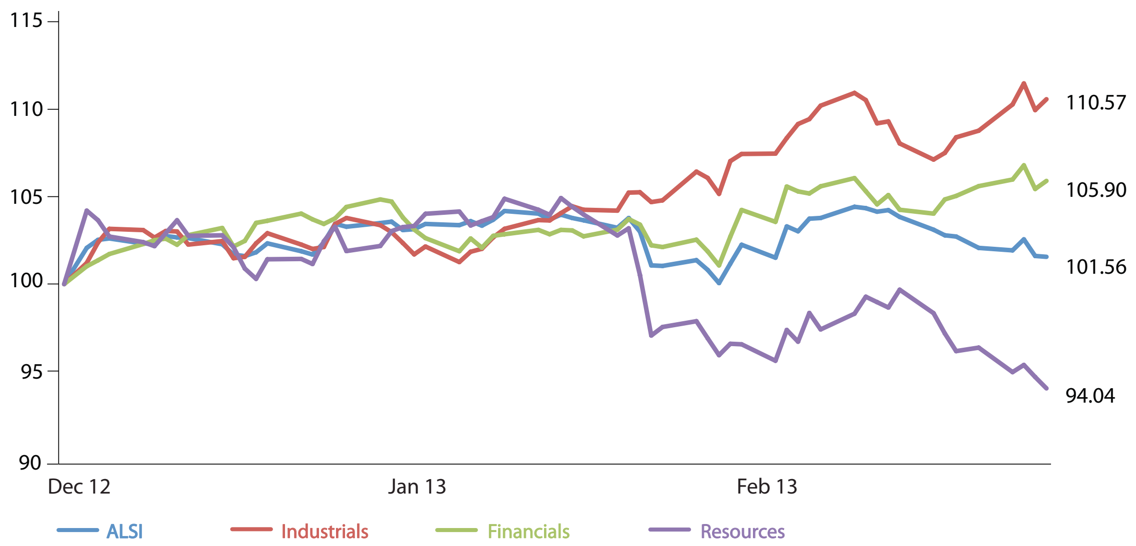
Current account deficit increases risk of foreign sell-off

South Africa's trade balance reached a historic deficit of R24.5bn which was largely attributable to an increase in imported machinery and a sharp decline in the export of precious metals.

In December 2012, the deficit stood at just R2.7bn which was a marked recovery since October 2012 when the deficit was over R21bn. Overall, South Africa has been in deficit territory for a cumulative 13 months.

The balance on the current account as a percentage of Gross Domestic Product (GDP) also shows a significant decline in the past two quarters. This corresponds with levels last seen during the global financial crisis in 2008.

FTSW/JSE All share index sector behaviour



Source: GTC and I-Net

Foreign ownership of the local equity market is quite substantial, based on the dividend outflows. This implies that the Rand is vulnerable to foreign sentiment. Any change in local market conditions, political uncertainty or social unrest can change their current view, which would lead to a sell-off in the local equity and bond markets. This means that the Rand could reach levels of over R10 to the US dollar, as demand for foreign currency outstrips the reserves held, leading to the weaker local currency.

This record deficit on the current account also adds risk to foreigner's South African investments who may well view the deficit as a weakness they don't need to tolerate. There is a risk that they may decide to reduce their exposure to South Africa, which will inevitably cause a further widespread selloff in the Rand, leading to further currency depreciation.

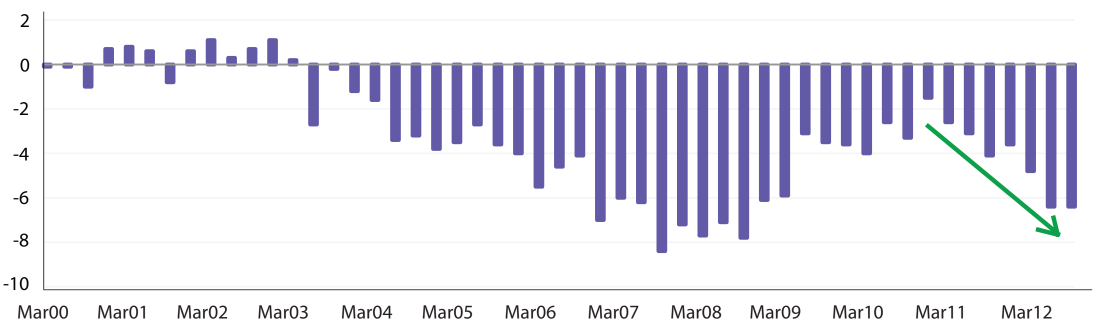
During the middle of March, investors in the industrial and resource sectors did indeed see share prices decline and the Rand started to weaken. As previously noted, this implies that foreign investors exercised their sales options and moved their money away from South Africa. During the quarter, the Rand weakened over 9% to around R9.22 to the US dollar which is likely to contribute to higher imported inflation.

