

Trendline - Employee benefits

Third Quarter 2017



At a glance

- The MSCI Emerging Markets Index comfortably outperformed the MSCI World Index returning 7.02% in Dollar terms as opposed to the latter's 4.39%.
- US equities continued to trade higher over the quarter, spurred on by supportive economic data, a weaker Dollar and encouraging corporate earnings.
- Eurozone equities continued to attract investors on the back of robust economic data - the focus remaining on when the European Central Bank would likely initiate a reduction in its stimulus measures.
- In spite of the uncertainty remaining in terms of "Brexit" the UK's FTSE All Share Index gained as crude oil and industrial metals prices continued to improve.
- Data released showed that Japan's economy is continuing to recover. After nearly five years of Abenomics, the economy has expanded for six straight quarters resulting in equities posting gains.
- Despite continuing political uncertainties the JSE/FTSE All Share returned an impressive 8.91% for the quarter, with the All Bond Index returning 3.68%.

Global: A hurricane-harassed US

News that the US economy had grown at a better than expected 3.1% in the second quarter saw the S&P 500 returning 4.5% over the period. US equities in fact reached all-time highs, aided and abetted by continually improving corporate earnings and further Dollar weakness. The market shrugged off any political uncertainty stemming from the rhetoric between President Trump and his North Korean counterpart, as well as paying scant attention to the failure of the Trump administration to realise its policy goals.

Towards the end of the quarter the impact from the severe hurricanes Harvey and Irma made itself felt as forward-looking economic indicators suggested that the storms would impact negatively on economic growth in the short term. However, investors were of the opinion that this would be transitory which was confirmed by the Federal Reserve Open Market Committee's (FOMC) minutes. The FOMC further confirmed, in spite of stubbornly weak inflation, that the measures to reduce its balance sheet would commence in October and that a further interest rate hike was still on track for December.

European equity markets continued to focus on the possibility of a planned reduction in quantitative easing and made modest advances over the quarter with the MSCI EMU index returning 4.3% in Euro terms. Economic data showed continued improvement over the period with GDP growth in the second quarter marginally up at 0.6% from the previous 0.5%.

The European Commission's economic sentiment indicator, a measure of consumer confidence, came in at 111.9, its highest level since February 2009. The possibility of tighter monetary conditions also helped push the Euro higher but this trend was somewhat reversed as a result of the weaker voter acceptance for Angela Merkel's CDU/CSU political party. With the improving oil price the energy sector was the best performer, followed by information technology and materials.

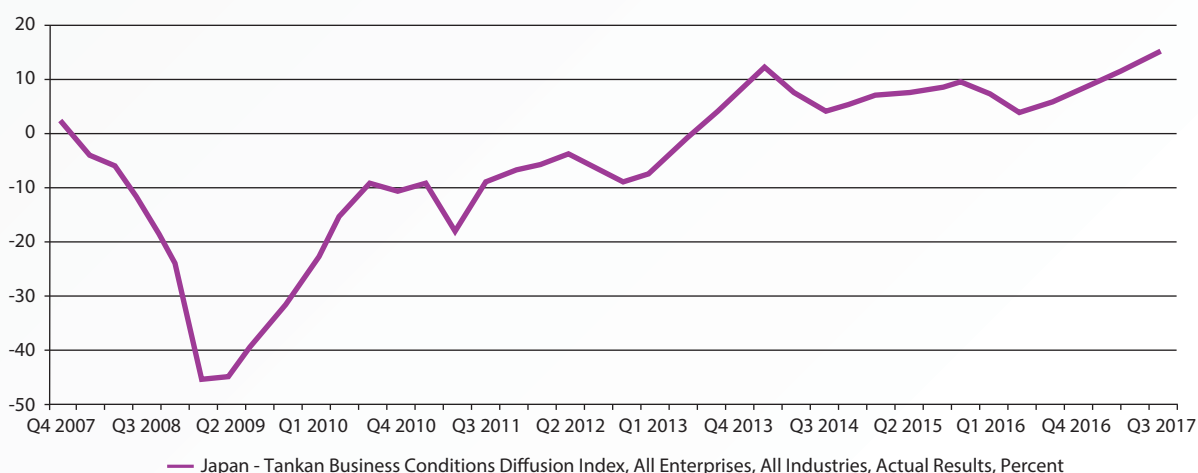
For the UK, the economy showed clear signs of slowing down, while inflation picked up, reaching 2.9% in August. During the quarter the Bank of England struck a more hawkish note with Governor Carney and a number of members of the Monetary Policy Committee openly discussing rate rises. This occurred against a backdrop of above-target inflation and low unemployment, leading to a significant increase in UK government bond yields and a rally in sterling against both the Euro and the Dollar. Sterling strength resulted in the FTSE All-Share delivering 2.1% in total return terms, which was a relatively poor performance compared to global equities.

