GTC Market Update

May 2016

Global - Brexit: In or out?

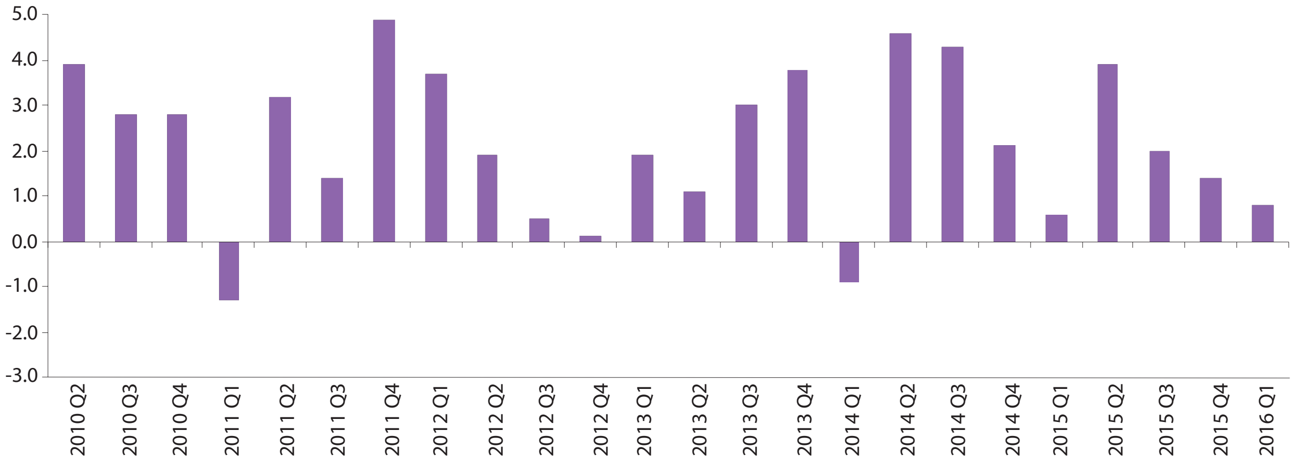
Contrary to expectations developed global equity and bond markets advanced during the month of May as speculation continued around the timing of the next U.S. interest rate rise, as well as a gain in the Brent price of oil to $50 on the back of supply disruptions. The MSCI World Index gained a marginal 0.65% while the MSCI Emerging Markets Index posted a negative return of -3.71% both in Dollar terms.

Macroeconomic data coming out of the U.S. continued to show improvement with the S&P 500 advancing 1.8%. The revised first quarter GDP number, up from 0.5% to 0.8%, allayed any fear's surrounding the sustainability and durability of the improved economic growth. The slew of positive and better than expected data lent credence to the possibility of further interest rate rises with a concomitant recovery in Dollar strength. Minutes from the Federal Open Market Committee's meeting in April revealed a strong bias towards a rate rise in June should economic data continue to strengthen.

Financial stocks performed particularly well in anticipation of higher interest rates improving profitability in the banking sector. The market shrugged off the poor quarterly results from the high-tech sector which were a disappointment to the market and the sector enjoyed a sustained recovery. In spite of the improved oil price the resources sectors continued to under-perform reversing earlier gains in the previous month.

The weaker Euro, coupled with a further debt relief deal for Greece, as well as positive macroeconomic data from Germany helped Eurozone equities register positive returns for the month. The composite purchasing manager's index (PMI) slowed marginally to 52.9 points while Eurozone GDP growth was revised down from 0.6% in the first quarter to 0.5%. German industrial orders rose 1.9% month per month. Following on a month of under-performance, information technology was the best performing sector alongside consumer staples with utilities and the energy sectors being the worst performers.

US GDP growth rate



Source: U.S. Bureau of Economic Analysis

Merger and acquisition activity continued apace with German pharmaceutical Bayer making a bid for the U.S. seeds group Monsanto. A possible "Brexit" continues to undermine investor confidence in Europe with the volatility of polls results adding to the uncertainty.

Mid-sized companies led the recovery in the market in the U.K. as fears waned regarding a possible "Brexit" vote on the 23rd June with the FTSE All Share Index gaining 0.7%. The FTSE 250 was up 2.9%. Sterling strengthened on the hope that the "remain camp" would ultimately win the day with Bank of England Governor Mark Carney warning that a vote to leave the European trading bloc could well plunge the U.K. into recession. Data provided by Markit suggested that the economy was near stalling point following a sharp decline in the purchasing manager's indices.

