

Glacier Annual Report **2017**

glacier  
by Sanlam

# Statement to investors

Local markets continued to feel pressure throughout 2017, affected to a large degree by political events. However, sentiment changed following the ANC electoral conference in December which saw then Deputy President Cyril Ramaphosa elected as the new leader of the party. The rand quickly strengthened against the major currencies. South Africa's equity, property and bond markets also put in a good performance for the year as a whole.

## A renewed sense of hope

As I write this, the mood has changed from one of cautious optimism to a renewed sense of hope for the future, following Cyril Ramaphosa's election as president of the country. With a commitment to rooting out corruption, together with more policy certainty, some market commentators are expecting to see an improvement in our GDP growth figures.

Globally, we see the world economy growing consistently, with growth synchronised across both emerging and developed markets, and expectations are that this growth will continue to improve. Politics continued to play a role in markets, both locally and abroad, throughout 2017. US equity markets rose to all-time highs in December on the back of President Trump's tax reform plan and promised infrastructure spending.

North Korea's leader, Kim Jong-un, launched test missiles – increasing geopolitical tensions, particularly with the US. Locally, we saw another cabinet reshuffle, followed by a downgrade of SA's sovereign bonds to junk status. Despite all of this, equity markets – both locally and globally – ended the year on a high note.

Locally, the FTSE/JSE All Share Index (ALSI) returned 20.95% for the year, making equities the top performing asset class for 2017. This was followed by SA listed property at 17.15%. Bonds delivered 10.24% and cash saw a return of 7.56% for the year.

## The Glacier Money Market Fund

The Glacier Money Market Fund returned 7.69% in 2017. SA experienced its first interest rate cut (to 6.75%) in five years in July. Despite this, the fund still improved on its 2016 performance. The

SA Reserve Bank has indicated that interest rate hikes are possible in 2018 and 2019, which will have a positive effect on this fund.

## The Glacier Global Stock Feeder Fund

The Glacier Global Stock Feeder Fund, a rand-denominated global equity fund investing into the Dodge & Cox Global Stock Fund, recently celebrated its first birthday. The Glacier Global Stock Feeder Fund returned 3.76% from the day of launch (9 February 2017) to 31 December 2017. The strong rally in the rand, which appreciated 9.59% against the US dollar in 2017, detracted from the performance of this fund.

## 2018

Market commentators are expecting an improvement in both local and global markets in 2018. In SA, we hope that 2018 will see policy certainty lead to improved investor confidence, which will in turn lead to improved growth and much-needed job creation.

Looking at the asset class returns, we can see that investors who ignored the uncertainty and remained invested, were handsomely rewarded for doing so.

Thank you for your support and I wish all our investors a positive and successful year ahead.



KHANYI NZUKUMA  
CHIEF EXECUTIVE

# Report of the trustee for the Glacier Collective Investments Scheme

We, the Standard Bank of South Africa Limited, in our capacity as Trustee of the Glacier Collective Investments Scheme (“the Scheme”) have prepared a report in terms of Section 70(1)(f) of the Collective Investment Schemes Control Act, 45 of 2002, as amended (“the Act”), for the financial year ended 31 December 2017.

In support of our report we have adopted certain processes and procedures that allow us to form a reasonable conclusion on whether the Manager has administered the Scheme in accordance with the Act and the Scheme Deed.

As Trustees of the Scheme we are also obliged in terms of Section 70(3) of the Act to satisfy ourselves that every statement of comprehensive income, statement of financial position or other return prepared by the Manager of the Scheme as required by Section 90 of the Act fairly represents the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme.

The Manager is responsible for maintaining the accounting records and preparing the annual financial statements of the Scheme in conformity with International Financial Reporting Standards. This responsibility also includes appointing an external auditor to the Scheme to ensure that the financial statements are properly

drawn up so as to fairly represent the financial position of every portfolio of its collective investment scheme in accordance with International Financial Reporting Standards and in the manner required by the Act.

Our enquiry into the administration of the Scheme by the Manager does not cover a review of the annual financial statements and hence we do not provide an opinion thereon.

Based on our records, internal processes and procedures we report that nothing has come to our attention that causes us to believe that the accompanying financial statements do not fairly represent the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme administered by the Manager.

We confirm that according to the records available to us, no losses were suffered in the portfolios and no investor was prejudiced as a result thereof.

We conclude our report by stating that we reasonably believe that the Manager has administered the Scheme in accordance with:

- (i) The limitations imposed on the investment and borrowing powers of the Manager by this Act; and
- (ii) The provisions of this Act and the deed.



