consult • partner • manage

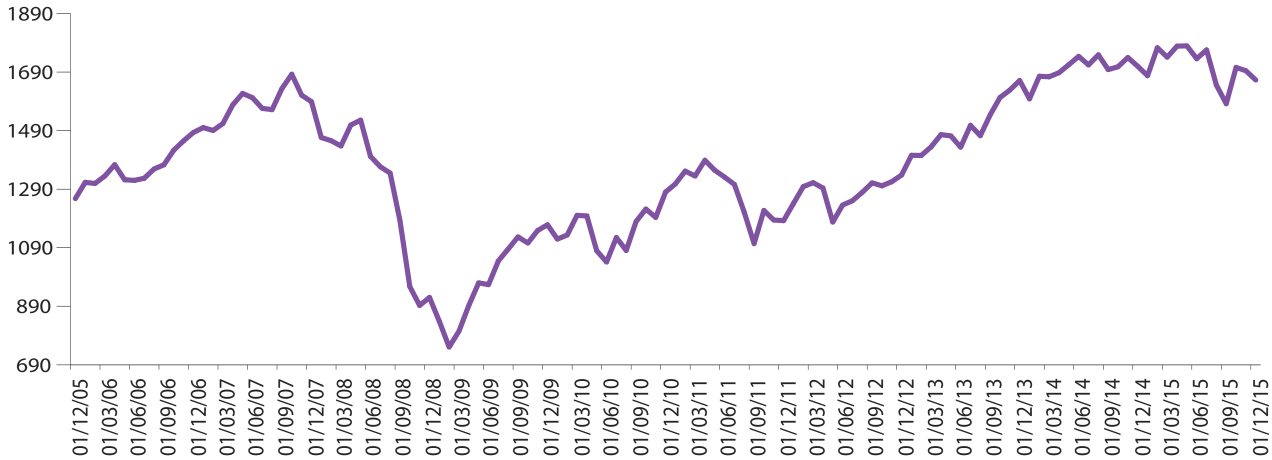
GTC Trendline

4th Quarter 2015

Global - Oil on a slippery slope?

Global equity markets delivered positive returns in the fourth quarter despite a relatively poor performance in the latter half of December. In Dollar terms the MSCI World Index returned 5.11% with the MSCI Emerging Markets Index coming under considerable pressure returning a paltry 0.26%.

MSCI World Index (USD)



Source: GTC/I-net BFA

The S&P 500 Index recorded a total return of 7.0% over the quarter. Risk-on was the prevailing sentiment earlier in the month of December on the basis that the Federal Reserve Bank would delay the much anticipated increase in interest rates on the back of improving macroeconomic data. However contrary to this line of thought the U.S. central bank went ahead and raised interest rates by 0.25% for the first time since 2006 on the back of strong employment numbers for both October and November. The unemployment rate fell below 5.0% and the Conference Board's measure of consumer confidence moved ahead in December.

Most gains were seen in large cap counters as these had sold off heavily during the third quarter on the back of concerns over emerging market growth particularly in relation to macroeconomic data coming out of China. Large caps responded particularly well in the October liquidity driven rally as China and the Eurozone continued to ease monetary policy whilst the Fed delayed any move on interest rates.

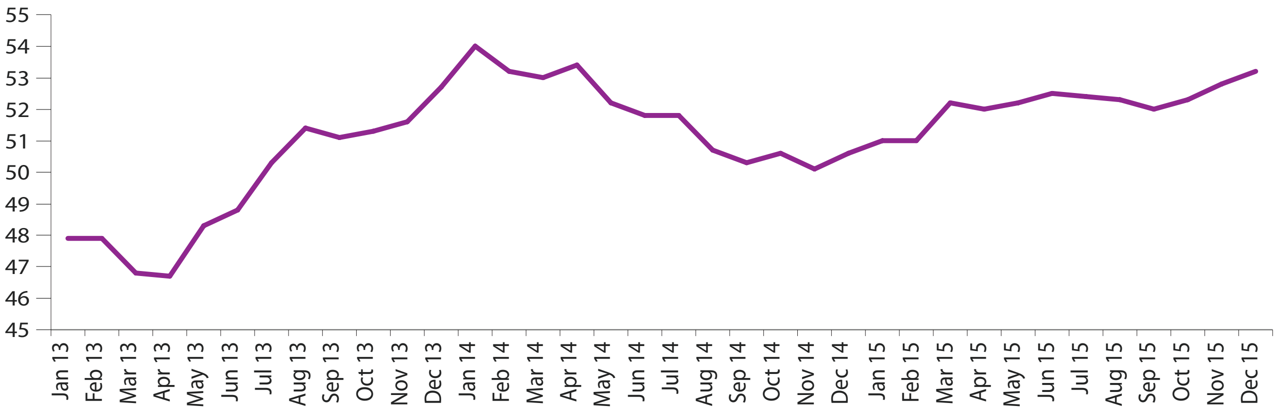
Merger and Acquisition activity continued apace with Pfizer and Allergan agreeing to combine to create the world's largest pharmaceutical company. The other sector to shine was technology where the household names of Facebook, Amazon, Netflix and Google dominated. The quarter ended on a very subdued note as crude oil prices came under renewed pressure which weighed heavily on the energy sector and this combined with the Fed's move on interest rates led to a risk-off attitude prevailing.

