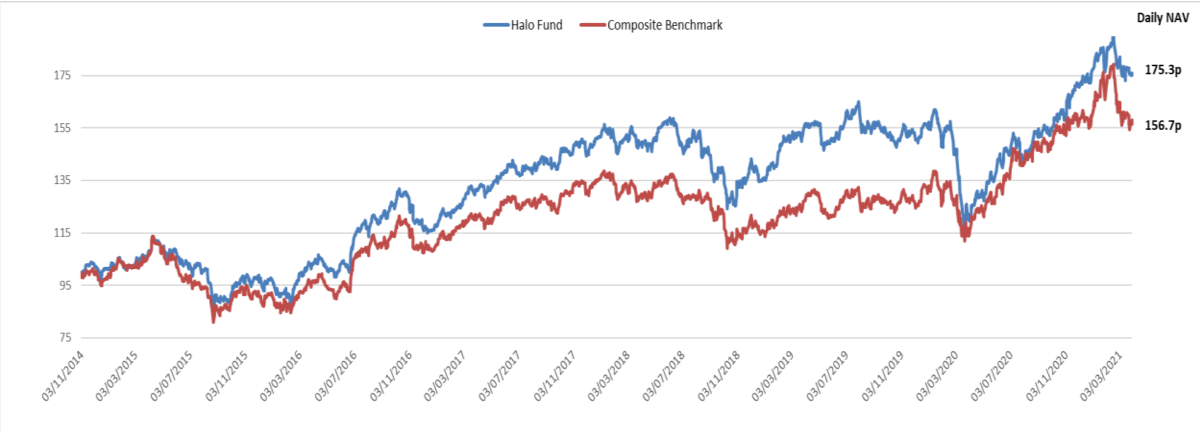
VT HALO Global Asian Consumer Fund

March 2021 Quarterly Letter

MSCI AC Asia ex-Japan in the first quarter continued with the rally from Q4 last year up until mid-February, then gave back the majority of the returns in the second half of February and March to end the quarter up just over 2% in US Dollar terms. Principally this was due to the selloff in China. Given how far the Chinese market had rallied in 2020 and the first 6 weeks of 2021, a bit of the froth needed to come off the top as we were finding it hard to justify some of the valuations for consumer and internet names. The cause appears to be rising US Treasury yields and concerns over credit tightening in China as they try and cool both the equity and property markets and to maintain their debt to GDP ratio. Elsewhere in Developing Asia, returns have been less volatile, although with wide discrepancies amongst the countries. Vietnam for instance, which has suppressed a recent outbreak of Covid has seen the market rise 7.9% in local currency over the first quarter, whilst the Philippines witnessed its stock market fall 9.8%, as Covid cases rose from 2,000 a day to over 10,000 and the government imposed restrictions on movement at the end of March in Metro Manila and the surrounding area.

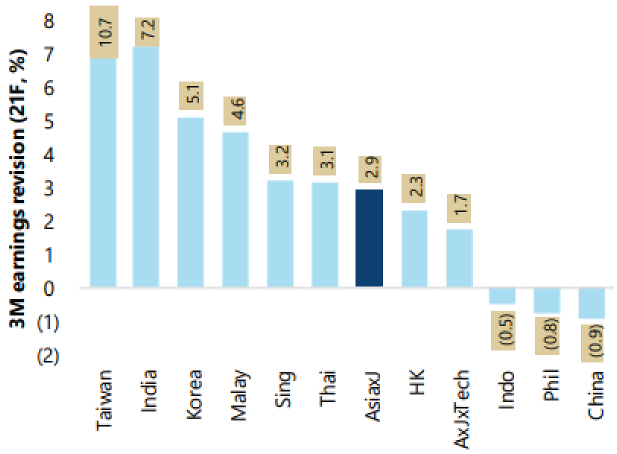


Performance data shown is of the B £ Net Acc. share class. Custom Benchmark, 30% MSCI AC Asia ex Jap Consumer Staples, 30% MSCI AC Asia ex Jap Consumer Discretionary, 10% MSCI Communication Services and 30% MSCI AC Asia ex Japan Index. From 01/12/18 Custom Benchmark reduced Consumer Discretionary to 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.

Meanwhile in Developed Asia, Taiwan was up 11.5% in Q1 and Korea up 6.5% and both continued to be strong performers, as their tech companies' products remain in high demand across the world, enabling both strong volume growth and pricing power. Together with continued domestic success in controlling Covid, their companies are experiencing upgrades to earnings for the year as shown in the chart below. As readers will be well aware, we do not invest in these markets but remain focused on Developing Asia and domestic consumption.

Earnings revision for markets and sectors

Exhibit 9: MSCI AsiaxJ markets - 21F earnings rev (L3M)



Source: Jefferies, FactSet

Covid this year has been unpredictable. For example in the Philippines it seemed under control with a moderate number of cases each day and plenty of hospital capacity to handle the severe cases. This changed within a matter of days from 2,000 cases in early March, to 5,000 by 14th March and spiked to 15,000 on 1st April, with it now falling back below 10,000 cases on 5th April. Naturally these flare ups, if I can call them that, are impossible to forecast and this is why we continue to focus on the medium to long term fundamentals of the companies we own, constantly checking the business models and that the rationale for owning them remains intact. Top down metrics are taken into consideration but used as factors to help manage the size of the exposure to a particular country.

