

Trendline - Employee benefits

Fourth Quarter 2017

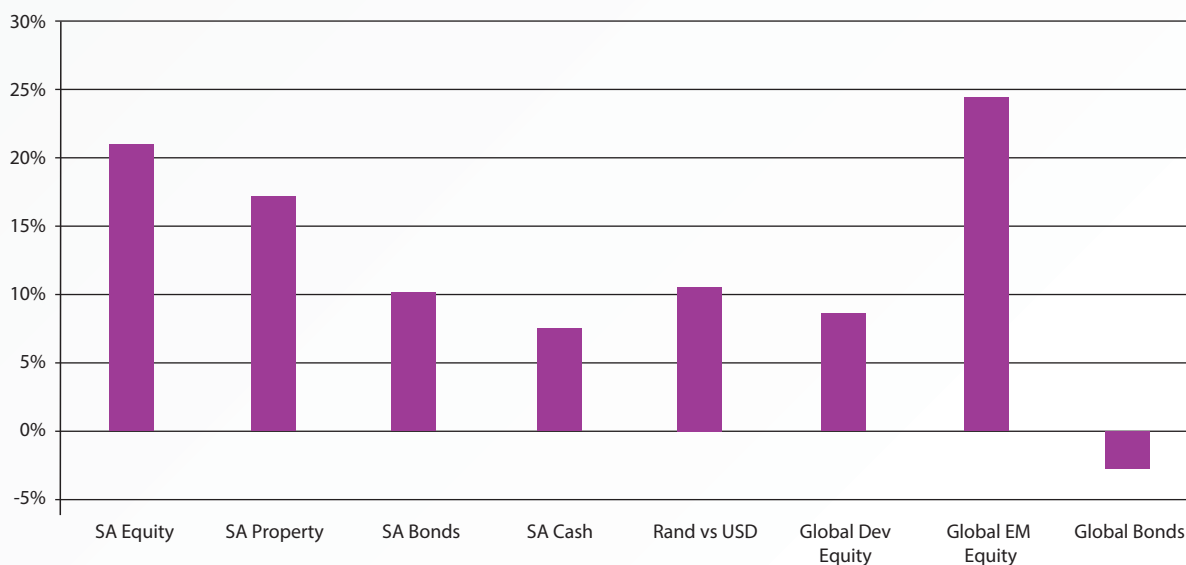


At a glance

- The MSCI Emerging Market Index outperformed the MSCI World Equity Index - the former returning 7.5% while the latter gained 5.6% both in total Dollar return terms.
- In the US the Dow Jones, S&P500 and NASDAQ indices all showed strong advances, buoyed up by an increasing likelihood of significant tax reforms.
- In spite of positive economic data, the Eurozone ended the quarter on a negative note, with a stronger Euro being partly to blame for the MSCI EMU index returning a negative -0.5%.
- As Brexit negotiations continued to advance, this coupled with an improvement in resource stocks saw the FTSE All-Share index rise a significant 5.0% over the quarter.
- The strong showing by the LDP political party in Japan, in tandem with strong earnings numbers, resulted in Japanese equities returning a spectacular 8.7% for the quarter.
- Late in December JSE/FTSE equity performance was severely impacted by an announcement from Steinhoff which suggested that accounting irregularities had grossly over estimated earnings for some considerable time. In spite of this announcement taking the gilt off the gingerbread, the JSE/FTSE All Share returned a positive 7.44% and the Top40 a positive 6.71% - both in total return terms for the quarter.

Global: Trump's triumph?

Asset Class returns 1 year to December 2017 (Rand)



Source: GTC/FactSet

In the US two Republican defeats in a Senate contest prompted the House and Senate to speedily enact tax reform legislation, fearing these defeats were signs of things to come in the 2018 mid-term elections.

Markets reacted positively to the news with the S&P500 ending the quarter having returned 6.6%. Equities were also supported by positive macroeconomic news, particularly the better- than-expected GDP growth number coming in at an annualized 3.0%.

Employment data also remained above expectations with 228,000 new jobs being created in November - although this number may have been distorted as a result of the impact of a number of severe hurricanes.

As was widely expected the US Federal Reserve raised interest rates by the anticipated 25 basis points, as well as raising its GDP growth forecasts from 2.1% to 2.5% for 2018. Strong corporate earnings continued to fuel the market with tech stocks leading the field.

