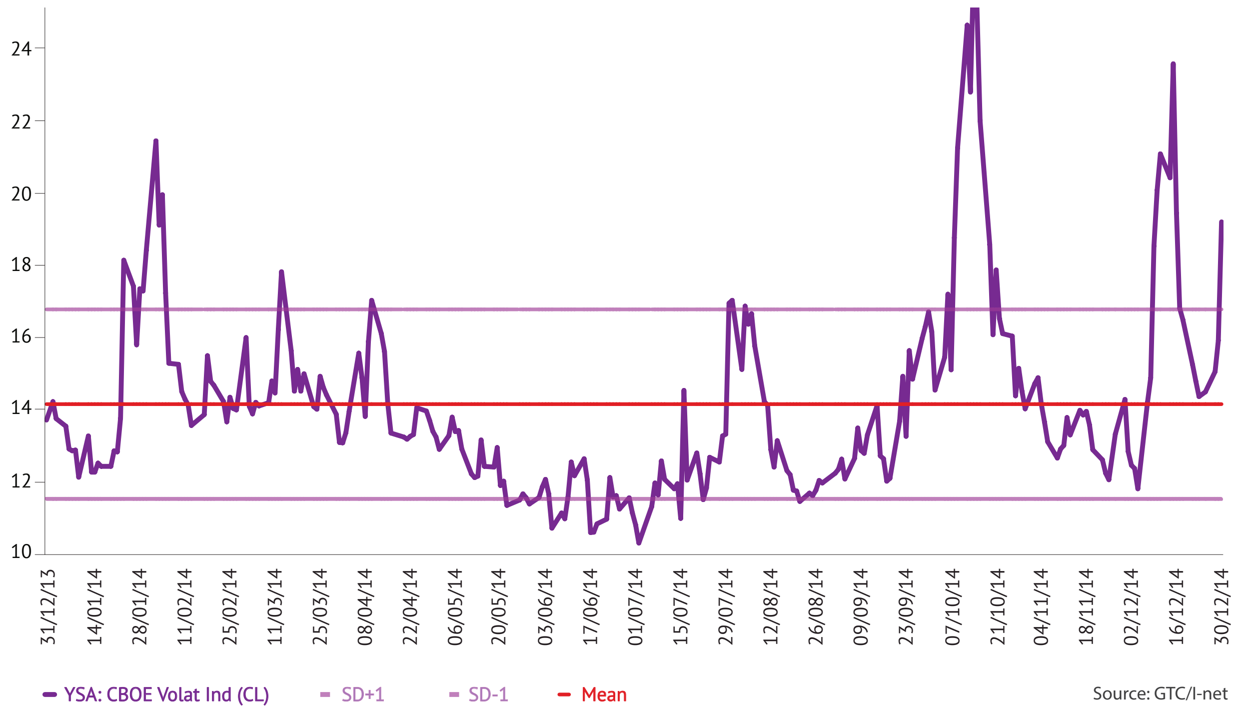
GTC Trendline

4th Quarter 2014

The world's afloat on oil

The key feature of the last quarter of 2014 was unquestionably the somewhat unexpected and rapid decline in the oil price which dropped by a mammoth forty odd percent. This created increasing volatility in global markets which was further exacerbated by a decision to maintain interest rates at all-time lows. This increased volatility was evidenced by wild fluctuations in the S&P 500 which declined almost 5% mid-December to rebound strongly at month end to close just below record highs. This sudden rebound was occasioned by a statement from the Federal Reserve Open Market Committee (FOMC) that they would be "patient" with regard to the normalisation of monetary policy. The Federal Reserve reiterated that any increase in U.S. interest rates would largely depend on unfolding economic data with particular attention being paid to employment levels and wage growth. Stock market volatility as measured by the VIX, which measures market expectation of near term volatility, rose to an intra-month high of 23.57. However the S&P 500 finished the quarter down 0.25% whilst the Russell 2000 Index of smaller U.S. companies posted a solid gain of 2.85%. Foreign stocks as measured by the MSCI EAFE Index declined 3.46% during the quarter as dollar strength provided a significant headwind. The Euro and the Yen which are the two largest currency components of the MSCI EAFE Index declined 12% against the U.S. dollar in 2014.

