GTC Trendline

1st Quarter 2016

Global: The proverbial yo-yo

The first three months of 2016 saw global equities following an almost V-shaped pattern with stocks declining sharply up to mid-February and rebounding significantly at quarter end to close virtually flat in Dollar terms with the MSCI World Index reflecting a decline of 0.19 %. Emerging markets followed a similar pattern but were able to outperform their developed market peers by returning a positive 5.6% for the quarter.

In the U.S. the market was spurred on by forecasts that further interest rate rises were being deferred. This was after Federal Reserve Chairperson Janet Yellen reported to Congress in February that volatility in global financial markets could impact negatively on U.S. economic growth which was reiterated in the report of the Federal Open Markets Committee in March.

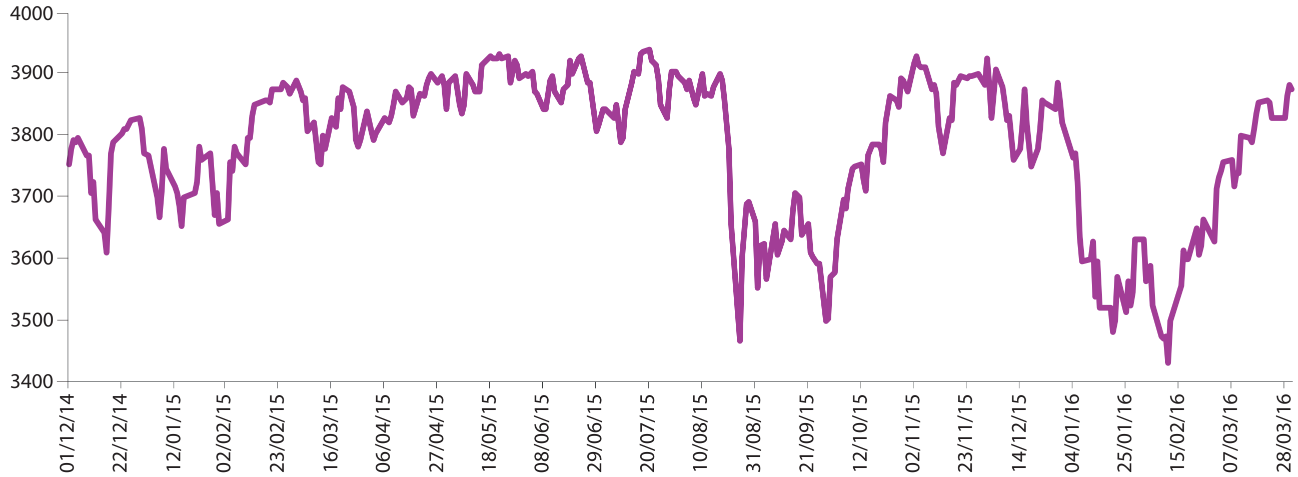
This sentiment was further strengthened at a later speech at the end of March by Yellen reminding that the Central Bank would have to proceed cautiously in raising rates. These statements represented a U-turn in policy after the Fed had begun to introduce an interest rate normalisation policy in December for the first time in 10 years.

U.S. equities ended the quarter higher with the S&P 500 returning 1.3% having staged a strong recovery from the February lows. Whilst employment numbers continued to improve other economic indicators were some cause for concern particularly the Conference Board's forward looking consumer confidence index which declined some 3.8 points.

The outlook was further clouded by a report from the Institute for Supply Management indicating that the non-manufacturing index slipped further in February following five consecutive months of declines. The Department of Commerce revised retail sales growth for January down from 0.6% to 0.2% whilst sales for February remained flat.

The Eurozone experienced a negative quarter with the MSCI EMU Index returning -2.01% with global concerns continuing to influence market sentiment with particular emphasis placed on weaker Chinese economic data and the continuing slump in the oil price. The economy continued to splutter along with GDP rising 0.3% in Q4 of 2015.

