GTC Market Update

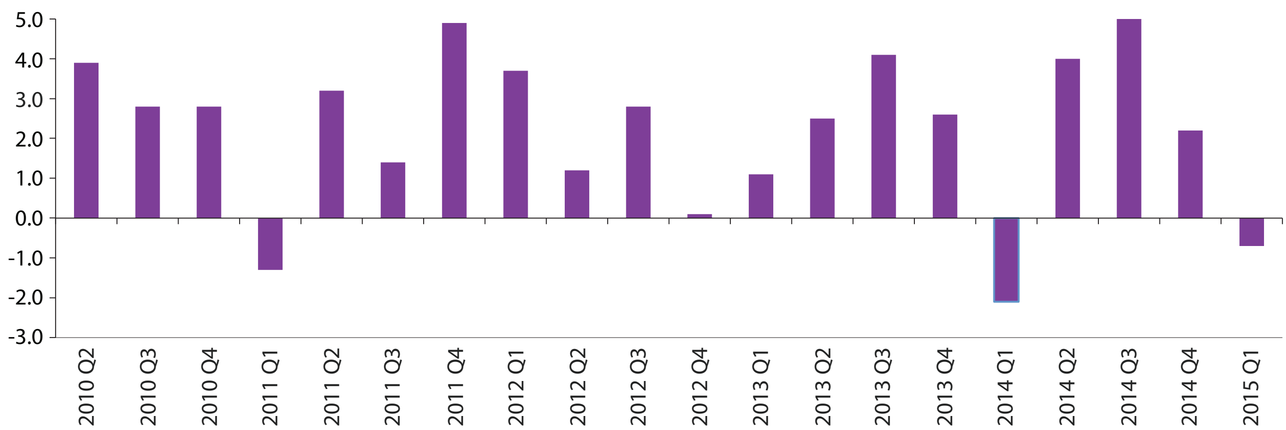
May 2015

Do global markets need a QE reality check?

Global equities managed a positive return for the month in dollar terms with U.S. markets reaching all-time highs before slipping back on a plethora of disappointing macro-economic data which suggested that U.S. economic recovery was faltering. The S&P 500 returned 1.29%, amid posting an all-time high during the month. Investors continued to view equities as the preferred investment option in spite of stretched valuations as bonds and cash delivered record low returns.

First quarter GDP, having initially been recorded at growth of 0.2%, was subsequently revised down to a negative 0.7%. Other economic data which disappointed was a decline in industrial production and retail sales. Inflation has remained below the Fed's target of 2% for the last 3 years. Leading economic indicators were also cause for concern-the Chicago Purchasing Manager's Index (PMI) which indicated significant economic contraction as it declined from 52.3 in April to 46.2 in May.

US GDP



Source: US Bureau for Economic Analysis

Retail sales remained flat as consumers used the opportunity to pay down existing debt. On a slightly more positive note the Conference Board's measure of consumer confidence rose in May to 95.4 which was however far short of March's level of 100. Core non-durable goods orders were again weak underlying the fragile nature of business confidence.

Market commentators ascribed the lacklustre performance of the economy in Q1 to a combination of poor weather, a strong dollar and strike action at West coast ports. Despite the surfeit of poor economic data the dollar continued to strengthen and Treasury Bonds continued to sell-off as expectations continued to suggest a rise in interest rates later in the year. Indicative of the lack of consumer spending the retail giant Wal-Mart posted disappointing results reflecting slowing sales growth whilst profits were further eroded by rising wages and a stronger dollar.

The Eurozone delivered positive results in May with market improvement being supported by positive signs of economic growth. Q1 growth was at 0.4% up from the previous month's 0.3%.

German growth at 0.3% disappointed but further signs of the Eurozone recovery were reflected in the 0.6% growth in France, 0.3% in Italy and 0.9% in Spain. The European Central Bank said it would reduce its bond repurchasing programme over the holiday months of July and August as liquidity in the market was likely to dry up but that the monthly average of Euro 60 billion would be maintained. Greece's debt crisis continued to influence market sentiment negatively as concerns remained regarding the country's ability to repay its creditors.

