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Trendline

Second quarter 2021

Overview

Global equity markets outperformed the **local equity market** over the quarter despite the strong rally in financials which provided a positive return of 8.1%.

Local resources pulled back sharply over the quarter declining 5.2% as investors banked profits to digest the impact of Chinese regulations.

The **local property market** continued its recovery increasing 12% over the quarter. The outlook remains volatile amid the uncertain shift in demand, as we enter the post-pandemic world.

The MSCI Developed World Index outperformed its Emerging Market counterpart by 7.7% vs 5.1% in dollar terms over the quarter.

The weaker **dollar** and relatively lower **US interest rates** remained supportive of a stronger rand over the quarter. The rand lost some ground towards the end of June after the FED indicated a possible interest rate hike in 2023, sooner than previously announced.

Global inflation rose amid higher fuel prices and increased demand, as many economies reopen. Rising inflation was to be expected given the low base from which most nations were operating. The unexpected degree - and potential structural shift driving high inflation - has raised concerns.

Investors feared the FED's reaction to a potential overheating economy as the US CPI increased to 5% and equity markets remained volatile. Interest rates remained unchanged, inflation - while elevated - will likely moderate in 2022, supporting the belief that inflation is transitory.

The US consumer confidence index climbed to an18-month high on the back of a stronger labour market and optimism from the reopening of the economy.

CPI in South African spiked to 5.2%, on the back of higher fuel and food prices. South African retail sales rebounded significantly over the quarter, up 24%. The April 2021 retail sales figure reflected a 95% increase when compared to April 2020, illustrating the impact of the low base that these figures are calculated from. With the strong rally in commodity prices persisting, favourable exports resulted in a thirteenth consecutive trade surplus for South Africa.

The disconnect between the local stock market and economic activity is evident as the stock market remains relatively optimistic, whilst the underpinning economic fundamentals seem dire.

The recent more stringent lockdown measures imposed on South Africa speak to the surge in reported Covid cases experienced and will likely be followed by a negative knock-on effect to the economy. The efficiency of the vaccination programme will be a key driver assisting the local economy to return to pre-Covid levels.

Unrest in South Africa

Over the short term, the impact of the recent riots in South Africa are likely to be ephemeral in nature. Given the expectation that insurance will cover most of the damages caused by the riots, many affected listed retailers, have hardly had their share price affected. The impact on large manufacturing businesses and the property sector is yet to be revealed.

Unfortunately this experience has negatively impacted the SA brand and has the potential to diminish investor confidence in the country. This could reduce future foreign and local business investment into South Africa, leading to lower GDP growth and job creation. As more data emerges, we will gain a better understanding of the overall impact to the economy along with the potential governmental response in addressing the discontent. We continue to monitor the situation and position our funds accordingly.

Investment market returns as at June 2021

Investment market returns (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Share (Capped SWIX)	-3.02	0.63	13.31	27.60	4.80	4.32	5.01	9.78
Local Listed Property	3.37	12.12	19.30	25.17	-8.85	-6.86	-0.16	5.08
Local Money Market	0.31	0.92	1.83	4.01	6.05	6.62	6.61	6.26
Local Bonds	1.09	6.86	5.00	13.68	9.24	9.17	8.46	8.53
Global Developed Shares in USD	1.49	7.74	13.05	39.04	14.99	14.83	10.16	10.65
Global Emerging Shares in USD	0.17	5.05	7.45	40.90	11.27	13.03	6.35	4.28
Global Bonds in USD	-1.06	0.98	-4.75	0.76	3.59	1.66	1.36	1.42
Oil in USD	9.19	20.75	48.85	77.39	-1.51	7.17	10.44	-5.98
Rand vs. USD	4.01	-3.74	-2.64	-17.89	1.34	-0.70	4.33	7.64

All returns greater than 1 year are annualised. All returns are gross of fees.

Covid-19 vaccines

The Covid-19 vaccine in South Africa, is being rolled out in accordance with the prioritisation framework and the three phase roll-out plan as established by the Ministerial Advisory Committee and National Department of Health. South African citizens are required to register on the National Department of Health's Electronic Vaccination Data System (EVDS) **www.vaccine.enroll.health.gov.za/#/** in order to secure a vaccine.

