GTC Market Update

July 2015

Global

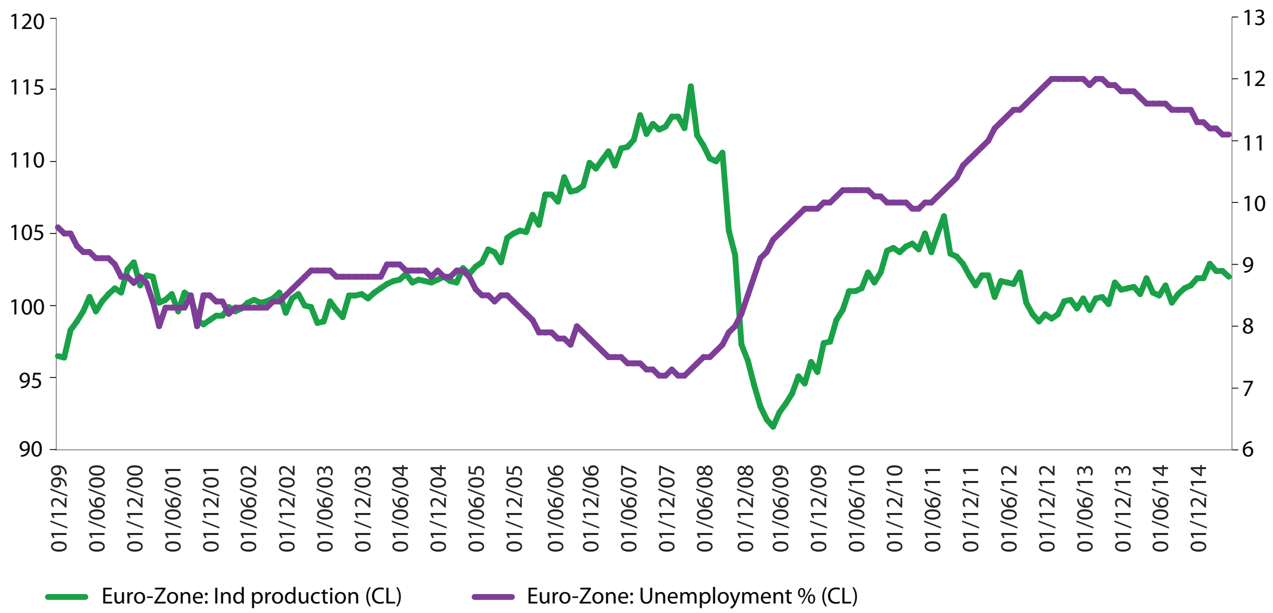
In spite of concerns over a possible Greek default and subsequent exit from the Euro as well as the declining growth rate of the Chinese economy, developed markets continued to deliver positive returns in July aided by a constant fall in oil prices. Unfortunately emerging markets did not fare as well registering negative returns with currency weakness exerting even further downward pressure.

In the U.S, markets were buoyed by continuing positive economic data with the S&P 500 rising 2.1% in spite of rising concern over the Federal Reserve introducing a possible interest rate hike in September. The revised GDP number for Q1 from a negative -0.2% to a positive 0.6% suggested that the earlier downturn was due to one-off factors which included extremely poor weather conditions and which had also resulted in port closures. This together with the fact that U.S. GDP accelerated in Q2 to an annualised 2.3% gave added impetus to the markets.

Consumer counters performed exceptionally well on the back of a further improvement in the U.S. employment numbers with retailers the best performing sector for the month. Mergers and acquisitions (M&A) activity also propped up market levels.

The energy and materials sectors lagged amid renewed concerns over Chinese economic growth, a further sharp decline in metal prices and renewed weakness on the oil price front. The softer oil price was partly in anticipation of Iranian production coming back on stream as a result of an agreement between Iran and the Western nations who had previously imposed sanctions over its nuclear programme. Integrated oil and gas counters reported significantly reduced Q2 profits with Exxon Mobil down more than 50%.

EU: Industrial production vs. unemployment



Source: GTC/I-Net

In the Eurozone a settlement between Greece and its European creditors resulted in the MSCI EMU (European Economic and Monetary) index returning 4.7% as concerns eased. Despite Greek voters initially rejecting austerity measures in a referendum the government subsequently reached a deal with creditors to implement reforms in exchange for short-term financing.

This enabled banks to re-open and paved the way for further talks to secure a Euro 68 billion bailout programme. European macro-economic data continued to signal expansion with the flash Eurozone Purchasing Manager's Index (PMI) coming in at 53.7 albeit slightly lower than June's 54.2.

