

Trendline - Employee benefits

Second Quarter 2017



Global: Improving economic data

Global equity markets continued to improve in Q2 with the MSCI World Equity Index returning 3.38% in Dollar terms. The quarter was marked by strong corporate earnings and for the most part positive economic data. The easing of political tensions in Europe also spurred on Euroland markets which resulted in the MSCI EMU Index returning 1.8% in Euro terms. Emerging markets continued to outperform with the MSCI Emerging Market Index returning 6.27% for the quarter.

US equities advanced, despite some vagaries in economic data coupled with concern over the ability of the US administration to push through its tax reforms and infrastructure stimulus proposals. The S&P500 delivered a total return of 3.1% for the quarter. In spite of muted inflation data, the Federal Reserve moved forward with its tightening monetary policy, raising rates by 0.25% and setting out detailed plans for the reduction of its balance sheet.

The positivity generated by forward-looking economic indicators in Q1 did not follow through in Q2 to the extent expected, particularly in the manufacturing and consumer spend sectors. Consumer spending, which is the main driver of US GDP, remained resilient and is indicative of continued economic growth.

However, political uncertainties remained, more so when President Trump took the unexpected decision to fire James Comey the head of the FBI. This impacted negatively on the Dollar as well as raising further doubts as to the administration's ability to push forward its expansionary policies. The Dollar encountered additional headwinds amid rising expectations of other developed economies also introducing a tightening of monetary policy.

US Dollar per Euro

Daily

High: 1.14 Low: 1.04 Chg: 3.64%



Source: GTC/FactSet

— US Dollar per Euro - Price

The Federal Reserve spelled out the details of its plan to allow the US Treasury balance sheet to shrink, by gradually selling off a fixed amount of assets on a monthly basis. The initial cap will be set at \$10 billion a month: \$6 billion from treasuries and \$4 billion from mortgage-backed securities. The sales will increase every three months by \$6 billion for treasuries and \$4 billion for MBS, until they reach \$30 billion and \$20 billion, respectively. Officials didn't reveal the exact timing of when the process will begin this year, nor specifically how large the retained portfolio might be.

In the Eurozone political risk was the focus as the French presidential elections approached with fears of a possible swing to the far right. However the centrist pro-EU candidate Emmanuel Macron won a convincing victory. Markets responded positively to this development as the risk of a possible breakup of the EU diminished considerably. Improved company earnings, together with positive economic data, underpinned the markets with forward-looking economic indicators suggesting continued growth. In particular German business confidence mirrored the more positive sentiment in the region. Many companies reported improved profits and sales growth. Remarks by the ECB President Mario Draghi at month end in terms of reduced stimulus measures going forward saw the market ease.

UK markets experienced considerable volatility over the quarter, influenced by political uncertainty surrounding the general election as well as a mixed bag of economic data. Corporate results were encouraging and the FTSE All-Share provided an all-in return of 1.4%. The market began the quarter on the back foot with the weaker crude oil and resources prices having a negative effect.

The market experienced better fortune in May but this was countered by UK domestic cyclical coming under pressure as the likelihood of a hung parliament became more of a reality. Commodity prices fell further as the quarter progressed, with mixed economic data coming from the US and China. Long dated government bond yields recovered on the back of comments from the ECB Governor Mario Draghi and Bank of England Governor Mark Carney which suggested that there would be a move towards a tighter monetary policy.

The Japanese market performed extremely well over the quarter after having eased initially to return a very pleasing 6.8%. Global uncertainties saw considerable volatility for the Yen as its safe haven status attracted investors, but it ended on a softer note compared to most major currencies. The Bank of Japan's monetary policy committee left rates unchanged but its assessment of the economy going forward was far more positive than usual. Corporate results saw the majority of companies reporting profits well above expectations.

Economic data displayed some weakening tendencies, but this was strongly countered by the quarterly Tankan business confidence index which suggested a renewed positivity amongst Japanese corporates. Furthermore the survey indicated a shortfall in production capacity across all sizes of companies which is a reverse from the excess capacity which has been so evident for the last couple of decades. Geopolitical events, in particular the escalation in tension surrounding North Korea, continued to weigh on market sentiment.

Chinese economic data continued to improve which resulted in a far wider risk-on attitude being adopted by global investors. This was further reinforced by index provider MSCI announcing that it was in future to include certain Chinese A-shares in its benchmark indices.

The acceptance of some Chinese A shares into MSCI's Emerging Markets index was seen as a symbolic win for Beijing after three failed attempts. Only 222 stocks are being included and with a weighting of just 5% they will account for only 0.73% of the Emerging Markets index. MSCI estimated the change, which does not occur until June next year, would drive inflows of between \$17bn and \$18bn. While China's weighting in the MSCI

Emerging Markets index may ultimately rise to 40%, this rise is likely to be slow. This also influenced the Yuan which closed the quarter up 1.6% against the Dollar. Blue-chip heavyweights in Hong Kong tracked the Chinese markets higher, following solid earnings reports from these companies. Russian equities and the Rouble declined with the sharp fall in the price of oil providing the necessary catalyst.