On the inflation front, the new basket of Consumer Price Index (CPI) weightings has been introduced and local inflation has remained below the 6% level. Electricity tariffs increases have been approved at 8% per annum for the next 5 years and the latest petrol price increase of 81c/litre (effective 6 March 2013) implies a total increase of R1.22 c/ litre this year, an increase of 10.5%. These two factors are likely to cause an increase in inflation, though the market is expecting inflation to climb only slightly above the 6% level before receding to below the upper end of the targeted band.

Local market performances

The local equity market (ALSI) added almost 2.5% for the quarter ending March 2013, which was largely attributable to the industrial and financial sectors which added 6.31% and 5.30% respectively. Resources however fell close to 6% on the back of lower market confidence for commodities.

Ratio balance on current account to GDP % - Quarterly 2000/03/31 to 2012/09/30



Source: GTC and I-Net

The local bond market has remained strong, supported by demand from foreign investors. The yield on the local 10 year duration bond is still below 7%. Globally, developed market 10 year bond yields are below 2%, which is attributable to developed market investors looking for capital protection even though the return on investment is below their inflation. The massive inflows into the German, UK and US bonds have driven these bond yields to historic lows. Some foreign investors have allocated a small exposure to the emerging market for stronger yields to achieve an enhanced weighted return in their portfolio. Cash delivered a static return of 1.3% for the quarter, which was over 0.3% superior to the corresponding bond market performance.

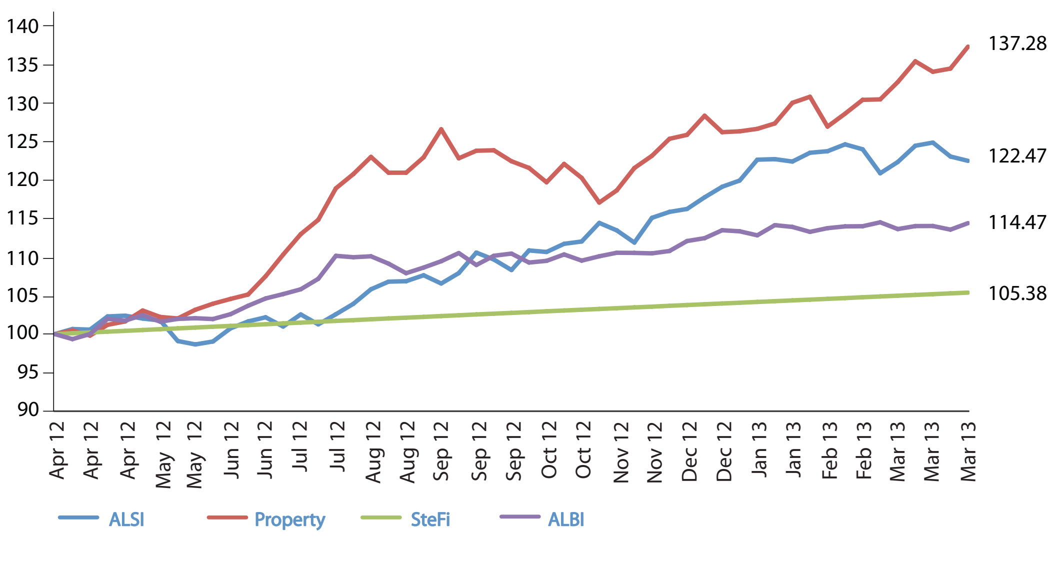
Listed property has continued to add strong returns, despite the index trading at levels that demand a continuous growth similar to recent years, which may be unlikely. Recent property market returns were achieved on the back of low global interest rates which have resulted in investors searching for alternative sources of return, and emerging markets have been the main recipients of these cashflows.

Globally, the property market remains under pressure as supply has outstripped demand and the market recovery has been slow and long. Foreign investors have adopted the same investment guidelines to investing in South Africa but our market did not experience the same level of decline, leading to a faster recovery in 2008. These new cashflows are therefore invested on the basis of extrapolating their own market return potential without a fundamental investment review of this property market. Property experts have also indicated that the market looks "hot" and perhaps even overheated but demand for yield from foreign investors has remained high.

Over the past quarter, the local currency has also weakened significantly, close to 9% against the US dollar and around 5.4% against the Euro. This move in the Rand depreciation is directly related to the loss of foreign capital from our investment markets.

