GTC

Formerly Grant Thornton Capital

March 2014

Market Update

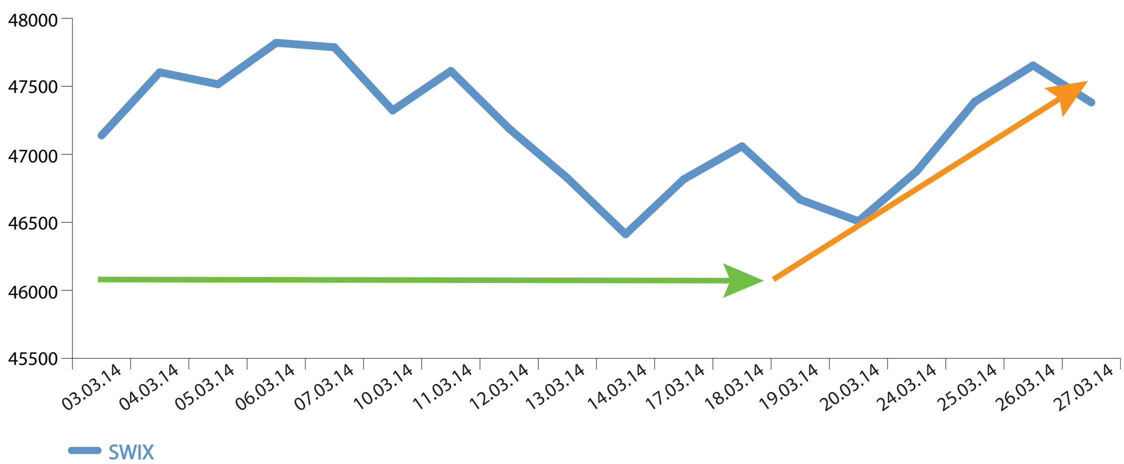
Risk off, risk on markets

Domestic markets continued to display considerable volatility during March as both global and domestic events impacted on investment sentiment. In the earlier part of the month risk off was largely dictated by indications of a slowdown in Chinese economic growth impacting negatively on South African exports of raw materials. This slowdown has increased speculation in the Chinese financial sector that weakening growth will prompt government policy makers to reconsider their aversion to introducing broad stimulus measures. The Chinese government faces a precarious balancing act of reining in credit expansion that often fuels the risk of loan default, while averting an economic slump that raises the odds of higher unemployment.

China's manufacturing industry weakened for the fifth straight month in March deepening concerns that the nation will miss its 7.5% growth target this year. However this situation was completely reversed in the last week of March with the JSE/ALSI climbing strongly to 47,930 points which was up 1.3% on the close at the end of February and 3.6% up on the year to date. This was largely as a result of Chinese fiscal authorities indicating that stimulatory measures would in fact be adopted to try and ensure that the target growth rate of 7.5% would be attained. Part of the stimulatory package would include substantial investment in infrastructure development indicating a continued and increasing demand for raw materials.

Further negative investment sentiment arose earlier in the month with the somewhat unexpected Russian invasion and occupation of Crimea. Initially concerns were expressed in terms of an escalation of hostilities but later in the month tensions appeared to ease and latest indications are that Russia is looking to try and achieve a diplomatic solution to the problem. It was announced at month end that Russia had begun moving some of its troops from the Ukrainian border hopefully signalling a de-escalation in the potential conflict Another contributing factor to market unease was the utterances from Janet Yellen the chair of the U.S Federal Reserve.

Risk off, Risk on



Source: GTC/Morningstar

In a recent statement she indicated that the Fed would no longer be considering the unemployment rate in isolation in determining when to begin raising interest rates, but would instead now consider a wide range of economic data. In her first public speech on 31st March, Ms Yellen adopted a far more dovish approach to tapering suggesting that the Federal reserve would do all in its power to maintain momentum within the economy.

This was indeed good news for Wall Street which saw stocks rise as a consequence. The repurchasing schedule has been reduced considerably from $85billion in December 2013 to $55billion beginning April 2014. At this rate it seems likely that the tapering process will be completed by the end of 2014 with interest rates rising in mid 2015. Should this eventuate it would be the first increase in interest rates in more than 8 years the previous increase being in June 2006.

Locally the Reserve Bank's Monetary Policy Committee (MPC) decided to leave the repurchase rate at 5.5%.This decision was a close call with the votes going 4/3 in favour of no change. Gill Marcus the governor indicated that interest rates were on a rising trajectory and that future increases were a distinct possibility.