In India where the seroprevalence data had reached 50% in places like Delhi and Mumbai, we had now started to believe that perhaps we were approaching herd immunity and meant we had a positive bias to increasing our exposure to the country. Economic activity across the country had recovered to pre pandemic levels by February, only for us to see a second wave appear in March in and around Mumbai. Having seen the market initially selling off last year, the actual experience for the large quoted companies was not as bad as feared, and we enjoyed a sharp rebound. We have concluded that with a 3-5 year time horizon or even a one year outlook, it is sensible to remain invested and "ride it out".

As we witness vaccination programmes being rolled out, in both countries above as well as in Developed Markets, stock markets extrapolate a timeframe when 70% of adults will be fully vaccinated and factor this in some 6-9 months ahead of the actual date. So the read through for countries such as India, Philippines and others in ASEAN, where herd immunity will be reached in Q1 or Q2 2022, is that we should see their markets start to factor this more positive scenario in the second half of 2021. Our focus remains on the bottom-up fundamentals to ensure we are positioned in the right stocks to benefit from the reopening of these countries.

This brings me to my thoughts, firstly on the results that have been released in Q1 2021 and the outlook for the rest of this year and secondly why we have seen an acceleration in forecasted earnings growth for 2021 as we moved through the past quarter .

I have highlighted below a small selection of companies we own where the earnings outlook has improved and why analysts have upgraded guidance for 2021.

Starting in China, we had strong earnings from **Noah**, the wealth manager, riding on the back of a strong equity market at the end of last year. This continued into the first couple of months of this year and they announced at their results it was time to focus on growing the business again having had a couple of years of reorganising their strategy and focus. They beat earnings expectations by over 10% for the year 2020 and guided to at least 15% earnings growth for 2021. This includes additional spending on IT infrastructure and accelerated recruitment of wealth managers. By adding another 200 on top of the 1,200 they have today, we are starting to see a new virtuous cycle; improving performance from their investment products, better servicing of clients, leading to an acceleration in assets under management and subsequent revenue growth. Their key focus has been to increase the number of their Black Card clients, who have assets of more than $10m with them. Even with 2020 being a year of reorganisation the number rose from 883 to 985. With the reorganisation in place and enhanced service levels for clients we would expect this number to accelerate further in the coming few years.

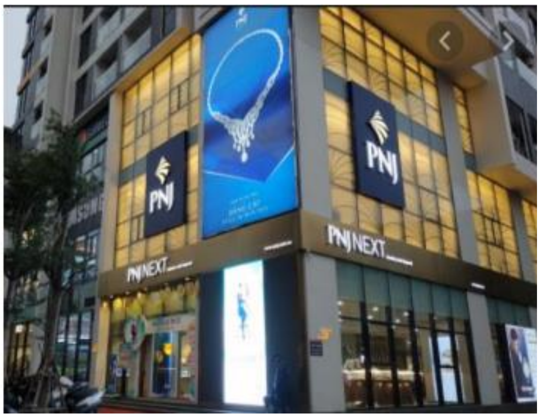
Li Ning, benefited from the focus on increased health and wellness, with the sportswear brand seeing positive revenue growth even in a year with Covid. Due to better management focus on the company's operations we are seeing the benefit of accelerating gross and net profit margins. As we move into 2021, the reputation of the brand has become stronger amongst the Chinese, and a sprinkling of patriotism has strengthened their willingness to buy Chinese brands over Western brands and this is accelerating.

The expansion of gross margins continues as the increasing strength of the brand has allowed them to raise prices, together with operating leverage and as overheads as a percentage of revenue fall, we have seen earnings expectations being nudged up for 2021. The market is now expecting 42% earnings growth for this year but with the data we are seeing pointing to even faster sales in Q1, we may see this number move higher as the year progresses.

Lastly in China, **Tian Lun Gas**, a gas distributor, has also seen the benefit of strong demand from the quick recovery in the economy. They connect residential households to the gas grid, for which they earn a fee as well as supply them with gas. They principally operate in Henan province and the government there is encouraging the residents to switch from using coal to gas, as a more environmentally friendly and cleaner source of energy. As they supply new residential developments they are also able to take advantage of building out the pipe network to provide gas for nearby industrial parks. With the government encouraging urbanisation and the move away from congested cities on the coast, Tian Lun is seeing increased demand for their services. They were able to increase earnings by 10% in 2020 and have guided to at least 15% this year. We suspect they are being conservative given the easy comparatives in the first half, where growth year on year is likely to exceed 30%. They are also adding more projects through bolt-on acquisitions and we shall see their profit forecasts for the year being adjusted higher, as and when these are announced and consolidated within the company.

