GTC Trendline

1st Quarter 2015

See-saw Margery "Dow"

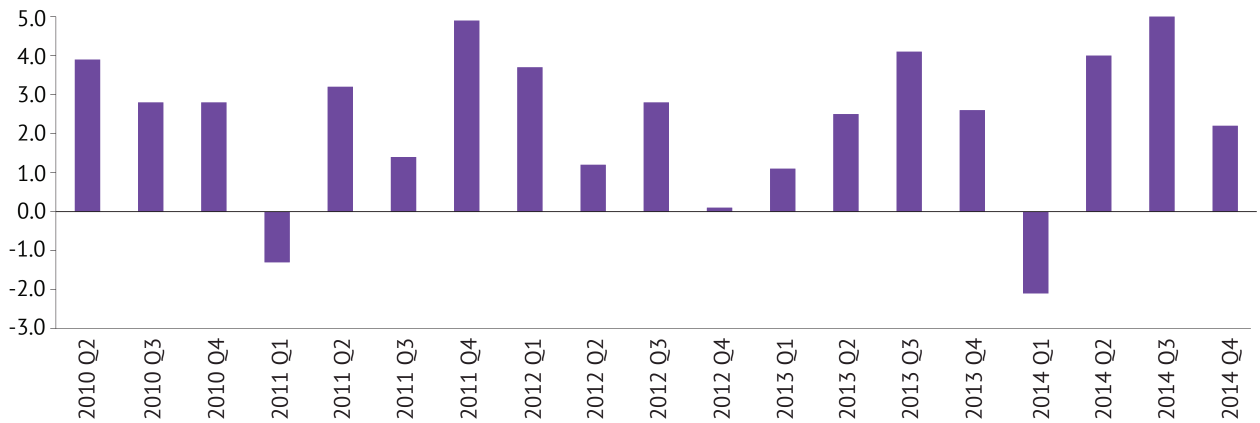
The first quarter of 2015 saw global markets reach record highs before falling off towards the end of March. The MSCI World posted 1.8% (USD) over the quarter, with strong contributions coming from Japan, Europe and the U.S while the UK declined by 0.95%. Quantitative easing in the Eurozone and China initially helped drive up equity prices. Crude oil prices, having experienced dramatic falls in the previous quarter, also stabilised bringing some calm to what had been a highly volatile situation. Market volatility was a key feature of markets over the period as economic news continued to blow hot and cold resulting in risk-on, risk-off being the order of the day.

In the U.S. merger and acquisition activity (M&A) together with renewed hopes of a further delay in the first rise in interest rates in a decade gave a bullish undertone to the market.

The Healthcare Sector was the outstanding performer as Salix Pharmaceuticals received counter bids from potential suitors the prize ultimately going to Irish headquartered Endo Pharmaceuticals. M&A activity was wide-ranging with H.J.Heinz announcing a tie-up with Kraft Foods. The flurry of M&A activity helped stimulate market activity.

The U.S. economy grew at 2.2% annualised in Q4 of 2014 which was down significantly from the euphoric 5% of the previous quarter. This news brought an element of realism to the market as the economic numbers coming out of the U.S. have been sending very mixed signals. Short term currency flows in anticipation of an interest rate hike have seen the dollar spurred to all-time highs.

