

Market Update

“Sell in May and go away”

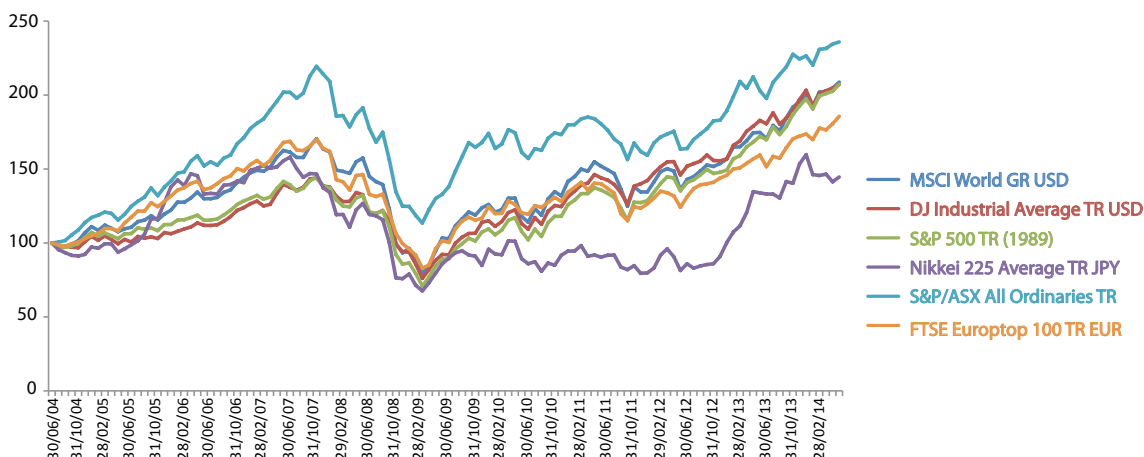
The time tested adage of “sell in May and go away” could yet prove appropriate as both domestic and major global stock markets rocketed to all time highs. One notable exception was the Eurozone where economies are only now showing signs of emerging from a double dip recession and company earnings are slowly improving from a very low base.

Continued quantitative easing, manifesting itself in surplus liquidity in the hands of investors constantly seeking yield pick-up, remains a major factor driving investment markets. The levels to which many of these markets have now risen is beginning to seriously question how one can justify current share valuations. Despite weak growth, the U.S. economy contracted 1.1% in quarter 1 attributed mainly to inclement weather conditions, the S&P 500 reached all time highs during the month breaching the 1900 level to close at 1923.57 up some 2.1% for the month. The Dow Jones too experienced a new record high with the NASDAQ and the Japanese Nikkei both advancing strongly.

Earlier in the year the new Governor of the U.S. Federal reserve Janet Yellen intimated that interest rates in the United States might rise sooner than expected with tapering likely to be accelerated. This, as expected, resulted in a global sell-off. The Federal Reserve’s latest policy meeting has sent a clear and unequivocal message that a more accommodative monetary policy will be strongly supported. They were at pains to dispel any investor concerns of an abrupt halt to quantitative easing. Clearly U.S. interest rates are to remain at low levels for as long as is necessary in order to ensure a clear return to economic growth.

The economic fortunes of the world’s second largest economy China continued to have a major influence on global investment sentiment. Although the economy expanded by 7.4% in quarter 1 of 2014 it was a slow down from 7.7% in the previous quarter. The implications of a slow down for countries exporting raw materials to China is significant and has a direct bearing on our own base mineral producers.

Global Equity Markets



A sluggish start to economic activity at the beginning of the year is not uncommon in China as the Lunar New Year holiday results in many factories and businesses closing down for two weeks. Amid these concerns the Chinese government has taken steps to provide stimulatory measures to the economy as it transitions from one clearly targeted at maintaining export growth to one of increased domestic consumption. Amongst other stimulatory measures Beijing will extend a significant tax break to small and medium sized companies as well as considerably ramp up expenditure on railway infrastructure.

In addition China has announced a further opening up of its capital markets via a tie-up with Hong Kong allowing for increased cross border investment. This pilot scheme is scheduled to take off in the next few months. Latest economic news from China indicates that the HSBC PMI number shows industrial production at a 5 month high at 50.3 in May.