MELINDA MOSTERT  
HEAD: TRUSTEE SERVICES  
STANDARD BANK OF SOUTH AFRICA LIMITED  
19 MARCH 2018



SEGGIE MOODLEY  
HEAD: RISK AND LEGAL (TRUSTEE SERVICES)  
STANDARD BANK OF SOUTH AFRICA LIMITED  
19 MARCH 2018

# Report of the independent auditor on the summary financial statements to the members of the Glacier Money Market Fund and the Glacier Global Stock Feeder Fund

## Opinion

The summary financial statements, which comprise the summary statement of financial position as at 31 December 2017 and the summary statement of comprehensive income for the year then ended, are derived from the audited financial statements of Glacier Money Market Fund and Glacier Global Stock Feeder Fund for the year ended 31 December 2017.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the basis of preparation for these entities.

## Summary Financial Statements

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Collective Investment Schemes Control Act, 2002. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's reports thereon.

*Ernst & Young Inc.*

ERNST & YOUNG INC.  
DIRECTOR – LEIGH-ANN CAROLINE KILLIN  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANT (SA)

ERNST & YOUNG  
3RD FLOOR, WATERWAY HOUSE  
3 DOCK ROAD  
CAPE TOWN  
19 MARCH 2018

## The Audited Financial Statements and our Report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 19 March 2018.

## Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements, in accordance with the basis of preparation for these entities.

## Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

**Glacier** Money Market Fund

## Statement of Financial Position at 31 December 2017

	2017 R'000	2016 R'000
<b>ASSETS</b>		
<b>Investments</b>	<b>3 160 872</b>	<b>3 245 787</b>
Money market instruments	3 160 872	3 245 787
Cash and cash equivalents	118 702	85 409
Accrued income and debtors	48 591	66 839
<b>Total assets</b>	<b>3 328 165</b>	<b>3 398 035</b>
<b>LIABILITIES (excluding net assets attributable to unit holders)</b>	<b>41 338</b>	<b>23 145</b>
Trade and other payables	18 909	57
Related parties payable	1 944	2 040
Distribution payable	20 485	21 048
<b>Net assets attributable to unit holders</b>	<b>3 286 827</b>	<b>3 374 890</b>

## Statement of Comprehensive Income for the year ended 31 December 2017

	<b>2017</b> R'000	<b>2016</b> R'000
<b>Income</b>	<b>263 359</b>	<b>261 824</b>
Interest income	263 517	258 733
Net fair value (losses)/gains on financial instruments	(158)	3 091
<b>Operating Expenses</b>	<b>(23 319)</b>	<b>(23 997)</b>
Service fees	(23 086)	(23 728)
Audit fees	(57)	(76)
Custodian, trustee and bank charges	(176)	(193)
<b>Net profit for the year</b>	<b>240 040</b>	<b>237 827</b>
Distribution to unit holders	(240 214 )	(234 853)
<b>(Decrease)/Increase in net assets attributable to unit holders</b>	<b>(174)</b>	<b>2 974</b>

## Fund Distribution Per Fee Class

Monthly distributions	Cents per unit			
Month	Class A	Class B	Class C	Class D
January	6.42	6.52	5.21	6.67
February	5.79	5.87	4.69	6.01
March	6.46	6.56	5.25	6.76
April	6.18	6.28	5.01	6.47
May	6.38	6.48	5.17	6.68
June	6.15	6.24	4.98	6.44
July	6.37	6.47	5.16	6.67
August	6.32	6.42	5.11	6.62
September	5.99	6.09	4.82	6.28
October	6.18	6.28	4.97	6.48
November	5.90	5.99	4.72	6.18
December	6.19	6.29	4.98	6.49

## Fees (for all classes)

### Portfolio breakdown: Glacier Money Market A, B, C and D classes\*\*

	2017/12/31	2016/12/31
Overnight	2.93%	2.51%
0 - 3 Months	73.89%	75.72%
3 - 6 Months	7.94%	9.25%
6 - 9 Months	10.61%	8.86%
9 - 12 Months	4.63%	3.66%

	Class A	Class B	Class C*	Class D
Initial fees (VAT incl.)	0.00%	0.00%	0.00%	0.00%
Annual fees (VAT incl.)	0.57%	0.46%	2.00%	0.23%***

\* All-in fee class

\*\* Portfolio breakdown did not form part of the annual external audit.

\*\*\* The annual fees for Class D changed from 0.29% to 0.23% as of 1 March 2017.