US GDP



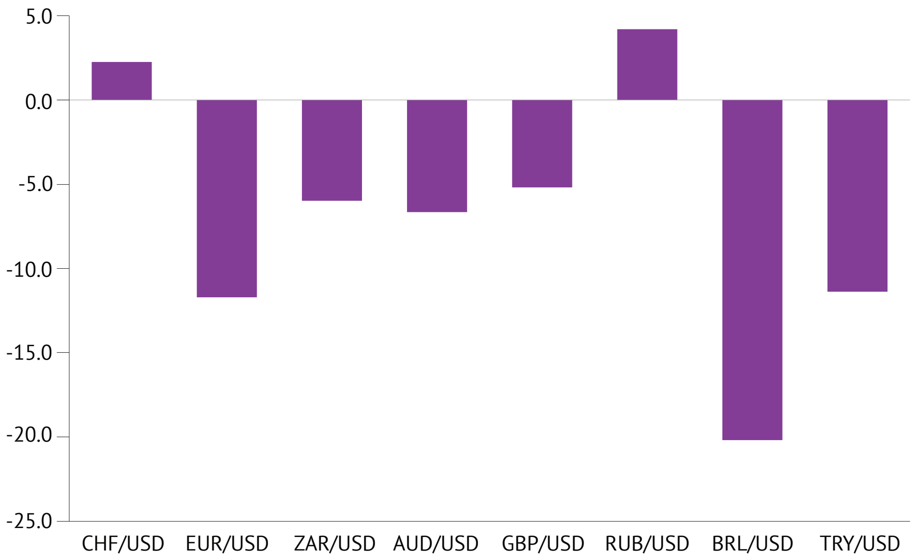
Source: US Bureau of Economic Analysis

This has come at a cost as can be seen from the results from some of the major U.S. companies as the full year reporting season began. Industrial conglomerate United Technologies, Du Pont chemicals, PC giant Microsoft and consumer goods Procter & Gamble have all announced disappointing results and all have cited the rampant dollar as the major cause of a slump in their profits.

It was concerns over dollar strength, together with disappointing earnings, that saw an end-of-quarter sell-off in U.S. markets after their having reached new highs in the previous weeks. The earlier bullishness in the markets had been occasioned by strong monthly non-farm payroll numbers which indicated a pick-up in wage growth.
This sentiment was further strengthened by comments from Federal Reserve Chair Janet Yellen at a press conference following the mid-March sitting of the Federal Open Markets Committee which whilst freeing their hand to commence interest rate normalisation dropped the word "patient" from the rhetoric. This was nevertheless construed as being a "dovish" approach and any move on interest rates is likely to be postponed until possibly much later in the year.

Eurozone equities delivered strong performance over the quarter buoyed by the long awaited announcement from the European Central Bank (ECB) of full quantitative easing. The extent of the plan took the markets by surprise with a planned total of Euro 60 billion of bond repurchases per month until at least September 2016. This news sent the Euro weaker versus the dollar, suppressed bond yields and strongly supported equity market gains. The ECB's move was in response to below target inflation which came in at -0.6 in January, -0.3 in February and again -0.1 in March. However leading indicators showed more robust growth with the flash Purchasing Manager's Index (PMI) coming in at 54.1 in March indicating expansion.

US Dollar vs Major currencies 2015 YTD (%)



Source: GTC/I-net

The continued weakening of the Euro saw the Swiss National Bank unexpectedly unpeg the Swiss Franc from the Euro which created significant volatility in both the local and global equity and currency markets. In other events focus was on the Greek elections where the anti-austerity party Syriza came to power. Concern was expressed over a possible "Grexit" but there was limited impact on other European markets.

Fourth quarter earnings were generally encouraging for Eurozone corporates with many exporters beginning to reap the benefits of the weaker currency. Top performers were economically sensitive sectors such as consumer discretionary with auto and auto parts enjoying particular strength. The utilities sector was the worst performer but still managed to post positive gains. By country Germany and Italy were the best performing economies over the quarter.

The U.K. experienced a volatile quarter with the market driven by top-down considerations as investors attempted to guess the next move by the U.S. Fed. Despite a slew of earnings downgrades at the beginning of the year expectations were largely met or bettered during the results season.

Resource companies saw their share prices stabilise along with commodities as the oil price and industrial metals prices stabilised. The FTSE index lost 2.5% m/m closing at 6773.04 points.

The Japanese stockmarket rose strongly in Q1 2015 with the TOPIX Index registering a gain of 10.5%. Market optimism was largely driven by expectations of further QE by the Bank of Japan on the back of weaker economic data. The key inflation gauge showed year-on-year inflation at 0%.Industrial production fell a worse than expected 3.4% in January with retail sales continuing to disappoint.

The Chinese economy continues to lose momentum but equities were up after the People's Bank of China cut the required reserve ratio by 50 basis points in early February as it stepped up its efforts to counter the impact of capital outflows and alleviate tight liquidity conditions. In early March the Central Bank again cut interest rates to help boost flagging growth and eased lending and tax policies to help alleviate a potential slide in property prices.

In Hong Kong equity prices gained strongly on the back of the Chinese easing measures as well as on the announcement that a trial programme connecting the stock exchanges of Shenzhen and Hong Kong would soon be launched.

Chinese PMI (official) rose to a high of 50.1 in March from 49.9 in February. The HSBC PMI showed its final PMI figure climbing to a revised 49.6 from an initial 49.2. The official and HSBC PMI figures do not always correlate due to their different sampling methods. The official PMI favours large state factories whilst HSBC favours smaller private manufacturers. However concerns remain that the Chinese economy will continue its slowdown. This is a distinct negative for South Africa as basic commodity prices are likely to remain under considerable pressure.

FIAT LUX - Let there be light...