The list of accredited facilities that is approved, has been published by the National Department of Health. **www.health.gov.za**. After registering on the EVDS, you will receive a notification, indicating that you have been successfully registered. This will be followed by a notification that confirms your vaccine code and the site that you have been booked in, to receive your vaccination. Some medical aid schemes that have vaccination sites allocated to their members, have announced to their respective members that they may book an appointment without the vaccine code for as long as the members are successfully registered on the EVDS system.

There are some hospital and pharmacy groups that are allowing citizens to walk in, including those who have not registered on the EVDS. They then assist these walk-in citizens with registration on the EVDS system, where after they administer the vaccination. We advise that should you decide to use this route, that you contact the provider to get the full details of how they operate, in order to avoid any disappointment accompanying an impromptu arrival.

Please note that whilst this protocol may be taking place, the official process is to:

- Register on the EVDS.
- Receive notification that you have been successfully registered.
- Receive a notification that confirms where you have been booked to get vaccinated.

South African citizens may use the following contact numbers in the case of enquiries.

- Covid-19 Public Hotline - 0800 029 999.
- Official WhatsApp Help Service - Send HI to 0600 123 456 on WhatsApp.
- An SMS to *134*832* followed by your ID number.

Why vaccinate?

The overall aim of the Covid-19 vaccines are to prevent Covid-19-related disease and deaths, and to immunise individuals, thereby preventing further transmission. The vaccines being used in South Africa have been approved by the South African Health Products Regulatory Authority (SAHPRA).

The Johnson and Johnson vaccine, being a single-dose application is being used in rural areas, where logistically it is more difficult to have to apply the vaccine more than once. In the urban areas the Pfizer vaccine is being used, requiring two inoculations some 42 days apart.

In early July SAHPRA authorised the Chinese CoronaVac for use, subject to some reporting conditions. The Russian Sputnik formulated vaccine is not being used in South Africa.

Both the J&J and Pfizer vaccines being used in South Africa have medically proven efficacy of between 85% and 91% against serious infection. As we're repeatedly being cautioned, the maximum efficacy of the vaccines is some weeks after the injection. We await scientific evidence as to how long these vaccines will continue providing protection before a further dose is required. It seems inevitable that we'll need to treat Covid-19 in the same way we protect against other corona viruses such as with our annual flu shot.

New information is coming through almost daily in this regard, and scientists know so much more now than say a year ago. There's a multitude of good websites to research (and many misleading or blatantly fraudulent ones).

Here's a well written, easily understood write up by the credible Gavi, Vaccine Alliance, **read it here**.

There is continued strong evidence that in addition to the vaccine, the spread of the virus can be prevented by people washing their hands regularly, wearing a mask and practicing safe social distancing.

Cryptocurrencies: What are they, how do they work and does GTC support them?

Cryptocurrencies have been around since 2009, gained popularity in 2017 and have recently been in the spotlight with the release of "Good News" stories about overnight millionaires created from the participation in the currency.

GTC unpacks this electronic currency and what this means to us and our portfolios.

It is likely that physical currency will - over time - follow the same path as shares certificates. Those of us old enough to remember will recall the issuing - and receipt - of a physical shares certificate proving ownership of a share. These were, over time dematerialised, with the result that an electronic record has now replaced the physical shares certificate, with this record being stored within a data base ledger and being the only proof of ownership of the share.

Money is already a combination of numbers in a bank account and physical notes and coins. Dependant upon the country, we find that there are less and less notes and coins in existence, and more and more electronic transactions taking place. Card payments at the supermarket, payments online for goods, monthly debit order transactions and even Snap-Scan or Zapper payments at cafes or restaurants are all examples of the dematerialisation of currency which is already in play.

Gold standard and FIAT currencies

Money is no longer based on an absolute value. Historically the Gold Standard meant that your coin/note could get swapped for gold at the Reserve Bank. Currency was backed by gold. In about 1970, with the introduction of the FIAT currency, the world no longer required that currency was backed by gold.