US VIX 2014

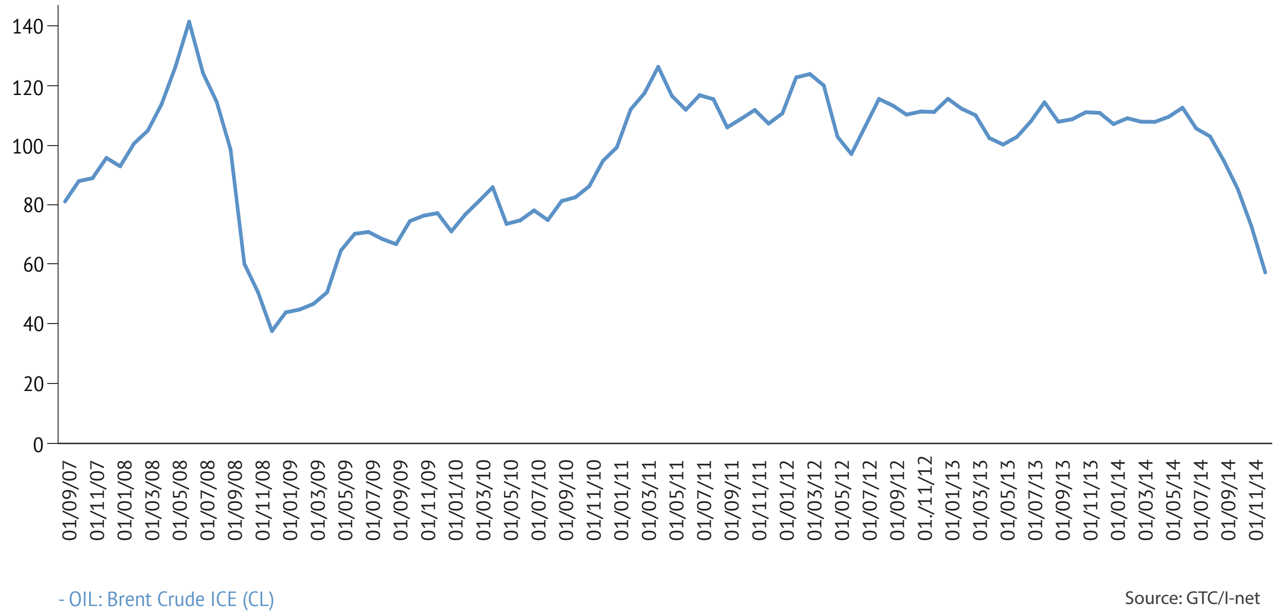


Source: GTC/I-net

The U.S. added 321,000 jobs in November, the tenth straight month of more than 200,000 job gains, and the longest increase in more than 20 years. As the economy added more jobs the unemployment number declined to a 6 year low of 5.8% below the targeted 6.0%. Economic data indicates that the U.S. recovery has outpaced the rest of the developed world as third quarter real GDP was revised 1.1% higher to an annualised growth rate of 5.0%. However the surge in manufacturing output appears to be slowing with the Purchasing Managers Index (PMI) notably lower than the previous month but still above the critical 50.0 which indicates expansion.

The global fall in oil prices continues to exert substantial downward pressure on global inflation with the price down more than 50% from June's peak of just above $ 115 per barrel. Decreased global demand, increased supply from U.S. and Canadian fracking operations and a decision by the Organisation of Petroleum Export Countries (OPEC) to maintain current production levels were sufficient to put the skids under the price.

OIL: BRENT CRUDE ICE (CL)



Source: GTC/I-net

In the Eurozone the hoped for economic stimulus measures from the European Central Bank led by Mario Draghi failed to materialise with the Euro having declined some 12% versus the U.S. dollar in 2014. Germany's PMI declined further in November following contraction in October. Germany's Central Bank lowered its forecast for GDP growth to 1.4% for 2014 and 0.8% for 2015 down from previous estimates of 1.9% and 1.8% respectively.

Japan's economy shrank 1.9% in the third quarter which was greater than expected. Markets reacted strongly in Q4 as Japanese Prime Minister Shinzo Abe won a resounding election in spite of the country's economic woes which suggests that the next leg of "Abe-nomics" will soon be introduced.

The proposed increase in sales tax to help fund the ever increasing burden of government debt has however been postponed. The previously introduced sales tax had a major negative effect on the economy.

In December the Japanese government also approved a new stimulus package aimed at encouraging private consumption and supporting small businesses. The Japanese economy experienced uneven sector growth over the period as stimulus measures and organic growth were stifled by deflationary pressures. Structural debt and demographic challenges remain strong headwinds to further economic recovery—the Japanese population has contracted for three years running as annual birth rates showed a fourth successive year of all-time lows.

