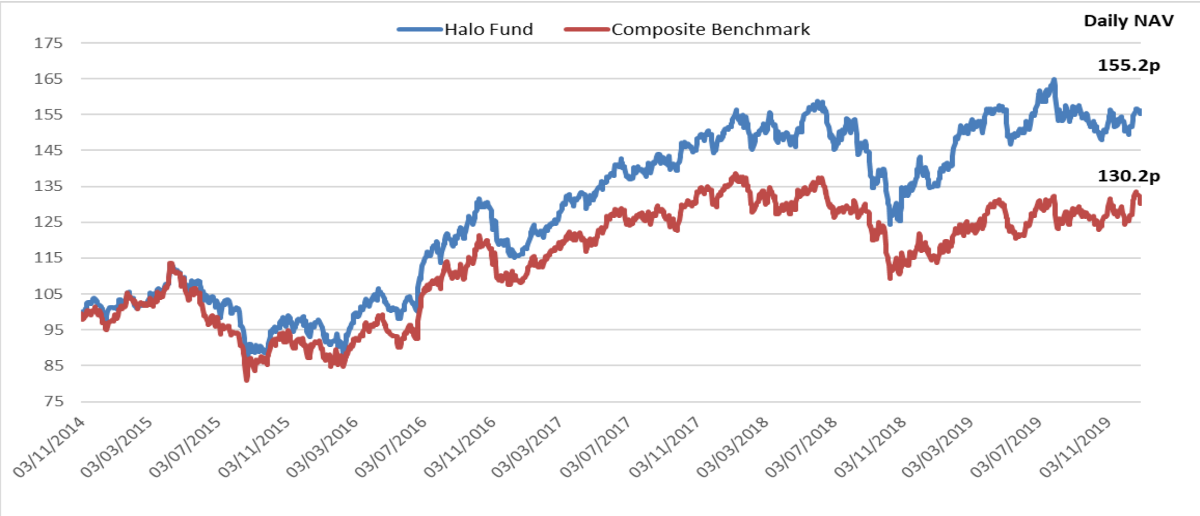
VT HALO Global Asian Consumer Fund

December 2019 Quarterly Letter

The fourth quarter of 2019 was a good quarter for Asian markets, especially North Asia, which benefited from a resurgence in tech stocks and a boost from the positive news flow surrounding the US/China Phase 1 trade deal. The Fund's return of 1.5% was masked by Sterling's appreciation over the quarter of 7.9%, due to the Conservative election win, which provided greater certainty as to the direction of how Brexit will be implemented.

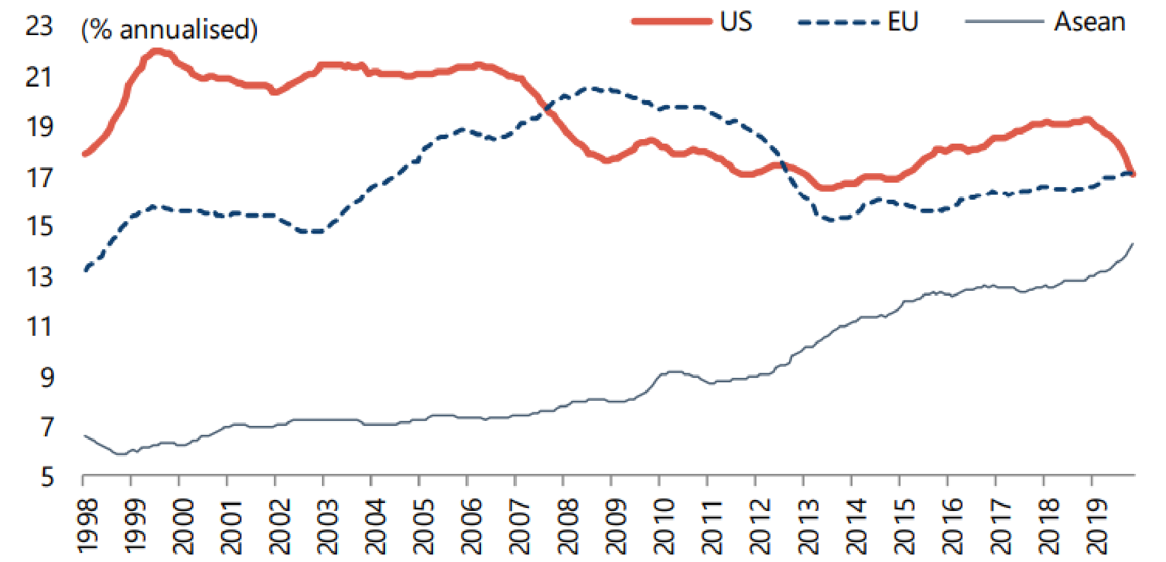


Performance data shown is of the B £ Net Acc. share class. Custom Benchmark, 30% MSCI AC Asia ex Jap Consumer Staples, 30% MSCI AC Asia ex Jap Consumer Discretionary, 10% MSCI Communication Services and 30% MSCI AC Asia ex Japan Index. From 01/12/18 Custom Benchmark reduced Consumer Discretionary to 30% and added 10% Communication Services, due to reclassification by MSCI. Past performance is not a guarantee of future returns. Data from Valu-Trac Administration Services and Reuters. This is for illustrative purposes only and in accordance with our Prospectus Halo does not benchmark against any index in accordance with our Information Memorandum and Prospectus.

