

Market Update

July 2011

Global debt crisis...again...and again

What was once thought as being over has once more caused widespread panic for investors both globally and locally. QE3 (quantitative easing – phase 3), which is the fancy abbreviation for the additional “bail-out” packages used to assist developed markets with their debt servicing, is likely to be implemented over the next few weeks.

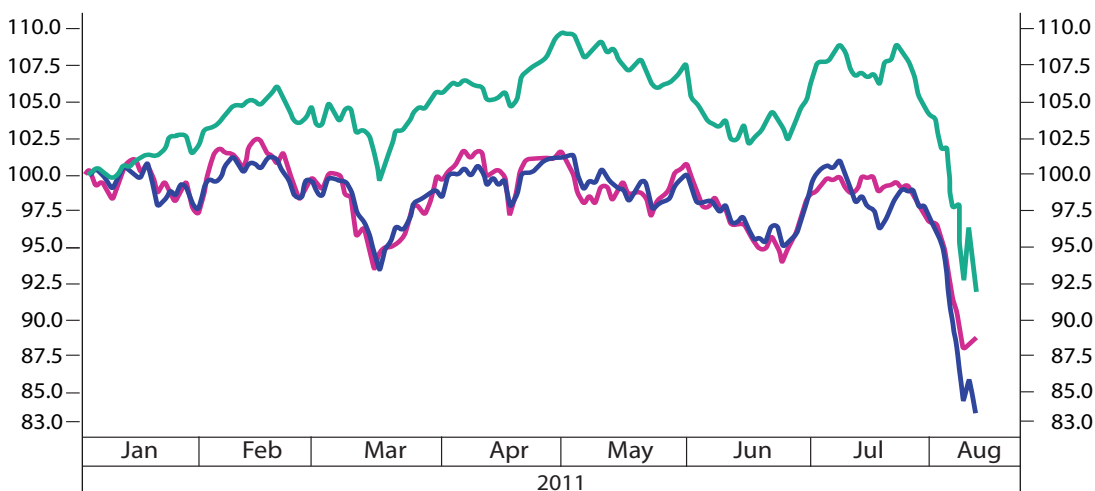
The United States (US) treasury bills have, for the first time in history, been downgraded from AAA to AA+ (Standard & Poors) which seems to have been the catalyst for a market sell-off. The reason for the downgrade is due to the increased perceived risk in the US being able to service its debt obligations over the short term. Global developed equity markets are following the US trend and Europe is facing a similar crisis.

Greece, Spain and Italy remain on high alert, as their ability to service debt obligations is dependent on the level of assistance they receive from the European Union (EU). Germany, the strongest member of the EU, is taking advantage of the current conditions and is trading at levels last seen in 2008 (before the financial crisis).

The graph below shows the impact of the latest market sell-off in the US, United Kingdom and South Africa. The markets started to fall late in July 2011, when the investors quantified the predicament of the global developed markets, and started to look for safer investment options.

Ironically, one of the “safe-havens” for global investors has been US treasuries (the cause of the equity market sell-off) and gold, which has surpassed the price of platinum in recent days. Investors tend to flock towards these asset classes, especially during the market downturns.

South Africa follows global trend (US and UK)



- FTSE/JSE All Share Index - SA (88.7)

- FTSE All Share Index - UK (83.54)

- US - Dow Jones Industrial (91.85)

Grant Thornton Capital (GTC) has continuously advised clients that capital preservation is crucial to achieving capital growth and although we are unable to forecast market performances, we can position portfolios with defensive characteristics to minimise the effect of the market downturn.

The GTC equity fund is “value” style biased and by definition invests in companies that offer long term growth, consistent returns and is defensive while investors sell-off their speculative market positions. Within the balanced portfolio mandates, equity positions were trimmed to strategic asset allocation weightings in line with the “fair value” 20 year local equity market mean. The international exposures were maintained underweight relative to the permissible 25% allowed, which has reduced the impact of the negative market return for investors, although the weaker rand will add to the overall portfolio return.

In the absolute return portfolio (GTC Capital Plus Fund of Funds), Prescient reduced the equity exposure from 47% to 18% just a week ago. The current level of protection in the ALSI Top40 was at 28600 and the market is currently trading at around 25000 – investors in this fund have not felt the full effect of the downturn!