A number of market sectors experienced a sharp rebound as "Brexit" fears abated notably financials and retailers which are well represented in the FTSE 250. Local large-cap banks also benefitted but the overall market was dragged down by the heavyweight resources sector resulting in the FTSE 100 rising a paltry 0.3% for the month. The resources sector came under considerable pressure on the back of deteriorating economic data emanating from China as well as a rampant Dollar.

After experiencing sharp sell-offs at the beginning of the month, the world's third largest economy, Japan, experienced a reversal in fortune with the stock market gaining 2.9%. Hand in glove with this event the Yen weakened against most major currencies bringing some respite to export oriented companies.

The Bank of Japan's decision early in the month to maintain monetary policy unchanged had led to a sell-off in bank and insurance companies which slowly recovered as the debate over a rise in the consumption tax continued. A decision to delay the implementation of this tax until 2018 was announced on the 1st of June. Economic data released at the very end of the month showed both industrial and housing starts improving more than expected.

Disappointing economic data continued to weigh heavily on the Chinese market following on the better numbers which were published in March. The recovery in commodity prices faltered as both exports and imports declined in April and were way below expectations. This resulted in a second consecutive month of negative returns. The People's Bank of China fixed the daily exchange rate of the Yuan at a five year low resulting in further concerns over capital outflows.

Domestic - The proverbial roller-coaster

In spite of the Rand having experienced a sharp depreciation against all major currencies during the month the JSE/ALSI managed to gain 1.84%, driven mainly by dual listed Rand hedge stocks. The Rand was down 10.44% against the Dollar, 9.5% against Sterling and 7.28% against the Euro. The Media sector (Naspers) was the best performer gaining 18.29% followed by Forestry & Paper which gained 13.80% and Beverages which gained 12.51%. Not surprisingly the worst performing sectors were Coal down 30.30% and Industrial Metals down 29.98% on the back of the slump in resources.

The All Bond Index (ALBI) retreated 1.49% over the month as longer dated bonds underperformed dragged down by the considerably weaker Rand. The 12 year plus maturity sector declined 2.03% while the 7-12 year maturity sector gave up 1.08%. Cash returned 0.57%.

Moody's has confirmed South Africa's credit rating at Baa 2 and adjusted the outlook from stable to negative. The ratings agency said the ratings reflect the view that the country is likely approaching a turning point after several years of falling growth. The negative outlook speaks to the implementation risks associated with the structural and legislative reforms that government, business and labour recently agreed to in order to restore investor confidence.

Further it is Moody's expectation that South Africa's economic growth will gradually strengthen after reaching a trough this year as the various supply-side shocks that have suppressed economic activity since 2014 recede. Specifically the electricity supply is now more reliable, the drought is ending and the number of work days lost to strikes has shrunk significantly.

The inflation outlook is more subdued which would suggest fewer interest rate rises ahead than Moody's expected when the South African Reserve Bank saw inflation heading towards 8% by year end. Less severe tightening of monetary policy would alleviate extra pressure on South Africa's relatively highly-indebted household sector and support growth.

South African credit rating scorecard

	S&P	Moody's	Fitch
Investment Grade	AAA	Aaa	AAA
	AA	Aa	AA
	A	A	A
	BBB+	Baa1	BBB+
	BBB	**Baa2**	BBB
	BBB-	Baa3	**BBB-**
Non-investment Grade	BB	Ba	BB
	B	B	B
	CCC	Caa	CCC
	CC	Ca	CC
	C	C	C

Source: GTC IA

The South African Reserve Bank kept the repo rate steady at 7% in a majority 5:1 vote but revised its GDP forecast down to 0.6% from the previous 0.8%. One of the main drivers for this decision was that consumer inflation slowed to 6.2 percent in April from 6.3 percent in March. Core inflation which excludes the prices of food, non-alcoholic beverages, petrol and energy, was at 5.5% y/y in April from its big downside surprise to 5.4% y/y in March. Month-on-month it was at 0.3% from 0.9% in March. Food price inflation, however, saw a strong monthly gain in April, up 1.9%. Year to year food price inflation is at 11.3%. Vegetable prices rose a staggering 24.4% y/y; fruit went up by 19.6% y/y and bread and cereal by 17.5% in April 2016.

