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Market Update

February 2017

Global - "The Trump Bump"

World markets forged ahead in February, in many instances reaching all-time highs, largely on the back of expected US economic growth fueled by President Trump's pledge of significant fiscal stimulus.

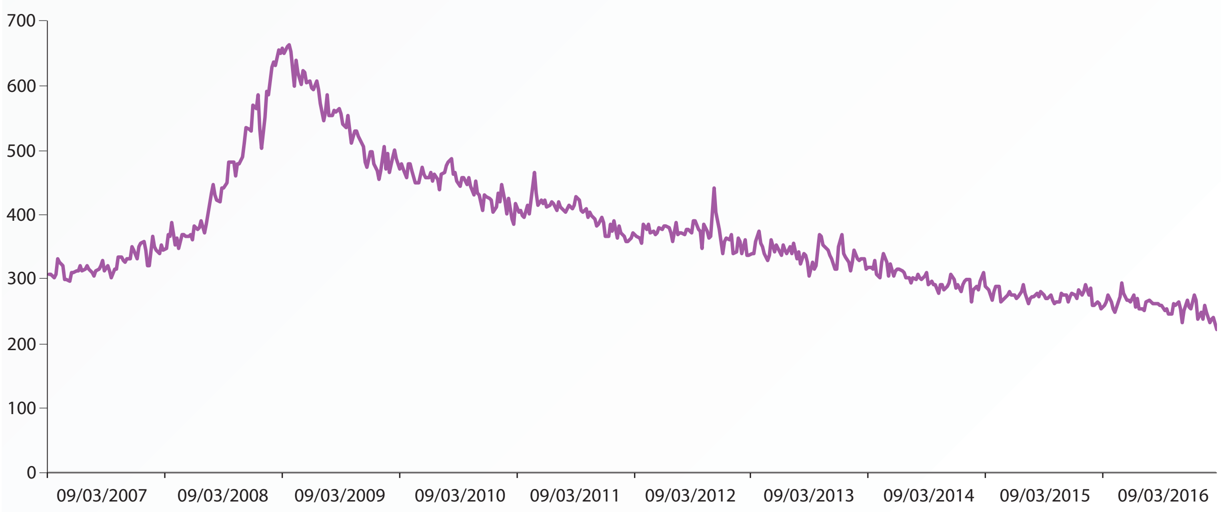
Unfortunately the local stock market failed to follow suit occasioned by a significant improvement in the Dollar/ Rand exchange rate but also influenced by uncertainties surrounding the current political impasse.

The MSCI World Index returned 2.58% in Dollar terms with the MSCI Emerging Market Index outperforming and delivering a return of 2.99%. Global economic data continued to provide positive numbers with the Purchasing Manager's Indices (PMI) in both the US and Europe remaining steadfastly above 50, indicating strong growth momentum.

In the US, President Donald Trump delivered his first speech to Congress promising tax relief. His proposed reduction in tax from 35% to 15% set markets alight with the Dow Jones gaining 4.77% for the month followed by the S&P500 up 3.72% and the Tech-heavy NASDAQ up 3.75%.

These spectacular market improvements resulted in renewed speculation around a Federal Reserve interest rate hike being introduced at the Federal Open Market Committee meeting in March. The likelihood of a rate hike increased from 30% early in the month to a probability of 80% by month end. Federal Reserve Chair Janet Yellen cited strong labour market data, rising inflationary pressures and the outlook for increased economic growth as catalysts for a rate hike. Economic data remained robust with PMI pointing to continued economic growth.

United States - Initial claims for unemployment insurance



Source: GTC/FactSet

Strong earnings growth, which in many cases exceeded analysts' forecasts, was particularly evident in the energy, utilities and materials sectors. US non-farm payrolls increased by a greater than expected 227,000 in January although the hourly wage growth declined from 2.8% to 2.5%.

In the Eurozone GDP growth was revised downwards but economic data remained robust with the flash PMI rising from 54.4 in January to 56.0 in February. Financials registered negative returns for the month with concerns over the viability of the proposed London Stock Exchange-Deutsche bourse merger being cited as the reason. French and German bond yields widened as potential French election outcomes raised the possibility of a swing to the political right. Consumer staples were the best performing sector as the US Kraft-Heinz Group made a bid for Unilever N.V. The bid was however immediately rejected. The Information Technology sector also performed well.

In the UK the FTSE All-Share Index provided strong performance returning 3.1% following a somewhat lack-lustre performance in January. Sterling weakness aided the performance, while positive macro-economic data coupled with a decline in long dated government bond yields, also added impetus. The Bank of England increased its 2017 growth projections from 1.4% to 2.0% and the Office of Statistics confirmed that the economy had expanded faster in Q4 2016 than had been expected having grown by 0.7% versus the previous estimate of 0.6%. Consumer goods as well as the tobacco sector were strong performers.

Japanese stock market performance was muted reflecting a modest 0.9% gain for the month. Yen volatility was also at lower than previous levels closing the month marginally higher against most major currencies. Indicative of improving global trade, marine transportation was a strong performer alongside pulp and paper. A significant buy-back of shares in the Bridgestone group resulted in the rubber products sector performing exceptionally well. Corporate results continued to surprise on the upside with earlier 2016 Yen weakness having influenced earnings considerably.