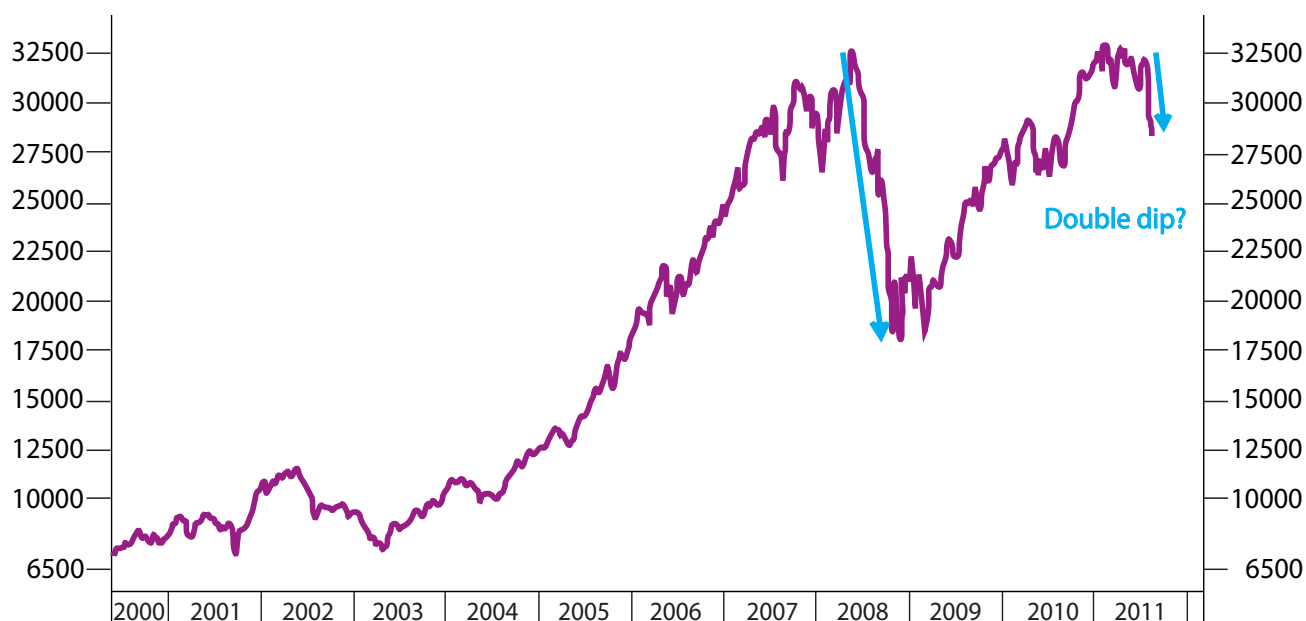
Where to from here?

The local equity market takes its direction from the global market. Although company fundamentals have not changed over the past 2 weeks, some company share prices have fallen over 10% in a matter of days.

As long term investors, we see the current market levels as buying opportunities and will marginally increase specific equity exposure. Stock selection remains a key investment tool to reduce risk and minimise capital losses whilst taking advantage of specific shares trading at 6 -12 month lows.



FTSE/JSE Africa All Share (Close) - Weekly 2000/05/28 - 2011/08/14



- FTSE/JAE Africa All Share (Close) (28391.18)

GTC Fund Performance - July 2011

Investment Portfolios	1Mth	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*
GTC Fixed Income A	0.58%	1.60%	3.12%	6.21%	6.87%	8.28%	8.32%
GTC Fixed Income B	0.62%	1.75%	3.40%	6.66%	7.41%	8.85%	8.93%
GTC Wealth Accumulator FOF A	-1.04%	-2.83%	1.93%	10.86%	14.23%	14.15%	5.22%
GTC Wealth Accumulator FOF B	-0.98%	-2.67%	2.19%	11.42%	14.77%	14.68%	5.92%
GTC Capital Plus Fund of Fund A	-0.55%	-0.91%	0.85%	4.57%	6.61%	8.02%	6.32%
GTC Capital Plus Fund of Fund B	-0.50%	-0.77%	1.07%	5.04%	7.15%	8.57%	6.94%
FTSE/JSE All Share Index (ALSI)	-1.99%	-4.72%	0.67%	13.06%	16.24%	6.98%	5.08%
FTSE/JSE Shareholder Weighted Index (SWIX)	-1.48%	-3.75%	2.50%	13.08%	16.80%	8.88%	5.97%
BEASA All Bond Index 1-3yr (ALB11-3yr)	1.09%	2.29%	5.26%	7.90%	8.62%	10.00%	9.40%
Cash (SteFi)	0.47%	1.41%	2.81%	6.09%	6.75%	8.16%	8.80%
GTC Conservative Absolute Growth (R)	-1.60%	4.33%	-3.65%	5.74%	1.70%	-6.39%	-3.07%
GTC CAGs Composite Benchmark (R)	-2.88%	1.10%	-4.62%	3.25%	0.43%	-0.78%	1.11%
R/\$ Exchange rate	-2.83%	-0.28%	-8.17%	-9.62%	-8.13%	-3.52%	-1.81%
GTC Global Conservative Absolute Growth (\$)	-0.84%	1.91%	3.35%	16.96%	9.43%	-2.99%	-1.74%
GTC Global CAGs Composite benchmark (\$)	-0.05%	1.39%	3.86%	14.22%	9.29%	2.79%	2.79%

* Annualised

The **GTC Fixed Income Fund** has outperformed cash over all periods over the last 3 years. The fund continues to favour cash over fixed income, mainly due to the low long term rates available in the fixed income market. The exposure to cash in the fund has hovered around 70%, while exposure to less than 7 year bonds is around 21% and the balance is invested in inflation linked bonds.

The **GTC Wealth Accumulator Fund of Funds** has generated better than benchmark returns over the past few months as the market volatility increased. Equity markets globally have been performing poorly as concerns over developed market debt levels created uncertainty. The current market tone is evidence of global economic weakness and has impacted emerging markets as well. The “value” equity in the fund has defensive characteristics that minimise capital during periods of volatility.

The **GTC Capital Plus Fund of Funds** has delivered negative returns over the recent months, but maintained its 12 month rolling positive return. The exposure to equities has been the main detractor to performance, while cash returns remain at low levels. Despite the poor market returns, the fund has managed to limit the downside participation through the use of capital preservation strategies such as derivatives.

The **GTC Conservative Absolute Growth Fund** (US\$ and Rand) has continued to perform in excess of the benchmark return, especially over the period leading up to 2 years. The performance over the past year highlights the benefits of balanced investing, although the rand strength has eroded most of the currency benefit. The global market volatility has also contributed to negative returns in recent months, but the funds geographic and asset class diversification will reduce the overall risk.

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