In spite of encouraging data flows from European economies, Eurozone markets continued to disappoint with the MSCI EMU index returning a negative -0.5%.

Whilst profit taking, as well as a stronger currency mitigated against market performance, it was still a poor showing in terms of world markets. The region's GDP slipped marginally from 0.7% in Q2 to record growth of 0.6% in Q3.

On a positive note the employment rate declined to 8.8% which is the lowest level since 2009 while the inflation rate rose to 1.5% in November, which still remains considerably below the target of 2.0%.

Further encouragement for investors was provided by the European Central Bank (ECB) which indicated that quantitative easing would be extended to September 2018, albeit at a reduced Euro 30 billion from the previous Euro 60 billion. Political events in both Germany and Spain brought some uncertainty to the markets.

In spite of Brexit negotiations continuing to negatively affect business confidence, the UK's FTSE All-Share index rose 5.0% over the period, reflecting further evidence of a sustained global recovery which was underlined by the International Monetary Fund raising its growth forecast for 2017 from 3.2% to 3.6%.

With global metal prices rising, particularly on the back of renewed Chinese demand, mining companies experienced renewed investor interest and performed well over the quarter. Oil and gas counters were also in favour due to strong Q3 results and OPEC production cuts now extended to the end of 2018. Despite a sluggish economy the Bank of England decided to raise interest rates as a precaution against future currency speculation. Rates were raised for the first time since November 2007 from 0.25% to 0.5%. The UK budget did little to bring cheer to consumers as it downgraded its GDP growth forecasts.

Uncertainty surrounding the outcome of the snap Japanese elections in October resulted in the equity market remaining extremely cautious. However, once it became clear that the majority LDP party was in the lead, investors felt confident that current monetary and fiscal policies would remain and the market surged ahead, rising 8.7% for the quarter. Yen volatility was evident during the month but the currency ended the period little changed.

The election win and apparent stability of the Abe government led to a flurry of buying of Japanese equities by foreign investors, which helped to maintain market momentum. Quarterly corporate results continued to exceed analysts' expectations and positive earnings revisions were maintained.

Inflationary pressures, although they unexpectedly improved, remained weak as Japan begins its exit from a sustained period of deflation. The unemployment rate declined to 2.7% with the number of people being employed having risen steadily throughout 2017. The Bank of Japan's Tankan survey of prospects for large manufacturing companies reached an 11 year high.

Asian markets continued to perform strongly, with the MSCI ex Japan index up 8.2% for the quarter. Indian equity markets were in favour as the government announced plans for a significant recapitalisation of state controlled banks, which will bring additional security to the economy.

Hong Kong and Chinese markets recorded strong gains with Chinese Q3 GDP growth coming in at 6.8% which was much in line with expectations. Following the US Fed's December rate hike the People's Bank of China raised certain rates by 5 basis points and also announced reductions in banks reserve ratios which was to be effective from January 2018.

Emerging markets were top performers in Q4 2017 with the MSCI Emerging Market Index returning 7.6% in total Dollar return terms. The South African market was the strongest contributor to the index, on the back of Cyril Ramaphosa being elected as President of the ruling African National Congress.