The Conservative Party victory in the U.K. general election was received positively by the market with the FTSE 250 rising 4.2% ahead of the FTSE 100 which managed 0.7%. Overall the FTSE/All Share rose 1.4% spurred on by the certainty of a stable political situation for the next 5 years.

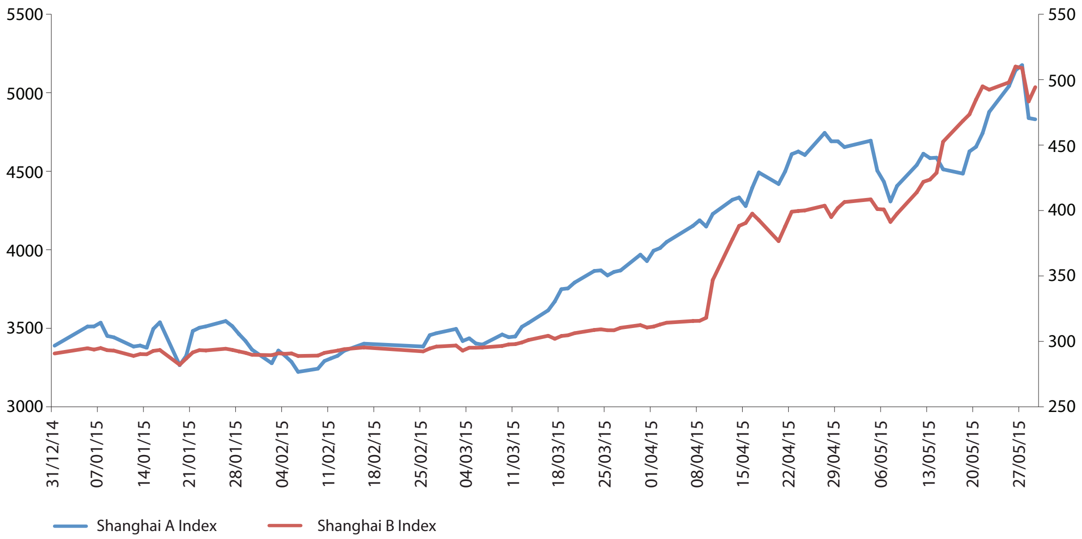
Japanese equities continued their steady climb contrary to seasonal weakness often experienced in May. The TOPIX rose 5.1% as the Yen weakened considerably against most major currencies including both the dollar and the Pound. Economic data remained positive with capex exceeding expectations. Job creation continued to increase whilst consumer prices indicated that inflation in spite of being somewhat benign was in line with expectations.

The meteoric rise in Chinese equities was brought to a screeching halt as authorities intervened to prevent an equity bubble forming. Share prices were non-reflective of the underlying economic reality which seems to have become symbiotic of quantative easing.

A severe clampdown on margin trading coupled with a plethora of new listings drew the wind out of the sails of a rampant market. A further reduction in interest rates, the third in 6 months, failed to halt the economic downturn with added impetus coming from the decline in HSBC's widely accepted PMI which came in at 48.9 for April which was at the lowest level in a year while both exports and imports reflected a worse than expected decline.

During the month regulators from both China and Hong Kong agreed to a mutual recognition scheme that will see non-border mutual fund sales between the two markets commence on July 1st.

Chinese Stockmarket



Source: GTC/I-net

Domestic (sell in May and go away?)

The saying has perhaps an element of truth in it as the local stock market came under considerable pressure at month end with the JSE/ALSI closing lower on nine consecutive occasions eventually closing down 3.95% in total return terms. Key economic indicators released in May resulted in increased market volatility with the ALSI 30 day volatility increasing from 10.43 to 11.20.

All major tradable indices suffered losses with the FINI15 faring the worst and losing 6.76%. Banks declined 8.64% and resources in the form of the RESI20 fell 5.24%. The INDI25 lost 3.14% and the Top40 3.96%.

In line with a general sell-off in global bonds, the All Bond Index (ALBI) lost 0.72% and was once again dragged down by the long end of the yield curve where the 12+ maturity sector lost 1.3%. Inflation Linked Bonds lost 1.88%.