S&P 500 Composite Index



Source: GTC / I-Net BFA

Inflation remained a major stumbling block falling to -0.2% y/y in February a far cry from the European Central Bank's target of 2.0%. Security concerns continued to influence market sentiment after the terrorist attacks in both Paris and Brussels. Financial stocks were the worst performers over the quarter influenced by the likely impact of negative interest rates on profitability. Deutsche Bank was particularly out of favour as concerns were expressed as to its ability to meet coupon payments on some of its convertible bonds.

The automobile sector remained under pressure in the aftermath of the Volkswagen emission debacle with fears that other manufacturers might also have misled the emission control regulators. In order to try and further stimulate the economy, the European Central Bank announced fresh monetary easing measures that included expanding asset repurchases to Euro 80bn a month from the previous Euro 60bn and to now include non-bank investment grade corporate bonds. The deposit rate for commercial banks was cut by another 10 basis points to a negative -0.4%. To encourage further lending the ECB announced a series of four longer dated refinancing operations.

The U.K. markets finished the quarter basically flat after having experienced a strong recovery from February's lows. This recovery was partially occasioned by renewed steps on the part of the Chinese authorities to weaken the Yuan in order to help stave off a potential hard landing. Sentiment was further positively influenced as it was anticipated that the world's central banks would further loosen monetary policy in response to faltering global economic growth.

Disappointingly the FTSE/All-Share Index delivered a negative return of -0.4% for the quarter. The Resource Sector was resilient as the weaker dollar helped push up commodity prices and the Royal Dutch Shell/BG merger was completed. Sterling came under renewed selling pressure as the threat of a potential "Brexit" of Britain from the European Union was highlighted after Prime Minister David Cameron announced that a referendum in this regard would be held on the 23rd of June.

The Japanese equity market experienced a shocking quarter declining a staggering 12% driven primarily by concerns over the state of the global economy as well as the totally unexpected move on the part of the Bank of Japan which introduced a negative interest rate policy at the end of January.

The market experienced significant volatility on the back of these events with the negative interest rate policy being seen as a negative for banks but a positive for real estate. Foreign investors were significant sellers of local equity as the viability of "Abenomics" began being called into question.

Contrary to expectations the Yen rose sharply negating the hoped for depreciation on the back of the negative interest rate policy. The outlook for the economy remains very subdued.

The MSCI Asia ex Japan delivered a positive return in dollar terms appreciating some 1.8%. Chinese markets experienced extreme volatility as the year opened with the stock market being forced to close twice within a week as new regulatory measures were introduced to try and limit over speculation. The expiration of selling restrictions on major shareholders combined with the depreciation of the Yuan were cited as major contributing factors to the very sharp sell-off in the market. Continued weak economic data was also a contributing factor but the People's Bank of China's move to cut the commercial banks reserve ratio requirements by 50bps brought some modicum of stability to the market.

Following a challenging start to the quarter, the MSCI Emerging Market Index posted a solid return helped in no small measure by the decision to delay further interest rate hikes in the U.S. with the resultant easing in U.S. dollar strength. This had the positive effect of lifting commodity prices significantly and a return of a risk-on attitude to emerging markets. The oil price began the quarter above $37 a barrel, declined to $26 mid February and then climbed to close the quarter at just short of $39. As can be imagined this wild gyration of the oil price brought with it almost unprecedented volatility in world stock markets.

Yields on Treasuries in the U.S declined modestly over the quarter with the 10 year yield declining from 2.27% at the end of December 2015 to 1.77% at quarter end. In the U.K on the back of "Brexit" concerns, the 10 year yield declined to 1.96% from 1.42%. Germany's 10 year bond yield declined from 0.63% to a staggeringly low 0.15% in spite of all the European Central Bank's efforts.

Domestic: Weathering the storm

In line with the majority of global markets the first quarter of 2016 saw the JSE volatility increase exponentially. In addition, both economic and political events lent extra impetus to the see-saw reaction of the local market so it is somewhat pleasing that the JSE/ALSI managed to register a positive return of 3.9% for the quarter. The All Bond Index returned 6.6%, the Listed Property sector 10.1% and cash 1.7%.

In line with the improvement in the price of crude oil, the majority of commodity prices showed considerable improvement from their record lows which certainly aided market sentiment and indeed were the catalyst for the reversal of fortune for many of the local mining companies. Platinum and Precious Metals together with Gold were outstanding performers. Reinforcing gold's safe haven status in times of uncertainty has seen the Gold Mining Sector return some 92.83% YTD.