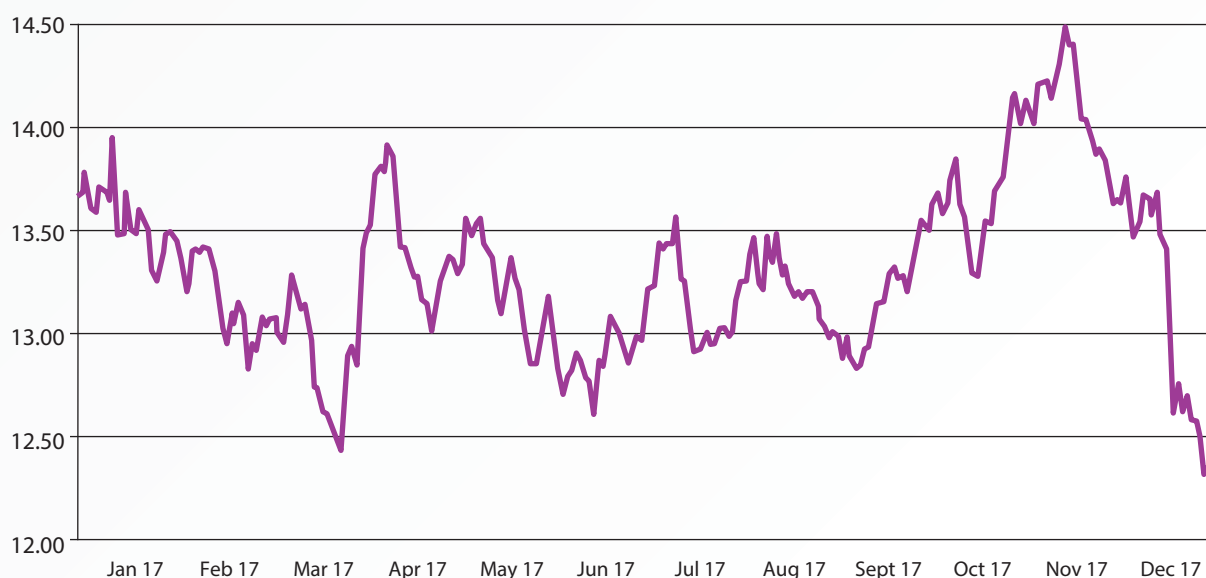
This development, it is hoped, will bring about significant improvement in the country's economic fortunes and will be able to address the urgent need to reduce unacceptably high levels of unemployment. The South Korean market also performed well, aided by China's attempts to de-escalate the North/South Korea conflict.

On the global bond front US Treasury yields rose over the quarter, and the yield curve flattened as a result of a proposed tax reform bill which is expected to stimulate growth and inflation. December saw yield volatility around this development as doubts led to yields initially dropping to 2.34% before reversing to 2.50% in the run-up to the bill being approved by the Senate.

In Europe, positive economic momentum continued unabated, with manufacturing activity at multi-year highs. The ECB announced the reduction of asset purchases, but extended the programme which proved a significant boost to bond yields.

Domestic: Ramaphosa to the rescue?

South African Rand per US Dollar - Price



Source: GTC/FactSet

The long awaited ANC National Conference held in late December provided the local stock market with the result it was hoping for, which led to a sharply stronger Rand. Coupled with a totally unexpected announcement from Steinhoff that the company's results were overstated due to accounting irregularities, both contributed to JSE stock market performance for December ending on a sour note.

However from a positive perspective, investors had taken account earlier in the quarter that there was a positive sense of change in the air for the local economy and not unsurprisingly the JSE/FTSE All-Share returned 7.44% and the Top40 6.71% for the quarter. In December alone foreigners purchased R25.54 billion of South African equities.

Parliament's Standing Committee on Finance has asked the Financial Services Board, the South African Reserve Bank, the Independent Regulatory Board for Auditors and the Johannesburg Stock Exchange to complete their probe into Steinhoff urgently and reveal the results timeously.

Steinhoff International will restate its 2016 financial results after a probe uncovered fresh concerns. The company discovered the problems with its previous year's balance-sheet accounting while reviewing statements from 2017.

The 2016 consolidated financial statements will need to be restated and can no longer be relied upon. Steinhoff is also considering selling stakes worth a combined \$1.4 billion in local companies PSG Group and KAP Industrial to help plug a liquidity gap at the retailer.

Mining production increased by 5.2% year-on-year in October 2017. The largest positive contributors were iron ore and coal. Seasonally adjusted mining production increased by 3.4% in October 2017 compared with September 2017. This followed month-on-month changes of -6.8% in September 2017 and 5.4% in August 2017.

Seasonally adjusted mining production increased by 2.3% in the three months ended October 2017, compared with the previous three months. PGMs and iron ore were the largest positive contributors.

New figures from the Quarterly Employment Statistics showed that South Africa's formal non-agricultural sector shed 31,000 jobs in the third quarter of 2017. With losses of 41,000 in March 2017 and 31,000 in June 2017, this marks the third consecutive quarter of job losses across South Africa.

Manufacturing production increased by 2.2% in October 2017, compared with October 2016. Seasonally adjusted manufacturing production increased by 0.7% in October 2017, compared with September 2017. This followed month-on-month changes of -1.0% in September 2017 and 0.4% in August 2017.