In the Eurozone equities delivered positive returns over the quarter in spite of the fall back in share prices in December with the MSCI EMU Index returning 3.66% in Dollar terms. European stock markets moved ahead on the premise that the European Central Bank would introduce substantially increased monetary policy easing which however turned out not to be the case.

The current easing programme was extended to March 2017 but the repurchase amount of Euro 60billion per month remained unaltered. The deposit rate was reduced from -0.2% to -0.3 %. Economic data continued to surprise on the upside with the flash Purchasing Manager's Index for the quarter at its highest level in four and a half years. Inflation remained benign coming in at 0.2% for November from October's 0.1%. In the wake of the Paris terrorist attacks travel and leisure stocks came under pressure while defence stocks rallied on expectations of increased government expenditure on security.

The continuing influx of migrants whilst making news headlines did little to undermine the markets. Automobile stocks returned to favour following on the Volkswagen emission debacle with sales of new vehicles in the EU rising by 13.7% y/y in November. The Anheuser Busch InBev takeover of SABMiller helped lift stocks in the food, beverage and tobacco sector. Pharmaceutical stocks underperformed.

PMI Manufacturing Index (Euro area)



Source: Markit

U.K. equities recovered well over the quarter having experienced a substantial correction earlier when fears of a global economic slowdown had adversely affected investor sentiment. October saw a substantial rally in share prices as China commenced quantative easing and the European Central Bank intimated that it would follow suit. The FTSE All Share index delivered a return of 4.0% over the quarter despite the market declining in the latter part of December on the back of renewed weakness in oil prices. Financials, consumer goods, healthcare and telecoms led the market upwards whilst oil and gas were the underperformers. However risk appetite waned later in the quarter when the European Central Bank failed to deliver on its promises.

Anglo American Plc came under significant selling pressure as it announced it was suspending all dividend payments until further notice. Following on dovish minutes from the Bank of England domestically focused companies continued to attract considerable interest.

After experiencing a significant correction in August and September the Japanese market rebounded strongly in October the Topix Index returning 9.8% in yen terms for the quarter. The October improvement was driven mainly by an improvement in cyclical stocks. Early in the quarter economic data suggested that the Japanese economy remained in recession in spite of half-yearly earnings being slightly better than expected. The quarter saw a moderate improvement in inflation as well as wage growth. The Bank of Japan's quarterly Tankan survey held few surprises with a revised third quarter GDP number coming in at 1% well ahead of the 0.8% preliminary figure. The increase in the U.S. interest rates had little impact on the market as it had been widely anticipated.

The Chinese economy continued to send mixed signals but the equity market continued to show improvement as the People's Bank of China cut interest rates once again in order to try and prop up a faltering economy. Slumping industrial profits are the latest sign China's government is struggling to reduce overcapacity and halt declines in producer prices while President Xi Jinping's anti-corruption campaign has ensnared more than 100 000 officials and spanned across areas such as the military, oil industry and the finance sector. Iron ore stockpiles at ports in China are heading into 2016 at the highest level in more than seven months as expanding low-cost supplies and spluttering demand raises concerns that a glut will continue hurting prices. Data showed profits at Chinese industrial companies in November fell 1.4% from a year earlier marking a sixth consecutive month of decline.

Third quarter GDP growth came in at 6.9% y/y declining below 7% for the first time since 2009 but beating consensus which suggested growth of 6.8%.Part of the problem for investors will be separating what China's economy does from what its stock markets do. There may be some correlation between the two over time but this has been less so in the last couple of years.