A money market portfolio is not a bank deposit account. The price of a participatory interest is targeted at a constant value. The total return to an investor is made up of interest received and any gain or loss made on any particular instrument. In most cases the return will merely have the effect of increasing or decreasing the daily yield. However, in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. The yield of the fund is calculated as the interest earned by the fund during a seven day period less any managed fees incurred during those seven days. Excessive withdrawals from the fund may place the fund under liquidity pressures; in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

The management of investments is outsourced to Sanlam Investment Management (Pty) Ltd (FSP 579), an authorised financial services provider.

## Portfolio Manager's comment

### Market review

Early in the fourth quarter the most notable event was the Medium Term Budget Policy Statement (MTBPS), which was presented towards the end of October. This was Finance Minister Malusi Gigaba's maiden budget speech. Most economists expected a revenue shortfall of R30 billion, but the actual number presented was R51 billion. Together with downward revised gross domestic product (GDP) growth for 2017 from 1.3% to 0.7%, this will result in a projected budget deficit of 4.3% for the 2017/2018 financial year, which is substantially higher than the 3.1% target set at the February 2017 Budget. Unless drastic measures are taken to cut expenditure or raise taxes, debt will rise to 60% of GDP by 2020. The three rating agencies, Fitch, S&P and Moody's, were highly critical of the budget statement. All three agencies stated that the budget was credit-negative by pointing out the change in policy direction by National Treasury shown by the lack of plans/actions to achieve fiscal consolidation.

At the November Monetary Policy Committee (MPC) meeting of the South African Reserve Bank (SARB) the repo rate was left unchanged at 6.75%. The SARB was more hawkish than in recent MPC meetings. This was because of the weak and deteriorating fiscal condition, the knock-on effects of higher credit rating downgrade risks and the weakening of the rand, which would result in weaker/higher future inflation. Furthermore, the SARB provided policy guidance for the first time, indicating that three rate hikes (75 basis points) are possible over the forecast horizon (2018-2019). It will also aim to move inflation closer to the midpoint of the band (4.5%). With regards to the growth outlook, it stated that risks are still mainly to the downside.

Immediately following the MPC meeting Fitch, S&P and Moody's released updated SA credit ratings. Fitch left SA's local and foreign ratings at BB+ (highest non-investment grade rating) with a stable outlook. S&P downgraded SA's local and foreign ratings to BB+ and BB respectively. Moody's decided to put the country's Baa3 (lowest investment grade) ratings on review for a downgrade, stating that the fiscal position's deterioration was much more than expected.

Some forced selling of SA bonds was triggered as a result of the S&P local rating downgrade. More SA bonds will have to be sold should Moody's downgrade the local rating. This will cause the rand to weaken, which in turn will lead to higher future inflation.

In early December the credit market was negatively affected by Steinhoff, when it was reported that 'a probe had been launched into accounting irregularities and that its chief executive was stepping down immediately'. This caused the share price to decline by 92% during the month. Moody's also downgraded its credit rating from BBB- to CCC+.

During the ANC elective conference towards the end of the quarter, the Deputy President Cyril Ramaphosa was elected as the new leader of the ANC party after a gripping battle with Nkosazana Dlamini-Zuma. Considering that Dlamini-Zuma was the candidate backed by President Zuma and also that Ramaphosa has promised to revive SA's stagnating economy and to reduce state corruption, Ramaphosa's victory is viewed as the beginning of the end of the Zuma era, which brought about years of economic decline and rampant corruption. Already before the final election result was known, the market was pricing in a Ramaphosa victory. Consequently, the currency, money and bond markets all strengthened significantly.

In the US, Janet Yellen is nearing the end of her term as Federal Reserve Chair and Jerome Powell has been elected to replace her. In the UK, the Bank of England hiked interest rates for the first time in 10 years. The Fed raised interest rates by 25 basis points in December as expected, as it lifted its outlook for growth, but left its inflation outlook unchanged. Paradoxically, the tax reform bill initially strengthened the dollar but towards the end of the quarter it caused the dollar to weaken.

GDP growth in the third quarter of 2017 came in at 2.0% quarter-on-quarter, which was broadly in line with expectations. SA's unemployment rate remained elevated at 27.7%. During the quarter, CPI year-on-year (y/y) improved from 5.1% to 4.6% and PPI y/y improved slightly to 5.1% from 5.2%. The rand/US dollar

exchange rate strengthened to R12.39 from R13.54. The 10-year SA government bond weakened slightly to 8.78% from 8.69%. The trade balance increased to R13.02 billion from R4.48 billion.