Money is now relative to something, for example a loaf of bread, or the rand is relative to the US dollar. Currency has no store of wealth and relies on trust. Trust in the government that they will make good on their promises of paying back the money they owe and honouring the country's currency (in our case, the rand).

In the global system, the lender of last resort - the currency of most strength – is the US dollar.

Implicit trust exists when you exchange your currency for goods, like at a supermarket. You rely on trust that the value of the note/s being exchanged is equivalent to the value of the goods being purchased from them.

In order to digitise cryptocurrencies, a new way of developing this trust was required, as well as a way of recording ownership, such as the shares certificate ledger mentioned earlier.

Blockchain - a transaction recording concept used by many more entities than cryptocurrencies - was adopted to solve the problem of ownership and transfer of cryptocurrencies value between parties, without a middle party - such as a bank.

Blockchain allows the record to move with the cryptocurrency transaction. Every transaction gets added to the shared blockchain ledger and can get instantly verified by online computers - provided more than 50% of the "live" computers agree, consensus of ownership is reached and the transaction is verified.

Algorithms solve the trust issue. Instead of relying on a government for trust in respect of a currency, a mathematical formula defines how currencies are generated and limits the amount of currency available, thus moving away from physical currency to an electronic record environment. The blockchain ledger records all transactions and is duplicated or 'looks the same' on all other online records, creating proof of ownership across the internet.

Individuals are not using cryptocurrencies instead of dematerialised or physical money to perform the functions of daily transacting - they are using cryptocurrencies as a store of wealth, though as per the article on ESC investing, cryptocurrencies are increasingly being used to make purchases.

We have noted an increased interest recently, mainly due to the vast fluctuations (in this case an increase) in the value of many cryptocurrencies. GTC is aware that clients may experience FOMO (Fear of Missing Out) and be enticed into entering the speculative world of cryptocurrencies.

The drivers behind the price of this very young (10 years old) asset class - cryptocurrencies - are not based upon investment fundamentals and are mostly driven - much like a pyramid scheme - by investors pushing the purchase and price.

The Financial Services Conduct Authority (FSCA) - South Africa's regulatory authority - has released draft regulations seeking to classify cryptocurrencies as financial assets, and bringing them under the purview of this body.

GTC continually reviews many investment opportunities as alternatives to equities, bonds and cash. Cryptocurrencies have been discussed within the asset management team with the following general consensus reached:

- It does not currently make sense to investment in cryptocurrencies in the current environment within our portfolio offering, even if we are absolutely convinced they are here to stay.
- On a valuation basis, there is way too much risk to buy in now, especially as these risks are not fully understood yet.
- Cryptocurrencies are currently over-valued.
- Cryptocurrencies are prone to enormous volatility.

Our advice to clients is:

- Don't invest in what you don't understand.
- Be aware of the underlying value of what you are investing in.
- Know that GTC offers portfolios of differing risk profiles.

If you would prefer to speculate with a percentage or portion of your portfolio, please speak with one of our advisory team who can offer further advice and perspective, and re-balance or introduce more risky portfolios for your consideration if this is what you require.

These will be regulated, well managed and mandated portfolios, specifically set up to match risk profiles of our investors. Undertaking a TrueNorth analysis would certainly help you assess and determine your risk profile and subsequent investment mandate.

Click **here to watch the video** of Clive Eggers - Head of GTC Investment Analytics, being interviewed on this topic.

Your GTC investments and Covid

Let's take a look back over the last 12-18 months and determine how we have fared with your investment during the Covid crisis which started in South Africa in March 2020.

Fear had already taken its grip on the globe, there was no talk of a vaccine or cure, the oil crisis was looming and Russia and China were at loggerheads with one another. Our advice to clients during these tumultuous times remained not to try to time the movement of assets into and out of the market.

We understood that everyone was worried about their investments and were afraid that no action would increase their possibility of loss.

Clive Eggers, Head of the Investment Analytics team at GTC confirms that the advice given to our clients was, "Provided your portfolio matched your objectives and you were invested according to your risk appetite or investment goals, you should hold the line, don't disinvest, don't move to cash and remain invested for your full time horizon."