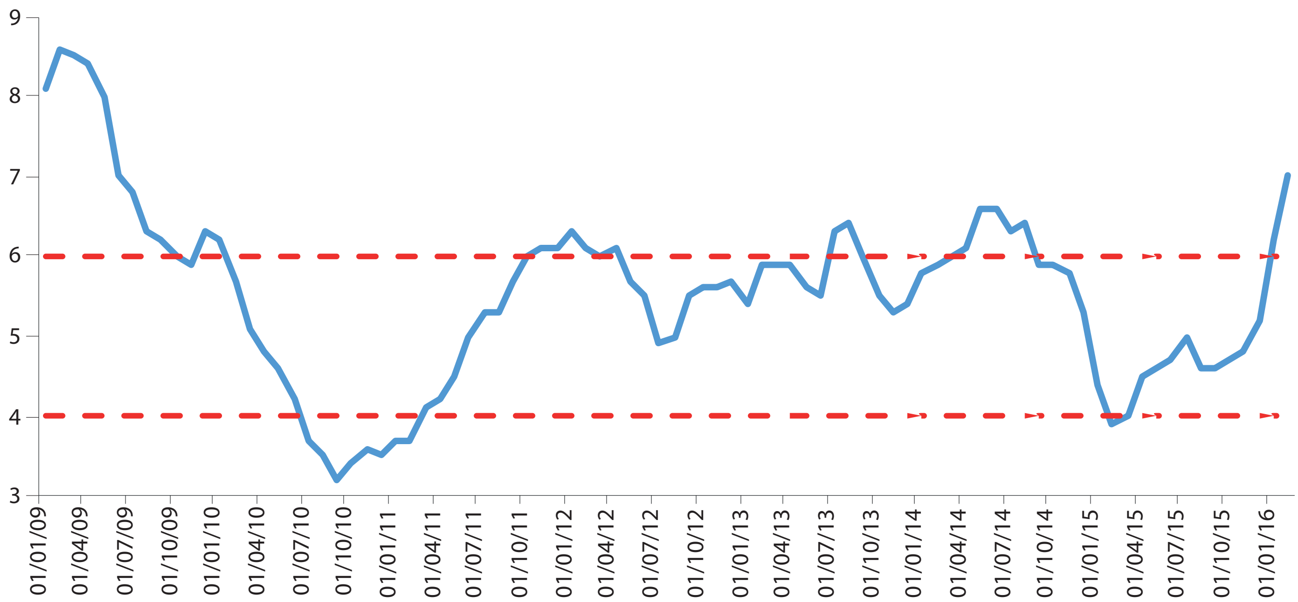
Of major concern is the possibility of a downgrade of our sovereign debt to below investment grade which would result in it being accorded "junk" status. Whilst the possibility of such a downgrade has to an extent already been priced into our local equities and bonds, the fact remains that such a rating downgrade needs to be avoided at all costs.

This is particularly so when we have to raise funds abroad as it results in the Fiscus having to pay a substantial premium in terms of interest payments. Moody's has placed S.A.'s sovereign rating on review for a downgrade, which fortunately would still remain investment grade, to be announced within 90 days. Standard and Poor's rating agency is expected to pronounce on its current rating in June.

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.

SA CPI



Source: GTC / I-Net BFA

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.

The headline CPI annual inflation rate in February 2016 was 7.0%. This rate was 0.8 of a percentage point higher than the corresponding annual rate of 6.2% in January 2016 and was considerably higher than had been expected. On average prices increased by 1.4% between January 2016 and February 2016. This is the highest rate since May 2009 when the rate was 8%. The CPI increased by 1.4% month-on-month in February 2016.

The South African Reserve Bank governor Lesetja Kganyago announced a 25 basis-point hike in interest rates to 7% to help keep inflation in check. This was after the Reserve Bank's monetary policy committee (MPC) decided to hike the repo rate by 50 basis points to 6.75% at its last meeting in January. This puts the prime lending rate at 10.50%. These steps were deemed necessary to pre-empt any sudden outflow of foreign investment capital necessary to assist in balancing the deficit on our current account of the balance of payments.

