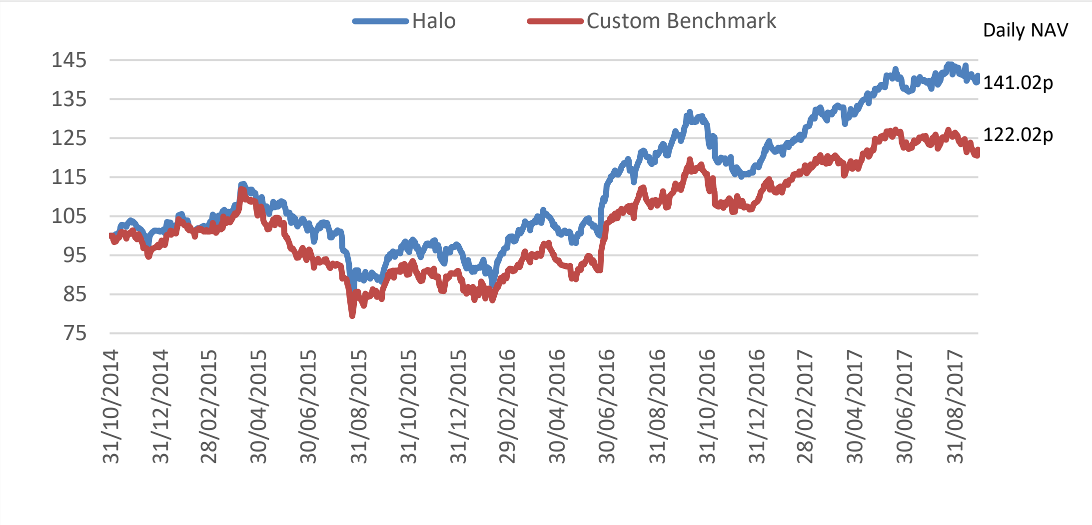
VT HALO Global Asian Consumer Fund

3rd Quarter 2017

The third quarter has been characterised initially by a softening US Dollar and a move away from the cyclical inflation trade, but then rapidly switching back to a strengthening US Dollar and a pro-cyclical trade in September. This was due to global PMIs improving, expectations of interest rate rises both here and in the US, together with tax cuts back on the agenda in the US. The NAV of the fund is up from 137.7.p to 141.0p over the third quarter, and would have been more if it was not for Sterling's strength.



Performance data shown is of the B £ Net Acc. share class. Custom Benchmark, 30% MSCI AC Asia ex Jap Consumer Staples, 40% MSCI AC Asia ex Jap Consumer Discretionary and 30% MSCI AC Asia ex Japan Index. Past performance is not a guarantee of future returns. Data from Valu-Trac Administration Services and Reuters, 30th June 2017.

For illustration purposes only. Halo does not benchmark against any index in accordance with our Information Memorandum and Prospectus.

Against the custom benchmark, which we stress is for illustrative purposes only, it has been another quarter of relative out-performance which is pleasing. The comparative benchmark has fallen from 122.5p to 122.0p and the fund is up 3.3p. We continue to deliver against our key objective of 8-12% growth per annum, without relying on any multiple expansion.

Performance review since inception

Given that the fund is only one month away from its 3-year track record, this quarterly letter is going to highlight the returns achieved and the factors behind those returns. The returns for the Sterling B share class, which we have always used as our reference share class are 41% since launch. This equates to an annualised return of 12.5% after fees. Some comment that part of this return is due to currency, given the weakness in Sterling in the last 18 months. This is true and the table below shows how much Sterling has depreciated against a number of currencies since 3 November 2014.