Mining production decreased by 18.0% year-on-year in March 2016. The largest negative contributions were: PGM's, coal, iron ore and manganese.

Manufacturing production decreased by 2.0% in March 2016 compared with March 2015. This decrease was mainly due to lower production in the following divisions: basic iron and steel, non-ferrous metal products, metal products and machinery.

Eskom will spend R580bn on expanding electricity capacity over the next five years according to the group executive for distribution at the power utility. Eskom emphasised that South Africa will have to rely on coal-fired power stations and nuclear energy for base load power supply in the foreseeable future.

South Africa will achieve the strict consolidation targets set out in the budget the Treasury said despite recent signs that the economy was headed for a prolonged period of low growth. Finance Minister Pravin Gordhan tabled a package of spending cuts, civil service job freezes and moderate tax hikes in the budget in February aimed at holding off credit downgrades by ratings agencies that have cited poor growth as a major risk.

Volatility in the local market continues unabated as risk-on, risk-off is almost a daily occurrence. Cool heads are called for, keeping in mind that it is long-term investment objectives that are being aimed for.

GTC fund performances - May 2016

Investment Portfolios	3Mth %	6Mth %	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC Fixed Income B	1.85	3.61	6.51	7.16	6.40	5.95	5.93
GTC Wealth Accumulator FoF B	9.27	2.63	-0.28	2.63	6.46	9.04	7.80
GTC Capital Plus Fund of Fund B	5.20	3.83	5.05	5.12	6.52	8.00	7.15
FTSE/JSE All Share Index (ALSI)^	9.83	4.94	4.67	5.78	10.33	14.68	12.36
FSTE/JSE Shareholder Weighted Index (SWIX)^	10.75	4.71	4.57	7.66	12.06	15.57	13.91
BEASA All Bond Index (ALBI 1-3 year)^	2.25	2.29	4.79	4.91	4.43	4.43	5.14
Cash (SteFi)^	1.39	2.68	5.18	4.92	4.54	4.34	4.30
GTC Global Conservative Absolute Growth ($)	5.28	1.62	-2.78	-2.83	-0.15	3.43	1.05
GTC Global CAG's Composite benchmark ($)^	3.32	2.36	-0.09	-2.01	0.77	1.78	0.57
$/R exchange rate	-1.69	9.44	29.80	22.13	16.02	17.00	18.37
GTC Prosperity Wealth FoF B	7.20	3.34	4.77	5.41	8.13	9.06	9.00
Composite Benchmark	7.40	4.61	7.39	8.30	10.20	12.35	11.33
GTC Balanced Wealth FoF Class B	6.43	3.54	4.99	5.19	7.17	7.94	8.06
CPI +5 target	4.10	6.51	11.23	10.36	10.61	10.68	10.77
GTC Wealth Protector FoF Class B	4.20	4.58	6.63	6.78	6.41	6.44	6.87
CPI + 1% target	3.20	4.61	7.23	6.35	6.61	6.67	6.76

*Annualised

Benchmark returns include 1.5% fees

Not all fund class returns are shown. Class B refers to indirect investments.

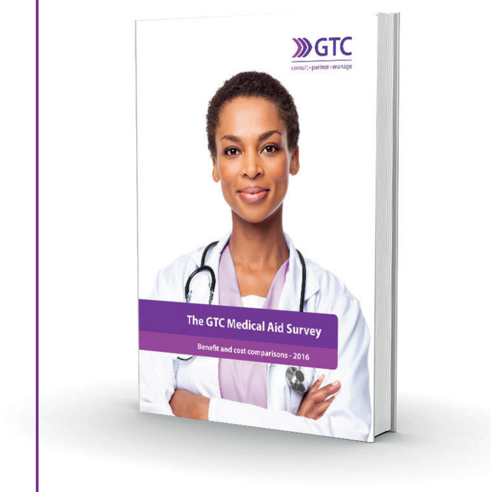
The **GTC Fixed Income Fund** has delivered outperformance against the Cash (SteFI) and Bond (ALBI 1-3 year) benchmarks.

