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February 2014

Market Update

Budget 2014/2015

Apart from Minister Pravin Gordhan's budget speech, February brought with it interesting and counter intuitive developments both in the local equity and bond markets. The 2014 Budget focuses on interventions that are aimed at placing the economy on a new growth trajectory.

Government's primary objective is to raise real economic growth to between 5 and 6 percent per annum. This higher level of economic growth should boost state revenue and enable the government to increase expenditure on improving peoples' lives by dealing with the high levels of unemployment, poverty and inequality.

The economy grew at an estimated 1.8% in 2013 as domestic conditions combined with a slow recovery in the global economy led to a subdued overall rate of economic growth. Forecast growth for the economy has been reduced to 2.7% for 2014 but been maintained at 3.5% for 2015.

Several factors support this expected recovery. Public investment in infrastructure is expected to be some R847.3billion over the next 3 years. This should improve efficiencies in electricity generation, transport and encourage stronger employment growth whilst at the same time result in increased private domestic consumption. South Africa should also benefit from improved export opportunities presented by a stronger global economic outlook.

The building of new infrastructure and the upgrading of new rolling stock for Transnet, the marked expansion of power generation, the integration of public transport networks and the rehabilitation of the country's five large water transfer schemes are at the very centre of the government's growth plan. South Africa will also draw considerable strength from the rapid expansion of trade and investment on the African continent.

The strong growth expected in sub-Saharan Africa will also bring benefits to the local economy. As a consequence Government will increasingly align its policies to support economic integration within the African continent. Within the constraints imposed by the current economic conditions prevailing in South Africa the Budget could be described as somewhat mundane, save for the emphasis placed on both current and future proposed retirement savings reforms.

Most significantly and with effect from 1 March 2015, the tax free portion of lump sum retirement and severance benefits was increased from R315, 000.00 to R500, 000.00. Moreover the government has reached agreement with the Financial Services industry concerning the need to reduce the costs relative to saving for retirement. Proposed additional changes are to be introduced on T-Day which is 1 March 2015. Taxpayers will be able to deduct both their and their employer's contribution to a Pension Fund or Retirement Annuity up to 27.5% of remuneration or taxable income whichever is the greatest. There is a cap of R350, 000.00 on the total amount you may deduct from your taxable income in any one year.

Employer contributions will now be regarded as fringe benefits taxable in the hands of the recipient. Employer contributions to group disability assurance will also be regarded as a fringe benefit for tax purposes. The renewed emphasis on costs relating to retirement savings suggests that this might well be best achieved by the increased utilisation of umbrella funds as investment vehicles. Additional savings incentives might well be announced in the coming months.

The increase in the fuel levy of 12 cents and 8 cents for the Road Accident Fund coupled with the current 36 cents increase in the fuel price as result of currency depreciation will result in a build –up of inflationary pressures influencing future interest rate decisions.

The Rand shock absorber effect

U.S.Federal Reserve chair Janet Yellen suggested before the Senate banking committee that the pace of the Fed's economic stimulus plan tapering could be slowed if weakness in the American economy continued. Wall Street rallied as a result with the S&P 500closing at month end record highs. She did also ascribe some evidence of a slow down to the extreme weather pattern that has gripped the Eastern U.S. over recent months. While Yellen's statement is good news for emerging markets such as South Africa going forward, the recent economic news on the local front was not quite as encouraging.

Producer price inflation (PPI) index came in higher than expected in January 2014 at 7% per annum (p.a.) up from 6.5% p.a. in December 2013 supporting the view that more interest rate hikes are likely to follow. Finance Minister Pravin Gordhan lowered the government's growth forecast to 2.7% for 2014 but kept the 2015 forecast at 3.2%.

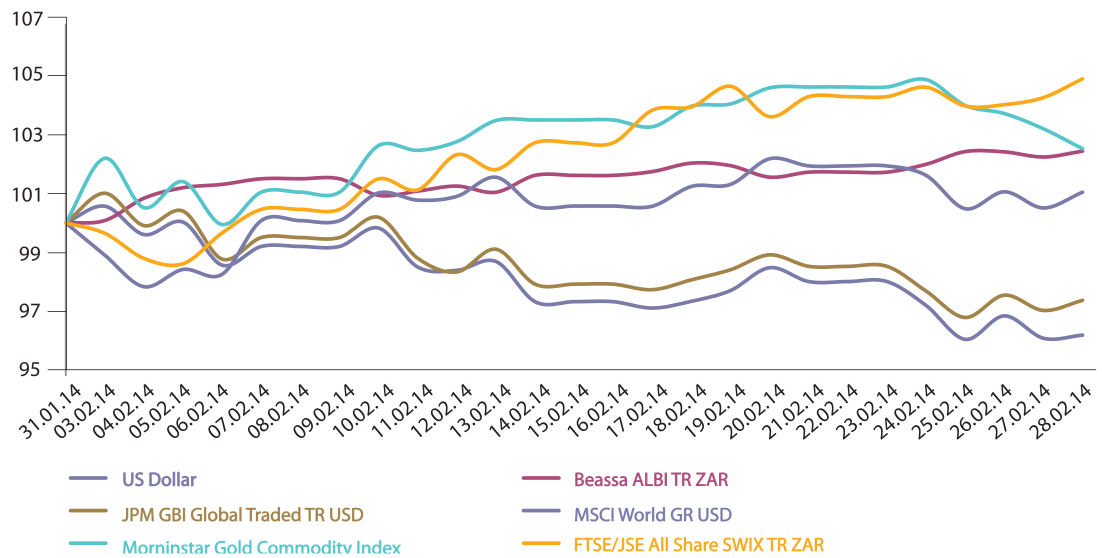
Emerging markets continue to be considerably influenced by the ongoing U.S.Federal Reserve's tapering programme which is designed to gradually reduce buy-backs of Federal debt. Additionally continued weakness in emerging market currencies has been exacerbated by the development of events in both Thailand and Ukraine. Locally as well as the rise in the PPI, the Consumer Price Index (CPI) rose from 5.3% p.a. in January 2014 to 5.8% p.a. in February 2014.