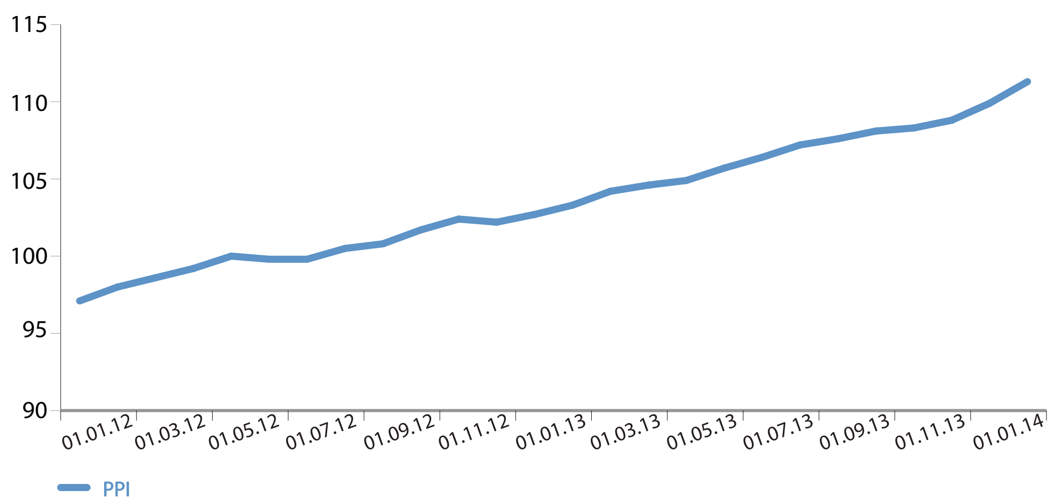
The MPC is very conscious of inflationary pressures building up in the economy as well as the secondary round effect of currency weakening. SA headline PPI (Producer Price Inflation) was up at 7.7% against a consensus figure of 7.25% giving further impetus to future rate increases.

She further noted that the outlook for the mining sector remained bleak given the ongoing strike action in the platinum sector. The Reserve Bank revised its growth outlook for 2014 to 2.6% from a previous 2.8% with consumer inflation averaging 6.3% for the year.

Globally inflation remained fairly benign. Reports from Europe were scant but positive in the main. While prices rose in the Eurozone in February the inflation rate continued to decline undershooting expectations.

German producer prices remained flat. Industrial activity in the U.K was positive but export trade dwindled considerably suggesting that the pound may be overvalued. In the U.S.A markets continued to improve reflecting a positive outlook for the economy. Interestingly, as an indication of some normality returning to European markets the yields on Greek bonds have returned to levels last seen before the European monetary crisis.

PPI



Source: GTC/Morningstar

GTC Fund Performances -March 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	0.96%	2.17%	4.39%	4.52%	5.10%	5.43%	6.15%
GTC Wealth Accumulator FOF B	3.11%	6.87%	14.74%	12.82%	10.88%	11.52%	16.94%
GTC Capital Plus FOF B	2.16%	4.99%	9.69%	9.77%	7.99%	7.73%	9.59%
FTSE/JSE All Share Index (ALSI)^	3.90%	9.24%	21.76%	21.22%	15.89%	15.28%	20.19%
FTSE/JSE Shareholder Weighted Index (SWIX)^	4.39%	10.30%	22.66%	21.44%	17.49%	16.53%	21.08%
BEASA All Bond Index (ALBI 1-3 year)^	0.34%	1.45%	2.62%	4.10%	5.41%	5.50%	5.69%
Cash (SteFi)^	0.94%	1.86%	3.69%	3.76%	3.88%	4.15%	4.63%
GTC Conservative Absolute Growth (R)	1.08%	10.50%	23.94%	24.03%	20.04%	14.87%	8.87%
GTC CAG's Composite Benchmark (R)^	1.79%	7.99%	20.18%	21.20%	19.19%	13.24%	7.54%
R/$ Exchange rate	0.96%	4.78%	14.56%	17.32%	16.45%	9.65%	1.69%
GTC Global Conservative Absolute Growth ($)	1.31%	3.52%	5.45%	6.81%	4.25%	5.41%	6.86%
GTC Global CAG's Composite benchmark ($)^	0.82%	3.05%	4.88%	3.27%	2.32%	3.24%	5.74%

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

The GTC Fixed Income Fund has delivered outperformance against the Cash (SteFI) and Bond (ALBI 1-3 year) benchmarks over most periods. This month saw strong positive returns delivered by the Bond market, while Cash delivered its consistent positive return.

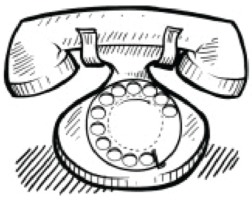
The **GTC Wealth Accumulator FoF** has captured a significant portion of the strong positive returns delivered by the equity market while maintaining a defensive position should the markets sell off. The cost of protection within the Prescient Protected Equity portion will reduce over the coming months benefitting the Fund further. March saw a return of foreign investors to the local equity market driven by the risk on environment in the latter half of the month.

The **GTC Capital Plus FoF** has continued to deliver against its inflation relative target (CPI+3%) over the past year. The significant absolute return exposure ensures that the Fund captures upside equity return while focusing on avoiding losses over 12 month periods.

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) continues to deliver outperformance against its benchmark over almost all of the analysis periods displayed. The Rand strengthened over February and March due to a return of foreign inflows and a ‘risk on’ investment environment. This resulted in a reduced positive impact for local investors with exposure to offshore markets.

Further information

Contact us



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