Encouraging economic data out of China resulted in the resources sector being one of the best performers alongside oil and gas. Internationally diversified counters encountered selling pressure as sterling strengthened and bond yields rose. The outcome resulted in a poor performance for the FTSE 100 which returned a meagre 1.8%.

Having been in the doldrums for much of July and August, the Japanese equity market arose from its slumber in September to record a gain of 4.7%. Oil and mining stocks found favour with investors, whilst a weakening Yen later in the quarter resulted in some auto stocks outperforming. Political events continued to dominate with Mr. Abe calling for a snap general election in October.

On the economic front, data continued to improve with industrial production better than expected and the stubbornly resistant inflation number creeping up to 0.7%. In spite of every effort this number remains a drag on the economy. The Bank of Japan's quarterly Tankan survey indicated improving business conditions with Japanese companies now facing the prospect of labour shortages coupled with insufficient capacity. Indications are that capital expenditure to rectify this situation is on the cards.

BOJ Tankan Survey



Source: GTC/FactSet

The North Korean situation continued to create uncertainty amongst investors. On the monetary policy front, the Bank of Japan signaled no changes with 10 year bond yields remaining close to the central bank's target of zero percent. Corporate results continued to improve with most companies issuing upward revisions of their profit forecasts.

Asia ex Japan equities continued to deliver solid performance in Q3, largely as a result of a more dovish approach on the part of the US Federal Reserve and renewed positive sentiment towards the Chinese economy. The MSCI Asia ex Japan returned a pleasing 6.76% in US Dollar terms.

Chinese stocks advanced strongly on data that suggested that growth was gaining momentum. GDP expanded by 6.9% year-on-year in the second quarter of 2017 matching the same expansion as in the first quarter. A strengthening Yuan eased concerns about further major currency outflows as the currency firmed 1.95% against the US Dollar over the quarter. In terms of global economic growth this region of the world is the hoped for catalyst that will propel the world forward with countries such as India, Indonesia, Thailand and the Philippines at the forefront.

Robust Q3 returns from Emerging Market equities against the backdrop of steady global economic growth saw fresh evidence of risk-on investing. A rampant Chinese economy driving a smart pick-up in commodity prices together with some US Dollar weakness all worked in favour of EM equities. Brazil was a strong performer with Russia adding to performance on the back of the rising oil price.

Global bond yields were volatile over the quarter and, with the exception of the UK which sold-off sharply in September, were ultimately little changed against a largely unchanged global economic backdrop. While the late-June selloff initially continued in July, it came to a halt as growing expectations of a hawkish shift among central banks faded.

Yields moved lower in August, precipitated by safe haven buying, before reversing course once more in September as risk appetite returned. The quarter saw a marked escalation in tensions between the US and North Korea. These tensions were a key factor behind the temporary rotation into lower-risk assets in August.