The **GTC Wealth Accumulator FoF** maintains a defensive stance given the high valuations in the equity market in what has been a volatile period for equity markets.

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 Funds** (USD) had an improved quarter as Emerging Markets benefited from the risk on environment. 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.

The GTC Medical Aid Survey 2016



We are proud to announce that on 1 June 2016 we launched the 6th annual **GTC Medical Aid Survey** (MAS), which provides analysis and ranking of different medical aid plans, according to the various options offered and available from South Africa's twenty three open medical aid providers.

Selecting a medical aid that meets one's needs is an exercise fraught with anxiety and frustration. Whilst this decision is often left to corporate Human Resources departments that work with consultants to guide them on the best options, individual members seldom have certainty they are on a plan that best suits their needs. Brokers and consultants also similarly rely on their past choices rather than empirical data. With the release of the 2016 MAS, this decision-making process has been simplified to give members, brokers and consultants unprecedented clarity and ease of use in choosing the most appropriate medical aid scheme and plan, for any person, family or organisation.

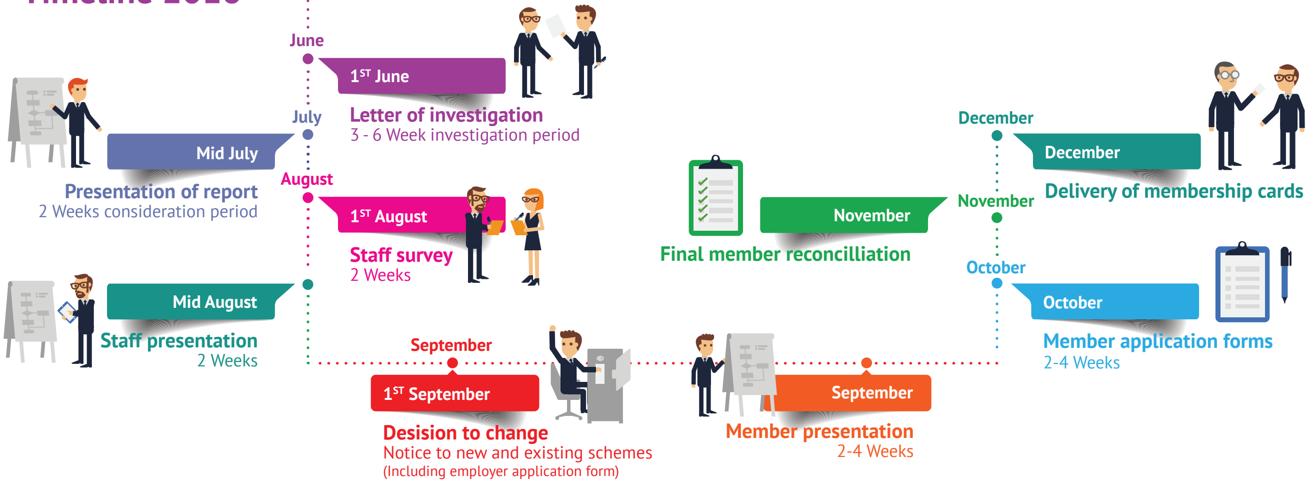
Based on data provided in the latest Council for Medical Schemes (CMS) annual report, as well as on annual data from each medical aid scheme and plan provider, Jill Larkan, Head – Healthcare Consulting, applied our own measures to produce a ranking and measurement system that sheds new light on the affordability, applicability and viability of the vast range of available schemes and plans.

This year we once again partnered with 21st Century remuneration consultants, having enjoyed a very productive year working with them. We would welcome the opportunity to introduce the complimentary products and services from within the GTC Group that accompany healthcare consulting.

The GTC MAS has generated a lot of media interest and dialogue with regards to medical schemes in South Africa, and has once again positioned us as thought leaders in this space.

Visit our website to download your free copy of the GTC MAS.

New scheme implementation Timeline 2016



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) 21 412-1062
E ceggers@gtc.co.za

Head - Healthcare
Jillian 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

Senior Marketing Executive
Vanessa Partington
T +27 (0) 10 597-6825
E vpartington@gtc.co.za

Managing Director - Securities & Derivatives
Mike Bolus
T +27 (0) 21 412 1071
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