The Ukrainian situation continues to influence markets. In spite of efforts to try and defuse the Russian/Ukrainian conflict sporadic fighting continues with Russia seemingly unwilling to positively intervene in spite of the threat of increased Western sanctions. Putin's gigantic gas deal with the Chinese suggests he is looking elsewhere to secure buyers for Russian gas and so lessen the impact of any future economic sanctions. It remains to be seen as to how

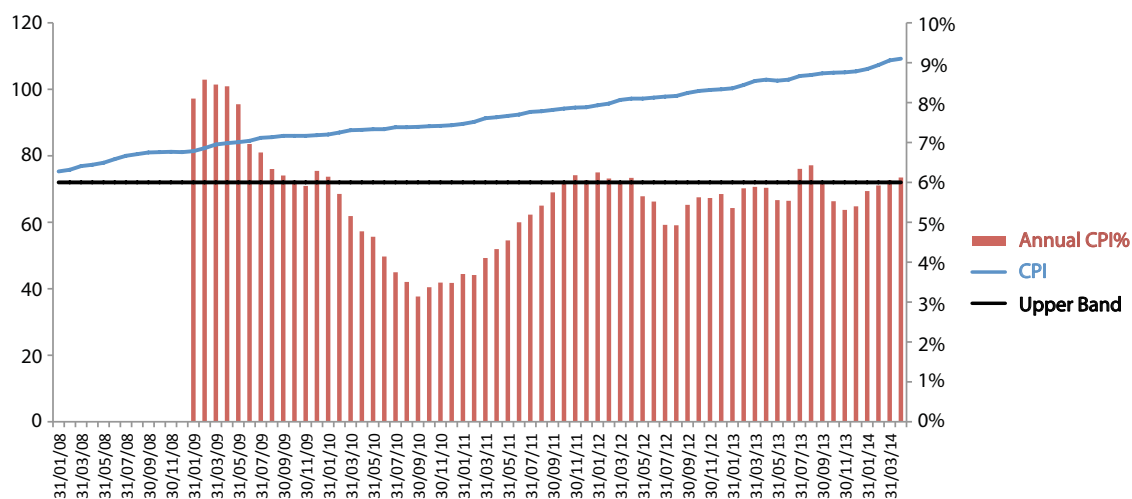
the game of cat and mouse between Russia, Ukraine and the West will play out. The uncertainty surrounding the situation will continue to impact world markets until a lasting solution to the conflict is found.

Domestic issues which influenced the local bourse included a contraction in the Gross Domestic Product (GDP) of 0.6% for Q1 of 2014, a rise in Consumer Price Inflation (CPI) to 6.0%, an increase in the trade deficit to R13.026 billion in April and the decision to keep the REPO rate at 5.5% at the May meeting of the Reserve Bank Monetary Policy Committee.

The PMI (Purchasing Managers Index) for May declined to 44.3 a level last seen in August 2009 giving some indication of the significance of the GDP contraction. The increase in CPI was driven mainly by increases in the cost of food, transport and insurance. Core inflation edged up from 5.3% to 5.5% the fastest increase in this more stable measure of inflation in 4 years indicating that the underlying price pressures are intensifying.

Apart from higher core inflation other concerning trends are emerging. Prices of imported goods have continued to rise fairly rapidly reflecting Rand weakness. Perhaps more importantly food prices have increased sharply over the past 6 months. Fortunately agricultural commodity prices, particularly maize, have begun to decline which will hopefully reduce this trend going forward.

CPI



The weak and somewhat vulnerable Rand remains a key risk to the inflation outlook. The longer the Rand remains at current levels the greater the risk of a higher pass through from imports remains. This is particularly true of oil imports. Producer Price Inflation (PPI) rose 8.8% against an expected 8.4% which will eventually trickle down to CPI.

The widening trade deficit has been exacerbated by the prolonged strike in the platinum sector as well as by a marked slowdown in motor vehicle exports also as a result of strike action. The 24.7% decline in mining output was the biggest quarterly contraction since 1967.

Unfortunately the Rand's weakness has not assisted in boosting exports as it has been overshadowed by the impact of erratic electricity supply, labour strikes and reduced demand from China. The eurozone is still exhibiting anaemic growth resulting in weak demand for locally manufactured goods.

The continuing labour unrest is certainly weighing on the current account of the balance of payments. We rely heavily on foreign investment flows to finance our trade gap and this continued labour unrest could seriously influence would be new investors. The threat of even further strike action on the part of Numsa (200,000members) is certainly not good news for the economy.