The People's Bank of China raised short-term interest rates immediately following the Chinese New Year, hiking open market yields by 10 basis points - the first such hike since 2013 - and possibly indicative of a gradual tightening of monetary policy.

Economic data remained bullish while restrictions on capital outflows and property speculation saw increased flows to the equity market. Equities in the entire Asia region benefitted from the so called "Trump Bump" rally with the Hong Kong market experiencing renewed mainland Chinese interest via the new Stock Connect system.

February remained a positive month for both global sovereign and corporate bonds, the one exception being shorter-dated US Treasuries which were influenced by uncertainties surrounding President Trump's fiscal plans, as well as the possibility of a rate hike by the Federal Reserve.

Domestic - "Februarius Horribilis"

Parliament took center stage this month with President Zuma delivering his State of the Nation address and Minister Pravin Gordhan presenting this year's budget. The main theme of Minister Pravin Gordhan's budget speech was: "Our growth challenge is intertwined with our transformation imperative. We need to transform in order to grow, we need to grow in order to transform. Without transformation, growth will reinforce inequality; without growth, transformation will be distorted by patronage."

Gross domestic product growth will gradually improve from 0.5% in 2016 to 1.3% in 2017 and 2.0% in 2018 supported by improved global economic conditions and rising consumer and business confidence. However, these percentages are considerably lower than last year's estimates.

The budget deficit crept up to 3.4% of GDP for 2016/17 from the 3.2% stated in last February's budget. This was due to less revenue being collected than was expected. The deficit is expected to narrow to 3.1% for 2017/18 and 2.6% in 2019/20. State debt is also increasing. Debt as a percentage of GDP is expected to stabilise at 48.2% in 2020/21, previously 46.2% in 2017/1 and 43.7% in 2017/18. Not a good indicator!

The budget shortfall of R28bn will be collected by means of higher marginal rates for those earning more than R1.5m per year paying 45%, limited adjustment for bracket creep, a fuel levy rise of 30 cents per litre, a higher dividend withholding tax rate of 20% versus the previous 15% and the usual rise in sin taxes (excise on alcohol and tobacco). The road accident levy will increase by 9c/litre on petrol and diesel on 5 April 2017.

From a stock market perspective, February turned out to be a challenging month with the JSE/ALSI down -3.11%. This was largely as a result of a resurgent Rand and declining metal prices. Resource stocks came under pressure reversing January's earlier gains and the RESI20 was down -10.71%. On a yearly basis however, the RESI20 has returned 17.65%. Industrials could not avoid the sell-off, the INDI25 declining -1.96% while the FINI15 was down -0.10%.

The Household Goods sector reversed the trend gaining 7.76% as Steinhoff rallied following the decision to call off merger talks with Shoprite. The Platinum and Precious metals sector reflected the decline in metal prices easing -10.75% with Amplats down -13.60% and Implats down -17.59% on its indicative loss numbers.

With the US Dollar continuing to display continued strength it was no surprise that the Gold Mining sector came under pressure down -12.51% with Anglo Gold Ashanti being the big loser down -14.29%.

Food and Drug retailers showed improvement gaining 5.91% with the Clicks group up 5.33% and Shoprite improving 5.73% on the cessation of the proposed Steinhoff/Shoprite deal. The All Bond Index continued its upward trend gaining 0.71% with the shorter dated maturities of 1-3 years returning 1.08% and the 3-7 year maturities up 1.29%. Inflation linked bonds returned 0.05%. Cash returned 0.57%.

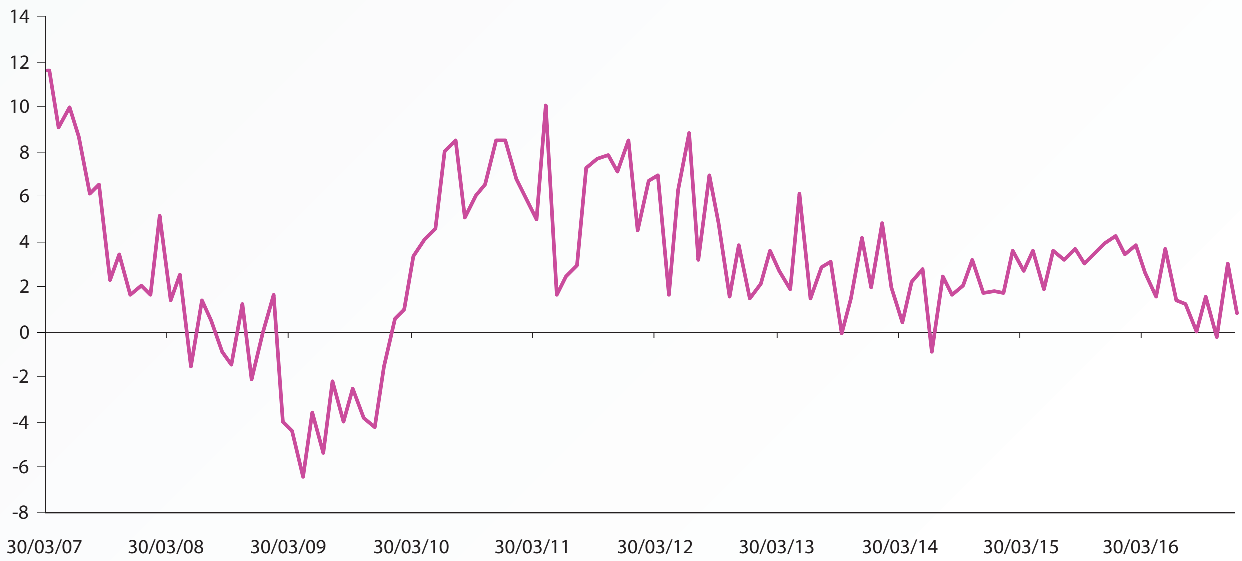
The headline CPI annual inflation rate in January 2017 was 6.6%. This rate was 0.2 of a percentage point lower than the corresponding annual rate of 6.8% in December 2016. On average prices increased by 0.6% between December 2016 and January 2017.