Clive confirms that research shows that time in the market is a superior strategy to timing the market. Keeping your investments in the market, thus spending time in the market has, over time, shown that investors who try to time their investments fare worse than those that leave their money in the market for the full investment time horizon.

Clive confirms that markets fell 35% from peak - when markets were at their highest - to trough - when markets were at their lowers, over the period when lockdown most affected the markets. History has shown that markets tend to overreact, sell-offs are severe and sharp and that the recovery is strong and swift. Markets often rebound very quickly and investors invariably miss the sudden upswing directly after sell-offs. Many who cashed in during the Covid crisis of 2020 would have been too sceptical or scared to reinvest before the upswing and would thus have missed it. History shows that most investors missed this timing completely.

According to Clive, at the end of April 2021, GTC's equity portfolios reflected some 36% return. Over the same period cash was the worst performing asset class. Any investor electing to sit-out the market during this period would have spectacularly underperformed.

Clive expressed concern that those clients who remained in defensive asset classes over the crisis, especially those approaching retirement, created permanent destruction of retirement capital through these actions, noting that the closer you are to retirement, the more impact these decisions have on your retirement capital. Investors, acting on their own during this 2020 crisis, electing to be out of the market, reduced capital (and very often retirement capital) by some 25%.

It is important to remember that the fundamentals of investments have remained the same during this crisis. Time in the market is imperative. Investors should not react to greed or fear. The current unsettling times centered around the rioting and social disorder are no different. Our advice remains the same says Clive. *"Stick to your guns, Toe the line, Stay the course, don't move to cash".*

Clive reiterated that GTC's portfolio management was based on a sound and rational investment strategy and philosophy which was arrived at with rational thinking, extensive empirical statistical data and with a multi-manned team of professional people. GTC portfolios are routinely rebalanced against established objectives with research and selection of asset managers, asset classes and investment strategies, remaining constant.

Click here to watch the video of Clive's interview on this topic.

Protection Of Personal Information Act

There can't be any of us who haven't been directly affected by the recent Protection of Personal Information Act (POP-IA) requirements. Everyone from your dentist to the bank has been letting you know what they're doing with our information (though we all hoped the unsolicited telesales calls would abate more than they have…).

As GTC has always had the significant responsibility of managing the confluence of your money and your personal details, we are ready, willing, and able to manage POPIA. As before, we take this fiduciary responsibility very seriously.

Ensuring your personal information remains personal does however require putting in place ever-increasing security measures.

After all, those looking to steal or 'harvest' this same information aren't resting on their own laurels. This does mean that when we send a combination of financial and personal information, this communication will be secured (and inevitably will become progressively more so). GTC has implemented dual protection on email transmission via the means of Enforced TLS encryption and Secure mail by Mimecast.

What is TLS

Transport Layer Security (TLS) encrypts emails between two computers over the Internet, providing a secure form of communication, with the same assurance as using password protected emails.

Emails will only deliver if both the sender and the receiver have Enforced TLS setup. If a mail is sent and the receiver does not have this setup on their computer, the mail will not send. A little complicated at first, perhaps, but this process keeps your very important personal financial information private.

Without this channel, even password protected files can be intercepted and opened by strangers using decryption tools. TLS provides protection from third party attempts at interception or tampering.

What is SecureMail by Mimecast

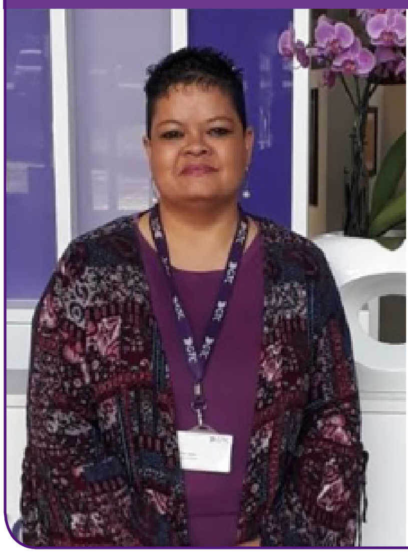
Mimecast Secure Messaging provides secure email communication from GTC to our clients. It is a secure, cloud-based messaging service that enables the sharing of sensitive information and files initiated directly from within the email platform and received via a self-contained secure portal.