This gave rise to further concern in respect of future interest rate hikes. Additionally the balance of trade swung from a surplus of some R 2.78 billion in December to a whopping R17.06 billion deficit in January reflecting to some extent continued strike action in the platinum industry and the lag effect from the strike in the motor industry.

In spite of all the negative sentiments surrounding these issues the local equity and bond markets have continued to display remarkable resilience. Although our local currency has shown a modest recovery from its lowest levels the result of the initial sharp depreciation of the Rand against most developed nation currencies has led to a renewed demand for both local bonds and equities- in essence the depreciating Rand has acted as a "shock- absorber" in terms of local market performance. As a consequence we have seen the JSE/ALSI rise by some 4.88% and the All Bond Index by some 2.44% over the month. The Graph below clearly demonstrates the effect of a considerably weaker Rand vs. the ALSI

Globally equity markets as a whole recovered during February reflecting increased confidence in a global economic recovery. The MSCI developed market index and the MSCI emerging market index posted returns of 4.8% and 3.2% respectively. The U.S., European and U.K. markets were particularly strong during the month on the back of strong earnings and other economic data.

Shock absorber effect in February 2014



Source: GTC/Morningstar

GTC Fund Performances - February 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	0.26%	1.59%	3.47%	4.13%	4.86%	5.36%	6.11%
GTC Wealth Accumulator FOF B	4.36%	8.24%	12.54%	11.09%	10.39%	12.59%	17.78%
GTC Capital Plus FOF B	2.81%	5.87%	8.82%	8.86%	7.59%	7.86%	10.10%
FTSE/JSE All Share Index (ALSI)^	5.08%	12.73%	21.00%	19.27%	15.39%	16.95%	22.29%
FTSE/JSE Shareholder Weighted Index (SWIX)^	4.56%	12.69%	20.15%	19.48%	16.90%	17.53%	22.74%
BEASA All Bond Index (ALBI 1-3 year)^	-0.11%	1.53%	1.64%	3.84%	5.25%	5.50%	5.61%
Cash (SteFi)^	0.91%	1.82%	3.65%	3.77%	3.89%	4.19%	4.72%
GTC Conservative Absolute Growth (R)	2.62%	5.42%	23.23%	26.19%	18.52%	12.49%	7.65%
GTC CAG's Composite Benchmark (R)^	6.70%	9.67%	27.37%	23.01%	18.76%	12.58%	8.00%
R/$ Exchange rate	5.34%	4.28%	21.10%	19.20%	16.17%	8.68%	1.40%
GTC Global Conservative Absolute Growth ($)	1.38%	5.54%	5.84%	6.45%	4.33%	5.35%	7.13%
GTC Global CAG's Composite benchmark ($)^	1.28%	5.16%	5.15%	3.16%	2.20%	3.56%	6.48%

* Annualised ^Benchmark returns include 1,5% fees Not all fund class returns are shown. Class B refers to indirect investments

China surprised markets with a better than expected trade performance in January somewhat allaying fears of an economic slowdown. China bought record volumes of crude oil, iron ore and copper over this period. The country's trade surplus rose to $31.9 billion which was considerably above economist's consensus of $23.7 billion. However indications are that the Chinese economy is displaying signs of a meaningful slowdown in economic activity which could have a significant impact on South African mineral exports and a concomitant impact on our balance of payments.

All funds continue to outperform their inflation targets over all the tabulated reporting periods. February's strong local investment market returns, combined with relatively benign inflation have contributed to this outperformance. The outperformance over the past year has been largely driven by the riskier growth assets, namely local and offshore equities. This fact explains the larger outperformance of the inflation targets by the higher risk portfolios.

The **GTC Fixed Income Fund** delivered positive performance over the 3 month period despite a falling bond market. The fund has outperformed the ALBI 1-3 year benchmark over the shorter term and the Cash benchmark over the longer term.

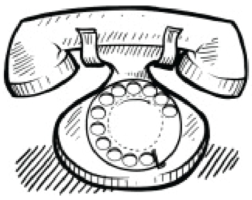
The **GTC Wealth Accumulator Fund** has delivered positive returns over all periods capturing a significant portion of the equity market upside while maintaining a significant degree of downside protection.

The **GTC Capital Plus Fund** has continued to participate in the positive investment markets over recent periods while maintaining its defensive absolute return positioning.

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) have delivered strong performance across all reporting periods. The Rand weakness against the US Dollar and the significant rally in developed market equities contributed significantly to the strong Rand returns delivered by the Fund over the shorter term.

Further information

Contact us



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