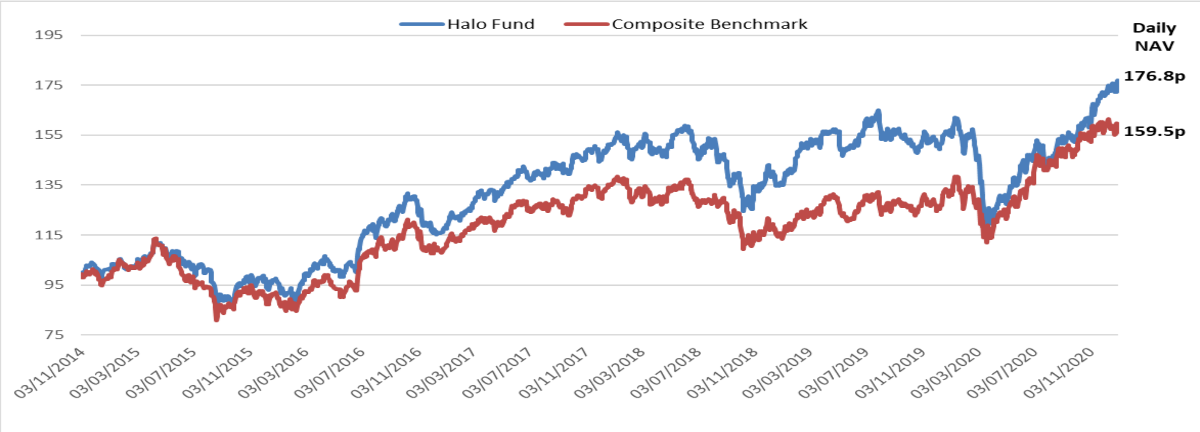
VT HALO Global Asian Consumer Fund

December 2020 Quarterly Letter

The fourth quarter continued with strong markets, propelled by the positive news on the efficacy of the vaccines currently in development. The Fund rose 14.9%, driven by a number of companies in China who continued to demonstrate strong structural growth with positive earnings surprises, together with stocks recovering strongly in the ASEAN region on the vaccine news. India in particular has witnessed a very strong stock market as the number of active Covid cases continues to fall, with no evidence of a second wave. Indeed, we have seen overall economic activity rebound close to pre-pandemic levels, without the need of a large fiscal stimulus. Profit expectations for listed corporates are being revised up as the sell side analysts have been too bearish.



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.

Given the strong run in markets in second half of 2020, is there much upside for the remainder of 2021? Has the recovery been priced in? Needless to say markets are vehicles that try and discount the future and so it is now about delivering their recovery in earnings this year. Although there is definitely still value in ASEAN markets where the recovery has not been fully priced in, we wait to see the outcome as vaccines are rolled out and life starts to return to some sort of normality. Regarding valuations for ASEAN, a useful perspective is shown on the following page, illustrating current price to book multiples, and the returns we can expect over the following 12 months. ASEAN countries certainly stand out as representing a high probability to provide above average returns over the next 12 months, with Indonesia and Thailand the most promising. For example, based on data since 2000 the table illustrates for example Indonesia, which starts with a price to book ratio of 2.36x today, the average return over the next 12 months would be 54.2% and the chance of seeing a positive return is 82%. At the other end of the scale, Taiwan, a market we view as developed (and therefore ineligible for the Fund) is currently trading significantly above its historic price to book average and the average expected return would be minus 28.4% and the probability of making positive returns is zero.

MSCI global retions and Asian markets upside based on PB multiple (PE for USA, DM and AC World)

