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GTC Market Update

August 2015

Global - The year of the goat or the bear?

August saw global equity markets reeling under the impact of a totally unexpected Yuan devaluation which triggered significant volatility as well as a major sell-off. The dramatic slide in the grossly overvalued Shanghai Composite Index created investor panic in China and in spite of intervention by the authorities the slide continued. Risk off became the order of the day across all the world's major markets.

In the U.S. the S&P 500 fell by 6.03% in dollar terms led by some of the previously best performing counters including the consumer discretionary and healthcare sectors. Whilst events in China were the catalyst a market correction was long overdue as valuations had been stretched. The ongoing prospect of a September interest rate hike by the Federal Reserve also contributed to an underlying nervousness amongst investors.

Equities declined in spite of strong forward looking macroeconomic data with the U.S. Institute for Supply Management's service sector index hitting a ten year high. The Conference Board's Consumer Confidence index leaped to 101.5 from July's 91.0 while motor vehicle sales comfortably exceeded expectations.

On the back of the Chinese tsunami, even the prospect of a resilient U.S. consumer could not stem the tide and many consumer focused companies also came under selling pressure. Even Apple shares sold off sharply but recovered quickly. Healthcare was another notable underperformer as the biotechnology counters which had performed so well previously reversed their trend. Merger and acquisition activity provided some stability to the market with Warren Buffet's Berkshire Hathaway announcing it's biggest ever acquisition being the engineering group Precision Castparts for $32.5 billion.

China: Shanghai composite index

Source: GTC/I-Net BFA

Eurozone equities registered a sharp decline on the back of the Chinese economic situation which dented the appetite of investors for riskier assets. The MSCI EMU index returned a negative -8.4%. The possibility of a U.S. interest rate increase also contributed to market uncertainty. Volatility and indications of slower global growth weighed heavily on both metal and oil prices pressurising the Eurozone materials and energy sectors. Other areas of the market with significant exposure to China –such as luxury goods- also lagged. The Euro appreciated 2.1% against the dollar which impacted exporters.

Prior to the China situation the month started reasonably well as a deal was reached to provide Euro 86 billion of bail-out funding to Greece. Macroeconomic data for the Eurozone continued to reflect a slow but sure economic recovery. GDP came in at 0.3% in Q2 slowing from the 0.4% in Q1. The flash composite PMI Index rose to 54.1 in August from the 53.9 in July while Germany's Business Climate Index rose to 108.3 from the previous 108.0. Inflation remained stable at 0.2%.

U.K. equities performed poorly in line with global markets amid fears of a significant global slowdown on the back of the Chinese situation. Growing concern of an across the board deceleration in emerging market growth precipitated a sharp sell-off in metal and energy prices. This was reflected in a 6.0% fall in the FTSE 100. Mid and smaller cap companies outperformed as some of the more domestically oriented sectors provided some shelter from the storm.

Disappointing interim results from Rio Tinto and Glencore added gloom to the mining sector whilst integrated energy stocks suffered on the falling oil price. U.K. macroeconomic data continued to highlight resurgent consumer demand with the U.K. Consumer Confidence Index reaching a 15 year high.

Having begun August reasonably well, the Japanese market succumbed to world equity market sentiment ending the month down 7.4% in Yen terms. The Japanese currency strengthened sharply against most major currencies reversing most of the weakness seen during the year.

The equity market was led downwards by cyclical sectors such as steel and machinery as well as motor vehicles and banks. The strongest performing sectors were pointed towards the domestic market and included construction and textiles.

Global concerns over an intractable slowdown in Chinese growth prospects saw Asian markets delivering their worst performance since May 2012. Chinese equities led the region's losses as a "Black Monday" for global equity markets in late August was fuelled by a 9% one day fall in the Shanghai Composite Index. Further uncertainty over the Chinese government's willingness to support the stock market helped stoke the selling frenzy. These falls came in spite of a further reduction in interest rates and reserve ratio requirements.

