GTC

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Trendline

For the quarter ended March 2014

Salient points from the budget

"So the new economic order we seek cannot just be a pact amongst elites, a coalition amongst stakeholders with vested interests. Nor can it be built on populist slogans or unrealistic promises. Our history tells us that progress has to be built on a vision and strategy shared by leaders and the people- A vision founded on realism and evidence" - Pravin Gordhan, Budget Speech 2014.

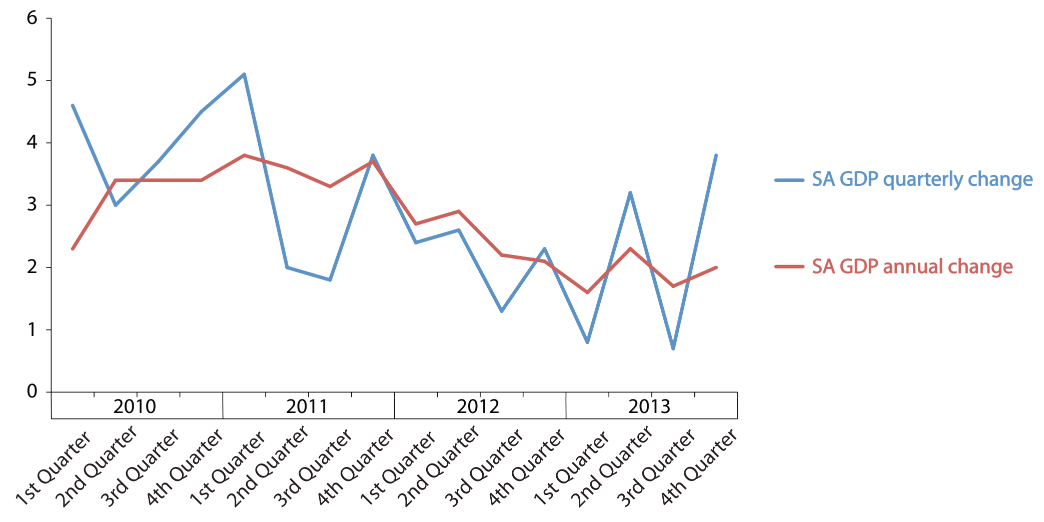
This philosophy espoused in the preamble to this year's budget signalled the intention of the fiscus to address once again the serious problem of the gross inequality within the South African economy. It heralded a budget, which while fairly mundane, was nevertheless squarely directed to benefit the less fortunate in our population.

As a consequence the Budget focused on interventions that are aimed at setting the economy on a new growth trajectory. Government's primary objective is to raise real economic growth to between 5% and 6% per annum. The attainment of this higher level of economic growth should boost state revenue sufficiently to enable the state to increase expenditure and help improve people's lives by addressing the high levels of unemployment, poverty and inequality. R410 billion set aside for social grants is at the forefront of this endeavour. Various other provisions of tax relief have been directed specifically at those in the lower income groups.

The South African economy grew at an estimated 1.8% in 2013 as domestic conditions, combined with a slow recovery rate in the global economy led to a subdued level of economic growth. Forecast economic growth for 2014 has been reduced to 2.7% for 2014 and been maintained at 3.5% for 2015. This anticipated economic growth is supported by various factors. Government expenditure on infrastructure is expected to be some R847.3 billion over the next 3 years. This should considerably enhance efficiencies in power generation and particularly in transport encouraging stronger employment growth whilst concomitantly increasing private domestic consumption.

South Africa should also benefit from improved export opportunities offered by stronger global demand. The construction of new rail lines, the upgrading of locomotives and rolling stock for Transnet, the considerable increase in power generation, the integration of public transport, and the rehabilitation of the five largest water schemes should all provide impetus for the government's growth plan.

SA GDP growth year on year and quarter, seasoanlly adjusted and annualised



Source: Statistics South Africa

South Africa should also benefit from the rapid expansion of trade and investment being directed at the African continent as a whole. As a consequence, government will increasingly align its policies to support economic integration within the African continent as a whole but more specifically in the sub-Saharan region.