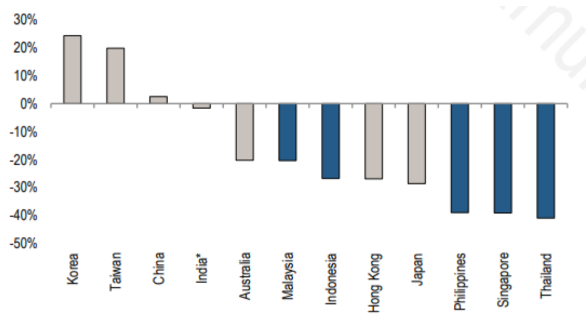
MSCI universe	Current PB or PE (x)	Next 3-months (%) Perf	Next 3-months (%) Hit rate	Next 6-months (%) Perf	Next 6-months (%) Hit rate	Next 12-months (%) Perf	Next 12-months (%) Hit rate
AC World[1]	19.8	(4.0)	28.0	(9.6)	4.2	**(17.9)**	0.0
DM[1]	20.8	(4.0)	28.0	(9.5)	8.3	**(18.0)**	0.0
EM	1.80	1.9	56.8	2.8	56.8	**11.9**	62.2
Key regions							
APxJ	1.82	2.9	59.5	4.2	62.2	**13.4**	70.3
Latin America	2.01	3.1	60.5	4.5	63.2	**11.1**	48.6
AsiaxJ	1.76	1.8	58.3	2.6	61.8	**8.7**	67.6
Japan	1.39	(0.3)	51.0	0.7	43.8	**4.3**	54.3
DM Europe	1.79	(1.6)	51.0	(1.1)	44.9	**1.5**	38.3
USA[1]	22.92	(2.4)	37.5	(6.2)	14.3	**(17.1)**	0.0
Asian markets							
Indonesia	2.36	5.8	65.7	24.2	71.9	**54.2**	82.1
Thailand	1.72	1.3	64.9	12.8	68.6	**44.2**	87.5
Philippines	1.78	5.0	65.7	12.7	72.7	**38.5**	93.3
Singapore	1.10	7.3	63.6	14.0	84.2	**28.0**	100.0
China A Onshore	2.32	7.6	52.0	13.2	39.1	**18.5**	34.8
Hong Kong	1.20	3.1	66.7	4.2	63.6	**16.5**	86.7
Korea	1.11	2.3	55.9	6.3	56.3	**14.3**	46.9
China	2.01	1.4	50.0	3.4	53.3	**14.1**	60.0
India	3.13	3.4	67.3	6.0	67.3	**11.4**	70.8
Malaysia	1.66	2.1	68.6	4.7	58.8	**9.3**	64.7
Australia	2.16	(1.1)	57.9	(0.2)	50.0	**9.0**	55.6
Taiwan	2.39	(8.3)	26.1	(17.4)	4.8	**(28.4)**	0.0

[1] AC World, DM and USA upside are based on 12-month forward PE. PB or PE upside return is US$ total return since 2000 (since 2005 for China A and 2002 for China). Source: Jefferies, FactSet

This table above is a useful guide as to the expected direction and magnitude of the returns over the next 12 months. China and India are starting from richer valuations and hence perhaps the returns we are likely to experience will be less than elsewhere in Asia.

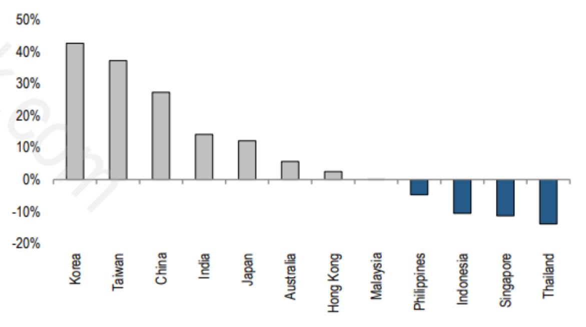
Looking at ASEAN a bit more closely we can see EPS growth and stock market performance comparisons between North Asia and South East Asia have been stark in 2020. With lockdowns easing and vaccines on the way, SEA earnings expectations for 2021 are set for a strong rebound.