South Africa's Gross Domestic Product (GDP) came in at a disappointing 1.3% q/q seasonally adjusted and at 2.1% y/y. The decrease in GDP can be largely ascribed to a significant drop in both the agricultural and manufacturing sectors which was exacerbated by drought and Eskom load shedding respectively. Growth in GDP in Q1 2015 has been driven largely by a very welcome increase in mining production which saw growth of 10.2% q/q largely driven by the platinum sector.

Domestic inflation has declined substantially on the back of the fall in the oil price but this has been to an extent negated by increased tax and is being further threatened by Eskom's request for a mammoth 25.3% increase in tariffs. This poses a significant upside risk to inflation and is likely to cause a divergence of some magnitude from the South African Reserve Bank's (SARB) inflation target range and which might continue for a far longer period than was previously anticipated. SARB's inflation forecast for 2015 has been set at 4.9% ahead of any decision on Eskom's request.

FTSE/JSE : AFR ALL SH (CL)

Source: GTC/I-net

Domestic economic growth remains weak and further Rand weakness can be expected. April saw Consumer Price Inflation (CPI) surprise on the downside and the public sector wage settlement of 7% was certainly better than expected. At its last meeting the Monetary Policy Committee of SARB kept the repo rate unchanged but has warned that interest rates cannot be maintained at current levels.

This will certainly be the case should the U.S. Federal Reserve increase rates at its September meeting. Deputy Governor of SARB Kuben Naidoo said after releasing the annual bank supervision report that there was a high likelihood that the SARB would increase rates at its next MPC meeting. At the last MPC meeting the decision to keep rates on hold was decided by a vote of 4 to 2.

South Africa's unemployment rate rose to 26.4% in Q1 2015 which is at its highest level since 2003 when it hit 30%. In spite of the poor numbers there was an employment gain of 140,000 in Q1 2015. In April South Africa's trade balance recorded a deficit of -R2.5 billion which was way lower than the consensus of - R5.0 billion. This compares with a deficit of –R12.5 billion in April 2014.

During the month both exports and imports declined. The slowdown in the value of imports will depend heavily on the oil price.

GTC Fund Performances - May 2015

Investment portfolios	3Mth %	6Mth %	1Year %	2Year* %	3Year* %	4Year* %	5Year* %
GTC Fixed Income B	1.05	2.72	7.82	6.34	5.77	5.79	5.96
GTC Wealth Accumulator FOF B	-0.35	4.92	5.62	9.99	12.34	9.92	11.53
GTC Capital Plus FOF B	-0.14	3.76	5.18	7.26	9.00	7.68	7.78
GTC Prosperity Wealth FOF	-0.14	4.26	6.06	9.85	10.53	10.09	11.71
GTC Prosperity Wealth Composite Benchmark	-0.71	3.88	9.22	11.63	14.06	12.34	12.97
FTSE/JSE All Share Index (ALSI)^	-1.15	5.45	6.90	13.27	18.23	14.36	15.74
FTSE/JSE Shareholder Weighted Index (SWIX)^	-0.93	5.57	10.85	16.01	19.48	16.38	17.17
BEASA All Bond Index (ALBI 1-3 year)^	0.37	1.13	5.03	4.25	4.31	5.23	5.45
Cash (SteFi)^	1.20	2.35	4.66	4.22	4.07	4.08	4.21
GTC Wealth Protector FOF	0.63	2.96	6.92	6.30	6.38	6.94	7.63
CPI +1% target	3.21	3.10	5.49	6.30	6.49	6.65	6.37
GTC Balanced Wealth FOF	-0.28	4.00	5.40	8.29	8.94	8.84	10.09
CPI +5% target	4.11	5.02	9.49	10.31	10.49	10.65	10.38
GTC Conservative Absolute Growth (R)	-0.72	-1.03	-2.87	1.19	5.59	2.04	4.93
GTC CAG's Composite Benchmark (R)^	-1.67	2.10	-3.89	1.20	2.41	0.74	2.90
R/$ Exchange rate	4.87	10.00	14.92	9.69	13.02	15.68	9.59
GTC Global Conservative Absolute Growth ($)	-0.72	-1.03	-2.87	1.19	5.59	2.04	4.93
GTC Global CAG's Composite benchmark ($)^	-1.67	-2.10	-3.89	1.20	2.41	0.74	2.90

* 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 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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