Seasonally adjusted manufacturing production increased by 0.8% in the three months ended October 2017, compared with the previous three months. The headline CPI annual inflation rate in November 2017 was 4.6%. This rate was 0.2% lower than the corresponding annual rate of 4.8% in October 2017. On average prices increased by 0.1% between October 2017 and November 2017.

Gross domestic product increased by 2.0% in the third quarter of 2017 following an increase of 2.8% in the second quarter of 2017. The largest contributor to growth in GDP in the third quarter was the agriculture, forestry and fishing industry, which increased by 44.2% and contributed 0.9% to GDP growth. Mining and quarrying increased by 6.6% and contributed 0.5% to GDP growth. Manufacturing increased by 4.3% which contributed a further 0.5%.

South Africa recorded an unexpected trade surplus in October as exports of mineral and chemical products as well as base metals climbed, due to a weaker currency and subdued demand for imports locally. Analysts said the weak Rand and improved global demand for commodities were the main reasons for the surplus. The trade surplus widened slightly to R4.56 billion from a revised R4.48 billion surplus data from SARS showed. A Reuter's poll had forecast a R1 billion deficit.

South Africa's business confidence index edged higher in November, helped by expectations that the government will implement policies to boost the economy.

The South African Chamber of Commerce and Industry's monthly business confidence index rose to 95.1 in November from 92.9 in October.

The search for yield has overshadowed a downgrade of South Africa's local-currency debt to junk with the Rand posting its best monthly gains this year in November and December. Borrowing Dollars to buy the South African currency proved a profitable strategy, with the Rand carry trade returning 3.7% for November and beating 21 out of 22 emerging-market peers.

South Africa's seasonally adjusted Absa Purchasing Managers' Index (PMI) rose in November to its highest level in six months as business activity improved further. The index which is compiled by the Bureau for Economic Research and gauges manufacturing activity, rose to 48.6 in November from 47.8 in October. This was the fourth consecutive increase and brought the index to the best level since May 2017.

The All Bond Index gained 2.22%. The 12+ maturity sector was the best performing maturity sector gaining 2.28%. The 7-12-year maturity sector returned 2.00%, while the 3-7 maturity sector gained 1.96%. The shortest dated 1-3 maturity sector returned 2.02%. Foreign investors sold R474 million of SA debt.

The global economy, with few exceptions, is enjoying the strongest synchronised expansion phase post the global financial crisis. In addition, the outlook for corporate profits globally remains favourable. These factors continue to support the increasingly popular positive view on equities. The risks to this view are the potential for over-priced assets (i.e. valuations) and political developments over 2018.

GTC Fund performances - December 2017

Client portfolios	1 Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC EB Conservative	8.22	6.08	6.80	6.94	6.81
GTC Conservative Inflation Target - CPI+1%	5.51	6.29	6.40	6.54	6.87
GTC EB Moderate	9.98	6.21	8.30	8.22	8.34
GTC Moderate Inflation Target - CPI+3%	7.51	8.30	8.40	8.54	8.88
GTC EB High Equity	13.31	7.49	9.76	9.49	9.34
GTC High Equity - Inflation Target - CPI+5%	9.51	10.30	10.40	10.54	10.88
GTC EB Market Plus	14.85	7.27	10.85	10.63	10.34
GTC EB Market Plus - Benchmark	14.07	7.80	11.09	11.49	8.86
FTSE/JSE All Share Index (ALSI)^	19.19	7.66	10.28	10.86	9.03
FSTE/JSE Shareholder Weighted Index (SWIX)^	19.43	7.74	11.09	12.00	10.02
BEASA All Bond Index (ALBI)^	8.59	5.34	4.69	6.37	6.97
Cash (SteFi)^	5.95	5.55	4.92	4.67	5.55
MSCI World Index (R)^	7.22	8.11	16.41	15.65	7.52

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Fund** was ahead of its inflation adjusted targets over 1 year and in line over longer term periods.

The **GTC Moderate Fund** was ahead of its inflation adjusted targets over 1 year and in line over longer term periods.

The **GTC High Equity Funds (previously Aggressive)** was ahead of its inflation adjusted targets over 1 year but lagging their inflation targets over the longer term as equity market weakness detracted.

The **GTC Market Plus Fund** was ahead of its target over 1 year and performing in line over the long term. The fund has managed to capture a large portion of the recent equity market upside.

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