GTC Market Update

February 2016

Global - Mario Draghi more QE?

Global equities came under considerable pressure in February on the back of continued weakness in the oil price and uncertainty regarding the way forward in terms of U.S. interest rate normalization. In Dollar terms the MSCI World Index delivered a negative return of -0.96% while the MSCI Emerging Markets Index eased -0.15%. Having experienced a difficult month in January, U.S. markets displayed some resilience in February but struggled to make meaningful progress as concerns over the domestic economy were compounded by a further slowing of the global economy.

Following a sharp sell-off in the early part of the month the S&P 500 recovered in anticipation of further monetary stimulus packages from both the European Central Bank and the Bank of Japan to close the month just -0.1% lower. The worst performers were financial stocks, particularly banks, as the Federal Reserve indicated it would delay further interest rate rises because of concerns around a stagnating global economy. The Federal Reserve expressed reservations around the impact that a global economic slow-down would have on U.S. domestic growth.

In spite of an up-tick in crude oil prices energy companies experienced sharp declines as the rating agencies indicated that they might downgrade the credit rating of some of the U.S.'s largest diversified oil and gas producers.

With a surge in financial market volatility concerns continued to rise suggesting that there could be a contagion effect from the collapsing energy sector which would filter down into the wider economy.

Various leading economic indicators certainly pointed in this direction. Giving credence to these concerns the Institute for Supply Management non-manufacturing Purchasing Manager's Index declined from 55.8 in December to 53.5 in January and the Conference Board's consumer confidence index fell from 97.8 in January to 92.2.

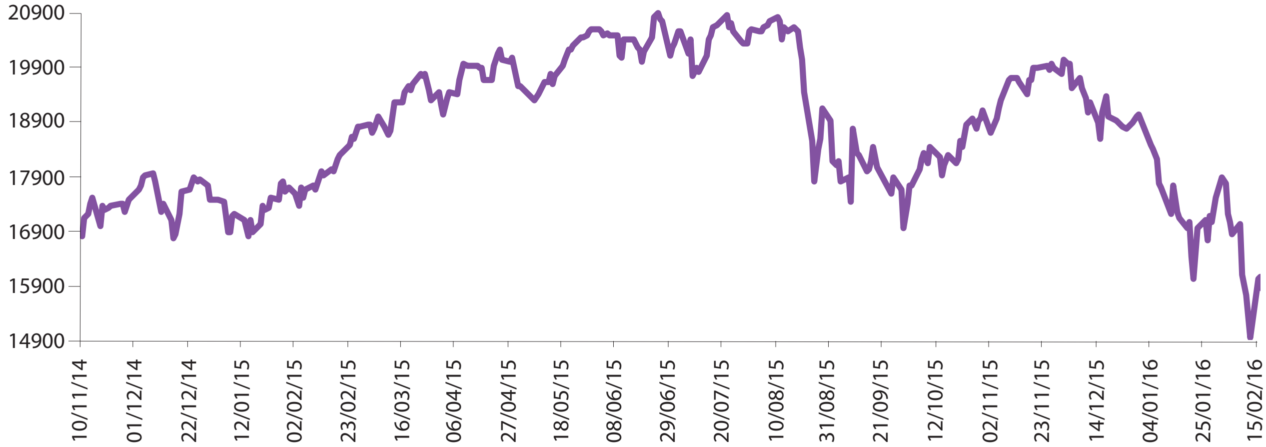
Providing some relief to the gloomy outlook for the economy, U.S. 4th quarter GDP was revised upwards to 1.0% from the previous indicative 0.7%. Additional confidence was inspired by consumer spending remaining robust as retail sales increased 0.6% in January.

The Eurozone failed to escape the global sell-off with equities returning -3.0% for the month. In line with other global markets, month-end saw an improvement in share prices on the back of economic data which indicated that the economy continued to grow albeit at a snail's pace. GDP grew 0.3% q/q for Q4 2015 whilst the flash composite purchasing manager's index declined from 53.6 in January to 52.7 in February. In spite of all efforts to increase inflation it remained stubbornly subdued coming in at a negative -0.2% for February after January's positive 0.3%. The negative inflation number reinforced expectations that the European Central Bank would announce further stimulus measures at its meeting on the 10th of March.

The energy, materials and consumer discretionary sectors posted moderate gains but all the remaining sectors were in the red. Merger and acquisition activity continued apace with the Deutsche Boerse and the London Stock Exchange in merger talks.

U.K. equities bucked the global trend with the FTSE All-Share returning 0.8% as the resources sector saw considerable improvement. In spite of fears of a possible "Brexit" and a sharp decline in the value of Sterling, domestic-facing equities performed well. The oil and gas sector remained buoyant with good results from Shell offsetting the disappointing news from B.P.

