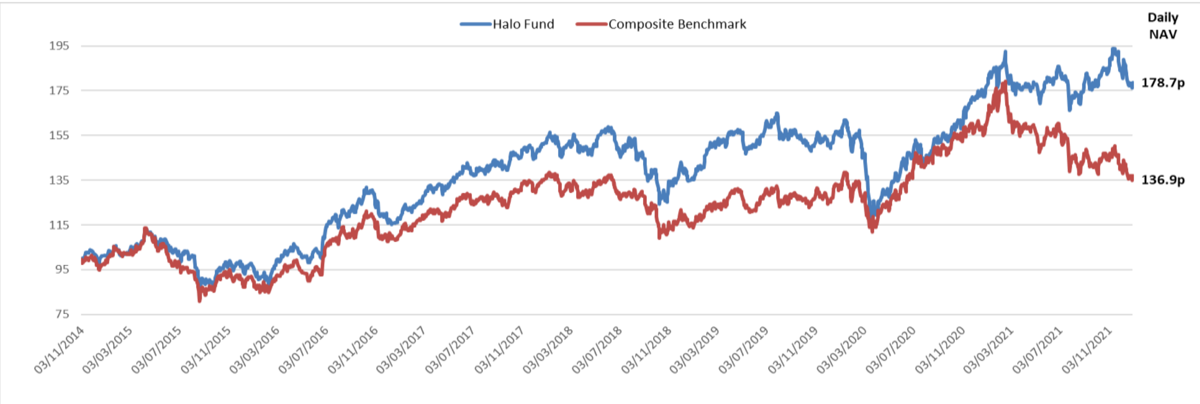
VT HALO Global Asian Consumer Fund

December 2021 Quarterly Letter

The Fund over the last quarter returned -0.6% and for the 12 months to December 1.1% for the Sterling share class. Markets in Asia have certainly not produced homogenous returns this year, with Vietnam the best performing market, having risen 35.7% for the year to 31st December, driven by strong earnings from its banking sector. India has also produced surprisingly resilient results following the second wave of Covid, with the market up 22% for the year and local investor optimism continuing to remain bullish in the 4th quarter, even as foreigners were selling over concerns about the valuation of the market. The performance of the Fund in 2021 has been satisfactory as you can see from the widening of the "jaws" against our bespoke benchmark. This has been driven by strong performances in India as well as the opening up plays we have talked about in the previous two letters with respect to the Philippines and Vietnam.

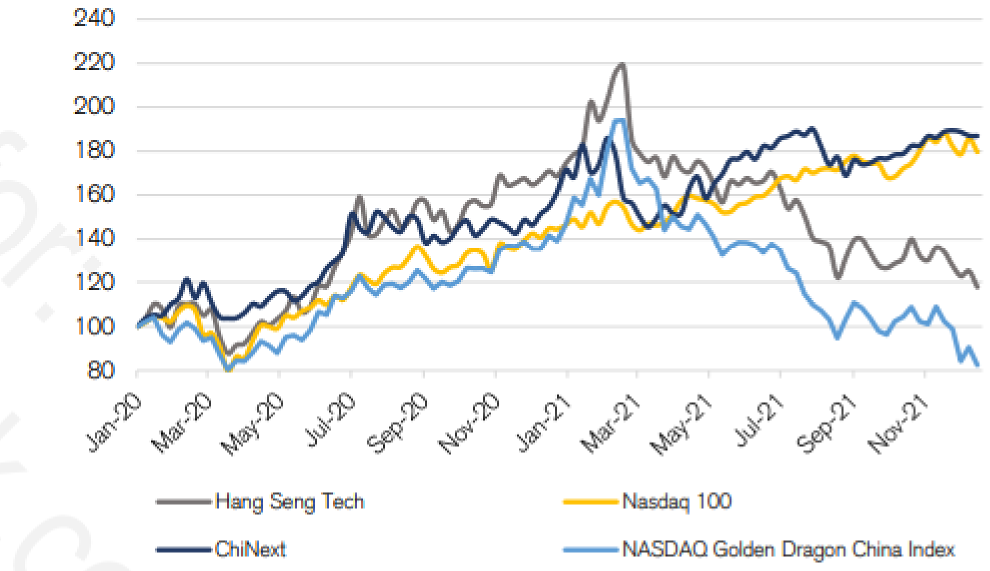


Past performance is not a guarantee of future returns.

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. 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.

In contrast China saw negative returns for the year with the Hang Seng China Enterprise Index down -23.2% and the Hang Seng itself falling -14.1% in local currency. This has been due to a number of factors, such as new regulations in areas of education and the consumer internet sectors, as well as continuing actions by the US to curtail China's advancement. This includes their access to international capital, and laws passed to remove Chinese stocks from US stock exchanges. This has made overseas quoted Chinese stocks un-investable in the eyes of a number of investors, principally those based in the US. We can see how this has affected overseas quoted stocks by looking at the graph below.