Domestic: All eyes focused on December

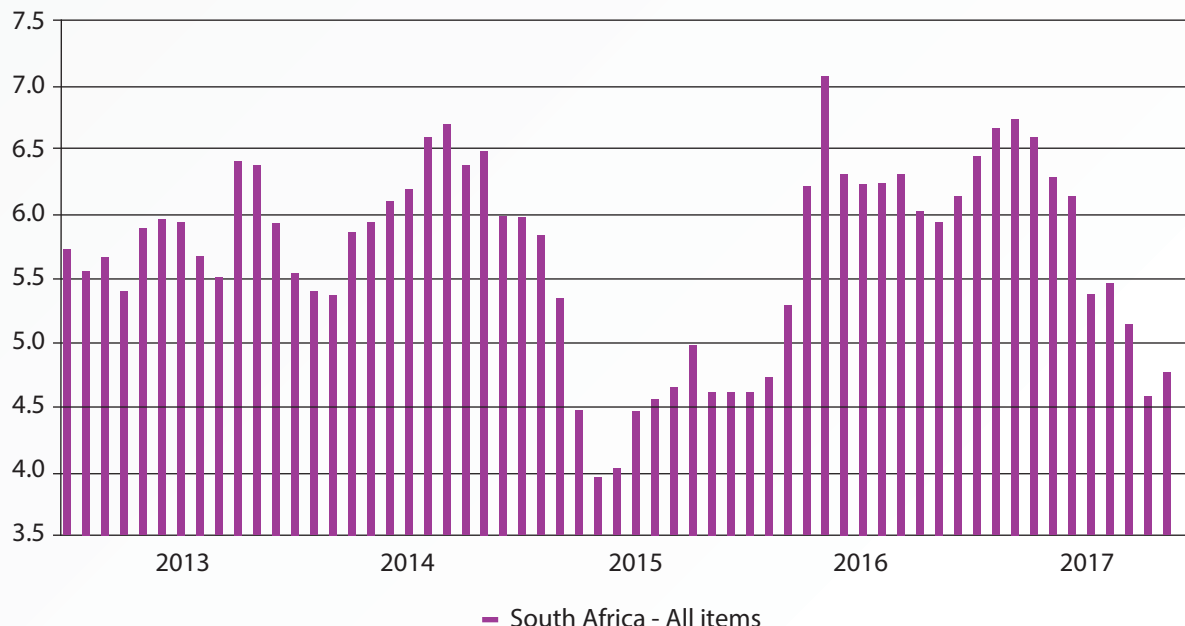
The fortunes of the JSE continue to be plagued by political uncertainty and whilst the return for the quarter of the JSE/FTSE All Share is commendable at 8.91% we have tended to lag behind global emerging markets. However, thanks to a marked turnaround in the fortunes of the agricultural and mining sectors, the South African economy managed to shrug off the nation's second recession since 1994 with Gross Domestic Product for the second quarter coming in at 2.5%.

The largest positive contributor to growth in GDP was the agriculture, forestry and fishing industry, which increased by 33.6%. Finance, real estate and business services increased by 2.5%. The mining and quarrying industry increased by 3.9%. However there are a few statistical points to note. Firstly, quarterly growth rates can be considerably volatile.

Secondly, the headline figure of 2.5% is the growth rate after annualisation - in other words what the annual growth rate would be if the quarterly rate were to be repeated for four consecutive quarters. Thirdly, if we compare the first half of 2017 with the first half of 2016 the growth rate was 1.1%. So even though 2.5% might seem like an impressive recovery, longer-term indicators still show subdued growth.

The South African Chamber of Commerce and Industry's (SAACI) Business Confidence Index showed that South Africa's business confidence index fell to its lowest in 30 years in August as merchandise import and export volumes fell. The index fell to 89.6, the lowest level since the mid-1980s, from 95.3 in July.

SA CPI



Source: GTC/FactSet

Consumer inflation picked up as expected in August on the back of higher fuel prices. The consumer price index (CPI) rose 4.8% in August from a year earlier. That compares with a 4.6% year-on-year increase in

July and expectations that inflation would pick up to 4.9%. CPI inflation on which the Reserve Bank bases its 3-6% inflation target has been within that band since April this year.

According to Statistics SA production prices dropped to 3.6% year-on-year in July from 4% in June. As inflation continued to fall well within the 3-6% target range, many economists felt the Reserve Bank was likely to ease policy rates further at the next monetary policy committee meeting in September. However the Monetary Policy Committee decided to keep rates on hold.

After plunging from 40 to 29 in the second quarter, the RMB/BER Business Confidence Index rose by six points to a still low 35 in the third quarter. Following a collapse in the second quarter, at least business activity in general did not deteriorate further. Also, no major new unsettling political events occurred during the survey period.

While the small increase in the third quarter RMB/BER BCI is encouraging, the improvement must be seen in the broader context of continued weak domestic demand, subdued business activity, low profitability and heightened political uncertainty.