China - little impact from the trade war

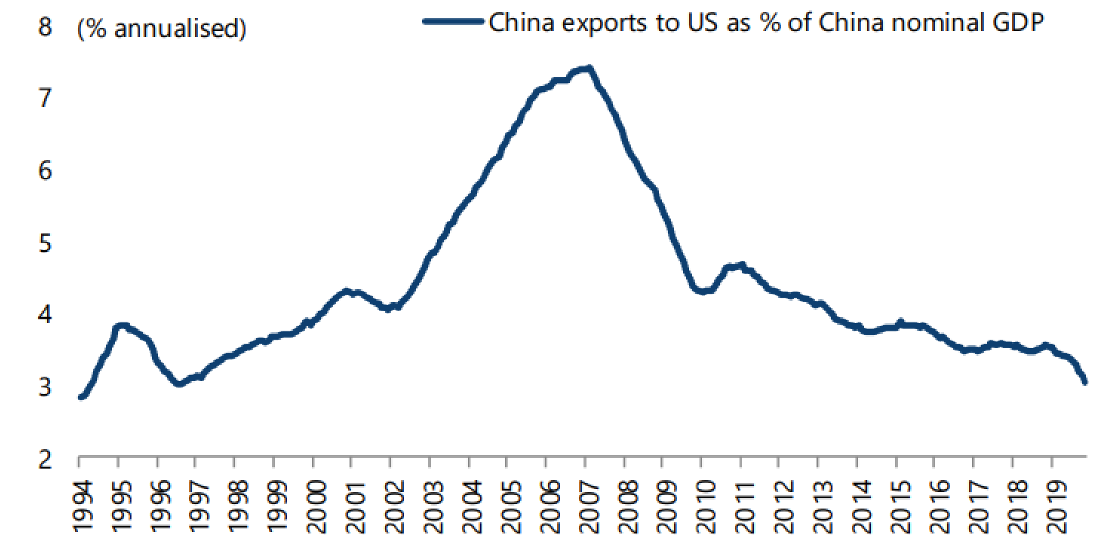
We saw improving PMI numbers out of China, which I believe surprised a fair few people and it helps emphasise the case that China is driven more by domestic factors and less by trade, especially with the US. Yes, exports to the US are down, (see below) but this has been more than offset by increasing exports to Europe and the rest of Asia. The second chart shows exports to the US now represents only 3% of GDP. More importantly the growth in consumption in China in 2019 has been strong, helped by tax cuts. This has provided a boost to Chinese manufacturing whose main market is their home country and not the rest of the world. The service sector has remained robust throughout 2019 and this is virtually 100% servicing the domestic demand.

Share of China annualised exports by region



Source: CEIC Data, Jefferies

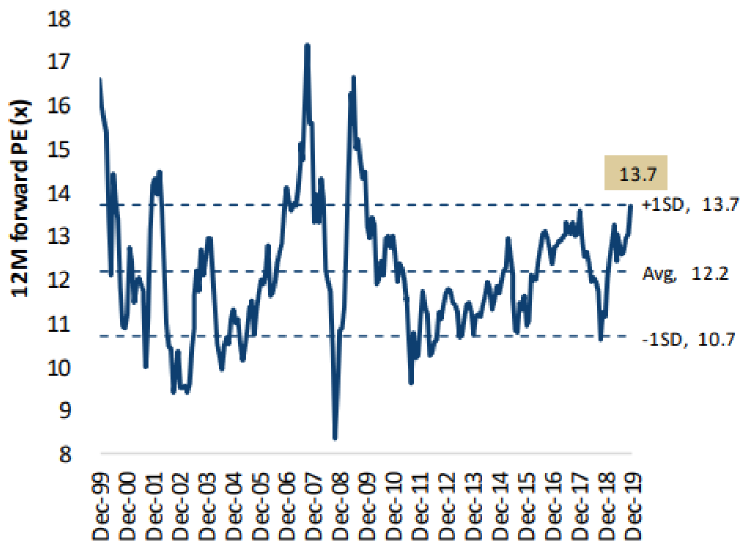
China annualised exports to US as % of China nominal GDP