The pronounced volatility in Chinese equities filtered into international bond markets leading riskier fixed income assets to significantly underperform. The People's Bank of China devalued the Yuan for three successive days in August with the currency falling 2.96% against the U.S. dollar. Furthermore the Bank moved to curb currency outflows by making further cuts in the benchmark interest rate and the reserve ratio requirement. In spite of the increased volatility, Treasury and Bund yields had largely recovered from mid-month lows to be flat or higher by month end.

Domestic - "Markets take the stairs up and the elevator down" - Wall Street adage

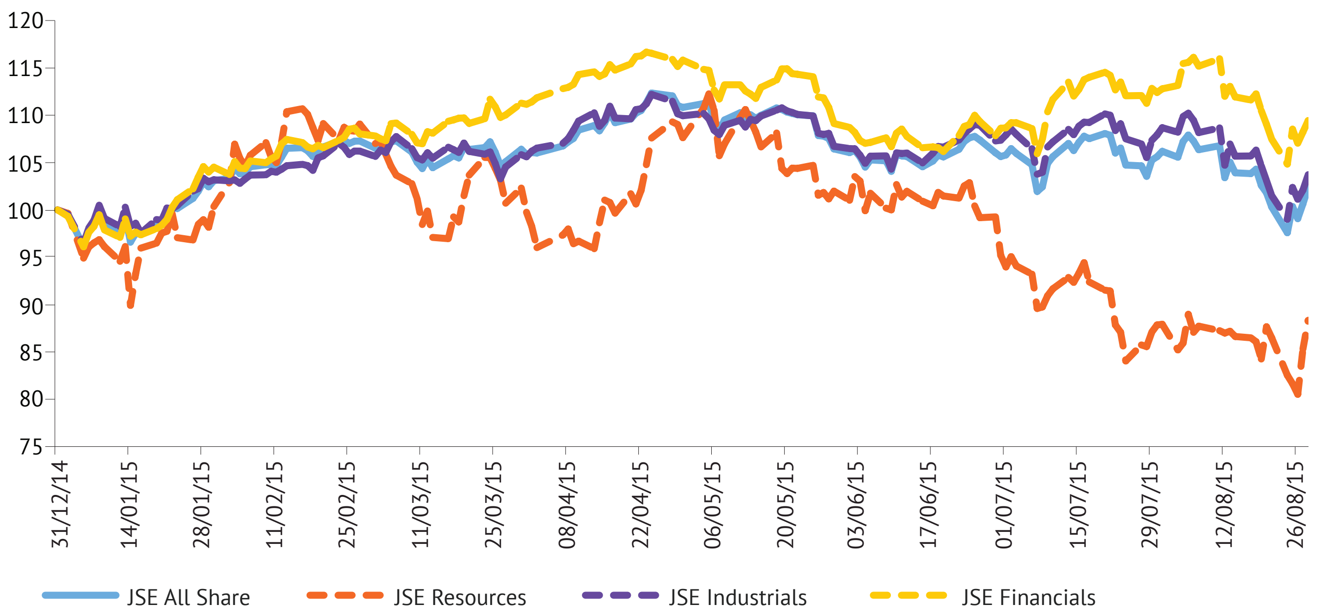
The South African economy faced almost a perfect storm in August with commodity prices falling rapidly, the currency heading for all-time lows, electricity supply constrained and continued demands from labour for above –inflation wage increases.

Against this background and with volatility at record levels, no stock market escaped the Chinese led rout and not surprisingly the JSE/ALSI closed down 4% at 49972.33 points at month end. In total return terms the index lost 3.55% while 30 day volatility leaped from 16.57 to 21.87. Of the major tradable indices the INDI25 was the worst performer easing 4.60% while the Top40 index declined 4.26%. Whilst the Gold Mining and Platinum indices reversed July's losses both sectors remain amongst those with the worst performance statistics.

Somewhat unexpectedly, but of considerable concern, the South African economy contracted by 1.03% in Q2 of 2015 against a gain of 1.3% in Q1. This did surprise as consensus was for positive growth of 0.5%. The main negative contributors were manufacturing, mining and agriculture.

The serious crisis in the mining industry resulted in the industry, trade unions and the government signing a broad based plan to stem a potential wave of job losses. Three weeks of emergency talks resulted in a series of joint programmes being agreed to including a commitment from government to establish a fund that would financially assist in retraining retrenched mine workers. There was no moratorium on retrenchments nor did the parties believe that all the jobs could be saved. About 19,000 jobs are currently at risk of being lost in the sector.

