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GTC Trendline

3rd Quarter 2015

“In every crisis there is opportunity” - Chinese proverb

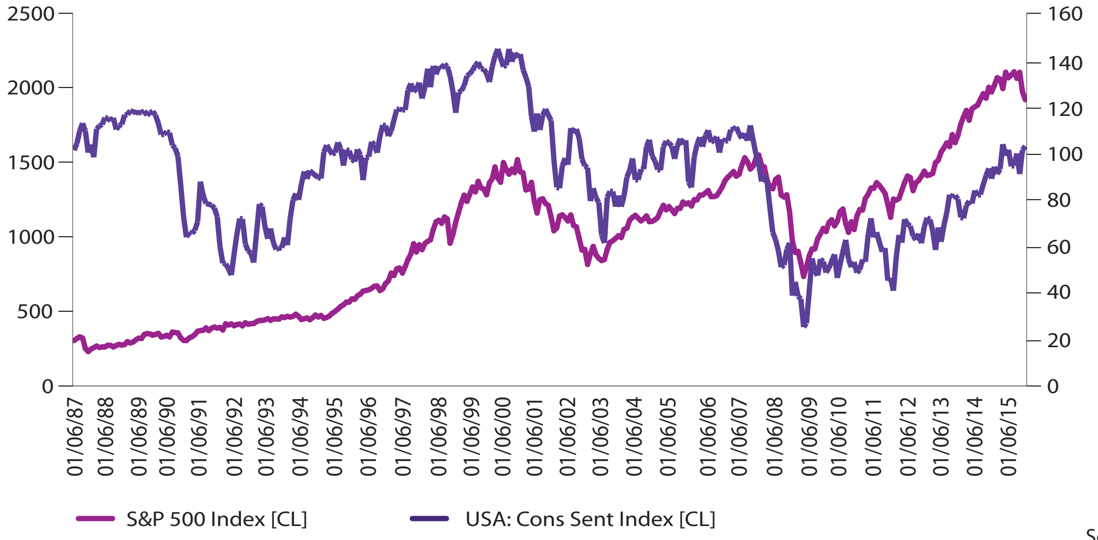
This past quarter has been a tumultuous and extremely volatile one for global stock markets driven largely by uncertainties over a potential increase in interest rates in the United States and a deteriorating Chinese economy with all its implications for global growth.

U.S. equities performed poorly as markets fretted over the impact that a slowdown in China would have on the world economy as well as the knock-on effect for emerging markets. This resulted in the S&P 500 falling 6.4% in Dollar terms. The Federal Reserve's continuing to vacillate over a potential interest rate rise also unnerved the market with a decision being taken at the last FOMC meeting to keep interest rates on hold.

This delay was certainly not taken as a positive signal by investors who instead focused on comments made by Fed chair Janet Yellen who cited worries about the world economic outlook as the reason a rate hike was delayed. She has indicated that when the Fed does raise rates that it will continue doing so at a "gradual pace". The continued "threat" of the rate hike has had the effect of helping strengthen the Dollar which is starting to heavily impact companies which are export oriented such as Caterpillar.

Instead of calming markets that thrive on low interest rates, the Fed move had the opposite affect which resulted in the market declining quite sharply. This resulted in investors adopting a "risk-off" stance with utilities being the only market sector to improve. However economic data continued to suggest that the consumer led economic recovery remained intact with second quarter GDP being revised upwards to 3.9% from the previous 3.7%.

US Consumer Confidence Index vs S&P 500



Source: GTC/I-net BFA

The Consumer Board Confidence Index climbed to 103.0 in September back to January's high. Initial jobless claims are at all-time lows, corporate balance sheets are robust and unemployment is at seven year lows all pointing to continued economic growth.

The uncertainty over global growth fed into the Eurozone markets as equities registered negative returns partly driven by weaker economic data out of China but also by the authorities' moves to devalue the yuan. The Fed's decision to delay a start to interest rate normalisation together with the scandal over the VW diesel engine emission fiasco also weighed on market sentiment.

