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Market Update

January 2015

Global

Global equities as measured by the MSCI World Index registered negative returns in January in dollar terms due to a weaker performance from U.S. equities. Commodity prices continued to fall with Brent crude oil dropping below $50 dollars a barrel.

The S&P 500 fell 3.10% in January on the back of lower than expected earnings in Q4 where concerns surrounding a rampant dollar and slowing global economic growth continued to influence the market negatively. Whilst consumer confidence remained at a high level, business confidence began to wane evidenced by disappointing durable goods orders. Even a somewhat dovish stance from the Federal Reserve's monthly rate setting committee did little to foster any market enthusiasm.

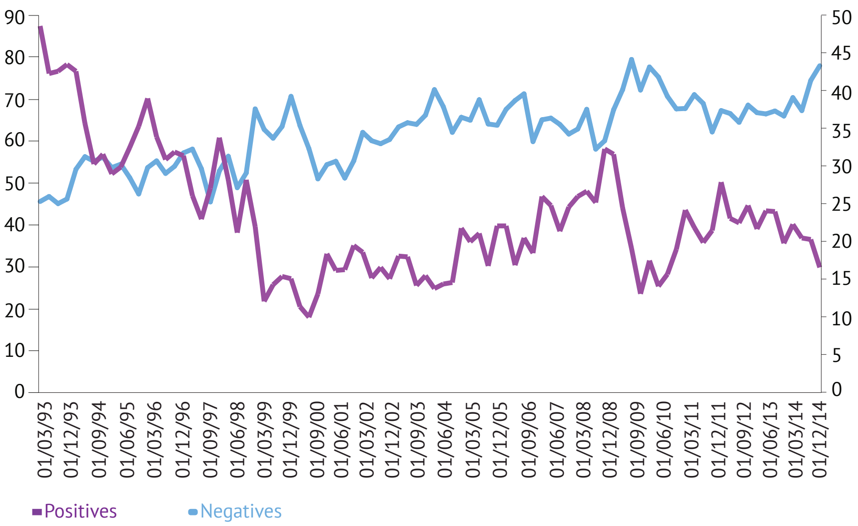
Towards the end of January technology giant Microsoft, chemical manufacturer Du Pont, industrial conglomerate United Technologies, consumer goods stalwart Procter and Gamble and noteworthy machinery manufacturer Caterpillar all produced below expectation results. The first four of these companies cited global growth headwinds and the strong dollar as being the causes of profit decline, whilst Caterpillar pointed to a reduction in energy sector capital expenditure as a result of the decline in the oil price as the cause of its lower earnings.

These poor corporate results coincided with the announcement that durable goods orders declined 0.6% in December following on a similar decline in November. Risk-off sentiment was further reflected in a decline in the benchmark 10-year Treasuries where the yield declined to 1.33% from the 1.76% at the beginning of the month. The Q4 GDP figure coming in at 2.7% after the record 5.0% in Q3 did little to enhance market sentiment.

Eurozone equities advanced strongly in January with the MSCI EMU Index gaining 7.4%. The European markets were firmly underpinned by the ECB's long awaited announcement of a QE programme which is focused on the purchase of sovereign bonds. The ECB's programme will total Euro 60bn per month commencing in March 2015 and extending until at least September 2016.

It is intended that the QE will boost economic growth and result in inflation heading towards a target of just below 2%. December figures indicated that the Eurozone was now experiencing deflation with a negative 0.2% for the month against a positive 0.3% in November. Unexpectedly the preliminary inflation rate for January is negative 0.6% largely as a result of the sharp decline in the oil price.

S&P 500 Earnings Surprises



Source: GTC/Bloomberg

The possible exit of Greece (Grexit) from the Eurozone continued to haunt European as well as global markets. The newly elected Prime Minister Alexis Tsipras of the anti-austerity Syriza party signalled his intention to renege on the austerity measures imposed by the ECB indicating that they were crippling the economy. The concern is that such a move might encourage other countries reeling under the yoke of tough austerity measures to follow their example. To give some measure to the problem, Greek debt stands at Euro 323 billion of which 60% is owed to the Eurozone and 10% to the IMF. Unemployment stands at 25% with youth unemployment at 50%. Debt is 175% of GDP.

The Swiss National Bank's surprise decision to unpeg the franc from the Euro caused significant market volatility with sharp appreciation of the franc and shares of Swiss exporting companies coming under severe pressure.

In the U.K. the news of the ECB QE programme was welcomed by the market with the FTSE All Share gaining 2.6%.Supermarket giant Tesco and J.Sainsbury reported strong festive season trading alongside the CPI number which slowed significantly to 0.5% in December. Resource companies declined as metal prices fell amid ongoing Chinese growth fears while disappointing results from Royal Dutch Shell, the first multinational oil major to report weighed on the oil and gas sector.