To highlight the significance of the downturn in our economy in terms of foreign direct investment, figures from the United Nations Conference on Trade showed that FDI into South Africa in 2015 declined by 74%, whilst elsewhere in the world FDI increased by 36%.

Manufacturing production decreased by 2.5% in January 2016 compared with January 2015. The largest negative contributions were made by the following divisions: basic iron and steel, non-ferrous metal products, metal products and machinery. The largest positive contributions were made by the wood and wood products, paper, publishing and printing division. Seasonally adjusted manufacturing production decreased by 1.8% in January 2016 compared with December 2015. This followed month-on-month changes of 1.9% in December 2015 and -1.2% in November 2015.

Measured in real terms, retail trade sales increased by 3.1% year-on-year in January 2016. Seasonally adjusted retail trade sales decreased by 0.3% month-on-month in January 2016. This followed month-on-month changes of -1.0% in December 2015 and 2.4% in November 2015.

In the three months ended January 2016, seasonally adjusted retail trade sales increased by 1.4% compared with the previous three months. Consumers are to face a barrage of price increases one being the sharp rise in food prices and a subsequent sharp decline in disposable income.

In spite of the uncertainties surrounding our current economic circumstances, as well as the perceived negative outcomes from the current political upheaval, we as a nation have faced equally daunting scenarios before.

From an investment perspective, it is a question of riding out the storm until the headwinds abate, which they will surely do in due time. The investment team at GTC has a steady hand on the tiller and we remain focused on taking the necessary steps to ensure achieving your financial objectives.

GTC Fund performances - March 2016

Client Portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC High Equity - Provident	4.15	6.49	9.85	11.01	10.42
GTC High Equity Inflation Target CPI+5%	12.01	10.45	10.61	10.67	10.76
GTC High Equity - Pension	4.05	6.54	9.81	10.86	10.31
GTC High Equity Inflation Target CPI+5%	12.01	10.45	10.61	10.67	10.76
GTC Moderate - Provident	3.36	5.52	8.39	9.50	9.02
GTC Moderate Inflation Target CPI+3%	10.00	8.45	8.61	8.67	8.76
GTC Moderate - Pension	3.32	5.58	8.30	9.48	8.95
GTC Moderate Inflation Target CPI+3	10.00	8.45	8.61	8.67	8.76
GTC Conservative - Provident	4.73	5.82	6.32	7.37	6.86
GTC Conservative Inflation Target CPI+1	8.00	6.45	6.60	6.67	6.75
GTC Conservative - Pension	4.76	5.74	6.57	7.60	7.27
GTC Conservative Inflation Target CPI+1	8.00	6.45	6.60	6.67	6.75
GTC EB Market Plus - Pension	4.57	6.00	11.59	12.59	11.65
GTC EB Market Plus - Benchmark	4.67	9.29	12.42	14.08	13.21
GTC EB Market Plus - Provident	2.32	5.84	11.48	12.51	11.58
GTC EB Market Plus - Benchmark	4.67	9.29	12.42	14.08	13.21
FTSE/JSE All Share Index (ALSI) ^	1.63	6.15	11.12	13.44	11.89
FSTE/JSE Shareholder Weighted Index (SWIX) ^	1.13	8.31	12.89	14.69	13.73
BEASA All Bond Index (ALBI) ^	-2.09	4.15	2.42	4.91	6.19
Cash (SteFi)^	5.03	4.79	4.42	4.28	4.25
MSCI World Index (R)^	14.41	15.78	20.87	22.96	20.49

*Annualised
GTC Performances are shown net of all fees
Benchmark returns include 1.5% fees

The **GTC Market Plus Funds** have benefited from its 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) lagged their inflation targets as short term detraction from equity markets impacted performance.

Our manager blend has a component of protection which we feel is prudent in the current environment.

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

The **GTC Conservative Funds** lagged its inflation targets over the short term, as detraction from equity markets impacted performance, but are ahead of their inflation target over the longer term. Equity markets remain the key driver of performance.

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