Eurozone inflation remained constant at 0.2% in July with the unemployment rate steady at 11.1% in June. Top performing sectors were healthcare, telecoms and industrials. Consumer discretionary was the worst performer while the automobiles and components sector came under pressure on weaker Chinese demand.

U.K. equities recovered in line with global markets with the FTSE All-Share gaining 2.45%. The recovery was led by the many large caps which were part of the June sell-off resulting in the FTSE 100 leaping 2.8%. M&A activity continued to support the market.

The prospect of an earlier than expected increase in interest rates came with the announcement by the Bank of England Governor Mark Carney that there could be a possible hike in rates before year end.

The resources sectors continued to perform poorly on the back of the ongoing negative outlook for China as well as renewed weakness in the oil price.
After a sharp decline early July the Japanese stock market recovered later in the month to record positive growth of 1.8% in Yen terms.

The early weakness was in line with other major markets resulting from the uncertainty surrounding the outcome of the Greek crisis. This also resulted in some Yen strength early in the month which reversed before month end when the Yen resumed its weaker trend. Japanese economic data continues to confuse sending mixed signals on an ongoing basis.

Chinese markets experienced considerable volatility during the month as the slump first experienced late in June continued into July with panic selling ensuing. This was further exacerbated as authorities clamped down on margin financing which was the key driver of an overheated market.

Following government support measures relative calm returned to the market only to experience another wave of selling on speculation that the Chinese government was considering withdrawing the support measures.
Economic data coming out of China remains mixed with Markit's widely watched June PMI reading coming in at a worse than expected 49.4 points while Q2 growth of 7% y/y was better than expected.

In Hong Kong equities fell in line with the extreme volatility being experienced by the Shanghai market.

Domestic

The JSE reacted, along with global markets, to the Greek monetary crisis but more importantly came under severe pressure from not only a sharp decline in commodity prices but also a sharp fall-off in demand from a slowing Chinese economy. In spite of the local currency trading at a 14 year low at R12.65/$, it did little to prevent resource stocks from being hammered.

The JSE/ALSI closed below the 50,000 level for the first time since January but managed a recovery towards month end to close at 52053 points and gaining 0.48% for the month and in total return terms 0.52%. The ALSI's 30-day volatility increased to 16.57 from June's 11.29. The FINI15 was the best performing index gaining 3.46% while the INDI25returned 1.42%. Not surprisingly the RESI20 lost 7.65%. Gold mining was the worst performing sector losing 21.92% while Platinum and Precious Metals lost 19.4%.

Indicative of the carnage seen in the commodities market the Platinum sector has on a y/y basis given up 53.6%. Consumer Price Inflation (CPI) rose slightly from 4.6% y/y in May to 4.7% in June well below the consensus of 5.0%. The increase was largely attributable to the 3.7% increase in the fuel price in June. Core CPI which excludes food and energy prices actually declined from 5.7% to 5.5% its lowest level since May 2014.

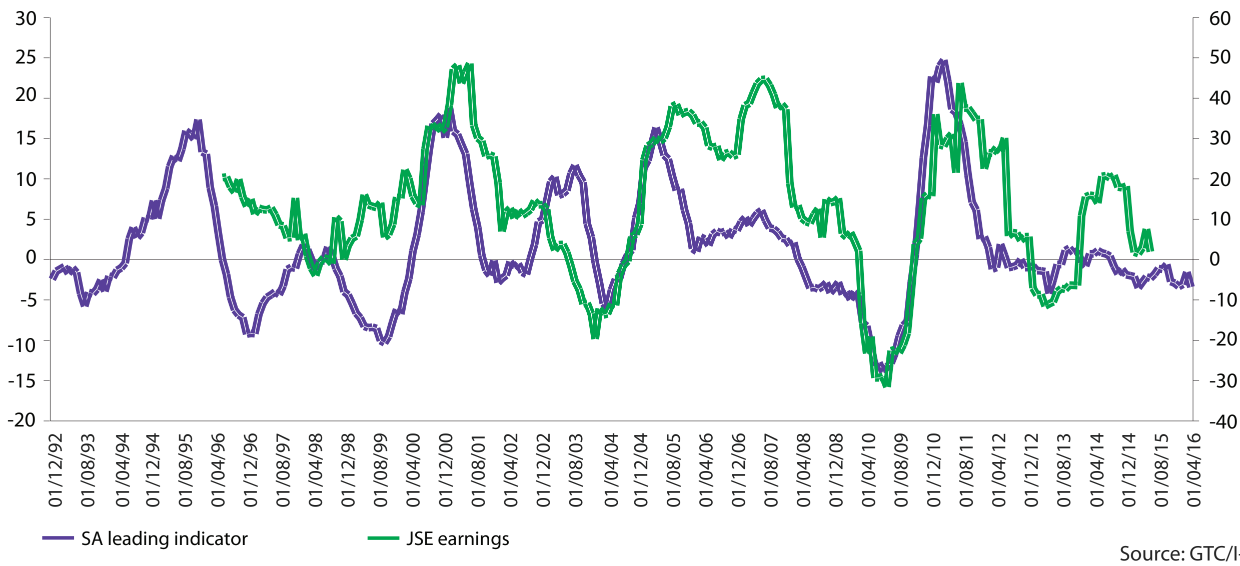
The subdued reading from core inflation suggests the absence of "demand-pull" inflationary pressure.