IMF MD Christine Lagarde said the prospect of rising interest rates in the United States and an economic slowdown in China were contributing to uncertainty and a higher risk of economic vulnerability worldwide. In addition, growth in global trade has slowed considerably and a decline in raw material prices is posing problems for economies based on these while the financial sector in many countries still has weaknesses and financial risks are rising in emerging markets.

Government bond markets moved much in line with the divergent views of their particular central banks. Expectations of the Federal Reserve increasing interest rates became a reality in December with major bond markets having already factored this development into their pricing. In the Eurozone the European Central Bank did extend its policy of accommodation but the measures taken fell short of market expectations.

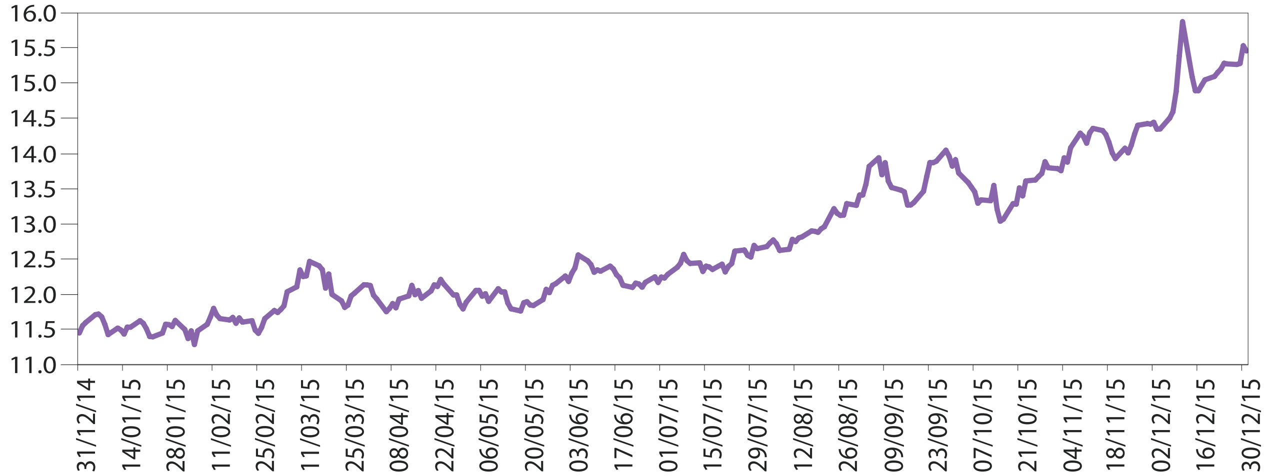
In corporate bonds investors in U.K. and Euro credit markets saw a general improvement in domestic economic data which was countered by negative developments in emerging markets. In the U.S. the oil price weighed heavily on corporate bonds particularly those high yielders in the energy sector.

Domestic - Interest rate rise?

Indicative of developments in emerging market economies the MSCI Emerging Market Index surprisingly showed a positive return of 0.26% for the quarter but lagged significantly behind the MSCI World Index. A stronger U.S. Dollar together with renewed concerns over the Chinese economy provided significant headwinds.

However of more significance for the South African market was the totally unexpected move on the part of President Zuma who dismissed the well thought of Minister of Finance Nhlanhla Nene and replaced him with a relatively unknown and inexperienced David van Rooyen. This move sent the Rand into a nosedive and wiped billions of Rands in value off the stock market with banking counters being the hardest hit. Reaction was swift and President Zuma almost immediately announced the return to office of former Minister of Finance Pravin Gordhan. The move helped to calm the local markets but continuing negative economic numbers coming from China saw resource stocks under renewed pressure and market volatility increasing measurably.

USD ZAR



Source: GTC/I-Net BFA

Somewhat contrary to many expectations, particularly taking into account the current dismal state of the South African economy, the S.A. Reserve bank raised the interest rate by 25 basis points to 6.25% in November citing concerns over a weak Rand and rising inflation. A further contributing factor was undoubtedly the strong sell-off by foreign equity investors.

South African consumers should brace themselves for a double blow on food prices from the countrywide drought and continued rand weakness. While South Africa is still recovering from a R12bn loss in maize production from last year it is in the grip of a drought which will see it become a net importer of the crop for the first time in seven years.