China reported two disappointing manufacturing readings (PMI) which barely hovered above 50.0 which suggest a definite economic slowdown. Consumer prices rose in November at an annual rate of 1.4% the slowest pace in five years. This spurred the People's Bank of China to inject another400 billion Yuan's ($64.5billion) into the banking system to help kick start the ailing economy.

The MSCI Emerging Equity Index again underperformed the MSCI World Equity Index in dollar terms as the latter lost 1.71% against the former's 4.82% gain. The MSCI Emerging Equity Index was largely dragged down by the Russian component which saw the Rouble decline some 50%. Russian interest rates were hiked by an unprecedented 17% in order to try and stem huge currency outflows.

Quo vadis Eskom?

Local market sentiment has been dominated by a variety of factors but in particular has been influenced by the somewhat unexpected collapse in the oil price, the Eskom crisis and a continued slowdown in the Chinese economy. Crude oil's fall of some 45% in 2014 has resulted in a rampant U.S. dollar and a concomitant decline in the value of ,in particular, emerging market currencies and hence a considerably weaker Rand.

Coupled to this the Eskom crisis has reached such serious proportions that the Cabinet has set up a "technical war room "at Eskom in an endeavour to prevent the national power grid from imploding. This "war room" will ensure that a more stringent focus is kept on strategic maintenance and efficiency. In spite of this move the immediate future surrounding the possibility of load shedding remains far from secure and is likely to have a decidedly negative effect on domestic economic growth for some time to come.

Economic news of particular significance was the medium term budget policy statement for 2014/2015 delivered by the new Minister of Finance Nhlanhla Nene in October which he described as "The road map to safeguard the public finances" This entailed reducing the government's expenditure ceiling and raising taxes over the next three years.

South African's will pay more tax from 2015 details of which will be outlined in February's budget. Policy and administrative reforms will raise at least R12bn in 2015/16, R15bn in 2916/17 and R17bn in 2917/18. In order to balance the budget the shortfall of R44bn will have to be recovered via taxes over a three year period. This increase in taxes is necessary if the country is to avoid falling into a debt trap.

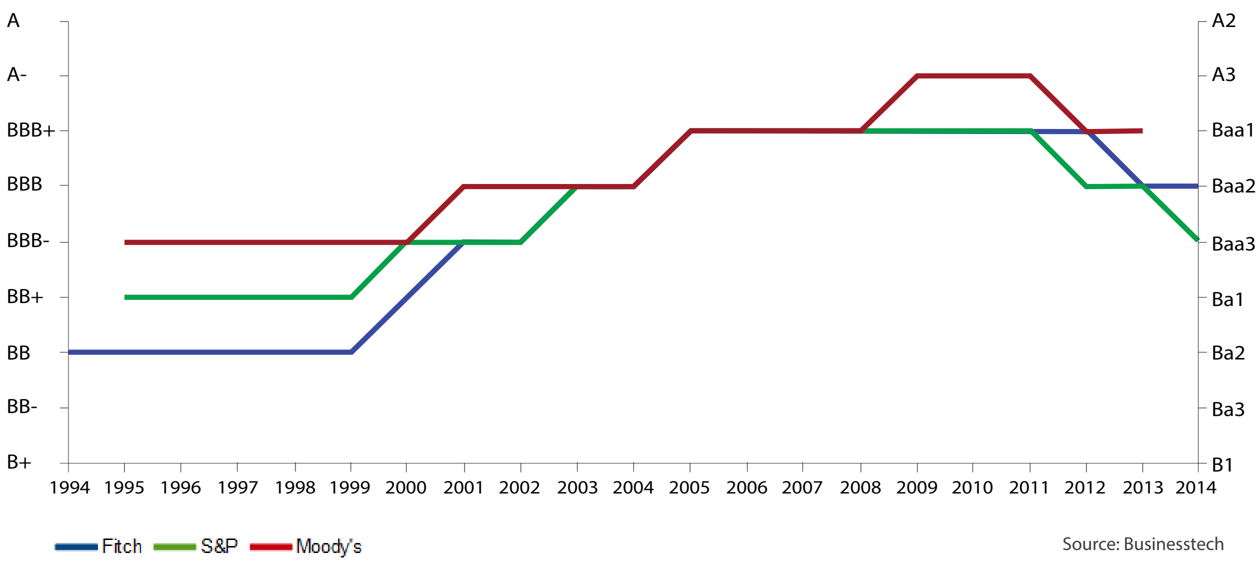
National government debt will stabilise at 45.9% of GDP in 2017/18 (R2.4trillion) and will decline thereafter. Hope springs eternal! Government debt service costs will grow at 9.3% per annum reaching R 150 billion in 2017/18. Government will lower its 2014 budget expenditure ceiling by R25bn over the next two years. Together with tax measures it will improve the fiscal position by R22bn in 2015/16 and R30bn in 2016/17.