Nikkei 225



Source: GTC / I-Net BFA

Resources counters experienced renewed interest with Anglo American's plans to divest from its iron ore, nickel and coal interests being particularly well received. The worst performing sector was banks with the Royal Bank of Scotland announcing its eighth year of consecutive losses. This was countered to some extent as Lloyds Bank reported considerably improved profits.

The Japanese market experienced a shocking month declining some 9.3% after the Bank of Japan took the somewhat unexpected but bold step by introducing a negative interest rate policy at the very end of January. This resulted in a flood of foreign selling as the whole viability and possible success of "Abenomics" was called into question. As investors digested the interest rate news extreme volatility ensued as the market construed this as being negative for the banking sector. However the moves in this sector were disproportionate with stocks declining some 20% on the assumption that there would be even further interest rate negativity.

Chinese equities were down on the month reflecting concerns over the continued slowdown in its economy. It appears that the People's Bank of China is determined to try and continue offering support to the ailing manufacturing sector and cut the reserve requirement ratio of the commercial banks by 50 basis points at month end suggesting that the central bank will do whatever is necessary to maintain economic growth. The Lunar New Year also tends to distort economic data but a pleasing aspect was growth of 11.2% in retail sales compared to the same period in 2015.

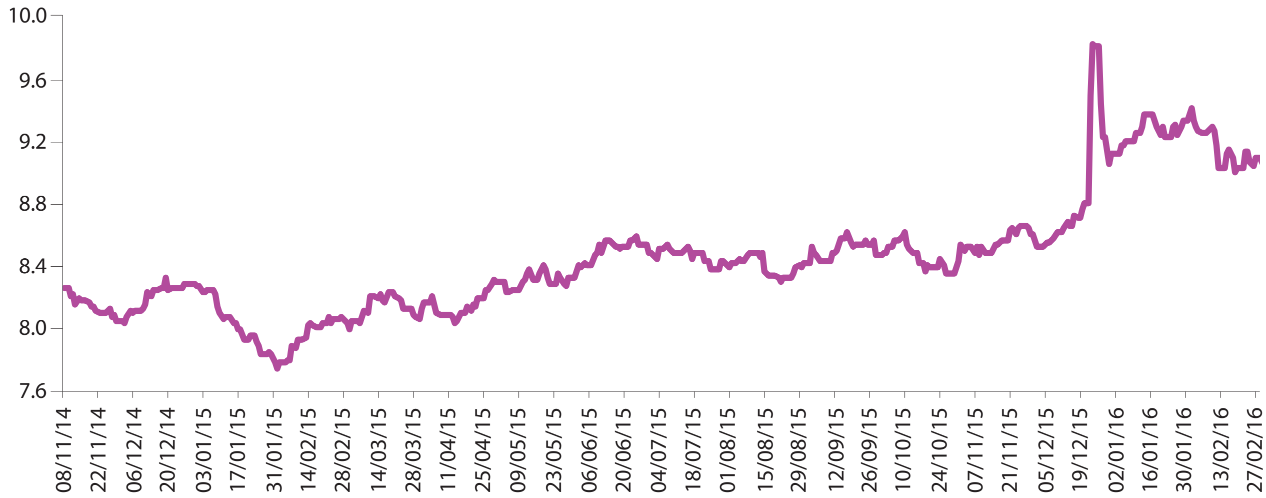
Domestic - Pravin's dilemma

The release of the 2016/17 budget, concerns over U.S. and global economic growth, together with the possibility of a downgrade of our sovereign debt by the rating agencies all contributed to a month of relentless volatility on the JSE. This is evidenced by the fact that the ALSI 30 day volatility indicator increased from 21.37 to 24.07. Surprisingly taking into account the barrage of mostly negative domestic economic data the JSE/ALSI ended the month in positive territory gaining 0.59%. This was in spite of foreign sales of R10.4 billion of equities over the month.

The Top40 index declined by 0.57% but the star performer was the RESI120 which gained 13.19% with Anglo American rallying over 50% on the back of its restructuring programme. With resources seemingly back in favour it was no surprise to see the Industrial Metals Sector soaring by a whopping 108.14% whilst Gold Mining continued to attract safe haven investors and rose some 45.97%.

In anticipation of further interest rate increases, the long end of the bond yield curve experienced a sell off with the long dated 12+ maturity sector shedding 0.77%. The 7-12 year maturity declined 0.55% while the shorter dated 3-7 maturity sector lost 0.13%. Cash returned 0.53%.