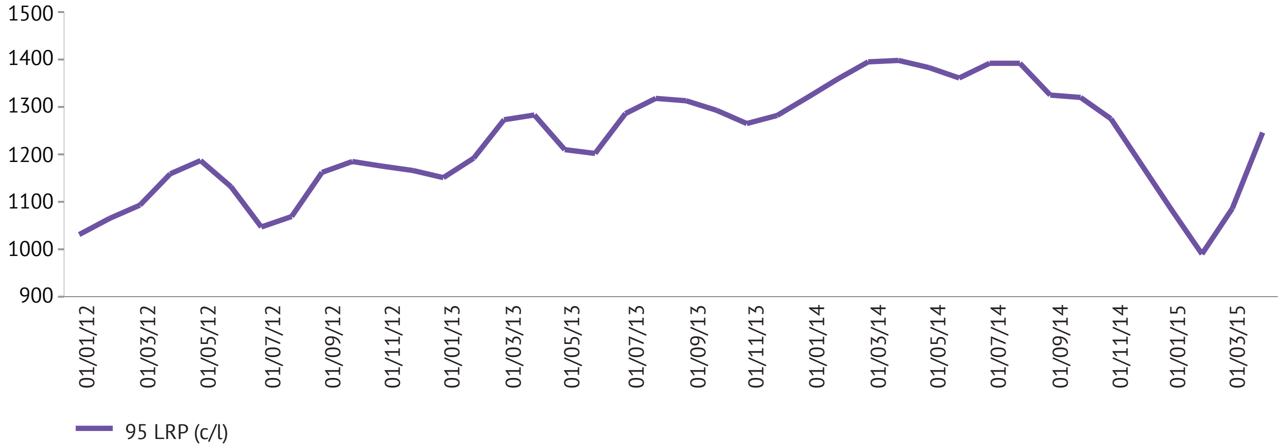
South African markets rose over the quarter on the back of the global risk on environment with the ALSI posting 5.8% (ZAR) led higher by Financials (13.7%) and Industrials (5.6%) with Resources down 0.25%. Within the fixed income market, the ALBI rose 3.0% with yields coming in on the long end of the curve whilst inflation linked counterparts were also marginally up (0.2%). The Rand declined 5.6% over the quarter.

The South African economy was dominated by two major events over the quarter namely Finance Minister Nhlanhla Nene's 2015 budget and the ongoing fiasco at Eskom which is having a major impact on economic development as well as putting substantial pressure on an already weakened Rand. Finance Minister Nhlanhla Nene's 2015 budget was much as expected save for the increase in fuel levies which was only made possible by the recent sharp decline in the oil price.

Undoubtedly mindful of the country's fiscal slippage and the ever looming threat of a possible sovereign debt credit rating downgrade, Nene's rhetoric was aimed at restoring investor confidence and underscoring the need to consolidate public finances. Overall a R25 billion reduction in budgeted expenditure is planned for over the next two years.

Nene said the tax proposals were aimed at increasing tax revenues, limiting the erosion of the corporate tax base, increasing incentives for small business and promoting a greener economy. Tax payers will pay an additional 1% more in personal income tax to enable the government to raise an additional R12 billion this year and R15 billion in 2016. There will be relief for those earning below R450, 000 per annum while those in the higher tax brackets will pay more.

SA fuel price - Coastal



Source: SAPIA/GTC

Additionally the government will increase the fuel levy by 80.5 cents a litre from 1 April - 30.5 cents is an increase in the actual fuel levy while 50 cents is to fund the Road Accident Fund. A combination of lower expenditure and higher taxes will narrow the budget deficit to 2.5% of GDP by 2017/18. Overall a R25 billion reduction in budgeted expenditure is planned for the next two years.

The budget also introduced a temporary increase in the electricity levy to 5.5 cents per Kilowatt hour from 3.5 cents previously. This will be phased out once the electricity crisis is over. The usual increases in sin taxes were also introduced. The offshore allowance for individuals has been increased to R10 million per annum and the transfer duty on properties valued at over R2.25 million has been increased from 8% to 11%. The increase in property transfer duty is substantial.

Minister Nene has projected economic growth for 2015 at 2.0% down from the 2.5% he indicated in October. For 2017 the indication is for 3%. Unfortunately these levels of economic growth project a muddle through economy for some time to come.

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 the value of some R20bn to help fund the ailing power utility.