Vietnam, an economy that managed to control the worst of Covid and suppress any secondary spikes in infections last year and this year, also managed to avoid their GDP growth dipping into negative territory for 2020. Today retail sales are growing at high single digits and Vietnamese consumers remain confident on the outlook. **PNJ**, the jewellery retailer has benefited from the unorganised trade struggling due to lack of working capital and some smaller rivals going bust. Sales last year came in ahead of expectations due to large gains in market share and ended actually being up 3% in 2020, although driven by lower margin gold jewellery and gold bars. Analysts had expected earnings to come in 30% below 2019 levels at the low point in 2020 but ended up being only down 12%. They have already upgraded 2021 earnings expectations by 5% and are now expected to grow 26% for the year. With January and February's trading data released already, it would appear middle class spending on discretionary items such as diamond jewellery has bounced back stronger than forecast and earnings could eventually be up some 35% for the year if the trend continues.

Below we see one of their flagship stores in Ho Chi Minh with an interior similar to what you would find in more developed countries.



Varun Beverages, the Indian Pepsi bottler has had another relatively strong year despite the lockdown in India during its peak selling season last year, when it typically makes over 40% of its annual sales. It was able to cut costs rapidly and protect its margins and recover sales later in the year as the economy opened up again. They are taking share from Coke in the carbonated soft drink (CSD) market, introducing new flavours in CSDs and penetrating new categories such as fresh juice and milk flavours.

It is not just about Pepsi, but Mountain Dew is a powerful number two brand for them

This is leading to a very strong rebound in 2021, and combined with easy comparatives will see revenue growth of over 30% this year. This will lead to over 100% earnings growth and the shares reached an all-time high this March. It does trade at 40x 2021 earnings but with earnings growth expected to continue above 20% for a few years and as penetration for CSDs and other juices is still low, this is not expensive for an Indian staples company.

Allhome, the Philippine hardware retailer has also had a comparatively good 2020. With the Philippines having been veering between a hard lockdown and then easing restrictions and then back to lockdown, Allhome achieved revenue growth of 2.9%, some 10% ahead of consensus. Profits were down 6%, but 12% ahead of consensus. This has been driven by consumers buying more soft furnishings, given the time spent at home and also having viewed their own four walls more than they'd like to, realised what DIY needs doing. The outlook for 2021 looks promising and they have accelerated their expansion plans accordingly. Having started from a higher profit base in 2020, we are seeing upgrades to earnings in the region of 10%, with EPS growth now expected to be 45%. The shares themselves trade on a PE 20x, a discount of 30% to its regional peers due to it being a small cap stock with a short stock market history and lacking the liquidity of its peers. We believe this will change over time as it continues to grow and deliver growth over and above its peers. It remains a core holding.

Community Group Buying and China's ecommerce companies

We have also had good results from the Chinese consumer internet companies Alibaba and JD.com. Both comfortably beat expectations and we would have normally expected to see upgrades to profit forecasts for 2021. However we have seen downgrades to their profit for 2021 combined with upgrades to revenue forecasts, as all the major consumer internet companies, including these two, have embarked on another investment phase in a new area, called Community Group Buying (CGB). This is an opportunity to achieve further penetration of new users in areas outside the major cities and middle class. CGB entails having a community group leader say in your housing development, who will work on achieving bulk discounts on basic consumer goods by buying in bulk. He or she will advertise to the local community, goods such as fresh fruit, eggs or bottled water and collate orders, placing one order with the likes of Alibaba, Pinduoduo or Meituan, who will then deliver it to the group leader. He then organises for people who placed the orders to come and pick them up. The typical monetary value of each person's order might only be £1. This is likely to impact the small Mom and Pop stores and the community supermarkets. This appeals to price sensitive consumers, and achieves small savings on their grocery shopping. This is a new area and all the consumer internet companies have embarked on growing this new market and are to invest billions of Yuan in it over the next 12 months. This has impacted forecast profits and has dampened investor enthusiasm for ecommerce companies in China. As well as finding another avenue to move sales online from offline, part of the strategy is to convert these users into buying other products online which traditionally they have bought in stores. We are currently taking a wait-and-see approach with our holdings, given valuations are not expensive and keeping a watchful eye on how long this investment will take to repay itself. It's worth noting that in Alibaba's case their other ventures that initially were loss making have indeed turned out to be value added in the long run and so it continues to fit our medium to long term investment horizon.

Conclusion

You may recall my closing remarks in the last quarterly letter, after the positive vaccine news in Q4 2020, that perhaps the easy money had been made on the recovery in Asian markets. We stated that we were confident there would be more to come and the full year results in the last couple of months have resulted in the Fund's forward EPS growth rate climbing from 22% to a forecast 25% according to Bloomberg. We can see the light at the end of the tunnel for those countries that have not controlled Covid as effectively as China, with vaccines being delivered in Q2 onwards and rolled out to the community as fast as possible. Valuations are not cheap, but are certainly reasonable in a global context and strong earnings growth should enable markets to advance further throughout the rest of this year, even if there is short term volatility driven by sporadic spikes in infections.