All bond index



Source: GTC / I-Net BFA

The major surprise in the National Budget was the decision not to raise personal income tax. The tax rate for companies and VAT was not raised either. The Minister needs to raise R18.1 billion in revenue to balance the books and this will be achieved by upward adjustments to capital gains tax which will be raised from 13.7% to 16.4% for individuals, transfer duty raised from 11% to 13% on property sales above R10 million, increases in the usual sin taxes, an increase of 30cents in the fuel levy and an increase in environmental taxes. Although limited fiscal drag relief of R5.5bn in personal income tax will be given an additional R7.6bn will be raised from individuals by partially increasing personal income tax brackets and rebates for inflation.

Tax changes to trusts are also proposed to curb tax avoidance. The budget deficit as a percentage of GDP is estimated to decline from 3.9% to 2.4% over the medium term. Government expenditure will be cut by R25 billion over 3 years through staff and procurement savings. Will the fact that no real mention was made of how our economy will grow result in a downgrade of our sovereign debt by the international rating agencies? Time alone will tell but it is to be hoped that the bottom of the commodity cycle has been reached and that from here on we will see a gradual improvement in our economic fortunes.

Consumer price inflation (CPI) has breached the upper limit of the South African Reserve Bank's target range by accelerating to 6.2% year-on-year in January 2016. The consensus forecast for headline CPI which includes the volatile food and energy components was for an increase to 6.0% in January.

The Reserve Bank's target rage is between 3% and 6%. On average prices increased by 0.8% between December 2015 and January 2016.

Foreign Direct Investment (FDI) into South Africa declined by 74% in 2015 according to figures compiled by the United Nations Conference on Trade and Development. Elsewhere in the world FDI in 2015 was up by 36%. If the Expropriation Bill is made law, FDI into South Africa is likely to decrease even further. South African's are a resilient nation and we have faced adversity before.

The following quote from Minister Pravin Gordhan's budget speech carries with it the hopes to which surely most South African's would aspire:

"The joint actions we need will not always be easy. All too often, bureaucrats and business people speak past each other, the needs of the young are not the same as those of the elderly; the rhythms of the township differ from those of the suburb. Race, class and language differences interfere with progress even when we have shared aspirations. We need to bridge these divides."

GTC fund performances - February 2016

Client Portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC High Equity - Provident	0.56	5.17	9.21	10.16	9.50
GTC High Equity Inflation Target CPI+5%	11.24	10.33	10.48	10.45	10.61
GTC High Equity - Pension	0.49	5.21	9.12	9.96	9.50
GTC High Equity Inflation Target CPI+5%	11.24	10.33	10.48	10.45	10.61
GTC Moderate - Provident	0.66	4.69	8.04	8.89	8.48
GTC Moderate Inflation Target CPI+3%	9.23	8.33	8.48	8.45	8.61
GTC Moderate - Pension	0.65	4.68	7.95	8.87	8.40
GTC Moderate Inflation Target CPI+3	9.23	8.33	8.48	8.45	8.61
GTC Conservative - Provident	3.30	5.19	6.18	7.05	6.50
GTC Conservative Inflation Target CPI+1	7.23	6.33	6.48	6.45	6.61
GTC Conservative - Pension	3.29	5.23	6.44	7.27	6.92
GTC Conservative Inflation Target CPI+1	7.23	6.33	6.48	6.45	6.61
GTC EB Market Plus - Pension	0.70	4.67	10.91	11.54	10.92
GTC EB Market Plus - Benchmark	1.19	7.95	11.73	13.15	12.35
GTC EB Market Plus - Provident	-1.35	4.59	10.86	11.51	10.89
GTC EB Market Plus - Benchmark	1.19	7.95	11.73	13.15	12.35
FTSE/JSE All Share Index (ALSI) ^	-5.80	3.83	9.26	11.28	10.62
FSTE/JSE Shareholder Weighted Index (SWIX) ^	-6.46	5.78	10.37	12.42	12.32
BEASA All Bond Index (ALBI) ^	-5.11	3.72	1.62	4.26	5.75
Cash (SteFi)^	4.98	4.73	4.37	4.25	4.22
MSCI World Index (R)^	19.06	15.87	24.08	24.33	20.07

*Annualised

GTC Performances are shown net of all fees

Benchmark returns include 1.5% fees

The **GTC Market Plus Funds** have benefited from their equity market exposure, both domestically as well as offshore. Within our manager blend, exposure to attractive and depressed materials exposure has detracted in the short term.

The **GTC High Equity Funds** (previously Aggressive) are lagging their inflation targets as short detraction from equity markets impacts performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

The **GTC Moderate Funds** performing in line to their inflation adjusted targets over longer term periods. Equity markets remain the key driver of performance.

The **GTC Conservative Funds** are ahead of their inflation target over the longer term. Equity markets remain the key driver of performance.

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