In Rand terms, the developed market 12 month performance of 34.6% has been higher than both global emerging markets (up 21.6%) and South Africa (up 19.3%). Although the Rand weakness has contributed to inflating this return, the sentiment remains driven towards the developed market recovery which will support job creation and economic stability, especially in Europe.

Local asset class returns



Source: GTC and I-Net

Retirement fund reform

The Minister of Finance announced proposals in the 2013 Budget Speech to reform the retirement industry, with a focus on governance, preservation, annuitsation and harmonisation of retirement funds.

These proposals follow a series of technical discussion papers with draft proposals that were issued in 2012, following the Budget presentation by the Minister of Finance. Over the course of 2012, both formal and informal consultations were held in respect of these papers with stakeholders, including unions, industry associations, product providers, intermediary associations, and members of the public.

Following on from these consultations, the Government has developed revised policy proposals for further consultation, which are contained in Chapters 4 and 6 of the Budget Review 2013. A further consultative period ending 31 May 2013 for written submissions has been determined, after which draft legislation to give effect to these proposals will be introduced.

Proposed changes

It is becoming ever clearer that those employers who take greater responsibility for the overall financial well-being of their workers, including through the design of their retirement funds, reap the rewards of a more stable and happier work force.

Government is seeking to alter the default options implicit in retirement fund design and are currently coaxing, rather than forcing, individuals into making decisions which serve their own long-run interests.

From an effective date, on or after 2015, called T-day, it is proposed that:

Taxation of retirement funds

- Employer contributions to retirement funds will become a fringe benefit in the hands of employees for tax purposes.
- Individuals will be able to receive a tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27.5% of the greater of remuneration and taxable income. A ceiling of R350 000 will apply.

Governance

- The duties of trustees to act independently, and free from conflicts of interest, will be strengthened by elevating PF Circular 130, which deals with the governance of retirement funds, to a Directive.
- The FSB is to monitor trustee appointments, including ensuring that trustees meet 'fit and proper' requirements.
- The current Trustee Toolkit may be elevated into a basic, independent, compulsory and free training kit for Trustees.
- The Financial Services Laws General Amendment Bill, 2012, which contains various provisions pertaining to governance, is currently in Parliament.
- The Minister is to convene a trustee conference, with a view to further strengthening the governance of retirement funds.

Preservation

- Full vested rights with respect to withdrawals from retirement funds will be protected. Amounts in retirement accounts at the date of implementation of the legislation, called P-day, and growth on these, can be taken in cash, but from a preservation fund, and subject to taxation as currently.
- After P-day, all retirement funds will be required to identify a preservation fund (this may be a preservation section inside the fund) and transfer members' balances into that fund, or another preservation fund, when members withdraw from the fund before retirement.
- Existing rules on preservation funds will be relaxed to allow one withdrawal per year, but the amount of each withdrawal will be limited. Unused withdrawals in any year may be carried forward to future years.

Withdrawal limits will account for vested rights as previously described.

- Payments resulting from divorces will also need to be paid into preservation funds rather than being paid in cash.

Annuitisation

- The annuitisation requirements of provident funds and pension funds will be harmonised. However, the new annuitsation rules will only apply to new contributions made to provident funds after P-day, and growth on these contributions.

- In addition, members of provident funds who are older than 55 on the date of implementation will not be required to annuitise any of their balance at retirement, provided they remain in the same provident fund until they retire.

- To lessen the impact on provident fund members, the means test for the old age grant will be phased out by 2016, and the (minimum?)s requirement for annuitisation will be raised from R75 000 to R150 000.

- Trustees will be required to guide members through the retirement process, to identify a default retirement product in accordance with a prescribed set of principles, and to automatically shift members into that product when they retire, unless members request otherwise. The fund itself may provide the default product, or it may use an externally-provided product.

- Living annuities will be eligible for selection as the default product, provided certain design tests, including on charges, defaults, investment choice and drawdown rates, are met.

- Trustees that make commission-free financial advice available to members on retirement, paid for out of the fund on a salaried basis, will be given some legal protections in respect of the choice of the default. To increase competition, providers other than registered life offices will be allowed to sell living annuities.

Non-retirement savings

- Government intends to proceed with the implementation of tax-preferred savings and investment accounts. All returns accrued within these accounts and any withdrawals would be exempt from tax. The account would have an initial annual contribution limit of R30 000 and a lifetime limit of R500 000, to be increased regularly in line with inflation. With effect from 1 March 2013, tax-free interest-income annual thresholds will be increased from R33 000 to R34 500 for individuals 65 years and over, and from R22 800 to R23 800 for individuals below 65 years. These thresholds may not be adjusted for inflation in future years.