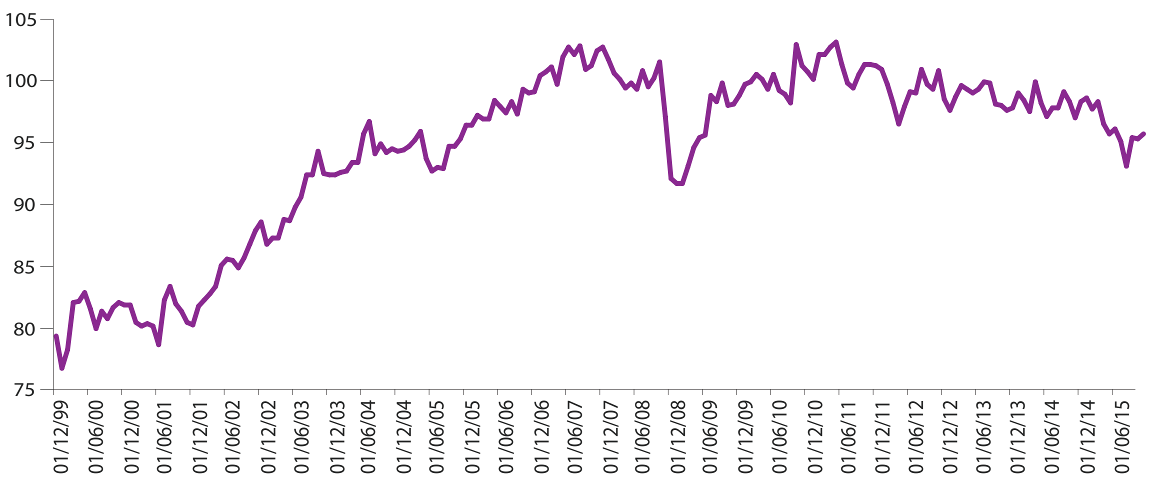
This will translate into a significant increase in maize and ultimately food prices. South African production of maize under irrigation normally contributes an average of 2 million tons every season but because of the very low rainfall and the poor levels of most of the dams in the region it is likely that a much smaller harvest can be expected.

This could bring the best estimate for the total production of maize this season down to between 3 to 4 million tons. This is an absolute disaster for the agricultural industry and for economic growth compared to the 14.2 million and the 9.3 million tons of maize that were produced over the past two seasons respectively.

South Africa and the United States have signed a poultry veterinary trade protocol agreement that will now see poultry and other meat being imported from the United States. The African Growth and Opportunity Act allows African countries to export certain goods to the United States duty free. In exchange the African countries need to improve their rule of law, human rights and respect for core labour standards.

South Africa's objection to the meat imports was over concerns that an outbreak of avian flu in the US could threaten the health of people and animals in South Africa.

SA Electricity Production



Source: GTC/I-Net BFA

Companies including BMW AG, Volkswagen AG and Ford Motor Company are taking advantage of the South African government's automotive development program which offers benefits and incentives to manufacturers. South Africa's seven biggest vehicle producers have invested at least 24 billion Rand in their plants in the past five years helping to boost domestic output by about 30 percent even after two consecutive years of strike-related stoppages and as local sales of new vehicles decline. Exports have climbed dramatically in the same period.

South Africa's trade balance swung to a R1.77bn surplus in November from a revised R21.6bn shortfall in October which had driven the rand to record lows. However the surplus failed to strengthen the currency.

While Eskom must be congratulated on alleviating load shedding, of major concern is that electricity usage has dropped dramatically since the start of 2015. This suggests that Eskom has avoided implementing load shedding because of the decline in demand indicative of a slowing economy. Electricity output has plummeted as demand has fallen dramatically to 2008 levels.

Nigerian authorities will wait for the outcome of a court challenge filed by MTN before deciding on whether to enforce a $3.9bn (R59.24bn) fine a spokesperson for the telecommunications ministry said. The ministry spokesperson contradicted a source in the Nigerian Communications Commission who earlier said appropriate action would be taken against MTN if it failed to pay the fine by a December 31 deadline for failing to disconnect users with unregistered SIM cards.

Of paramount importance for the South African economy is that South Africa maintains its investment grade rating in terms of its sovereign debt in order to prevent substantial capital outflows. As a general rule pension funds and asset managers are in terms of their own rules precluded from holding investments which have been downgraded to junk status.

Treasury and Finance Minister Pravin Gordhan are well aware of this and it is to be hoped that common sense will prevail and that the necessary steps to avoid such a possibility will be implemented expeditiously.