Currency	Rate at 03/11/2014	Rate at 30/09/2017	Sterling's depreciation over the period %
Chinese Rmb	9.77	8.92	8.70
India Rupee	98.07	87.48	10.80
Indonesia Rupiah	19331	18044	6.66
Thai Baht	52.26	44.63	14.60
Philippine Peso	71.95	68.16	5.27
Euro	1.279	1.128	11.81

As you can see from the above, the fall in Sterling over the last 3 years accounts for around only 10% of the returns generated since launch or maybe even a little below that, given the biggest exposure is to the Chinese Rmb. So the impact of the fall in Sterling may not be as large as one might have expected. Key for us is the outlook for Sterling against these currencies over the medium to long term. Given that these countries all have better current account deficits, and in some cases run current account surpluses, as well as better budget deficits, we would expect these currencies to continue to appreciate against Sterling. This is why we have not been hedging the Sterling appreciation we have witnessed over the last few months as we do not think it is sustainable in the long run. As these countries are reforming their economies, encouraging further foreign direct investment, we would expect inflation to remain lower than historical levels and see faster GDP growth as infrastructure investment takes off, helping productivity improvements and hence benefiting their currencies relative to Sterling.

What other factors are behind the returns of the last 3 years?

When we have met many of you, we have reiterated our long-term focus on earnings and dividend growth, and the compounding effect this has over time. Thus we show you the historic EPS and dividend growth of the portfolio and mention that for periods longer than 5 years, there is a high correlation between the share price appreciation and the amount of earnings growth. Although we do not have a 5-year track record yet, I thought it would be worth mentioning how the earnings and dividend growth has performed for our portfolio over the last 2 years and 11 months. Below you can see the companies in the fund have produced 11.64% on an annualised basis, which equates to 37.88% over the period since launch. If you add this together with the benefit of Sterling depreciation, which we say is approximately 10%, the total return would be 51.67%

As at 30 September 2017	Portfolio %
1 year historic EPS growth	14.10
3 year annualised historic EPS growth	11.64

Source Thomson Reuters

The reason why the unit price of the fund has not risen as much as this 51.67% is due to the price earnings (PE) multiple derating the fund has suffered over this period. We started with a Price/Earnings multiple of 17x (Nov '14) and within the period since launch we have witnessed investors' dislike of Asia during 2015 and most of 2016, followed by a more positive view in 2017, but with a preference for tech, cyclicals, financials and North Asia over ASEAN. This has resulted in our fund experiencing a PE multiple contracting from 17x to 15.9x today. On the other hand the MSCI Asia ex Japan has seen its multiple increase from 11.3x to 12.8x over the same period. Taking this factor into account produces an expected return of 41.86%, which is broadly in line with the Sterling unit price of 141.02p.

We hope this provides some clarity as to how the returns have been generated. It is the reason why we continue to focus on finding companies with good earnings and dividend growth, and can maintain this growth for a number of years, so driving significant earnings and dividends over the long term.

Geographic Attribution

It is interesting to review the performance on a geographic basis and note that our holdings in Asia have outperformed those in the US and Europe.

Geographic Region	Average weight	Portfolio Return	Return of MSCI AC Asia ex Japan
Asia	69.5	48.3	46.8
Europe	22.6	24.3	n/a
US	7.9	33.4	n/a

From the table above we can see the returns produced by our Asian companies compare favourably with the returns from the MSCI Asia, even with the fall in the price earnings multiple. Our European and US quoted names have not been, on an absolute basis, such good performers, but they do provide us with decent returns with lower portfolio volatility. This low volatility allows us to invest in Asian stocks, that might typically display higher volatility due to some of them being smaller and less liquid. Even with our investments in smaller market cap names the Fund still exhibits lower volatility than MSCI AC Asia ex Japan and our realised historic Beta has only been 0.80 when compared to this index.