Global government bond yields remained steady over the quarter but experienced a sell-off in the final week as comments from the world's major central bankers were indicative of a more hawkish stance being adopted towards accommodative monetary policy.

Domestic: Winter chill?

The second quarter brought little cheer to local investors as a series of events impacted negatively on the JSE with the All-Share Index delivering a negative -0.39%. Economic data provided the backdrop to this state of affairs with South Africa officially entering a technical recession. SA's gross domestic product (GDP) growth rate was -0.7% for the first quarter of 2017. The largest negative contributor to this in the first quarter was the trade, catering and accommodation industry which decreased -5.9% and the manufacturing industry which contracted by -3.7%. In contrast, the mining and quarrying industry increased by 12.8% and the agriculture, forestry and fishing industries increased 22.2%.

Moody's Investors Services downgraded the long-term issuer and senior unsecured ratings of the Government of South Africa to Baa3 from Baa2, as well as the senior unsecured Shelf and MTN programme ratings to Baa3 from Baa2, and assigned a negative outlook. As expected, following on the sovereign debt downgrade, Moody's has also downgraded five of South Africa's largest banks and four insurers with a negative outlook after the country's credit rating was downgraded. Fitch Ratings announced that it has affirmed South Africa's long-term foreign- and local-currency issuer default ratings at BB+ with a stable outlook. S&P re-affirmed South Africa's credit rating at BB+ with a negative outlook. The Treasury welcomed S&P's decision not to downgrade the country's credit rating further.

The mining industry indices came under severe selling pressure on the back of a fast declining oil price, as well as a revised mining charter which was not well received by investors. This resulted in industrial metals returning a negative -16.32% and platinum a negative -14.72% for the quarter. The new and final mining charter revealed by Mineral Resources Minister Mosebenzi Zwane increases the level of black ownership at mining companies from 26% to 30%. In addition, mining prospecting rights need to have a minimum of 51%, while companies will be required to give 8% of their shares to workers.

The newly published charter also requires mining companies to pay 1% to the 30% black shareholding over and above any distributions to its shareholders. New empowerment targets with respect to black representation have also been set. A minimum of 50% black representation at board level will be required of which 25% need to be women. At senior management level a minimum of 60% black ownership is required while 88% of black ownership is required at junior management level.

South Africa's latest mining charter could be mired in a long legal battle after producers vowed to stop the changes. The Chamber of Mines which represents South Africa's biggest producers plans to start fighting the proposed charter in court.

The new rules which don't give credit for deals already concluded and from which black shareholders have since divested will deter investment. Far from creating the sought-after certainty and investor-friendly policy document guiding transformation of the mining industry which many had hoped for, the latest version of the charter created anger, confusion and uncertainty, with foreign investors warning of repercussions and a potential exodus of companies from South Africa.

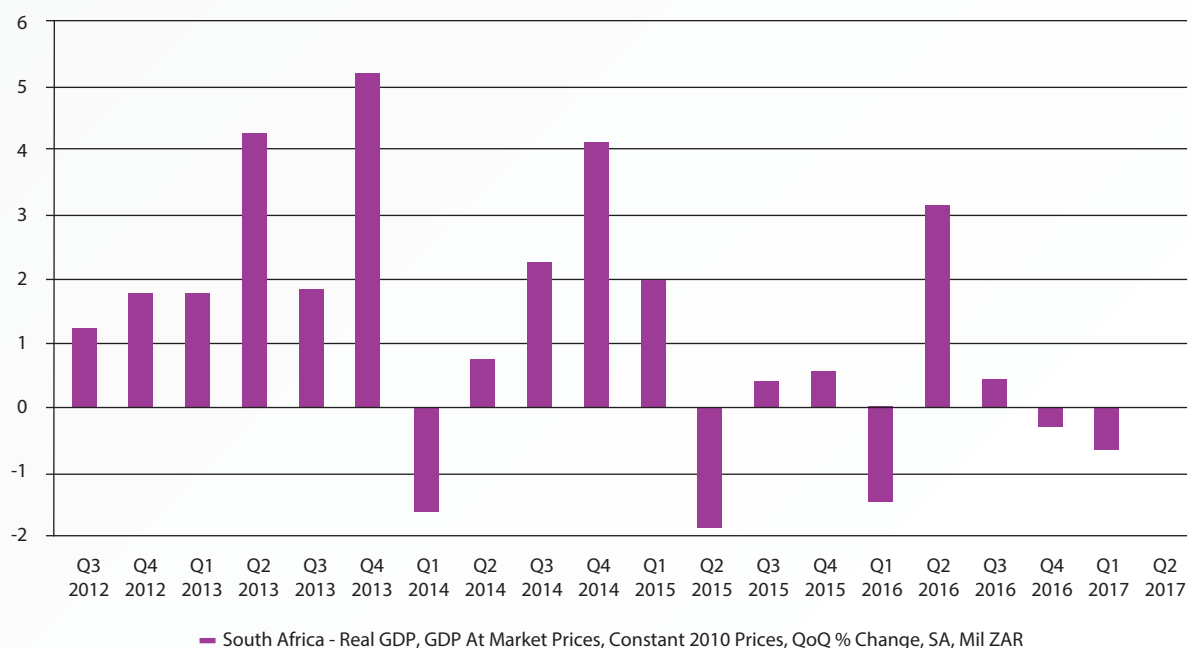
The headline CPI annual inflation rate in May 2017 was 5.4%. This rate was 0.1 % higher than the corresponding annual rate of 5.3% in April 2017. On average prices increased by 0.3% between April and May 2017. Food prices rose 7% and prices of nonalcoholic beverages were up 6.9% from a year earlier. This is slightly higher than in April but well off last year's double-digit highs.