FTSE/JSE performance year to date



Source: GTC/I-net BFA

Unfortunately Eskom load shedding will remain a possibility for the next 18 months according to Public Enterprises Minister Lynne Brown who once again appealed to South Africans to save electricity. She expressed concern with Eskom's financial sustainability and the reliability of its ageing power plants. South Africa's electricity production fell 1.7% in June after falling 3.5% in May. Electricity consumption declined 1.3% in June on an annual basis compared to 2.7% in May.

NUMSA has been served notice of possible large scale retrenchments in the steel industry. The depreciated Chinese currency poses a real threat as steel is currently being imported from China at below South Africa's cost of production.

As a result South Africa will conditionally introduce a 10% dumping duty on steel imports with the possibility of introducing more tariff hikes soon. Cheap imports from China are seriously affecting the viability of Arcelor-Mittal and Highveld Steel.

Whilst the current economic outlook for South Africa remains somewhat uncertain, clients perhaps need to be reminded that economic cycles are not something new and that the current stock market correction calls for both calm and patience. The revaluation which has taken place was long overdue and share prices are now trading at more realistic levels. GTC is cognisant of the fact that certain portfolio readjustment might be prudent and in this regard we certainly have our clients' best interests in mind.

GTC fund performances - August 2015

Client portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC EB Market Plus - Pension	4.79	10.64	14.32	13.78	13.77
GTC EB Market Plus Benchmark	6.55	12.90	14.61	15.35	14.45
GTC EB Market Plus - Provident	4.12	11.31	14.78	14.13	14.04
GTC EB Market Plus Benchmark	6.55	12.90	14.61	15.35	14.45
GTC High Equity Fund - Provident	4.70	9.09	12.53	12.30	11.67
GTC High Equity Inflation Target - CPI+5%	10.39	10.87	11.03	10.75	10.66
GTC High Equity Fund - Pension	4.82	9.12	12.42	12.13	11.53
GTC High Equity Inflation Target - CPI+5%	10.39	10.87	11.03	10.75	10.66
GTC Moderate Fund - Provident	3.61	7.97	10.70	10.52	10.20
GTC Moderate Inflation Target - CPI+3%	8.39	8.87	9.03	8.75	8.65
GTC Moderate Fund - Pension	3.59	7.90	10.66	10.47	10.11
GTC Moderate Inflation Target - CPI+3%	8.39	8.87	9.03	8.75	8.65
GTC Conservative Fund - Provident	4.66	5.99	7.50	7.67	7.10
GTC Conservative Inflation Target - CPI+1%	6.38	6.86	7.02	6.75	6.65
GTC Conservative Fund - Pension	4.71	6.40	7.77	7.93	7.50
GTC Conservative Inflation Target - CPI+1%	6.38	6.86	7.02	6.75	6.65
FTSE/JSE All Share Index (ALSI)^	-0.38	10.55	13.94	14.51	14.64
FTSE/JSE Shareholder Weighted Index (SWIX)^	3.00	13.82	15.30	16.34	16.16
BEASA All Bond Index (ALBI)^	3.83	6.90	4.09	5.98	6.26
Cash (SteFi)^	4.77	4.38	4.13	4.12	4.18
MSCI World Index (R)^	15.73	18.54	24.73	24.64	20.71

* Annualised   ^Benchmark returns include 1,5% fees   GTC performances shown are net of all fees

The **GTC Market Plus Funds** have benefited from their equity market exposure, both domestically as well as offshore. Within our manager blend, exposure to attractive and depressed materials exposure has detracted in the short term.

The **GTC High Equity Funds** (previously Aggressive) are ahead of their inflation target over the longer term. Equity markets continue to be the main driver for fund performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

The **GTC Moderate Funds** underperformed their target over the short term but maintained their outperformance relative to the inflation adjusted target over longer term periods. Equity markets remain the key driver of performance.

The **GTC Conservative Funds** is ahead of their inflation target over the longer term. Equity markets remain the key driver of performance.

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