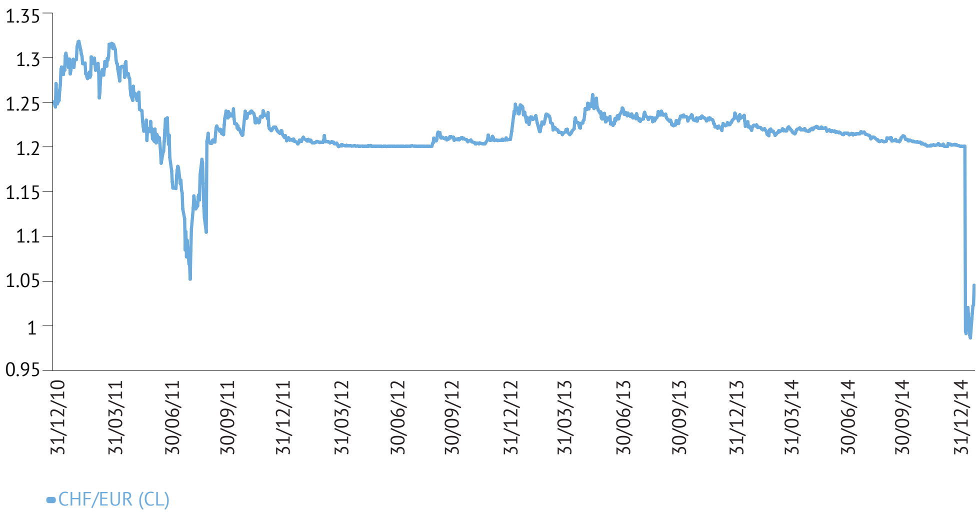
Japan's economic data continued to slowly improve suggesting that the impact of the consumption tax increase may be fading. The main negative was the weakening of inflationary pressures partly as a result of declining oil prices. Most other economic news received during the month was international, rather than region specific. Market sentiment was largely driven by geo-political events in Europe, including the Ukraine situation, as well as the Greek election results and the ECB decision to ease monetary policy.

China's GDP grew by 7.4% in 2014 the slowest pace in more than a decade. China's trade data for December showed a slight increase with exports up 9.7% and imports down 2.3% reflecting the drop in the oil price. The MSCI China Index returned 2.26% while the Shanghai Equity Index lost 0.75%. The slowdown in the Chinese economy and the decline in commodity prices is of particular significance for South Africa's mineral exporters.

Domestic

In spite of the threat of load-shedding from Eskom and a downgrade in growth forecasts from both the IMF and World Bank the FTSE/JSE ALSI surprised market commentators by closing the month at 51266 points having breached the psychological 50,000. The ALSI gained 3.01% over the month and in total return terms gained 3.08%. The rapid decline in the oil price certainly helped boost market confidence.

Swiss Franc vs Euro



Source: GTC/I-Net

The IMF lowered South Africa's growth forecast to 2.1% for 2015 from the previous forecast of 2.3% in October. The reasons given for the revision was that self-inflicted issues such as an erratic electricity supply, a deteriorating transport infrastructure and labour unrest would detract further from economic growth. Increased volatility was very evident in the market with the 30 day ALSI volatility increasing to 21.84 from the previous 20.96. The Top40 index gained 2.63% for the month.

South Africa's CPI was down more than expected to 5.3% in December from 5.8% in November as lower fuel prices continued to moderate inflation. South Africa's average inflation rate for 2014 came in at 6.1% up from 5.7% for 2013. PPI slowed to 5.8% in December from 6.5% in November. Manufacturing production slowed in November contracting 1.3% y/y from a revised expansion of 2.3% in October.

November's retail sales rose 2.6% y/y. Private credit demand grew by 8.52% in December. Mining production fell 0.4% in November following on October's falloff 0.7%. Seasonally adjusted mining production was up 6.3% in the three months ended November compared to the same period last year.

South Africa is currently facing its worst power crisis since 2008 as Eskom struggles to keep the lights on in Africa's most advanced economy due to ageing and poorly maintained power stations and infrastructure. The utility has implemented load-shedding to avoid a national black-out which would have dire consequences for the economy and would probably see South Africa literally in the dark for a protracted period.