In the past, the Minister of Finance has certainly not delivered budgets containing surprises but on this occasion he did by announcing radical changes in respect of the Retirement Fund tax and additional reforms which are to be introduced over the coming year. Of particular interest is the decision to increase the tax exemption on retirement fund withdrawals from the previous amount of R315 000 to R500 000.

This is indeed a major concession which will greatly benefit retirees. Furthermore, the Minister announced that the government has reached agreement with the financial services industry to reduce the costs implicit in saving for retirement. This has been a recurrent theme emanating from National Treasury for some time and suggests that these savings might be best achieved by the increased utilization of umbrella funds as investment vehicles, amongst many other proposed changes.

The need for the preservation of retirement funds has also been at the forefront of National Treasury proposals and it is anticipated that these will be introduced effective from 1 March 2015. It is proposed that in order to improve preservation of retirement savings that members be allowed one withdrawal per fund per year limited to 10% of the fund value.

The amount available for withdrawal as a cash lump sum at retirement will be reduced by the value of any pre-retirement drawings. The whole thrust of the proposed retirement reforms centres around improving retirement fund preservation, making enrolment with a retirement fund mandatory, consolidating funds, improving market regulation , simplifying retirement products and making them more cost effective.

Additionally, National Treasury has provided details of how it proposes tax incentivised products be structured. National Treasury does not regard all savings products to be of sufficient merit to be included in its proposed plans. Many investment offerings do not meet its requirements of simplicity, transparency and suitability.

Tax payable on retirement fund lump sum benefits or severance benefits

Taxable income (R)	Rate of Tax
0 - 500 000	0% of taxable income
500 000 - 700 000	18% of taxable income above 500 000
700 001 - 1050 000	36 000 + 27% of taxable income above 700 000
1050 001 and above	130 500 + 36% of taxable income above 1050 000

Tax payable on retirement fund lump sum withdrawal benefits

Taxable income (R)	Rate of Tax
0 - 25 000	0% of taxable income
25 001 - 660 000	18% of taxable income above 25 000
660 001 - 990 000	114 300 + 27% of taxable incove above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

Source: Receicer of Revenue

Medical aid contributions tax

In order to encourage savings for retirement it is further proposed that certain investment vehicles be provided which allow the individual to qualify for tax incentives. This will allow the taxpayer to invest an after tax amount of up to R30 000 per annum in any of the following: bank savings accounts, fixed deposits, unit trust funds and exchange traded funds (ETF's) that are registered as collective investment schemes, retail savings bonds and real estate investment trusts.

Any income derived from these investments such as interest, dividends etc. will be free of any dividend, interest or capital gains tax for the duration of the investment. This will be subject to a life time capital sum of R500 000 per taxpayer.

Other changes to be implemented with immediate effect include employer contributions to group life assurance being regarded as a fringe benefit for tax purposes. Additionally medical aid contributions for those over 65 years of age as well as those with disability dependants will no longer be entitled to deduct their full contributions to medical aid from their taxable income. In order to make such deductions more equitable the following tax credits will now apply:

All taxpayers are entitled individually to a fixed tax credit of R257 per month plus R257 per month for the first two dependents and R172 per month for subsequent depentents. Additionally for those over 65 or having disability dependants the following applies:

If medical aid contributions are greater than 3 times the above credit, then that difference plus out of pocket medical expenses multiplied by 33.3% is allowed as a further tax credit. The effect is that SARS has put all taxpayers on an equal footing irrespective of income.

Example

Medical aid contributions of R5000 per month X12= R60 000

Tax credit medical aid principal member	R257
Tax credit medical aid 1st dependant	R257
Total	R514 X12=

R6 168 X 3=R18 504

Difference: R41 496

Additional tax credit: R41 496 X 33.3% R13 818

Market commentary

The quarter was characterized by a market roller coaster ride alternating from risk-on to risk-off and vice versa as both domestic and global scenarios unfolded. The negative trend established towards the end of 2013 continued into the new year with significant outflows from the bond market impacting negatively on the Rand.

January

Stock markets around the world plunged towards the end of the month as emerging market currencies hit record lows. This was triggered by a report indicating a significant slowdown in growth of Chinese factory output and concern over the impact of a further cutback in the U.S Federal Reserve's multibillion Dollar bond repurchasing programme.