2020 EPS growth-bad outcome for ASEAN



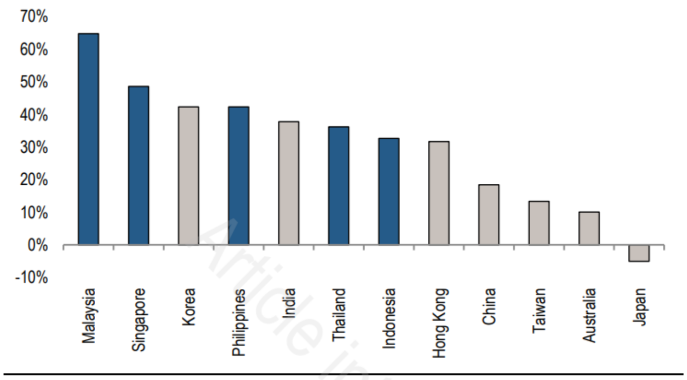
*India excluding YES Bank. Source: Refinitiv

2020 market performance -ASEAN at the bottom



Source: Refinitiv

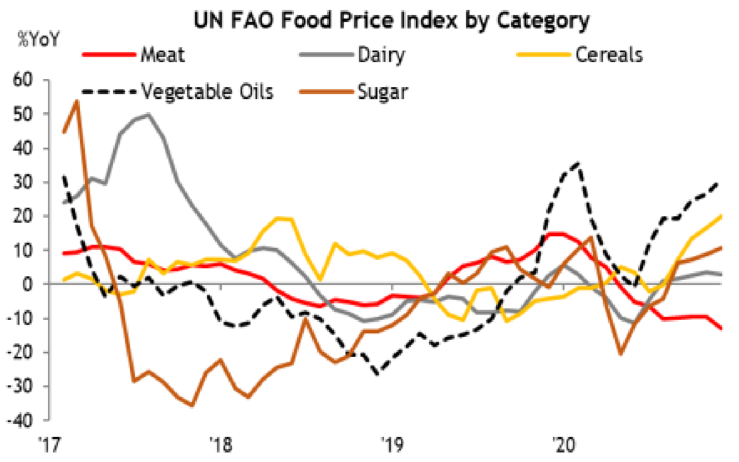
Earnings growth expectations for 2021



Source: Refinitiv

The earnings growth expectations above do not look too outlandish especially given the severity of the fall in earnings in 2020. In addition a number of these countries will also receive a tail wind from rising soft commodity prices. Many ASEAN countries are major commodity exporters and will benefit from rising export prices. Rising commodity prices will strengthen growth, fiscal and current account balances. Net commodity exports are large, as a share of GDP, for Vietnam at 4.3%, Indonesia 3% and Malaysia at 1.7%. However the Philippines and Thailand are net importers due to their dependence on imported oil.

Fig 2: Food Price Rally Driven by Vegetable Oils & Cereals (Wheat, Maize)



Source: UN Food and Agricultural Organization

Clearly there is a boost to exports and better current account balances, but there is also an important redistributive impact that it will have on their economies. Covid has typically hit the poor the hardest, whilst those middle class salaried workers who can work from home , have been fairly insulated from its worst effects. Agriculture accounts for about 30% of ASEAN employment (see table below) and so rising rural incomes will help cushion the impact from the pandemic. Indeed Maybank have commented that in Thailand for instance, rising prices of rubber and rice have contributed to an increase in farm income, which jumped 14% in November. Agriculture has also provided some relief to workers laid off in the tourism and service industries, who have moved back to their hometowns.

Agriculture employment in ASEAN

	% of Total Employment (2019)	
	Agriculture	Mining and Quarrying
Laos	62.4%	0.7%
Myanmar	48.9%	1.0%
Vietnam	34.5%	0.4%
Cambodia	32.3%	0.2%
Thailand	31.1%	0.2%
ASEAN	**30.1%**	**0.7%**
Indonesia	27.5%	1.1%
Philippines	23.1%	0.4%
Malaysia	12.4%	0.5%