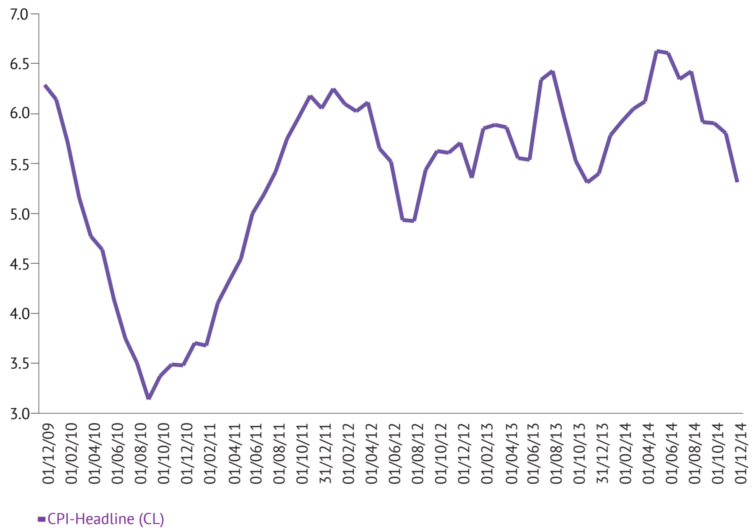
The utility has further warned that continued load-shedding is likely to continue for some considerable time. This is being partly occasioned by the fact that the two new power stations, Medupi and Kasile are years behind in being able to supply power to the national grid. The situation is further compromised by the fact that Eskom has been using peak demand stand-by gas turbine generators to meet current demand.

The cost of so doing runs to billions of Rand and as a result Eskom has run out of cash. In order to try and meet this cash flow shortage the government has said it will dispose of "non-strategic" assets to help fund the ailing power utility.

Furthermore it has agreed that Eskom may raise its tariffs in order to try and recoup the amount spent on diesel to feed the gas turbines.

This is certainly a sorry situation for the South African economy as a whole and unfortunately the severity of the crisis will ultimately play out in reduced earnings for many of our blue chip companies.

CPI - Headline



Source: GTC/I-Net

GTC Fund Performances - January 2015

Client portfolios	1Year	*2Year	*3Year	*4Year	*5Year
GTC EB Market Plus Fund - Pension	7.62%	14.32%	15.05%	13.30%	14.20%
GTC EB Market Plus Benchmark	15.22%	15.66%	17.24%	14.83%	14.63%
GTC EB Market Plus Fund - Provident	10.08%	15.62%	15.92%	13.95%	14.72%
GTC EB Market Plus Benchmark	15.22%	15.66%	17.24%	14.83%	14.63%
GTC High Equity Fund- Provident	8.87%	11.70%	12.83%	11.45%	11.67%
GTC High Equity Inflation Target - CPI+5%	10.32%	10.36%	10.48%	10.62%	10.20%
GTC High Equity Fund - Pension	8.99%	11.59%	12.59%	11.39%	11.71%
GTC High Equity Inflation Target - CPI+5%	10.32%	10.36%	10.48%	10.62%	10.20%
GTC Moderate Fund - Provident	7.98%	10.26%	11.08%	10.16%	10.66%
GTC Moderate Inflation Target - CPI+3%	8.31%	8.36%	8.48%	8.62%	8.20%
GTC Moderate Fund - Pension	7.97%	10.12%	11.05%	10.07%	10.55%
GTC Moderate Inflation Target - CPI+3%	8.31%	8.36%	8.48%	8.62%	8.20%
GTC Conservative Fund - Provident	6.34%	6.79%	7.78%	7.13%	7.31%
GTC Conservative Inflation Target - CPI+1%	6.31%	6.36%	6.47%	6.62%	6.19%
GTC Conservative Fund - Pension	6.45%	7.19%	8.09%	7.65%	7.74%
GTC Conservative Inflation Target - CPI+1%	6.31%	6.36%	6.47%	6.62%	6.19%
FTSE/JSE All Share Index (ALSI)^	15.33%	14.25%	16.73%	14.80%	15.60%
FTSE/JSE Shareholder Weighted Index (SWIX)^	22.36%	17.72%	19.62%	17.41%	17.58%
BEASA All Bond Index (ALBI)^	19.45%	7.00%	8.66%	9.44%	9.66%
Cash (SteFi)^	4.42%	4.02%	3.99%	4.03%	4.27%
MSCI World Index (R)^	4.79%	22.42%	24.39%	18.08%	16.38%

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

The **GTC Market Plus Funds** has benefited from its 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) is underperforming its target over 1 year on the back of the valuation positioning within the equity manager blend over the quarter but maintained its outperformance relative to the inflation adjusted target over longer term periods. 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** is underperforming its target over 1 year on the back of the selloff in equity markets over the quarter but maintained its outperformance relative to the inflation adjusted target over longer term periods. Equity markets remain the key driver of performance.

The **GTC Conservative Funds** have produced above target returns over all medium and longer term investment horizons. The main objective of the fund is to reduce capital risk whilst aiming for above inflation returns.

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