The "risk-off" mindset overshadowed encouraging economic data where GDP for Q2 was revised upward from 0.3% to 0.4%. However, inflation remained well below target at only 0.1% in August.

The Eurozone approved the Greek bailout package advancing a loan of 86 billion Euros' and so avoiding a possible "Grexit". On the back of the resultant general election, the left-wing Syriza party was returned to power. The Auto Index was the worst performer over the quarter mirroring a slowing Chinese economy as well as the VW scandal over diesel exhaust emissions.

U.K. markets could not escape the inevitable but were further negatively influenced by a dramatic decline in the share prices of resource companies. Indicative of the severity of the market decline, the share price of FTSE 100 mining and trading group Glencore fell by almost two-thirds as analysts focused on its financial gearing in an extremely volatile commodity price environment. Glencore PLC sold $2.5 billion of new shares to help pay down debt and so help to protect its credit rating amid the collapse of commodity prices."

Risk-off" was reflected in a surge in government bonds with the FTSE All Stocks Index which tracks U.K. bond prices rising 3.1%. Merger and Acquisition activity continued to feature with SABMiller confirming an approach from Anheuser-Busch InBev while Imperial Tobacco was considered on the basis of its break-up value.

In times of currency uncertainty the Japanese Yen is always viewed as a safe-haven and this was ably demonstrated in Q3 with strong currency inflows. However, the Japanese stock market came under heavy selling pressure with the TOPIX Index in Yen terms declining 12.8%, amidst slowing global growth and weaker than expected economic data. Corporate results were encouraging and were above consensus but fundamental economic data continued to send mixed signals. Inflation numbers continued to decline suggesting a deflationary environment and the need for further stimulatory measures. With the economy continuing to muddle along in spite of the substantial easing in monetary policy the efficacy of Abeonomics is beginning to be questioned.

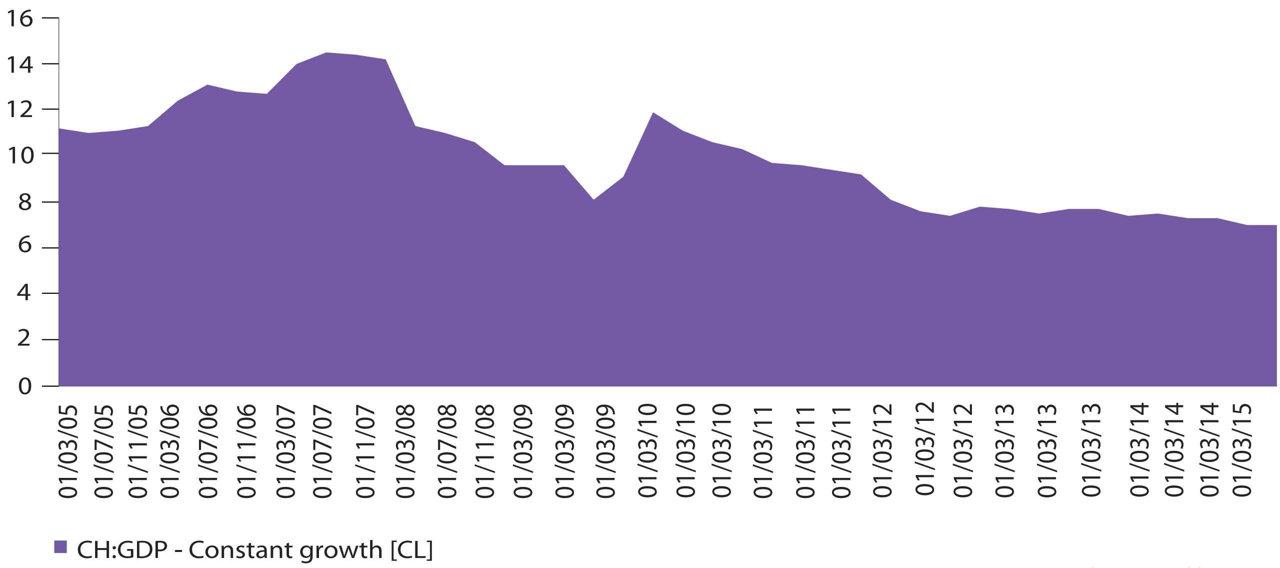
The focus on China comes after a market rout that wiped $5 trillion in value off the nation's stocks and after a sudden move on 11 August to change its exchange rate regime, a decision which triggered the yuan's biggest depreciation in two decades and caused turmoil on global markets. The world's second-largest economy is set to grow at its slowest pace in a quarter century this year even after five central bank interest rate cuts and fiscal stimulus.