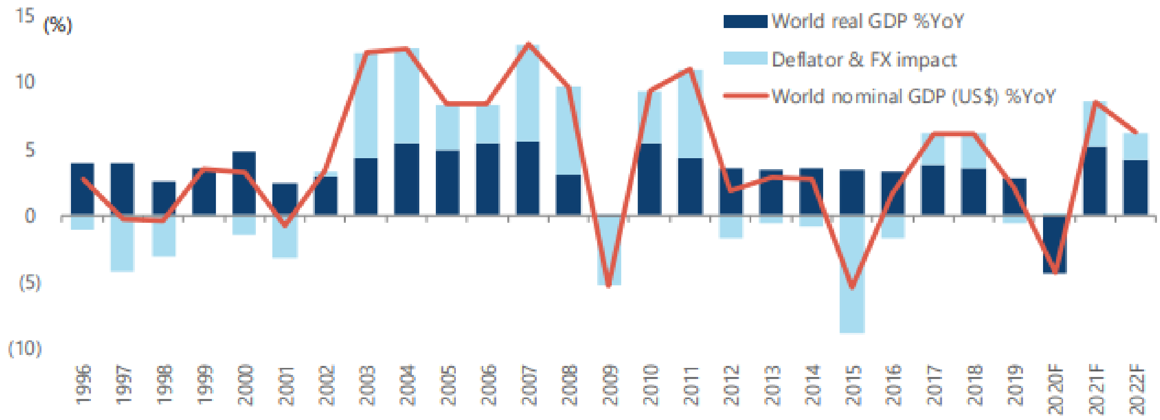
Note: Data for Laos, Myanmar & Cambodia refer to ILO modelled estimates.
Source: CEIC, International Labour Organization (ILO)

So with the cyclical trade in focus at the start of this year, Indonesia and Veitnam look particularly well placed with a large workforce in agriculture and net exports. Indeed Vietnam and others are also attracting increasing FDI inflows as companies look to diversify their supply chains away from China. This again will help support their balance of payments, providing more jobs and improve productivity in the manufacturing sectors.

Another factor keeping us positive on Emerging Asia is their refrain from implementing government guaranteed lending schemes, which are common in the West. Countries such as India, Indonesia and the Philippines have seen loan growth slow sharply. India has declined from 15% to 5% YonY, Indonesia loan growth was negative 1.4% in November this year, whilst Philippine bank loan growth has fallen from 13% in March to 0.8% in October. Governments have also handed out food not money, and governments have maintained capital spending targets and not welfare programmes. This is postive as it will boost productivity in the long term as China has demonstrated the economic multiplier benefits of investing in infrastructure. We are seeing all these countries continue to focus on infrastructure spending in 2021, which along with rising commodity prices, is likely to see bank lending pick up again. Our conference calls with some Indian and Indonesian banks we have had in the last week or two are indicating just this scenario.

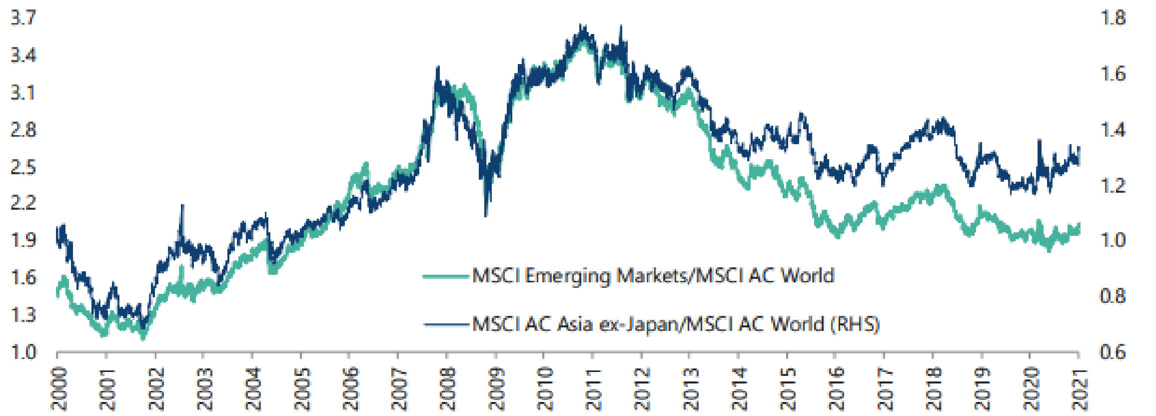
The last point likely to provide a positive tailwind to Asian markets is if the US Dollar continues to weaken and commodity prices strengthen, which increases global inflation. This will lead to a bigger increase in nominal GDP and corporate earnings as they are nominal as well. Looking at the charts below which have been taken from Chris Wood's Greed and Fear, we can see in periods of high nominal GDP, Asian markets have outperformed, such as 2002 to 2008 and 2010-11. If the forecasts are correct and we see high nominal GDP over the next two years then we should see a repeat of this Asian outperformance.