On a fairly positive note the largest government expenditure over a three year period will be on basic education and skills development (15% R833bn), health (11% R500bn) and special grants (11% R500bn). On the GDP growth front the projection is for 1.4% for 2014, 2.5% in 2015 and 2.8% in 2016 with inflation around 6%.

Additionally South Africa was subject to a credit rating review by Fitch and S&P early in December. S&P re-affirmed South Africa's BBB negative rating while Fitch kept its rating at BBB but with a negative outlook. South Africa's trade deficit for November was R5.703 billion down from a revised shortfall of R221.63 billion in October. South Africa's cumulative trade deficit for 2014 is R101.1 billion versus R73.2 billion for 2013.

Mining and manufacturing numbers came in well below expectations dashing hopes of an improving trade balance. Mining production decreased 1.1% year on year in October whilst the consensus was for an increase of 2.0%.Platinum Group Metal sales were down 20.5% and copper down 10.8%. The combination of all the above factors together with the uncertainty surrounding global geo-political events led to considerable volatility in the local market.

SOUTH AFRICAN CREDIT RATINGS 1994-2014



Source: Businesstech

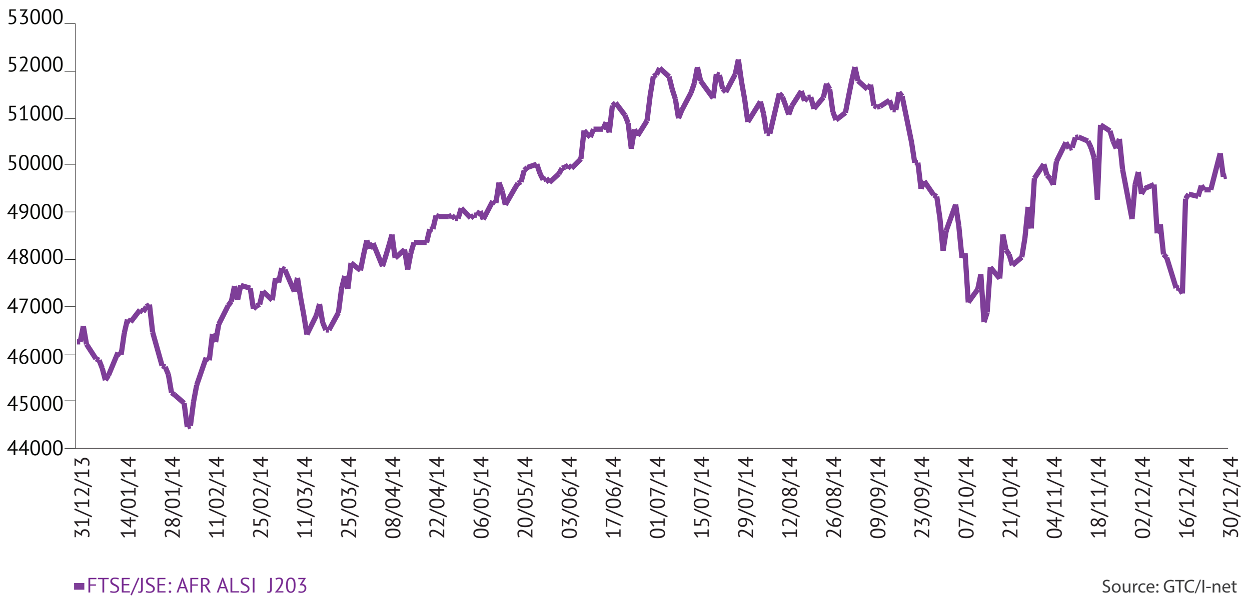
South Africa's major platinum producers who produce 70% of the world's platinum have formed the World Platinum Investment Council in order to develop an active investment market for platinum as well as making platinum more freely available to a wider group of investors. In order to help stimulate demand for platinum as well as to promote local beneficiation the government has invested R75 million in fuel cell technology research which is currently being conducted by the universities of the Western Cape and Capetown.

The FTSE/JSE ALSI ended the year on a sombre note closing down 0.28% on a month by month basis at 49,770.6 points.