Broader reforms

- In addition to the proposals described above, Government is exploring ways to increase retirement fund coverage to all workers..

- A process is currently underway to bring public pension funds currently not governed under the Pension Funds Act, including the Government Employees Pension Fund (GEPF), Transnet, Telkom and Post Office retirement funds, under the control of the Act.

- Any biases in retirement funds which may discourage individuals from working past the retirement age of their funds will be identified and removed.

This complex and important subject should be considered carefully. Toy Otto, head of GTC's employee benefit consulting division, and his team are fully appraised of the retirement landscape from both a legal and technical perspective as well as from a commercial and economical point of view.

GTC fund performances

The **GTC Fixed Income Fund** has produced returns in excess of cash over all annualised periods. Despite the low cash rate environment, the manager has used various yield enhancing strategies such as credit and duration to improve the fund performance. Although interest rates are unlikely to increase this year, the next move is likely to be higher, which will enhance the overall return for investors looking for capital protection.

The **GTC Wealth Accumulator Fund of Funds** has outperformed the SWIX benchmark over the past quarter which was mainly attributable to the stock selection strategy applied by the managers. The managers have lowered their exposure to the industrial sector and increased exposure to the resource sector.

These sector movements have contributed to the fund's return. Although the markets have delivered positive returns for the quarter, there has been an increase in market volatility and vulnerability due to the large foreign investor exposure in the local market. Their change in sentiment on emerging markets could have a negative impact on the local market.

The **GTC Capital Plus Fund of Funds** has produced above target (CPI+3%) returns over the past 12 months which has been driven through strong returns from the equity market. The managers have managed to ensure strong market returns, whilst protecting investors' capital from downside risk through derivative structures. This strategy combined with other multi-asset class exposures has ensured market return participation with capital protection.

The **GTC Conservative Absolute Growth Funds** (USD and Rand) have achieved solid returns for investors over the past 2 years. Although developed markets have posted good returns, the local currency weakness has been a significant contributor to the Rand class return. The manager has continued to diversify asset class exposures which have resulted in the consistent performance.

Investment Portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	0.83%	2.08%	4.65%	5.45%	5.77%	6.59%	7.65%
GTC Wealth Accumulator FOF B	2.20%	9.14%	10.92%	8.99%	10.46%	17.49%	10.98%
GTC Capital Plus Fund of Fund B	1.59%	5.82%	9.85%	7.16%	7.09%	9.57%	8.36%
FTSE/JSE All Share Index (ALSI)^	2.10%	12.25%	20.68%	13.06%	13.20%	19.80%	7.70%
FTSE/JSE Shareholder Weighted Index (SWIX)^	1.23%	11.01%	20.23%	14.99%	14.55%	20.69%	9.39%
BEASA All Bond Index 1-3yr (ALBI1-3yr)^	0.57%	1.57%	5.60%	6.83%	6.48%	6.47%	7.55%
Cash (SteFi)^	0.87%	1.80%	3.84%	3.98%	4.31%	4.86%	5.90%
GTC Conservative Absolute Growth (R)	8.88%	14.85%	24.12%	18.13%	12.00%	5.40%	-0.86%
GTC CAGs Composite Benchmark (R)^	9.47%	10.69%	19.81%	15.37%	13.48%	16.13%	8.38%
R/$ Exchange rate	8.88%	11.08%	20.15%	17.41%	8.07%	-1.30%	2.40%
GTC Global Conservative Absolute Growth ($)	3.24%	5.45%	8.18%	3.65%	5.40%	7.22%	0.13%
GTC Global CAGs Composite benchmark ($)^	0.68%	0.41%	1.69%	1.06%	2.70%	5.95%	0.27%

* Annualised ^Benchmark return includes 1.5% fees Not all fund class returns are shown. Class B refers to indirect investments.

Contact us

Head of Investment Analytics
Laven Chetty
T +27 (0) 11 322-4844
E lchetty@gt.co.za

Head of Strategic Partners
Jeff Morgan-Hill
T +27 (0) 11 322-4804
E jmhill@gt.co.za

Head of Employee Benefit Consulting
Toy Otto
T +27 (0) 11 322-4644
E totto@gt.co.za

Chief Operating Officer
Farhadh Dildar
T +27 (0) 11 322-4821
E fdildar@gt.co.za

Head of Private Client Wealth Management Consulting
Jenny Williams
T +27 (0) 11 322-4532
E jwilliams@gt.co.za

Chief Executive Officer
Gary Mockler
T +27 (0) 11 322-4512
E gmockler@gt.co.za

GTC

Formerly Grant Thornton Capital

www.gtc.co.za