Exhibit 15: World real GDP growth and nominal GDP growth in US dollar terms



Source: IMF - World Economic Outlook Database

Exhibit 17: MSCI Emerging Markets and MSCI AC Asia ex-Japan relative to MSCI AC World

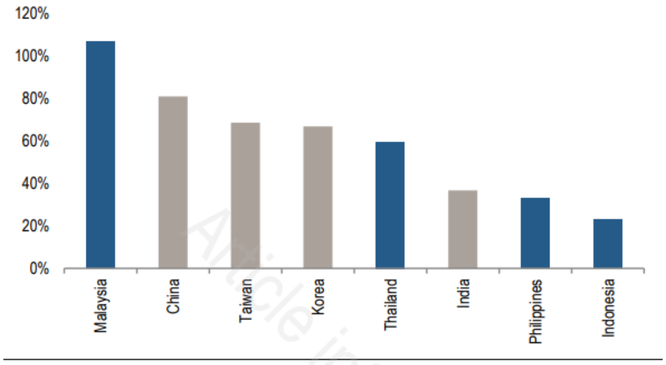


Source: Datastream, Jefferies

So with relatively cheap markets, improving commodity markets and mobility, the outlook is certainly improving in the ASEAN countries. Indeed as mentioned in our September quarterly letter, we have been positioning for this recovery. The vaccine news in November provided the impetus for markets to move higher and the stocks we mentioned, such as Allhome in the Philippines, has seen a recovery in its share price, rising 57% but still remains 20% below its end of 2019 levels. We see further upside, as sales in the last 3 months of the year were ahead of the same period last year. Profits are now expected to be significantly above 2019 levels in 2021, and so it is not unreasonable to expect over a 30% return in the shares over the next 12 months. I also mentioned Techcom Bank and PNJ in Vietnam, both have also rebounded, up 39.4% and 33% respectively. Again we still see significant returns to both over the next 12 months, in particular PNJ, who have experienced strong double digit same store sales growth in the last 3 months of 2020, as competitors have gone bust and their market share has accelerated. Their profits are likely to be significantly higher than 2019 levels in 2021, yet the shares are still languishing below where they were a year ago.

In the last 3 months we have increased our exposure to retail banking, which has proved more resilient than the market had expected, especially in India, Vietnam, and Indonesia . These countries have not suffered particularly badly from Covid, but more importantly banking to the consumer is an underpenetrated market, and the majority of lending is to the high to middle income class, who have not suffered particularly during the pandemic as they have remained employed. We believe due to the underpenetration of banking in these countries, the best operators have significant room to grow over the coming years especially as mentioned earlier, if a new credit cycle begins. As illustrated below there is plenty of room for credit penetration as a percentage of GDP to naturally rise, as incomes increase and more of the population joins the middle class.

Credit as percent of GDP



Source: CEIC

The positioning of the Fund is not just about recovery plays . The majority of the Fund is still invested in businesses that have demonstrated the ability to continue compounding during the COVID crisis and in particular in China. We continue to have significant exposure to areas such as the consumer internet and gaming, education stocks and those exposed to sports and wellness. These have all proven their ability to navigate the unexpected shocks thrown at them and benefit from the change in consumer habits, and the growth is more structural in nature as demonstrated by their third quarter results .

Conclusion

Some will say “the easy money“ has been made on the vaccine news and the anticipation of the subsequent recovery in global economies. This has undoubtedly been helped by cheap money, courtesy of the Federal Reserve. However we still see decent upside from todays levels even if it’s not to the same magnitude of the last 6 months.

This year will be about earnings delivery and the ability to demonstrate that the recovery is on track to surpass 2019 levels before the end of 2022. For those companies that have continued to trade well through the pandemic then it is still about the compounding of earnings and perhaps to even to see revenue and earnings guided upwards over the next 12 months. If not, perhaps due to the slow roll out of the vaccines or a second wave in Asia, then there is likely to be some disappointment for the market with the recovery delayed by a further 6-12 months. This might dampen the returns in the short term but over the longer time horizon we shall still see markets in Asia move higher.