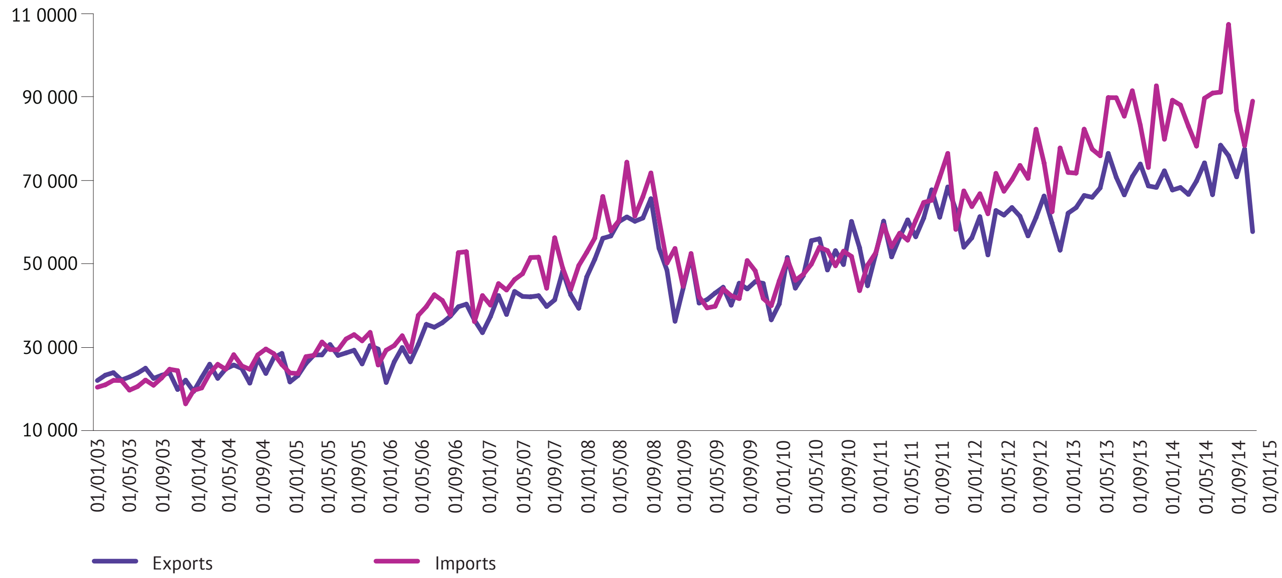
Furthermore it has agreed that Eskom may raise its tariffs in order to try and recoup the amount spent on diesel to feed the gas turbines. In this regard Eskom is requesting a tariff increase of 22.7% in bulk supply made up of an already agreed 12.69% plus an additional 9.58%.

Public Enterprise Minister Lynne Brown told parliament that power outages were costing the economy between $1,7bn and $6.8bn a month and that she was concerned about the ability of the current Eskom management to resolve the crisis. As a consequence CEO Tshediso Matona and three other executives have been suspended as the Board launches a comprehensive and holistic audit into various matters of concern. Minister Brown is concerned about the instability of power plants, the financial liquidity of the utility, the lack of credible information, progress or lack thereof with the build programme and the issue surrounding the pricing of diesel and coal.

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

South Africa's GDP expanded by an annualised 4.1% quarter/quarter in the last three months of 2014 compared to a revised growth rate of 2.1% for the third quarter.

South Africa: Exports vs Imports (Rbn)



Source: GTC/I-Net

This added 1.3% on an unadjusted basis in the fourth quarter compared to revised growth of 1.6% in the previous three months. This put full year growth at 1.5% for 2014 which was better than expected but was down on the 2.2% for 2013. South Africa's Consumer Price Inflation came in at 4.4% in January down from 5.3% in December which was welcome news for consumers and was largely attributable to the decline in the oil price. It is very unfortunate that this benefit to consumers has been largely negated by the increase in the fuel levies.

S.A.'s trade deficit came in at R8.4bn in February which was a big improvement on the deficit of R24.2bn recorded in January. Imports were R85.33bn versus exports of R76.85bn. So far the combined deficit for 2015 stands at R32.7bn more than double the figure of R15.49bn for the same period last year. S.A.'s PPI climbed 0.4% on a monthly basis in February after having recorded a decrease of 1.1% in January. The Repo rate was held steady but SARB has indicated that to the extent that Rand weakness flows into inflation they will have no option but to raise interest rates. The integrity of inflation targeting is to be maintained.

The pending twin peaks regime

It is truly remarkable that the fallout from the 2008 Global financial crises continues to be felt around the world, including South Africa. The current regulatory landscape locally is that the financial services sector (excluding banks) is regulated by the Financial Services Board (hereinafter referred to as the FSB). It's regulation of this sector has left gaps which have been exploited by the unscrupulous to the detriment of the public. Why should banks be excluded from the general net in the first instance, one might ask?