Economists polled by Reuters had forecast a 6.7% year-on-year inflation number. Core inflation which excludes the prices of food, non-alcoholic beverages, petrol and energy fell to 5.5% year-on-year in January from 5.9% and edged lower to 0.3% on a month-on-month basis from 0.5%.

Measured in real terms retail sales increased by 1.9% in 2016 compared with 2015. The main contributors to this increase were retailers and general dealers. In December 2016 retail trade sales increased by 0.9% year-on-year.

Whilst market performance in February has been extremely challenging all economic indicators suggest that perhaps the worst is over and that green shoots in the South African economy are starting to appear. The US economy is on a defined growth path and from a South African perspective, in particular, economic stability seems to have returned to China. Having ridden out the worst of the storm, indeed now is the time to stay the course.

South Africa - Retail sales Rm



Source: GTC/FactSet

GTC fund performances - February 2017

Investment Portfolios	6Mth %	1Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC Fixed Income B	4.03	8.00	7.64	6.22	6.33	7.34
Cash (SteFi)^	2.86	5.82	5.09	4.56	4.58	5.70
GTC Wealth Protector Fund of Fund B	0.80	5.76	5.95	5.91	6.85	7.91
CPI + 1% target	2.39	7.58	6.74	6.67	6.47	7.24
GTC Capital Plus Fund of Fund B	0.88	6.17	4.99	6.52	6.62	6.74
CPI + 3% target	3.37	9.58	8.75	8.68	8.47	9.24
GTC Balanced Wealth Fund of Fund	-0.13	6.46	4.79	6.48	8.10	8.22
CPI + 5% target	4.33	11.58	10.75	10.68	10.47	11.24
GTC Prosperity Wealth Fund of Fund B	-0.62	6.02	4.65	6.94	9.02	8.45
Composite benchmark	-1.20	5.31	6.50	9.33	10.27	8.54
GTC Wealth Accumulator Fund of Fund B	-2.16	5.55	2.16	5.64	8.00	6.55
FSTE/JSE Shareholder Weighted Index (SWIX)^	-2.17	7.85	6.46	11.49	12.65	9.54
GTC Equity Fund Class A	-4.53	-2.85	n/a	n/a	n/a	n/a
FTSE/JSE ALSI Top 40	-4.39	1.88	n/a	n/a	n/a	n/a
FTSE/JSE All Share Index (ALSI)^	-0.74	6.83	4.82	10.38	11.59	8.80
FSTE/JSE Shareholder Weighted Index (SWIX)^	-2.17	7.85	6.46	11.49	12.65	9.54
FTSE/JSE ALSI Top 40	-4.39	1.88	2.50	9.19	10.58	8.03
BEASA All Bond Index (ALBI)^	4.85	12.00	6.41	5.76	7.00	6.39
Cash (SteFi)^	2.86	5.82	5.09	4.56	4.58	5.70
MSCI World Index (R)^	-4.80	-4.72	8.55	17.89	13.90	6.66
GTC Conservative Absolute Growth (R)	-11.56	-11.50	4.83	13.11	9.28	6.02
GTC CAG's Composite benchmark (R)^	-12.80	-16.02	5.81	12.31	9.62	7.16
$/R exchange rate	-10.48	-18.77	6.75	11.57	7.85	5.99
GTC Global Conservative Absolute Growth ($)	1.70	9.39	-0.02	2.52	3.02	0.71
GTC Global CAG's Composite benchmark ($)^	-2.58	3.41	-0.89	0.66	1.64	1.10

*Performance not annualised if less than 1 year. ^Benchmark returns include 1.5% fees

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

*Significant strategy changes were made in September 2015, including incorporating offshore exposure. Prior to that, funds were 100% SA domestic.

The **GTC Fixed Income Fund** outperformed against the Cash (SteFI) benchmark.

The **GTC Wealth Accumulator FoF** maintained a defensive stance given the high valuations 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) outperformed over the quarter as Emerging Markets rallied in 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.

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