Energy regulator Nersa has opened the consultation process for Eskom's application for average tariff increases of 19.9% by publishing the application on its website. If approved the increase would apply to Eskom's direct customers from 1 April next year. Eskom wants municipal customers to pay an average of 27.5% more from 1 July 2018.

KPMG said that its conclusions and recommendations in a report for SARS about a unit that allegedly spied on politicians should no longer be relied on. It said the evidence provided to KPMG doesn't support the interpretation that former Finance Minister Pravin Gordhan knew, or ought to have known, that the unit was established and operating unlawfully. KPMG also said that its South African chief executive officer, chairperson and six other senior managers had resigned.

Public Enterprises Minister Lynne Brown has instructed Eskom to begin legal action against companies including McKinsey over their involvement in disputed contracts at the country's state-owned electricity company. Brown ordered Eskom to start taking legal steps against consultancy firms McKinsey and Trillian, as well as suspended acting CEO Matshela Koko and CFO Anoj Singh.

The Rand's three-month implied volatility against the Dollar has soared relative to actual fluctuations, as the ruling African National Congress's leadership contest approaches, suggesting traders are paying up for protection ahead of an event that may introduce two-way risks for the currency.

South Africa was ranked 61, down 14 positions in the World Economic Forum's annual competitiveness report but remains one of sub-Saharan Africa's most competitive economies. The 2017-2018 WEF report compares 137 economies against each other and against a set of factors which determine the country's economic productivity. The report shows that South Africa has declined steeply in its economic productivity. According to the report South Africa's economy is nearly at a standstill. The GDP growth forecast is at only 1.0% in 2017 and 1.2% for 2018.

The World Bank has revised down the growth forecast for South Africa to 0.6% in 2017, from 1.1% it had forecast in January. Further, the bank expects growth to improve to 1.1% in 2018 and 1.7% in 2019. However the bank warned that recovery prospects will remain fragile unless the nation succeeds in becoming more productive.

Mining production increased by 0.9% year-on-year in July 2017. The largest positive contributors were: manganese, chromium and diamonds. Iron ore and PGMs were significant negative contributors. Seasonally adjusted mining production increased by 0.1% in the three months ended July 2017, compared with the previous three months.

Manufacturing production decreased by 1.4% in July 2017 compared with July 2016. Seasonally adjusted manufacturing production increased by 15% in July 2017 compared with June 2017. This followed month-on-month changes of -0.3% in June 2017 and -0.6% in May 2017.

Whilst certain green shoots are appearing in the local economy, sustained long term growth continues to be plagued by the vagaries of the current political scenario. Hopefully some meaningful resolution in this regard will be forthcoming from the ANC elective conference in December. A change in the 'old guard' is likely to result in improved investor confidence both locally and abroad.

GTC Fund performances - September 2017

Client portfolios	1 Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC EB Conservative	7.48	6.03	7.04	6.74	6.42
GTC Conservative Inflation Target - CPI+1%	5.62	6.05	6.60	6.47	6.99
GTC EB Moderate	8.27	5.80	8.77	8.45	8.05
GTC Moderate Inflation Target - CPI+3%	7.62	8.05	8.60	8.48	8.99
GTC EB High Equity	9.36	6.86	10.20	9.62	8.79
GTC High Equity - Inflation Target - CPI+5%	9.62	10.06	10.60	10.48	11.00
GTC EB Market Plus	10.02	6.12	11.11	10.91	9.98
GTC EB Market Plus - Benchmark	7.51	7.31	11.42	11.53	8.29
FTSE/JSE All Share Index (ALSI)^	8.59	5.59	10.87	11.15	7.92
FSTE/JSE Shareholder Weighted Index (SWIX)^	5.42	5.78	11.17	11.78	8.97
BEASA All Bond Index (ALBI)^	6.60	6.03	4.76	6.15	6.83
Cash (SteFi)^	6.04	5.47	4.82	4.64	5.62
MSCI World Index (R)^	11.33	10.51	18.16	16.77	7.48

*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.

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** performed in line with their targets over the long term. The funds managed to capture a large portion of the recent equity market upside.

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