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Market Update

October 2014

GLOBAL: US recovery continues

Global equities delivered positive returns in October after experiencing sharp falls earlier in the month over concerns relating to global economic growth. The sell-off was on the back of weak U.S. retail sales data, lagging inflation in Europe and slowing growth in Asia as well as stuttering growth in Japan.

A further contributing factor was the expected announcement by the Federal Open Market Committee (FOMC) of a cessation of their quantitative easing (QE) programme which suggested a possible earlier interest rate rise.

The S&P 500 rose strongly at month end ending up 2.4% at a new all-time high. The rally came in spite of the FOMC signalling the end of QE and hence the likelihood of an earlier introduction of a normalisation of the U.S. interest rate policy.

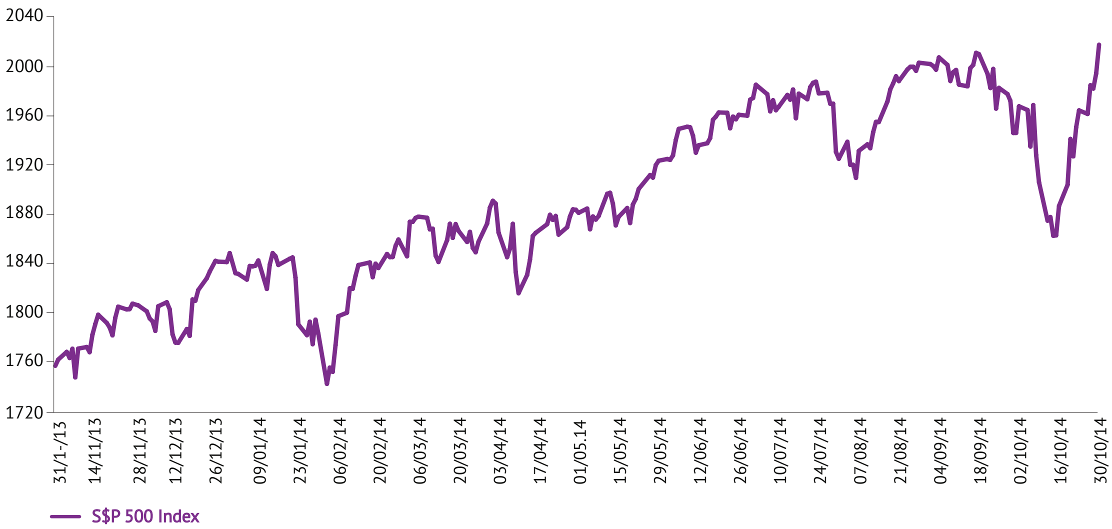
The sudden realisation of this possibility led to a sharp sell-off of the market which was quickly arrested by comments from central bankers bringing stability to nervous markets and had share prices back to, and in some cases even higher than their previous levels. The Fed's decision to halt QE had been made on the back of a significant improvement in the jobs market with the unemployment rate declining to 5.9% in September, a six year low.

Renewed consumer demand saw stocks in the food and retailer staples put in a particularly strong performance. A further contributing factor which impacted positively on market sentiment was a sharp rise in U.S. consumer confidence which rose to 94.5 in October from 89.0 in September the highest level since 2007.

Third quarter GDP also surprised coming in at 3.5% well ahead of expectations. Over the last six months GDP growth has been at its highest level in more than a decade. Interestingly, in spite of assurances that interest rates will be held at near zero for "some considerable time", the median forecasts by the seventeen members of the FOMC are for 1.375% in 2015, 2.675% in 2016, and 3.125% for 2017 and beyond. The value of bonds currently on the Federal Reserve balance sheet now stands at a whopping $4.5 trillion.

The Eurozone continued to be plagued by weaker than expected macroeconomic data with stocks plunging sharply in the first two weeks of the month before recovering modestly at month end. German industrial data provided the catalyst with manufacturing orders falling 5.7% month on month in August while industrial production declined 4.0%.Preliminary figures showed Eurozone inflation at 0.4% in October up from 0.3% in September. The unemployment rate remained uncomfortably high at 11.5%.