The Dow Jones industrial average fell to close at 15 879 ending below 16 000 for the first time since mid December 2013. Financial turmoil was most evident in emerging market economies including BRICS and Turkey. The FTSE/JSE All Share SWIX was down 3.34% for the month.

February

January's market blues were replaced by renewed enthusiasm in February as markets shrugged off disappointing economic data from around the world. Sentiment towards emerging markets remained somewhat subdued but investors took advantage of January's market and currencies sell-off to dip their toes back in the waters of selective emerging markets. Renewed appetite for these counters was driven mainly by the new Fed Governor Janet Yellen delivering a dovish speech. This certainly cheered world markets. The FTSE/JSE all Share SWIX was up 4.9% for the month.

March

March brought about a complete reversal in emerging market sentiment. This was largely as a result of the Chinese fiscal authorities announcing that they would take positive steps to ensure that GDP growth did not fall below the targeted 7.5%. Furthermore, the announcement that South Africa's balance of trade had swung from a deficit of R17 billion in January to a surplus of R1.72 billion in February helped lift the local currency off its lower levels.

Resource stocks received particular attention as part of the reflationary package proposed by the Chinese authorities involves infrastructure development and upgrading. This will have obvious benefits for base metal producers. The FTSE/JSE All Share SWIX was up 3.3% for the month.

Market performance

Investment Portfolios	March	February	January	1Quarter	1Year	3Years	5Years
FSTE/JSE All Share SWIX TR ZAR	0.77%	2.18%	4.31%	4.55%	5.41%	5.96%	6.98%
FTSE/JSE Ind/Financials TR ZAR	9.33%	7.37%	17.19%	15.72%	10.53%	12.66%	13.78%
FTSE/JSE Ind/Industrials TR ZAR	3.87%	4.47%	10.55%	9.50%	7.24%	7.61%	8.74%
FTSE/JSE SA Resources TR ZAR	12.13%	11.46%	25.11%	23.85%	16.12%	16.92%	14.67%
FTSE/JSE SA Listed Property TR ZAR	10.83%	11.21%	23.45%	24.28%	16.58%	17.43%	15.37%
BEASA ALBI TR ZAR	1.18%	1.16%	2.75%	5.13%	5.72%	6.11%	6.84%
SteFi Call Deposit ZAR	0.90%	1.79%	3.62%	3.85%	4.01%	4.41%	5.25%
MSCI World GR USD	-0.90%	12.16%	28.82%	16.44%	18.76%	12.62%	4.15%
JPM GBI Global Traded TR USD	2.25%	9.33%	23.37%	14.24%	16.54%	10.76%	5.63%
Oil Price Brent Crude PR	2.21%	9.33%	21.44%	13.00%	13.08%	7.93%	4.23%
SA CPI (Headline)	2.21%	9.33%	21.44%	13.00%	13.08%	7.93%	4.23%
US Dollar	4.90%	1.86%	7.41%	9.43%	4.59%	4.25%	2.07%
Morningstar Gold Commodity Index	4.90%	1.86%	7.41%	9.43%	4.59%	4.25%	2.07%

Source: Morningstar

Carry trades

The appetite for South African and other emerging market equities continues unabated. This is being driven very decidedly by Carry Trades. A Carry Trade is one in which an investor borrows funds in one market to make an investment into another. Because of the extremely low interest rates prevailing in developed markets both investment managers and individuals see an opportunity to borrow funds at a very low rate and reinvest them in emerging markets which enables them to significantly enhance their return on capital. One must remember however that these capital flows, by their very nature, tend to be of relatively short to medium duration suggesting that the pace of the Fed's tapering could be slowed down.