China affects the world more than ever before, and its influence over global markets will only increase as it approaches the U.S. economy in size. It accounted for 13.3 % of global gross domestic product last year, from less than 5% a decade earlier, according to World Bank data.

The Asian Development Bank downgraded Chinese GDP for 2015 to 6.8% from 7.2% and lowered GDP expectations for 2016 to 6.37% from the previous 7.0%. This resulted in a sharp sell-off in commodity stocks. Hong Kong dived 3%and Shanghai lost more than 2% after China's closely watched Purchasing Managers' Index (PMI) of manufacturing activity for September came in at a six-and-a-half-year low and showed that the sector contracted further. The preliminary reading released by financial publisher Caixin came in at 47.0 down from August and missing expectations of 47.5.

A result below 50 indicates shrinkage and anything above points to growth. Chinese industrial companies reported that profits declined the most in four years as the pillars of China's infrastructure-led growth model suffered from a devalued yuan, a falling stock market and weak demand. Industrial profits fell 8.8% in August from a year earlier with the biggest drops concentrated in producers of coal, oil and metals the National Bureau of Statistics said.

China GDP



Source: GTC/I-net BFA

Where to, Interest Rates?

Extreme volatility was a feature of the local market over the quarter and although the JSE/ALSI managed to close September having gained 0.23% over the previous month it traded for the better part of the month in negative territory.

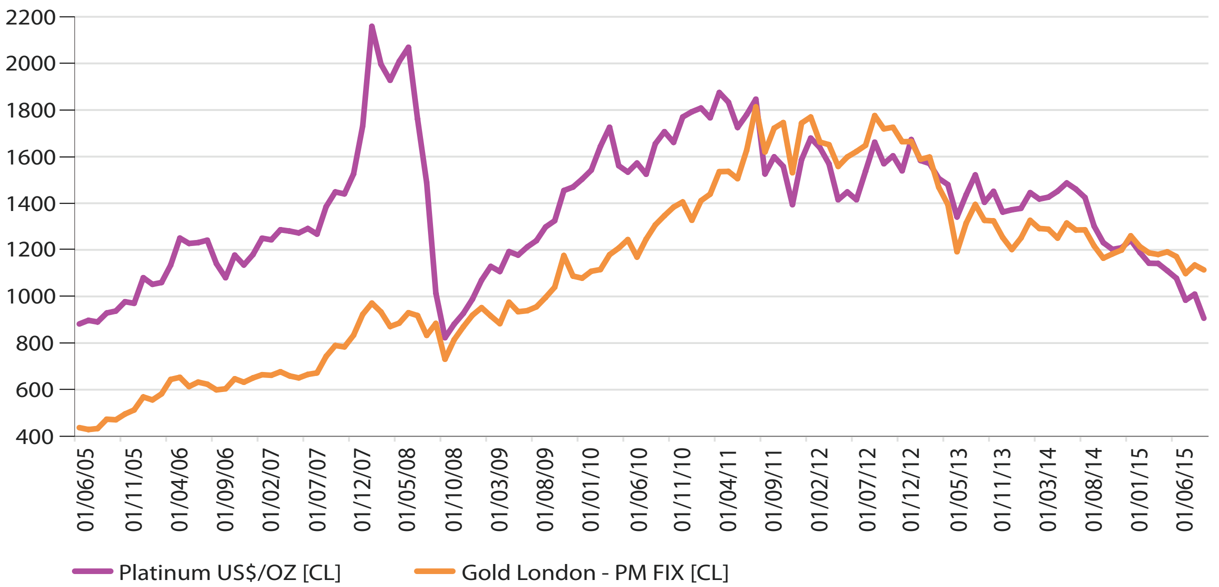
In July, despite a lower than expected CPI figure and a lacklustre economy, the S.A. Reserve Bank somewhat unexpectedly raised the repo rate from 5.75% to 6.0%, the first rate increase since July 2014. Despite the National Energy Regulator (NERSA) rejecting Eskom's request for an additional tariff hike 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 currency outflows from the local stock market may have resulted.