Top contributors to the portfolio returns

The top contributors to our performance in descending order have been China Maple Leaf, the Chinese school operator; Bank Tabungan Negara, the Indonesian Mortgage bank; Alibaba; Tencent and lastly HDFC Bank, a retail bank in India. Together these five have contributed to 22.6% of the portfolio's total return and are all top ten holdings. If companies are performing well we like to let the holdings run and will only trim them if they breach the rule that no one stock should be more than 6% of the portfolio, or the stock contributes to more than 10% of the total risk of the portfolio. China Maple Leaf did breach this rule back in 2016 and we did trim the stock accordingly. The company's share price has experienced a bumpy ride and when it sold off last year after we trimmed it and then added back to the holding at lower levels. It is now fast approaching the self-imposed limits again, as is Alibaba and if need be, we will reduce the size of both and reinvest the proceeds back into other holdings.

Portfolio Turnover

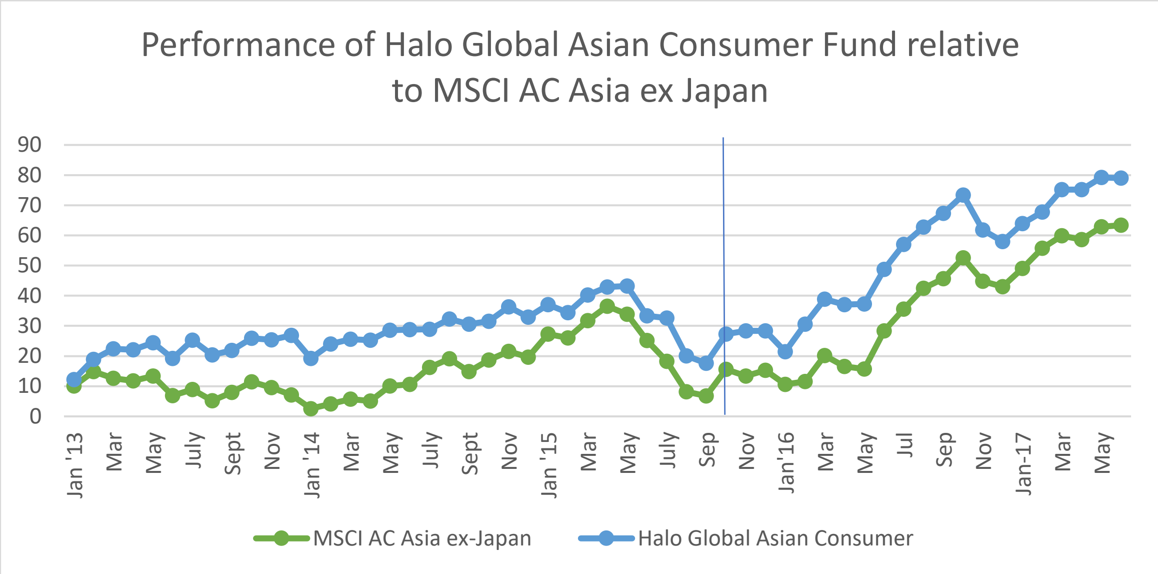
One other factor that may be of interest is the portfolio turnover. Over the past 3 years, we have sold 19 stocks out of a total of 41 holdings. Whilst this is within our range, given that our stated holding period should ideally be between 3-5 years or longer, we wish to focus on the longer element of this goal and hope that over the next 3 years the turnover will be even lower.

Conclusion

We continue to remain positive on the outlook, which you might say has always been the case. Currently consumer confidence numbers and GDP growth expectations for the region have been on the rise, with notable upgrades for 2017 and 2018 GDP growth rates to China, Malaysia and Thailand in the last three months The portfolio is still expected to deliver 17% earnings growth over the next 12 months, which is a faster rate than at the start of this year when it was 15%, but we do expect it to slow to low-to-mid double digits in future years. This growth rate will be more than sufficient to achieve our objective of producing total returns of 8-12% pa.

Appendix

Performance of the Fund including the paper portfolio.



Performance shown to the left of the blue bar is of the model portfolio gross of fees and trading costs, to the right is the performance of the VT Halo Global Asian Consumer Fund £B Accumulation units inclusive of all costs. Past performance is not a guide to the future performance.

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