The Twin Peaks model will see the creation of a prudential regulator housed in the South African Reserve Bank (SARB), while the current FSB in a new format, will be transformed into a dedicated market conduct regulator.

This model will have two fundamental objectives

The first is to strengthen South Africa's approach to consumer protection and the market conduct in offering financial services, and secondly, to create a more resilient and stable financial system.

It is common cause that South Africa requires a safe and stable financial services sector that is accessible to all. This cannot be achieved by the weakness of a light touch regulatory system, as is currently the case.

The key functions of the SARB will be to implement both micro and macro - prudential regulation and supervision. Micro – prudential regulation aims to secure the safety and soundness of all banks, insurers, financial services providers and financial market infrastructure. Macro – prudential regulation seeks to promote the stability of the financial system as a whole.

The key functions of the replacer of the FSB, the new market conduct regulator is to focus on protecting consumers of financial products and services. The most vulnerable customers are retail clients who often lack the sophistication and information necessary to protect them from fraud, market abuse or ill – informed advice. It is them that rely on financial institutions and their representatives to act in their best interests. This regulator will oversee the market conduct of all financial services institutions including banks.

Market integrity will involve the setting and enforcing rules governing product disclosure, rules to promote orderly and efficient trading and price formation, rules to avoid market abuse and requirements to oversee the operation of exchanges and market infrastructure.

The Twin Peaks implementation date is yet to be determined.

Conclusion

Twin Peaks has been designed to streamline interaction between the regulators and the financial services industry, with a more functional approach to regulation and supervision replacing the current industry silo – based approach. This regulatory regime will be more centralized and will consolidate the various aspects of regulation governing the financial services industry in order to remove duplication and improve efficiency to the ultimate benefit of the consumer.

Source: FSB Bulletin, first quarter 2014

GTC Fund Performances - March 2015

Investment portfolios	3Mth %	6Mth %	1Year %	2Year* %	3Year* %	4Year* %	5Year* %
GTC Fixed Income B	1.43	2.93	8.39	6.37	5.80	5.91	6.01
GTC Wealth Accumulator FOF B	3.89	4.71	7.35	10.99	10.96	9.99	10.67
GTC Capital Plus FOF B	2.98	4.01	6.94	8.30	8.82	7.73	7.57
GTC Prosperity Wealth FOF	3.55	4.84	7.84	10.50	10.10	10.51	11.17
GTC Prosperity Wealth Composite Benchmark	4.77	7.97	12.86	13.66	14.32	13.03	12.61
FTSE/JSE All Share Index (ALSI)^	5.46	6.49	10.87	16.19	17.67	14.62	14.38
FTSE/JSE Shareholder Weighted Index (SWIX)^	6.48	10.07	16.00	19.28	19.60	17.12	16.42
BEASA All Bond Index (ALBI 1-3 year)^	1.41	3.51	5.77	4.18	4.65	5.50	5.55
Cash (SteFi)^	1.15	2.33	4.55	4.12	4.03	4.05	4.23
GTC Wealth Protector FOF	1.98	3.14	8.12	6.89	6.79	7.17	7.54
CPI +1% target	0.52	0.95	4.91	5.91	6.23	6.44	6.10
GTC Balanced Wealth FOF	3.31	4.33	7.03	8.96	8.83	9.18	9.73
CPI +5% target	1.49	2.91	8.92	9.92	10.23	10.45	10.10
GTC Conservative Absolute Growth (R)	4.09	7.34	13.94	18.83	20.57	18.48	14.69
GTC CAG's Composite Benchmark (R)^	4.22	5.71	11.91	15.97	18.02	17.33	12.97
R/$ Exchange rate	4.54	7.21	14.34	14.45	16.32	15.92	10.58
GTC Global Conservative Absolute Growth ($)	0.68	-1.30	-2.32	1.49	3.67	2.57	3.82
GTC Global CAG's Composite benchmark ($)^	-0.31	-1.40	-2.14	1.32	1.45	1.20	2.15

* 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 (SteFI) and Bond (ALBI 1-3 year) benchmarks.

The **GTC Wealth Accumulator FoF** captured a large portion of the positive returns in the equity markets, whilst also displaying its defensive attributes in what has been a volatile period for equity markets.

The **GTC Capital Plus FoF** has shown its capital protection focus. 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 the longer term. It should be highlighted that investment decisions within the fund are based on long term prospects and earnings streams of individual companies as opposed to any short term macroeconomic outlook or individual company prospects. The fund remains defensively positioned with the anticipation of continued volatility.

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