Market Update

December 2014

GLOBAL - The world's afloat with oil

Volatility was the hallmark of global markets during the month of December driven by continued low interest rate policies as well as a rapidly falling oil price. This was evidenced by the fluctuations in the S&P 500 which declined almost 5% mid-month 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.

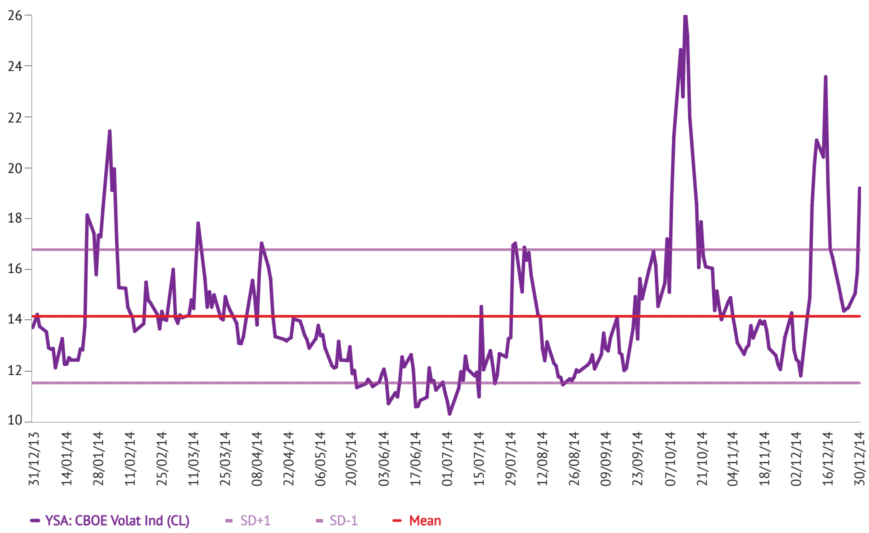
The Federal Reserve reiterated that any increase in U.S. interest rates would largely depend on unfolding economic data with particular attention being paid to employment levels and wage growth. Stock market volatility as measured by the VIX, which measures market expectation of near term volatility, rose to an intra-month high of 23.57. However, the S&P 500 finished the month 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 month 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.

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 ever increasing stockpiles are cited as reasons for the sharp decline.

US VIX 2014



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. 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.

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.

LOCAL - 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.

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.

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%.

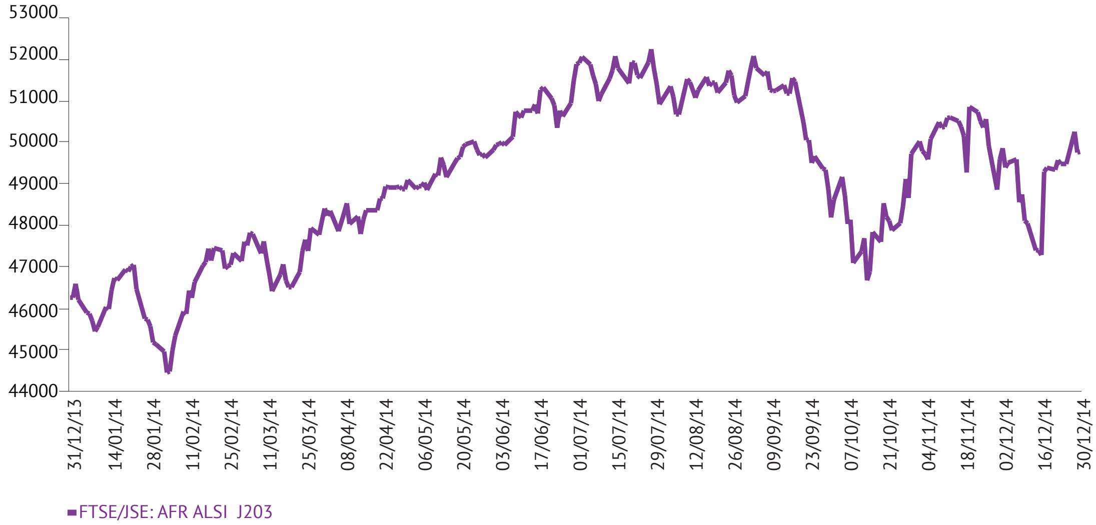
Development Capital extended last month's gains adding 8.55% but was outstripped by the Venture Capital sector which gained 10.63% making it the top performer. On an annual basis Fixed Line Services (Telkom) was the best performer gaining 150.0% followed by Venture Capital which returned 91.23%.

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 R17.54 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.

South African manufacturing as measured by the Purchasing Managers Index (PMI), rose to 53.30 in November from October's reading of 51.8, its fourth consecutive month of positive growth and its best reading since August 2013. The positive trend indicates the economy is recovering from its 7 month strike ridden start to the year. New orders rose 4.8% to 55.0 supported by a continued normalisation of domestic mining demand while the business activity index rose to 56.0 points (prior 50.3). The normalisation effect was reflected in the sharp increase in the backlog of sales orders index which registered a reading of 48.0-the highest level since October 2011.

FTSE/JSE: AFR 2014



Source: GTC/I-Net

GTC Fund Performances - 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 selloff 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.

Contact us

Further information

Gary Mockler
Group Chief Executive Officer
t (+27) 11 322 4512
e gmockler@gtc.za

Farhadh Dildar
Group Chief Operating Officer
c (+27) 11 322 4821
e fdildar@gtc.za

Jeff Morgan-Hill
National Manager - Client Consulting
t (+27) 11 322 4804
e jmhill@gtc.za

Roger Schärges
National Manager - Strategic Partners
t (+27) 11 322 4507
e rscharges@gtc.za

Jenny Williams
Head - Wealth Management
t (+27) 11 322 4532
e jwilliams@gtc.za

Toy Otto
Head - Employee Benefits Consulting
t (+27) 11 322 4644
e totto@gtc.za

Jill Larkan
Head - Healthcare
t (+27) 21 785 7271
e jlarkan@gtc.za

Clive Eggers
Head - Investment Analytics
t (+27) 11 322 4844
e ceggers@gtc.za

Carey Else
Head - Marketing & Media
t (+27) 11 322 4800
e celse@gtc.za

Mike Bolus
Managing Director - Securities & Derivatives
t (+27) 86 107 0071
e mbolus@gtc.za

Dale Nussey
Compliance Officer
t (+27) 11 322 4828
e dnussey@gtc.za

Gary Smith
Manager - Finance & Accounting
t (+27) 11 322 4602
e gsmith@gtc.za