The money market yield curve shifted upwards over the quarter, pricing in some potential future interest rate hikes. The stronger currency, due to the sense of optimism created by the election of Ramaphosa, should be less inflationary, potentially giving the SARB a little scope for an interest rate cut to support the economy.

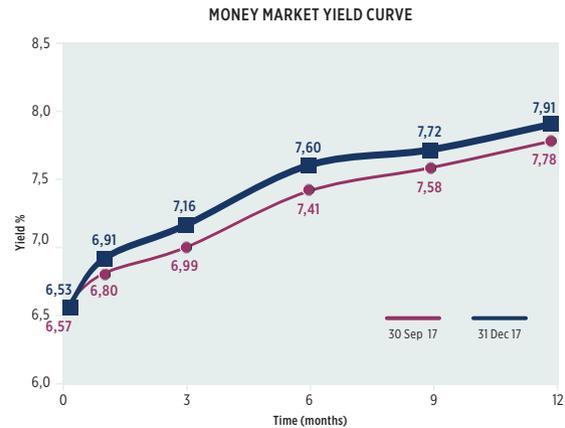
### What we did

All maturities were invested across the money market yield curve, exploiting the term premium. Quality corporate credit, which traded above the three-month Johannesburg Interbank Average Rate (Jibar), was added to the portfolio. We preferred a combination of floating rate notes (FRNs) in the portfolio together with some fixed rate negotiable certificates of deposit (NCDs). The combination of corporate credit, high-yielding NCDs and FRNs will enhance portfolio returns.

### Our strategy

Our preferred investments would be a combination of fixed rate notes, floating rate notes and quality corporate credit to enhance

returns in the portfolio. We are taking a balanced approach between fixed- and floating rate instruments, considering current relative valuation, as well as noting that there could still be a rate cut or two and the upside risk to the inflation profile.



**Glacier** Global Stock Feeder Fund

## Statement of Financial Position at 31 December 2017

	2017 R'000	2016 R'000
<b>ASSETS</b>		
<b>Investments</b>	<b>145 468</b>	<b>0</b>
Investment in Collective Investment Scheme	145 468	0
Cash and cash equivalents	5 776	1 145
Accrued income and debtors	6	2
<b>Total assets</b>	<b>151 250</b>	<b>1 147</b>
<b>LIABILITIES (excluding net assets attributable to unit holders)</b>	<b>1 168</b>	<b>43</b>
Trade and other payables	1 033	43
Related parties payable	135	0
<b>Net assets attributable to unit holders</b>	<b>150 082</b>	<b>1 104</b>

## Statement of Comprehensive Income for the year ended 31 December 2017

	<b>2017</b> R'000	<b>2016</b> R'000
<b>Income</b>	<b>1 233</b>	<b>(462)</b>
Interest income	211	83
Other gains/(losses)	1 022	(545)
<b>Operating Expenses</b>	<b>(741)</b>	<b>(152)</b>
Service fees	(649)	(23)
Audit fees	(39)	(56)
Custodian, trustee and bank charges	(53)	(73)
<b>Net profit/(loss) for the year</b>	<b>492</b>	<b>(614)</b>
Distribution to unit holders	0	0
<b>Increase/(Decrease) in net assets attributable to unit holders</b>	<b>492</b>	<b>(614)</b>

## Fees and Portfolio Breakdown

Portfolio breakdown	2017/12/31	2016/05/19**
<b>Cash</b>		
USD		98.71%
ZAR	2.40%	1.29%
<b>Regional exposure</b>		
United States	43.50%	
United Kingdom	11.00%	
Pacific (excluding Japan)	9.10%	
Latin America	4.40%	
Japan	1.20%	
Europe (excluding United Kingdom)	23.00%	
Canada	1.70%	
Africa/Middle East	3.70%	

Annual fees (VAT incl.)		
Class B1	-	0.68%
Class B*	1.03%	-

The Glacier Global Stock Feeder Fund is a feeder fund and as such it invests in a single portfolio of a collective investment scheme which levies its own charges and which could result in a higher fee structure for the feeder fund. The Glacier Global Stock Feeder Fund invests in the FSB-approved Dodge & Cox Global Stock Fund, managed by Dodge & Cox Worldwide Investments.

The management of investments is outsourced to Sanlam Multi-Manager International (Pty) Ltd (FSP 845), an authorised financial services provider.