Source: CEIC Data, Jefferies

ASEAN markets have been a source of cash

As we have previously highlighted though there is very little correlation between GDP growth and share prices, especially on a one year view and this has been the case again this year and especially in Q4. The Fund is focused on Emerging Asia, which means China, India and the rest of ASEAN ex Singapore, and with the exception of Thailand, these countries have exhibited reasonably strong GDP and consumption growth in 2019. But this has not correlated with stock market performance. Instead we have observed markets like Taiwan and Korea, who are more globally exposed to trade, perform strongly in the last quarter of 2019 and countries with economies driven by strong domestic consumption with little reliance on trade have seen their stock markets lag. 2019 has been all about PE expansion with Asia ex-Japan now trading at 13.9x according to Bloomberg, with EPS growth for Asia ex-Japan likely to be -0.1% for 2019 due to earnings declines in key markets of Korea and Taiwan. Although this has not stopped either market rerating considerably in anticipation of a rebound in earnings growth from technology stocks and those exposed to global trade, resulting in all of MSCI Asia ex-Japan index's return in 2019 coming from PE multiple expansion. ASEAN markets of Indonesia, Philippines and Vietnam have all been used as a source of cash to fund investments into North Asia, as the global outlook has improved. So whilst these countries have all demonstrated positive earnings growth (see table below) the markets are not up to the same extent and so have ended the year on a lower multiple. Indeed we also expect similar GDP growth for these markets for 2020 as those experienced in 2019, with the economies remaining fairly immune to global factors and instead driven by the domestic issues and the consumption story. We expect high single digit or low double digit earnings for these countries in 2020. I would also wish to highlight the Bloomberg consensus earnings growth for India both in 2019 and 2020 are too high due to the slower GDP growth and both will be revised down in due course.



Source: Jefferies, FactSet

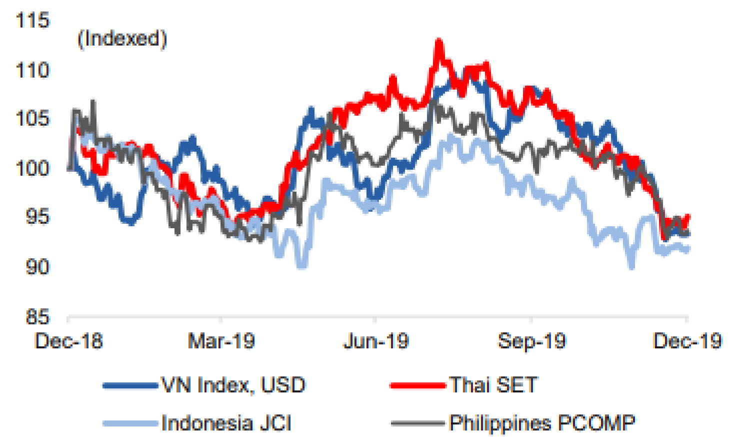
Markets	**Earnings 2019 growth %**	**Market return %**	**Expected 2020 earnings growth**
China	16.5	20.4	12.7
India	19.5	14.4	24.3
Indonesia	7.7	1.9	11.3
Korea	-32.4	7.6	28.6
Philipinnes	14.1	4.7	8.7
Taiwan	-6.4	25.1	12.5
Thailand	-6.4	0.9	9.2
Vietnam	11	7.7	15

With ASEAN being used as a source of cash to fund investments in North Asia in the second half of 2019, we witnessed the relative underperformance of these markets. This certainly did not help the Fund as our exposure to these markets is substantially higher than a typical Asian fund, being around 30% of our investments, whilst MSCI Asia ex Japan has 8.5%. We do not invest in the mature North

Asian countries unless they receive substantial revenue and profits from emerging Asian consumers. Indeed, we have been adding to our holdings in the ASEAN region as these markets have become cheaper.

The graph below highlights the underperformance of ASEAN markets, which having performed in line with other Asian markets in the first half of 2019 started to underperform once the concerns over global growth, the semi-conductor chip cycle and the trade war were ameliorating. This though ties in with our thesis that these economies are primarily driven by internal consumption and are not influenced greatly by global economics. This is as it should be, but we would have expected the likes of the Philippines and Vietnam to have seen their markets perform better. In our eyes this makes us more convinced that 2020 is likely to be good for both markets as valuations are starting from a lower position and we have increased our exposure to both in Q4 as a result.