On an annual basis the ALSI returned 7.60% and in total return terms the index gained 10.88% year on year. The 30 day ALSI volatility increased to 20.96 from 15.93 as the resources sector RESI 120 index continued to be the worst performer shedding 5.15%. Development Capital extended November's gains adding 8.55% but was outstripped by the Venture Capital sector which gained 10.63% making it the top performer.

On an annual basis Fixed Line Services (Telkom) was the best performer gaining 150.0% followed by Venture Capital which returned 91.23%.

FTSE/JSE:AFR ALSI TOTAL RETURN 2014



Source: GTC/I-net

Understandably the Oil/Gas and Industrial Metals sectors were the worst performing sectors losing 6.7% and 5.47% respectively. On an annual basis the Industrial Metal sector is down a whopping 38.13%. The All Bond Index (ALBI) retreated by 1.55% as a sell off took place at the tail end of the yield curve. Net foreign outflows from bonds were R14.08 billion for the month. On an annual basis the ALSI outperformed the ALBI. Inflation Linked Government bonds lost 0.16%. The Consumer Price Index eased to 5.8% in November attributable mainly to a decrease in the fuel price whilst the Producer Price Index slowed to 6.5% from 6.7% previously.

With interest rates continuing to hover around current lows the attraction of higher rates of return are always a temptation particularly to those relying on income for their well-being. In our Trendline edition of Q4 2013 we expressed our concerns surrounding companies who were actively marketing products with interest rates way above current market levels.

In particular we mentioned a company Cambist which was offering returns of 24% which were subsequently reduced to 19.5%. Cambist's future has now been called into question after its parent company One Law retrenched the majority of its staff early in December and informed them that the company was going into liquidation. However the M.D. of Cambist insists that Cambist is now a separate entity and will continue to service clients from its own platform.

One Law relied heavily on cash flows generated by Cambist following on the Marikana tragedy of August 2012. The tragedy resulted in the courts severely curtailing the issuance of emolument attachment orders which were core to One Law's debt recovery business. Apart from the ethical considerations of taking advantage of those who find themselves overwhelmed by debt, the risks inherent in this type of investment should be avoided at all costs. If it looks too good to be true it probably is!

GTC Fund Performance – December 2014

Investment portfolios	3Mth %	6Mth %	1Year %	2Year* %	3Year* %	4Year* %	5Year* %
GTC Fixed Income B	1.48	5.28	7.89	6.06	5.66	5.86	6.17
GTC Wealth Accumulator FOF B	0.79	-1.25	6.55	10.08	11.39	8.74	10.84
GTC Capital Plus FOF B	1.00	0.07	6.09	7.57	8.45	7.03	7.46
GTC Prosperity Wealth FOF	1.25	0.38	6.68	9.44	10.53	10.12	11.26
GTC Prosperity Wealth Composite Benchmark	3.05	3.07	10.99	11.62	14.39	11.68	12.45
FTSE/JSE All Share Index (ALSI)^	0.98	-1.54	9.24	14.33	17.73	13.31	14.09
FTSE/JSE Shareholder Weighted Index (SWIX)^	3.37	2.47	13.72	16.30	19.83	15.30	16.05
BEASA All Bond Index (ALBI 1-3 year)^	2.07	2.86	4.65	3.75	4.73	5.36	5.72
Cash (SteFi)^	1.17	2.30	4.33	3.98	3.97	4.02	4.28
GTC Wealth Protector FOF	1.14	3.14	7.02	6.41	6.91	7.17	7.77
CPI +1% target	0.43	2.13	6.80	6.56	6.57	6.73	6.29
GTC Balanced Wealth FOF	0.98	-0.06	6.08	7.94	9.01	8.84	9.80
CPI +5% target	1.40	4.08	10.81	10.56	10.58	10.73	10.29
GTC Conservative Absolute Growth (R)	3.13	6.71	10.64	21.54	19.43	19.06	12.68
GTC CAG's Composite Benchmark (R)^	1.43	5.12	9.30	18.95	15.27	16.91	11.78
R/$ Exchange rate	2.55	9.03	10.43	16.80	12.31	14.84	9.41
GTC Global Conservative Absolute Growth ($)	-1.97	-4.77	-1.71	2.77	5.28	2.75	3.38
GTC Global CAG's Composite benchmark ($)^	-1.10	-3.60	-1.03	1.82	2.62	1.79	2.16

* 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. Inflation eased to 5.8% on the back of a decline in global energy prices.

The **GTC Wealth Accumulator** FoF experienced a tough quarter on the back of the sell-off in equity markets, and remains defensively positioned.

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. The fund had a disappointing quarter with exposure to EM markets detracting. 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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