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.

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 mineworkers. There was no moratorium on retrenchments nor did the parties believe that all the jobs could be saved. About 22,000 jobs are currently at risk of being lost in the sector.

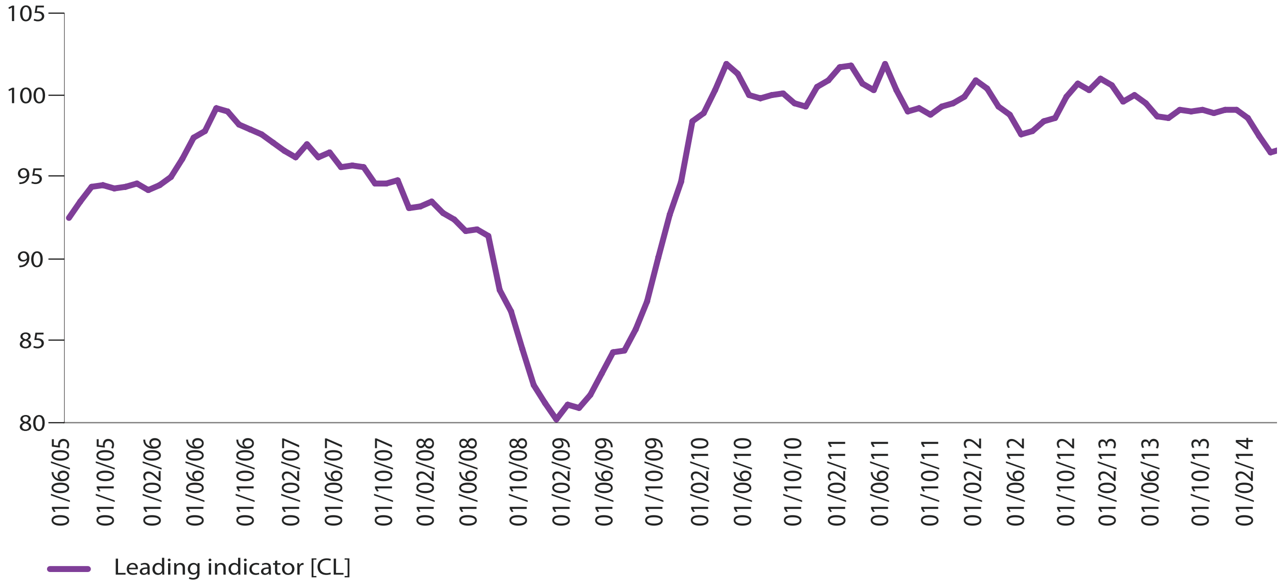
Gold & Platinum price



Source: GTC/I-Net BFA

Volkswagen's emissions scandal may be another blow for platinum producers as prices are trading at a six-year low. The German carmaker's attempts to rig US pollution tests risks hurting the attractiveness of diesel engines in curbing emissions. This would be extremely bad for the local platinum industry as 44% of the metal's demand comes from devices that curb harmful exhaust gases from cars.

SA leading indicator



Source: GTC/I-Net BFA

SARB's leading economic indicator declined -3.4% year on year in May for its 20th month decline and to its lowest level since November 2009. The leading economic indicator readings indicate a detriorating 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.

Somewhat unexpectedly and contrary to expectation, 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 inconsistency of power from Eskom was certainly a major contributory factor.

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.