S&P 500 Index



Source: GTC/I-Net

Standard and Poors rating agency cut the outlook on France's AA sovereign debt to negative from stable citing concerns over stagnant economic recovery. A key focus during the month was on the European Central Bank's stress testing of all banks in the Eurozone in terms of their capital adequacy and in order to restore consumer confidence in the banking sector as a whole. Twenty five banks failed the test. The 25 needed to recapitalise to the tune of Euro 25 billion of which twelve had covered their shortfall as at 31/12/2013 leaving a balance of only Euro 9.5 billion.

The U.K. equity market again underperformed in October mainly due to its large exposure to resources with the FTSE all share closing down 0.7%. Major oil producers also came under pressure with oil prices having retreated some 25% from recent highs.

Japanese equity markets ended the month in positive territory spurred on by a surprise month end announcement by the Bank of Japan that it would further increase its asset repurchasing programme in the light of slowing growth and lower inflation.

Further support for equities came in the shape of an announcement that the Japanese Government Pension Fund was to increase its holdings in Japanese equities from 12% to 25% and reduce its domestic bond holding from 60% to 35%. Chinese equities posted strong gains during the month despite the economy expanding at its slowest pace in five years in Q3—notching up GDP growth of 7.3% y/y.

This slowdown suggested that further economic stimulatory measures would need to be introduced by Beijing. HSBC PMI held steady at 50.2 in September unchanged from August's reading. Chinese exports grew 15.3% in September ahead of expectations. However, investors continue to express concern over the possibility of a sustained Chinese economic slowdown.

LOCAL: The road map to safeguard the public finances

The substantial market correction which had its beginnings late September continued during the early part of October but managed a last minute gain on the back of the surprise Bank of Japan announcement at month end that it was to substantially increase its quantitative easing programme.

This suggested that the local market was likely to experience increased foreign inflows which resulted in the FTSE/ALSI closing higher at 49722 points up 0.78% on the month and in total return terms up 1.01%. Pharmaceuticals were once again the best monthly performer adding 16.39% followed by Venture Capital which gained 14.29%. Pharmaceuticals have gained 33.5% y/y.

Gold Mining and Development Capital were the biggest under performers losing 24.32% and 14.04% respectively. General Mining was down 8.95% while the Platinum and Precious Metal sector lost 7.37%. On an annual basis the Platinum and Precious Metals sector has lost 28.8%. Indeed it seems the commodities super cycle is something of the past. Bonds were the best performing asset class with the ALBI gaining 3.41% over the month whilst inflation linked bonds gained 1.40%.

S.A.'s headline inflation slowed to 5.9% in September down from 6.4% in August providing a glimmer of hope for embattled consumers. Likewise PPI was down at 6.9% for September against August's 7.2%. Private credit growth came in almost unchanged at 8.74% in September following on 8.78% for August, indicative of weak consumer demand. Unemployment continues to be of concern remaining stubbornly at 25.4% for Q3 versus 25.5% for Q2.

Undoubtedly the economic news of most significance was the medium term budget policy statement for 2014/15 delivered by the new Minister of Finance Nene 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 Africans will pay more tax from next year details of which will be outlined in next February's budget. Policy and administrative reforms will raise at least R12 billion in 2015/16, R15 billion in 2016/17 and R17 billion in 2017/18. In order to balance the budget the shortfall of R44 billion 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 (R2.4 trillion) and will decline thereafter.

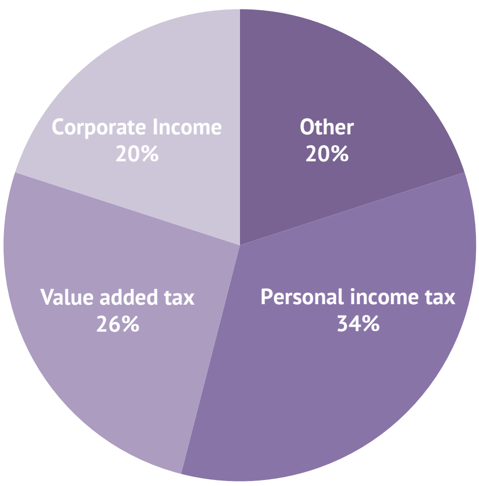
Government debt service costs will grow at 9.3% per annum reaching R150 billion in 2017/18. Government will lower its 2014 budget expenditure ceiling by R25 billion over the next two years. Together with tax measures it will improve the fiscal position by R22 billion in 2015/16 and R30 billion in 2016/17. Hope springs eternal!