Again, receiving this, particularly for the first time can be frustrating. Once set up, it is much easier.

Do remember that the more thorough it is, the more secure is your financial and personal information.

Do talk with one of our advisory team in this regard, if need be, or **request a meeting here**.

In loving memory of Caroline Rigney - 4 March 1965 to 11 July 2021



Many of you knew Caroline, who sadly succumbed to Covid on 11 July.

Caroline was one of the first GTC staff and part of the GTC family for over 20 years in various roles in the organisation during this time.

Caroline was passionate about her charity work at her church, in the community, and at GTC, and touched the hearts and lives of many.

A colleage to us all, a friend to most, a mother, (to many of us here at GTC too), a grandmother, a wife, a sister, an aunt and a daughter. Gently spoken, Caroline was compassionate, generous, and always ready to listen, and to offer support.

It was a privilege and honour to have had Caroline as part of the GTC team.

She will be fondly remembered for her dedicated work in business and the community and will be sincerely missed by us all.

Message from our CEO

The recent surreal scenes around many areas of our country have dismayed and shocked all of us. I addition to dismay and shock, there are many additional adjectives being used at this time.

Keeping this commentary within the confines of that which I, and GTC are tasked with by you - namely to look after and manage those monies which you've entrusted us with - let's analyse this with only a wealth management perspective.

Manty Seligman, head of GTC's asset management capability has written an article on investing during the prevailing unsettling times, which you may already have read. **Read it here**.

GTC has seen fit to write adaptations of this same article a number of times over our thirty year history (yes, we will celebrate this proud milestone later this year!).

As Manty notes in his article, separating emotion and sentiment from investing is a prerequisite for doing the job properly. Clive Eggers' provided the statistics for this article showing that if you missed the top ten trading days over the last 20 years, you would have effectively missed out on some 40% gain to your portfolio. What these statistics can't ever accurately record is that most market timing decisions will be wrong twice. It won't only be the missed days of positive returns, it'll be the inadvertently wrongly timed sell-off's as well. Inevitably, sentiment driven investing sees a sell-off long after the market peak, and the re-entry into the market only after the recovery has taken place.

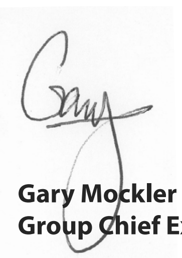
My own experience over at least this thirty year period, based on just a single facet of investing logic - the currency - illustrates this. Collectively over this period, GTC clients have elected to swap their rands for dollars or euros when the South African rand is at its weakest. When the inverse is true (and empirical statistical evidence is there to prove that all ups are followed by downs, which are followed by ups…), investor elected timing is historically poor.

So whilst I may well be on my proverbial soap box, lecturing away right now, I do truly believe that the professionals, with terabytes of statistics and analytical data, working off a consensus driven investment strategy defined and approved in the cold light of day, are best placed to manage my money, rather than me being influenced by my own anger, fear, and financial self-preservation. I respectfully believe the same is true for you.

As I re-read this, ahead of publication, I do realise that I am repeating the message that Clive Eggers gives in a seperate article as well as in his video interview. I have not removed this repeat, and I make no apologies for this.

Always recognising the need to balance one's liabilities with current assets (i.e. you need rands to pay for your monthly expenses), GTC has always advocated that a sensible portion of your monies are rand-hedged. Just as we don't have to be in the office to be working, you don't need to leave South Africa to invest in dollars. Why not have a discussion with one of our advisory team? Call us or **request a meeting here**.

On a less sombre note, though equally important in the long term, you may have heard or read references to Environmental Social and Governance (ESG) investing. This trending investment objective aims to encourage businesses to engage in more sustainable business practices. You can **read this article**, also by our head of Asset Management, Manty Seligman, here.



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