GTC Fund Performances - December 2015

Investment portfolios	3Mth %	6Mth %	1Year %	2Year* %	3Year* %	4Year* %	5Year* %
GTC Fixed Income B	1.63	3.16	5.67	6.77	5.93	5.66	5.82
GTC Wealth Accumulator FOF B	0.26	-4.47	-0.62	2.90	6.39	8.26	8.80
GTC Capital Plus FOF B	3.30	1.15	4.47	5.28	6.53	7.44	6.51
GTC Prosperity Wealth FOF	4.29	1.01	4.57	5.62	7.79	9.01	8.98
GTC Prosperity Wealth Composite Benchmark	3.72	1.31	5.74	8.33	9.63	12.17	10.47
FTSE/JSE All Share Index (ALSI)^	1.31	-1.22	3.57	6.37	10.62	14.01	11.29
FTSE/JSE Shareholder Weighted Index (SWIX)^	0.97	-3.66	2.08	7.74	11.35	15.12	12.52
BEASA All Bond Index (ALBI 1-3 year)^	-0.87	0.50	2.56	3.60	3.35	4.18	4.80
Cash (SteFi)^	1.24	2.48	4.88	4.60	4.28	4.20	4.19
GTC Wealth Protector FOF	3.25	2.25	5.06	6.04	5.96	6.45	6.74
CPI +1% target	0.60	2.33	5.77	6.28	6.29	6.37	6.53
GTC Balanced Wealth FOF	3.59	1.01	4.36	5.22	6.73	7.83	7.93
CPI +5% target	1.56	4.27	9.77	10.29	10.30	10.38	10.54
GTC Conservative Absolute Growth (R)	13.87	21.41	25.83	17.99	22.95	21.00	20.38
GTC CAG's Composite Benchmark (R)^	12.95	25.04	29.36	18.91	22.32	18.64	19.30
R/$ Exchange rate	11.87	27.18	34.35	21.80	22.38	17.46	18.50
GTC Global Conservative Absolute Growth ($)	1.47	-4.90	-4.66	-3.19	0.23	2.70	1.22
GTC Global CAG's Composite benchmark ($)^	0.95	-1.71	-3.75	-2.40	-0.07	0.99	0.66

* 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** struggled 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.

Contact us

National Manager - Client Consulting
Jeff Morgan-HIll
T +27 (0) 10 597-6838
E jmhill@gtc.co.za

National Manager - Strategic Partners
Roger Schärges
T +27 (0) 10 597-6858
E rscharges@gtc.co.za

Head - Investment Analytics
Clive Eggers
T +27 (0) 10 597-6827
E ceggers@gtc.co.za

Head - Healthcare
Jill Larkan
T +27 (0) 21 412-1062
E jlarkan@gtc.co.za

Head - Employee Benefits Administration
Nadira Sarang
T +27 (0) 21 713-8500
E nsarang@gtc.co.za

Head - Wealth Management
Jenny Williams
T +27 (0) 10 597-6840
E jwilliams@gtc.co.za

Head - Employee Benefits Consulting
Toy Otto
T +27 (0) 10 597-6861
E totto@gtc.co.za

Head - Marketing & Media
Carey Else
T +27 (0) 10 597-6825
E celse@gtc.co.za

Managing Director - Securities & Derivatives
Mike Bolus
T +27 (0) 21 412 1074
E mbolus@gtc.co.za

Managing Director - Risk Solutions
Roy Wright
T +27 (0) 21 286-0037
E rwright@gtc.co.za

Group Chief Operating Officer
Farhadh Dildar
T +27 (0) 10 597-6830
E fdildar@gtc.co.za

Group Chief Executive Officer
Gary Mockler
T +27 (0) 10 597-6831
E gmockler@gtc.co.za

Head - Finance
Andrea Diamond
T +27 (0) 10 597-6877
E andread@gtc.co.za

Compliance Officer
Dale Nussey
T +27 (0) 10 597-6828
E dnussey@gtc.co.za

formerly Grant Thornton Capital

a GTC @Grant Thornton, The Wanderers Office Park, 52 Corlett Drive Illovo, 2196
p P O Box 55118, Illovo, 2116

t +27 (0) 10 597 6800
f +27 (0) 10 597 6801
w www.gtc.co.za

GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors: G.K. Mockler, F. Dildar

An Authorised Financial Services Provider
FSP. no. 731

GTC is nationally represented in Johannesburg, Cape Town and Durban

GTC Group products and services include: Employee Benefits Consulting • Employee Benefits Administration • Private Client Wealth Management • Healthcare Consulting • Short-Term Risk Solutions • Stockbroking • Derivatives Trading • Unit Trust Management • Asset Management • Fiduciary Services