In spite of the lower than expected CPI figure and a lacklustre economy the S.A. Reserve Bank somewhat unexpectedly raised the repo rate from 5.75% to 6.0% the first rate increase since July 2014.This was decided by the SARB Monetary Policy Committee on a split vote of 4 to 2.

Despite the National Energy Regulator (NERSA) rejecting Eskom's request for an additional tariff hike and the sharp decline in the oil price the SARB Governor Lesetja Kganyago felt it expedient to introduce the rate hike in anticipation of the U.S. Federal Reserve raising interest rates at its September meeting. Had SARB not increased rates the possibility of substantial foreign outflows from the local stock market may have resulted. Concern over foreign outflows will certainly be a major factor in determining future rate hikes. Foreign buying of bonds in the year to date amounted to R18.74bn and for equities amounted to R35.89bn.

Wage negotiations in the gold mining sector continued with the industry indicating that the new wage demands are totally unaffordable particularly as the gold price is trading at 5 year lows. Profitability throughout the mining industry is rapidly declining suggesting that large scale dismissals could be on the cards. The increases being proposed by the mining Unions NUM and Amcu would cost the gold mining industry an additional R16.5bn. Amcu has subsequently withdrawn from the talks but has as yet not called for strike action.

SA leading indicator vs JSE earnings



Source: GTC/I-net BFA

SARB's leading economic indicator (LEI) declined -3.4% y/y in May for its 20th month decline and to its lowest level since November 2009. The LEI readings indicate a declining economic outlook which is likely to be further exacerbated by the recent interest rate increase. The S.A. Chamber of Commerce Business Confidence Index fell 2.3 index points to its lowest level in 16 years in June to 84.6 points versus May's 86.9 points.

The overriding factor influencing the stagnant growth of the economy continues to be Eskom's inability to provide a consistent and reliable source of electricity. Until such time as this situation is resolved our local economy will unfortunately just continue to bumble along.

GTC fund performances - July 2015

Client portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC EB Market Plus - Pension	7.39	12.90	15.90	14.02	13.74
GTC EB Market Plus Benchmark	9.96	14.78	16.41	16.05	14.46
GTC EB Market Plus - Provident	6.68	13.54	16.34	14.35	14.00
GTC EB Market Plus Benchmark	9.96	14.78	16.41	16.05	14.46
GTC High Equity Fund - Provident	6.45	11.30	13.92	12.51	11.65
GTC High Equity Inflation Target - CPI+5%	9.75	10.68	10.63	10.60	10.49
GTC High Equity Fund - Pension	6.63	11.33	13.81	12.35	11.51
GTC High Equity Inflation Target - CPI+5%	9.75	10.68	10.63	10.60	10.49
GTC Moderate Fund - Provident	4.64	9.49	11.72	10.69	10.15
GTC Moderate Inflation Target - CPI+3%	7.74	8.67	8.63	8.60	8.48
GTC Moderate Fund - Pension	4.66	9.44	11.68	10.66	10.07
GTC Moderate Inflation Target - CPI+3%	7.74	8.67	8.63	8.60	8.48
GTC Conservative Fund - Provident	5.02	6.34	7.99	7.82	7.14
GTC Conservative Inflation Target - CPI+1%	5.74	6.67	6.63	6.60	6.48
GTC Conservative Fund - Pension	4.99	6.76	8.29	8.07	7.52
GTC Conservative Inflation Target - CPI+1%	5.74	6.67	6.63	6.60	6.48
FTSE/JSE All Share Index (ALSI)^	2.82	14.02	16.37	15.46	14.64
FTSE/JSE Shareholder Weighted Index (SWIX)^	6.94	16.80	17.57	17.41	16.18
BEASA All Bond Index (ALBI)^	6.63	6.13	4.06	6.85	6.86
Cash (SteFi)^	4.74	4.33	4.11	4.11	4.19
MSCI World Index (R)^	20.46	21.00	27.93	24.93	20.29

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

The **GTC Market Plus Funds** have 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 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 Fund**s underperformed their target over the 1 year period 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 Fund**s is ahead of their inflation target over the longer term. Equity markets remain the key driver of performance.

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