The level of consumer indebtedness and the inability of many to repay outstanding credit was highlighted in the recent results from African Bank Investments Ltd. (ABIL) which reported increasing debtor defaults. Standard Bank also announced that they have provided for additional credit impairments. The availability of large sums of unsecured credit has been cited as one of the causes of the current labour unrest in the platinum industry.

In spite of facing considerable headwinds the FTSE/JSE ALSI continued to confuse the pundits rising to an all time high above 50,000 and closing the month at 49632.70. The Media sector (read Naspers) was the best performer for the month gaining 17.55%. The worst performing sector was gold with a negative 12.84%. The Rand weakened to close at R10.57/\$.

As a general rule equity markets do not perform well in a climate of rising interest rates. With all the negative factors currently in play within the South African economy it seems likely that sooner or later the MPC committee of the Reserve Bank will have to take the unpopular decision to raise interest rates again. How the local market will react to this remains to be seen but perhaps some degree of downside protection for investment portfolios would be appropriate.



GTC Fund Performances - May 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	2.42%	2.69%	4.88%	4.75%	5.12%	5.50%	6.10%
GTC Wealth Accumulator FOF B	4.80%	9.37%	14.55%	15.85%	11.39%	13.05%	15.24%
GTC Capital Plus FOF B	3.79%	6.71%	9.38%	10.95%	8.53%	8.44%	9.00%
FTSE/JSE All Share Index (ALSI)^	5.81%	11.19%	20.02%	24.33%	16.97%	18.06%	18.47%
FTSE/JSE Shareholder Weighted Index (SWIX)^	6.91%	11.78%	21.41%	24.05%	18.28%	18.80%	19.43%
BEASA All Bond Index (ALBI 1-3 year)^	1.92%	1.81%	3.48%	3.95%	5.29%	5.56%	5.69%
Cash (SteFi)^	1.03%	1.95%	3.79%	3.77%	3.89%	4.09%	4.49%
GTC Conservative Absolute Growth (R)	2.38%	6.04%	9.92%	18.97%	18.67%	13.88%	12.52%
GTC CAG's Composite Benchmark (R)^	-0.03%	6.66%	11.57%	18.50%	18.65%	13.36%	10.51%
R/\$ Exchange rate	-1.30%	3.97%	4.70%	12.09%	15.93%	8.30%	5.75%
GTC Global Conservative Absolute Growth (\$)	1.86%	3.27%	5.42%	10.09%	3.72%	6.98%	6.17%
GTC Global CAG's Composite benchmark (\$)^	1.28%	2.58%	6.55%	5.70%	2.32%	4.65%	4.47%

* 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. Interest bearing returns remain suppressed below inflation as a result of the loose monetary policy adopted by central banks both locally and globally.

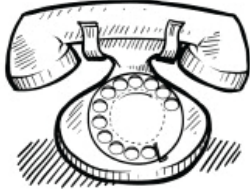
The **GTC Wealth Accumulator FoF** continues to participate in the strong positive returns delivered by the equity market while maintaining a defensive position should the markets sell off. The cost of protection within the Prescient Protected Equity portion will reduce over the coming months benefitting the Fund further. The local equity market has been the top performing asset class over 2014.

The **GTC Capital Plus FoF** has achieved healthy outperformance of 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 the past 3 months 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

**Head - Consulting Services**

Jeff Morgan-Hill
T +27 (0) 11 322-4804
E jmhill@gtc.co.za

Head - Investment Analytics

Clive Eggers
T +27 (0) 11 322-4844
E ceggers@gtc.co.za

Head - Healthcare

Jill Larken
T +27 (0) 21 322713 8504
E jlarken@gtc.co.za

Head - New Business Development

Roger Schärge
T +27 (0) 11 322-4507
E rscharges@gtc.co.za

Executive - Private Client Wealth Management

Jenny Williams
T +27 (0) 11 322-4532
E jwilliams@gtc.co.za

Executive - Employee Benefits Consulting

Toy Otto
T +27 (0) 11 322-4644
E totto@gtc.co.za

Chief Operating Officer

Farhadh Dildar
T +27 (0) 11 322-4821
E fdildar@gtc.co.za

Chief Executive Officer

Gary Mockler
T +27 (0) 11 322-4512
E gmockler@gtc.co.za

Compliance Officer

Dale Nussey
T +27 (0) 11 322-4828
E gmockler@gtc.co.za

GTC

Formerly Grant Thornton Capital

www.gtc.co.za

© 2014 GTC (Pty) Ltd. All rights reserved.
An Authorised Financial Services Provider. FSP731.