Employment decreased by 48 000 quarter-on-quarter, from 9 692 000 in December 2016 to 9 644 000 in March 2017. This was largely due to decreases in trade, business services, community services, manufacturing and transport. Employment decreased by 58 000 or -0.6% year-on-year between March 2017 and March 2016.

The RMB/BER Business Confidence Index collapsed by 11 points to 29 in 2017 Q2. Confidence declined across all of the five sectors surveyed and might signal that the current business cycle downswing is becoming even more pronounced. Each of the five sectors covered in the survey - manufacturing, retail trade, wholesale trade, motor trade and the building sector now has a BCI below 50. Over the past 42 years it occurred only in 12 instances, the last of which was during the global financial crisis when it correctly signalled the onset of a cyclical domestic economic downturn.

Measured in real terms retail trade sales increased by 1.5% year-on-year in April 2017. The main contributors to the 1.5% increase were general dealers and retailers in food, beverages and tobacco. Seasonally adjusted retail trade sales increased by 0.3% month-on-month in April 2017. This followed month-on-month changes of 0.4% in March 2017 and 1.0% in February 2017. In the three months ended April 2017 seasonally adjusted retail trade sales decreased by 0.2% compared with the previous three months.

SA GDP growth



Source: GTC/FactSet

Growth in 2017 is likely to be lower than the 1.3% that the Treasury forecast in February and Finance Minister Malusi Gigaba has warned that further consolidation measures might be necessary. Gigaba reaffirmed the government's commitment to consolidation as a key pillar of fiscal policy, but economists have warned that in the context of low growth and lower-than-expected revenue this would require a cutback in spending and/or higher taxes. The IMF has revised SA's growth projection in 2017 to 1%, while the World Bank has projected a 0.6% growth rate, down from its previous 1.1%.

Despite the gloomy headlines and the continued political uncertainty a positive dimension to the current situation is the improved economic data flowing from South Africa's major trading partners particularly from China and Europe. This bodes well for the country in that demand for our raw materials is bound to increase and once the current political impasse is resolved a general improvement in our economic fortunes should be assured.

GTC Fund performances - June 2017

Client portfolios	1 Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC EB Conservative - Provident	4.35	4.79	6.74	6.64	6.37
GTC EB Conservative - Pension	4.18	4.78	6.91	6.92	6.55
GTC Conservative Inflation Target - CPI+1%	6.38	6.36	6.65	6.49	7.17
GTC EB Moderate - Provident	3.43	3.88	8.28	8.72	7.64
GTC EB Moderate - Pension	3.39	3.86	8.25	8.66	7.61
GTC Moderate - Inflation Target - CPI+3%	8.38	8.36	8.65	8.50	9.18
GTC EB High Equity - Provident	3.66	4.45	9.43	9.77	8.15
GTC EB High Equity - Pension	3.55	4.42	9.31	9.70	8.22
GTC High Equity Inflation Target - CPI+5%	10.38	10.36	10.65	10.50	11.18
GTC EB Market Plus - Provident	2.95	3.47	10.63	11.41	9.30
GTC EB Market Plus - Pension	2.78	4.46	10.64	11.42	9.30
GTC EB Market Plus - Benchmark	1.31	5.46	11.30	11.91	7.90
FTSE/JSE All Share Index (ALSI)^	0.17	1.89	10.53	11.78	7.70
FSTE/JSE Shareholder Weighted Index (SWIX)^	-1.21	3.23	11.22	12.84	8.69
BEASA All Bond Index (ALBI)^	6.33	5.53	5.03	6.78	6.80
Cash (SteFi)^	6.08	5.35	4.72	4.62	5.67
MSCI World Index (R)^	1.28	9.12	17.94	16.08	6.67

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Funds** performed in line with their inflation adjusted targets over longer term periods. Equity markets remain the key driver of performance.

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

The **GTC High Equity Funds** (previously aggressive) lagged their inflation targets as real rate deduction from equity markets impacts over the short term.

The **GTC Market Plus Funds** lagged their targets on the back of equity market weakness. Within our manager blend, exposure to attractive and depressed materials has detracted in the short term performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

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