The Standard Bank PMI rose in August to 49.3 from July's 48.9. The South African Chamber of Commerce and Industry (SACCI) Business Confidence Index dropped to a low 84.3 in August compared to 87.9 in July. Ratings agency Fitch says the risk of a downgrade to South Africa's sovereign rating is increasing.

Since Fitch put South Africa on a negative outlook in December 2014, the news flow has been largely negative. The SARB revised its 2015 growth forecast downwards to 1.5%. The Central Bank expects S.A. GDP to rise to 1.6% in 2016 and 2.1% in 2017.

The consumer price index (CPI) which measures the country's inflation rate remained level at 4.6% in August month-on-month according to Statistics S.A. This rate was 0.4 % lower than the corresponding annual rate of 5% in July 2015. The annual percentage change in the Producer Price Index (PPI) for final manufactured goods was 3.45% Y/Y IN August 2015. From July to August the PPI increased by 0.1%.

Having faced an almost "perfect storm" over the quarter it was with some relief that the closing days of September saw the market shake off a weakened currency, sharply declining commodity prices, continued labour unrest and a disappointing and uncertain economic future to close a touch above the psychological level of 50,000, gaining as much as 1.43% on the last day of the month.

Market corrections of the magnitude experienced over the quarter always give rise to concerns regarding one's investments but the reality is that as a result of quantative easing and historically low interest rates markets have experienced overstretched valuations and a correction was long overdue. Conversely such corrections need to be viewed as buying opportunities provided economic fundamentals remain intact. Without doubt the South African economy faces considerable headwinds but perseverance will win out in the end and our investment strategies have been formulated in order to minimise risk and with our clients' best interests in mind.

GTC Fund Performances - September 2015

Investment portfolios	3Mth %	6Mth %	1Year %	2Year* %	3Year* %	4Year* %	5Year* %
GTC Fixed Income B	1.51	2.51	5.52	6.55	5.79	5.54	5.86
GTC Wealth Accumulator FOF B	-4.72	-4.58	-0.09	4.63	8.66	10.03	8.13
GTC Capital Plus FOF B	-2.08	-1.80	2.14	5.01	6.82	7.23	6.34
GTC Prosperity Wealth FOF	-3.14	-3.17	1.52	4.91	8.23	9.61	9.09
GTC Prosperity Wealth Composite Benchmark	-2.32	-2.69	5.06	8.30	10.62	12.70	10.76
FTSE/JSE All Share Index (ALSI)^	-2.50	-3.06	3.23	8.36	13.68	15.85	12.95
FTSE/JSE Shareholder Weighted Index (SWIX)^	-4.58	-5.06	4.50	10.22	14.46	17.04	13.99
BEASA All Bond Index (ALBI 1-3 year)^	1.38	2.02	5.60	4.63	4.00	4.88	5.28
Cash (SteFi)^	1.22	2.41	4.80	4.44	4.16	4.14	4.18
GTC Wealth Protector FOF	-0.96	-0.22	2.92	5.10	5.92	6.39	6.60
CPI +1% target	1.72	4.60	5.59	6.50	6.81	6.59	6.55
GTC Balanced Wealth FOF	-2.49	-2.48	1.74	4.81	7.10	8.24	8.00
CPI +5% target	2.66	6.50	9.60	10.51	10.82	10.59	10.55
GTC Conservative Absolute Growth (R)	6.62	6.16	13.95	15.61	19.85	16.02	17.49
GTC CAG's Composite Benchmark (R)^	10.71	9.89	16.17	15.25	18.14	16.49	15.58
R/$ Exchange rate	13.68	14.88	23.15	17.32	18.68	15.14	14.76
GTC Global Conservative Absolute Growth ($)	-6.28	-6.67	-7.88	-2.86	0.45	3.10	1.54
GTC Global CAG's Composite benchmark ($)^	-2.63	-4.36	-5.70	-1.78	-0.47	1.16	0.70

* 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** has suffered as equity markets sold off over the quarter, both domestically as well as offshore. Our manager blend maintains its long term outlook with a focus on sustainable earnings.

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) underperformed over the short term as dollar strength was a key detractor. 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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