\* Class B was previously the B3 class

\*\* The Glacier Global Strategic Liquidity Feeder fund closed on this date. The fund's name and mandate has changed. It has changed to the Glacier Global Stock Feeder Fund and is a global equity fund.

## Portfolio Manager's comment

The Glacier Global Stock Feeder Fund provides investors with an excellent opportunity to invest in a high quality international fund manager in South African rand. As a reminder, this feeder fund aims to be 97% invested in the actual underlying Dodge & Cox Global Stock Fund with 3% in local SA cash (to provide liquidity). The key performance driver will therefore be the actual performance of the underlying Dodge & Cox Global Stock Fund as well as changes in the rand/US dollar exchange rate. The SA cash component is expected to contribute marginally to performance over time.

Despite a negative performance over the month of December, the fund performed relatively well given the strong rally of the rand against the US dollar. The fund returned -6.34% in December, which was above the benchmark's (MSCI World) return of -8.03%. The fund ranked 8th out of 60 global equity peers in December 2017. During the fourth quarter of 2017, the feeder fund returned -4.51%, which was below the benchmark's return of -3.27%. The returns were largely impacted by rand strength, as the South African rand strengthened against the US dollar (8.64%) over the quarter.

Because of the short time period, we thought it would be interesting to show how the underlying Dodge & Cox fund performed during the fourth quarter of 2017. The information below was taken from the Dodge & Cox quarterly commentary:

### Performance highlights in US dollar terms - Dodge & Cox Global Stock Fund vs. MSCI World:

	Dodge & Cox Global Stock Fund	MSCI World
3 month	3.52%	5.51%
12 month	21.45%	22.40%

### The Dodge & Cox Global Stock Fund underperformed the MSCI World Index in the fourth quarter of 2017, driven by the following key contributors:

#### Key Contributors to Relative Results (in US dollar terms):

- The Fund's holdings in the Financials sector (up 8% compared to 6% for the MSCI World sector) had a positive impact. Capital One (+18%), Charles Schwab (+18%), Bank of America (+17%), and ICICI Bank (+16%) bolstered results.
- The Fund's underweight position in the Utilities sector (no position versus average 3% for the MSCI World sector), the worst performing sector of the market (flat), also aided performance.
- Additional contributors included Twenty-First Century Fox (+31%), Naspers (+29%), and Express Scripts (+18%).

#### Key Detractors from Relative Results (in US dollar terms):

- The Fund's selection of holdings in the Consumer Discretionary sector (up 3% compared to 8% for the MSCI World sector) detracted from results.
- Altice (-48%), and Grupo Televisa (-24%) were notable detractors.
- The Fund's average overweight position in the Health Care sector (20% versus 12% for the MSCI World sector) detracted from results.
- Sanofi (-13%) especially hurt performance.
- Additional detractors included Magnit (-37%), Sprint (-24%), and Itau Unibanco (-5%).

# **Glacier** Fund Performance and TER Report

## NAV to NAV - local currency from 31 December 2016 to 31 December 2017

Fund Performance	1 year performance	Benchmark*
Glacier Money Market - Class A	7.68%	7.56%
Glacier Money Market - Class B	7.80%	7.56%
Glacier Money Market - Class C**	6.16%	7.56%
Glacier Money Market - Class D	8.04%	7.56%
Glacier Global Stock Feeder Fund - Class B***	N/A	N/A

\* **Benchmark** The benchmark for the Glacier Money Market Funds is the Stefi composite  
The benchmark for the Glacier Global Stock Feeder Fund is MSCI World

\*\* **All-in fee class**

\*\*\* **The Glacier Global Stock Fund's inception date is February 2017.**

Collective Investment Schemes and Securities (unit trusts) are generally medium- to long-term investments. The value of participatory investments (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. The manager does not provide any guarantee either with respect to the capital or the return of the fund. Copies of the audited Annual Financial Statements of the manager and funds are available free of charge on request.

## Total Expense Ratio (TER)\* as at 31 December 2017

Glacier Money Market - Class A	0.57%
Glacier Money Market - Class B	0.46%
Glacier Money Market - Class C	2.00%
Glacier Money Market - Class D	0.27%
Glacier Global Stock Feeder Fund - Class B**	1.71%

\* The TER percentage of the average Net Asset Value of the portfolio was incurred as charges, levies and fees related to the management of the portfolio. The ratio does not include transaction costs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. TERs did not form part of the annual external audit.

\*\* Insufficient historic data, as the fund is less than one year old, but an estimation has been made with available data.

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