Any suggestion of a cessation of the bond repurchasing programme in the U.S, or further indication of a slowdown in the Chinese economy, could precipitate a dramatic reversal of market sentiment. In spite of potential currency risks the appeal of the enhanced yields offered in emerging markets are currently more than sufficient to lure foreigners to the bait. Earlier, the depreciation of the Rand came on top of further depreciation, albeit marginally, of the U.S. dollar. The rand started the quarter at its strongest level of R10.49/$, traded as low as R11.23/$ late in January, strengthening since then, to close the quarter at R10.53/$

Rand impact on JSE

Source: Morningstar

Global markets

After a risk-on year in 2013 the first quarter of 2014 proved to be a more challenging environment for equities. Concerns about global economic growth, geopolitical turmoil in Ukraine and weaker macro data in the U.S. injected more risk aversion into markets. Janet Yellen's pronouncements also led to a yo-yo effect on markets. Extreme weather in the U.S. certainly did inhibit economic growth during the quarter and the approach of spring should see a return to more normal economic activity.

The general trend for the U.S. economy remains positive. Continued improvements in the labour market should support increased consumer spending and boost the housing sector. These are two vital components to the success of a U.S. economic recovery. In Europe anaemic economic activity continued to highlight the threat of deflation as the inflation rate dropped to just 0.5%.

The main concern for investors this year has been the potential for slower GDP growth in China. These fears have been partly allayed by the government's intention to introduce stimulatory measures to maintain economic growth at 7.5%. The Ukraine situation will continue to unnerve investors until a more lasting and final diplomatic solution is achieved. The resilience and low volatility of interest rates in the U.S. indicates that tapering might not see the sudden rise in interest rates that has concerned many analysts.

GTC fund performances

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	0.96%	2.17%	4.39%	4.52%	5.10%	5.43%	6.15%
GTC Wealth Accumulator FOF B	3.11%	6.87%	14.74%	12.82%	10.88%	11.52%	16.94%
GTC Capital Plus FOF B	2.16%	4.99%	9.69%	9.77%	7.99%	7.73%	9.59%
FTSE/JSE All Share Index (ALSI)^	3.90%	9.24%	21.76%	21.22%	15.89%	15.28%	20.19%
FTSE/JSE Shareholder Weighted Index (SWIX)^	4.39%	10.30%	22.66%	21.44%	17.49%	16.53%	21.08%
BEASA All Bond Index (ALBI 1-3 year)^	0.34%	1.45%	2.62%	4.10%	5.41%	5.50%	5.69%
Cash (SteFi)^	0.94%	1.86%	3.69%	3.76%	3.88%	4.15%	4.63%
GTC Conservative Absolute Growth (R)	1.08%	10.50%	23.94%	24.03%	20.04%	14.87%	8.87%
GTC CAG's Composite Benchmark (R)^	1.79%	7.99%	20.18%	21.20%	19.19%	13.24%	7.54%
R/$ Exchange rate	0.96%	4.78%	14.56%	17.32%	16.45%	9.65%	1.69%
GTC Global Conservative Absolute Growth ($)	1.31%	3.52%	5.45%	6.81%	4.25%	5.41%	6.86%
GTC Global CAG's Composite benchmark ($)^	0.82%	3.05%	4.88%	3.27%	2.32%	3.24%	5.74%

* Annualised ^Benchmark returns include 1,5% fees Not all fund class returns are shown. Class B refers to indirect investments

The GTC Fixed Income Fund has delivered outperformance against the Cash Index (SteFI) and Bond Index (ALBI 1-3 year) benchmarks over most periods. This month saw strong positive returns delivered by the Bond market, while Cash delivered its consistent positive return.

The **GTC Wealth Accumulator FoF** has captured a significant portion of the strong positive returns delivered by the equity market while maintaining a defensive position should the markets sell off. The cost of protection within the Prescient Protected Equity portion will reduce over the coming months benefitting the Fund further. This cost reduces over time due to the nature of the derivatives used. March saw a return of foreign investors to the local equity market driven by the 'risk-on' environment in the latter half of the month.

The **GTC Capital Plus FoF** has continued to deliver against its inflation relative target (CPI+3%) over the past year. The significant absolute return exposure ensures that the Fund captures upside equity return while focusing on avoiding losses over 12 month periods.

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) continues to deliver outperformance against its benchmark over almost all of the analysis periods displayed. The Rand strengthened over February and March due to a return of foreign inflows and a 'risk-on' investment environment. This resulted in a reduced positive impact for local investors with exposure to offshore markets.

Further information

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