On a fairly positive note the largest government expenditure over a three year period will be on basic education and skills development (15% R833 billion), health (11% R500 billion) and special grants (11% R500 billion). On the GDP growth front the projection is for 1.4% this year, 2.5% in 2015 and 2.8% in 2016 with inflation at around 6%.

In order to assist a struggling Eskom, whose capital requirements appear to be a bottomless pit, the government will allocate R25 billion from the sale of non-strategic state assets. A R60 billion subordinated loan to Eskom may be converted to equity. Any assistance to other struggling state owned undertakings will be budget deficit neutral. Reforms are currently underway at the ever loss making SAA,

SA Express, SAPOS and the Land Bank which are under close government scrutiny. Of considerable concern, in terms of ongoing economic growth, is Eskom's inability to get on top of delivering sufficient power to the grid. With a constant threat of renewed load shedding it is of little solace to be informed that full generation capacity from the new Medupi and Kasile power stations is only scheduled for 2019.

SA Revenue contributors 2013



Source: SARS/SA Treasury

GTC Fund Performances - October 2014

Investment portfolios	3Mth	6Mth	1Year	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	1.24%	5.24%	7.48%	5.98%	5.51%	5.99%	6.25%
GTC Wealth Accumulator FOF B	-2.75%	2.37%	7.92%	12.22%	11.75%	9.97%	11.38%
GTC Capital Plus FOF B	-1.30%	2.38%	6.73%	8.71%	8.43%	7.31%	7.68%
GTC Prosperity Wealth FOF	-1.45%	2.92%	7.31%	10.92%	10.78%	10.69%	11.54%
GTC Prosperity Wealth Composite Benchmark	1.37%	5.98%	11.38%	13.78%	14.30%	12.43%	12.95%
FTSE/JSE All Share Index (ALSI)^	-2.42%	2.45%	10.88%	17.44%	17.24%	14.80%	15.15%
FTSE/JSE Shareholder Weighted Index (SWIX)^	0.56%	6.74%	14.78%	19.52%	19.69%	16.63%	16.83%
BEASA All Bond Index (ALBI 1-3 year)^	1.90%	3.30%	4.49%	3.95%	4.77%	5.45%	5.81%
Cash (SteFi)^	1.14%	2.23%	4.16%	3.89%	3.94%	4.02%	4.32%
GTC Wealth Protector FOF	0.63%	4.27%	6.67%	6.97%	6.87%	7.33%	7.89%
CPI +1% target	1.42%	2.60%	6.91%	6.94%	6.77%	6.77%	6.25%
GTC Balanced Wealth FOF	-1.59%	2.50%	6.81%	9.23%	9.22%	9.32%	10.06%
CPI +5% target	2.37%	4.53%	10.92%	10.95%	10.78%	10.77%	10.26%
GTC Conservative Absolute Growth (R)	3.55%	8.01%	16.25%	19.94%	21.10%	16.95%	11.89%
GTC CAG's Composite Benchmark (R)^	0.91%	2.60%	10.38%	15.46%	15.21%	13.96%	9.95%
R/$ Exchange rate	2.21%	3.61%	9.60%	12.34%	12.45%	11.59%	7.06%
GTC Global Conservative Absolute Growth ($)	-2.44%	-1.49%	0.32%	4.86%	4.71%	3.09%	3.93%
GTC Global CAG's Composite benchmark ($)^	-1.28%	-0.98%	0.70%	2.75%	2.42%	2.11%	2.68%

* 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 6.3% on the back of a decline in food prices.

The **GTC Capital Plus FoF** has shown its capital protection focus over the quarter in which equity markets posted capital losses. The significant absolute return exposure ensures that the Fund captures upside equity return while focusing on avoiding losses over 12 month periods.

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

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) outperformed its benchmark over the quarter and continues to deliver outperformance against its benchmark over the longer term. The fund has captured a significant portion of the upside afforded by equity markets while still maintaining its capital protection objective.

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