Figure 4: ASEAN markets relative to Asia (ex. Japan), USD

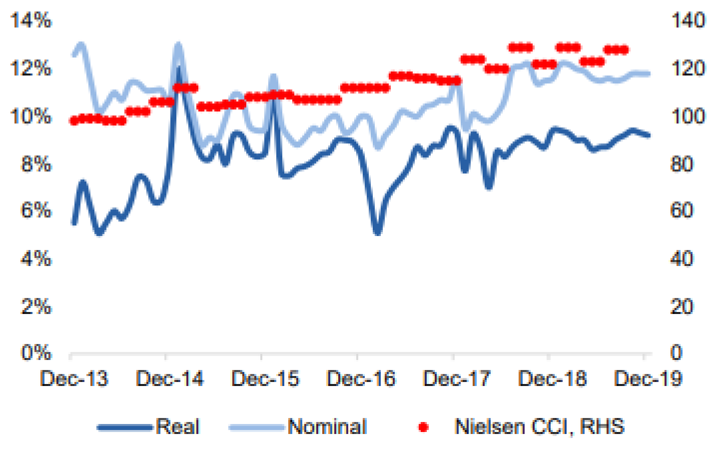


Source: Bloomberg, VCSC

The Philippines now represents 8% of the Fund, as the fundamentals for 2020 remain undimmed. GDP growth is likely to accelerate from 6% in 2019 to 6.3% in 2020, due to accelerated infrastructure investment, easing monetary conditions from further reserve requirement ratio cuts for the banks and possibly more interest rate cuts. This monetary easing is likely to keep consumer confidence buoyant and as long as the current account deficit remains in the 2% range then earnings growth for consumer companies will be respectable. We added to Robinsons Land, the shopping mall operator and Allhome, the DIY retailer, in the last quarter to take advantage of the cheaper valuations.

In Vietnam, GDP growth continues to be above other Asian countries, with 7% growth in 2019 and likely to be close to 7% in 2020. Whilst there may be few domestic policy catalysts in 2020, it offers a premium structural growth story at undemanding valuations. With earnings growth in the rest of the world likely to be lower and given the PE multiple expansion experienced elsewhere in other markets in 2019, Vietnam offers the opportunity to achieve double digit earnings growth. Consensus is expecting 16% for 2020, with a forward PE of 13.6x, setting up the potential for PE multiple expansion from a low base driven by lower discount rates. The economy remains strong as evidenced by retail sales growth and consumer confidence, both recording consistently high levels. Retail sales growth is currently at 12% and consumer confidence, indicated by the red dots on the graph below, are at the highest level as tracked by Nielsen for the last six years. Vietnam is currently running a current account surplus and expect FDI inflows to stay solid given Vietnam's competitive advantages, such as geographic location, political, social and macroeconomic stability, large population and low labour costs.

Figure 6: Retail sales growth & consumer confidence



Source: GSO, Nielsen, VCSC (CCI = consumer confidence index)

Given the poor performance of the Vietnam index in the fourth quarter, even as the economy and retail sales strengthened, we further added to our retail exposed names. So PNJ, the jewellery manufacturer and retailer, is now a 3% position, as is Vincom Retail, the shopping mall operator. We expect both companies to produce at least high teens EPS growth in 2019 and 2020.

Thailand, on the other hand, has seen consumption weaken over 2019 and we have seen downgrades to GDP and to corporate earnings. In our view, the decline in the market has been justified and we do not see a pick up in the first half of 2020, as the government lacks policies to kick start the economy. We have maintained a small exposure to Thailand, with 2 stocks representing a little over 3% of the Fund: Mega Life Sciences, a healthcare company, with over 50% of its profits coming from Vietnam, Cambodia and Myanmar and Major Cineplex, the Thai cinema operator, whose profit growth is driven by the rollout of more screens outside Bangkok and the prospective film slate.

There has also been a rotation out of higher quality names into more value areas of the market. Given our focus on quality compounders this has been a headwind to our performance and we have seen some of our stocks being used as a source of cash especially in December, as investors have become more confident on global growth and the trade deal. We have seen the forward PE multiple for MSCI Asia ex-Japan in 2019 rise from 11.5 at the start of the year to finish 2019 at 14.0x, with all of the index rise in 2019 driven by multiple expansion, and no earnings growth. Our Fund has seen both a PE multiple expansion and earnings growth. For 2019 we expect EPS growth to be in the region of 12-13%, but we will only know once the final results have been published in Q1 2020. The PE multiple of the Fund was 13.4x at the start of 2019 and finished the year at 15.3x, which has partly been driven by us selling some low PE stocks and purchasing stocks on higher multiples with higher expected growth rates. Hence the relative PE premium our Fund trades compared to the market is now the lowest it has ever been, together with the highest expected earnings growth rate of 22% over the next 12 months.

Conclusion

All the commentary above makes us confident that we are going to see better returns in 2020 compared to 2019. We expect our companies to continue to deliver strong earnings numbers as the outlook may actually be better than 2019, if US-Sino trade relations are less frosty, although the political relationship will remain strained. ASEAN GDP numbers should be the same or slightly better in 2020 and in addition we could well see further interest rate cuts. This should bode well for consumption growth to feed through to corporate earnings and potential multiple expansion over 2020 for our investment universe.