Figure 5: Performance of NASDAQ100 & ChiNext Index diverged from HSTech & NASDAQ Golden Dragon China Index



Note: Rebased to 03-Jan-2020, data updated to 17-Dec-2021.
Source: the BLOOMBERG PROFESSIONAL™ service;

What is interesting is how the ChiNext index, (which is an exchange in China principally consisting of companies with innovation and other growing enterprises of a high-tech nature) has performed. It's markedly different to other Chinese companies of a similar nature, who happen to be quoted in the US or Hong Kong. It would point to Chinese mainlanders having a more sanguine view of the regulations imposed by their authorities, as well as highlighting the impact on overseas investor sentiment towards Chinese stocks due to the regulation and antagonistic nature of the US authorities. But it is noted that much of the regulation China has issued this year has been targeted at those companies listed overseas, rather than domestic stocks. Perhaps being Machiavellian there is an aim to bring these stocks "home" and allow mainlanders to invest in them at lower values. If they had targeted companies quoted in the mainland, and they had suffered similar falls it might have created instability, something the Communist Party seeks to avoid. One has to remember Chinese investors cannot access US ADRs directly, and stocks such as Alibaba currently are not included in the Southbound Stock Connect program in Hong Kong.

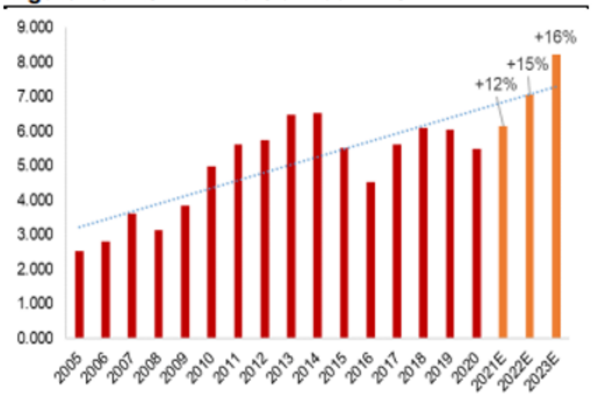
China Growth for 2022

China's economic growth is likely to remain under downward pressure in the first couple of months of 2022 due to soft consumption and fixed asset investment. But we should see an acceleration after Chinese New Year as fixed asset investment (FAI) will start to improve as local governments reserved enough projects in late 2021 for disbursement in early 2022. The RRR cuts that we saw recently intend to free up lending to finance local government bonds, which in turn will support infrastructure projects, SMEs, green industrials and high-tech companies. We also anticipate consumption to accelerate as the CEWC (Central Economic Work Conference) called for "support to consumption" and we expect both monetary and fiscal policies to turn from tightening to loosening in the coming quarters.

We also should see more relaxation in the property sector and local government vehicle related financing, but do not anticipate any drastic policy reversal. To stabilise the property market, it is necessary to keep up broad credit growth as credit supply is critical to the sector. Since late September 2021, China's policy makers have had to make adjustments to stabilise the property sector, e.g., commercial banks have been requested to maintain the positive growth of outstanding development loans and mortgage loans.

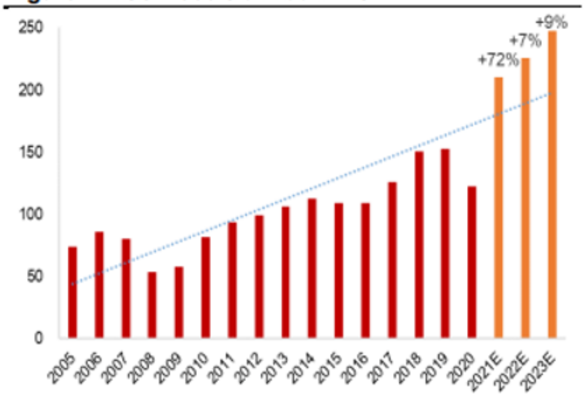
If we are right in these expectations and earnings growth for the Chinese market stops seeing small incremental downgrades, (something that has been persistent in the 4th quarter of 2021) we will see 15% EPS growth in 2022. With a combination of earnings growth for 2022 being substantially higher than the US (see below) and monetary easing in 2022 for China, as the Federal Reserve tightens in the US, it could mean we see a reversal of the relative stock market performances we have seen in 2021.

Figure 10: MSCI China's annual EPS

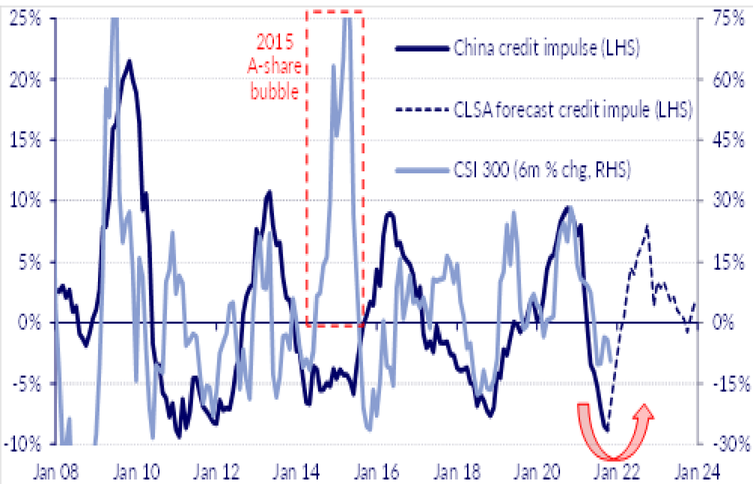


Source: Bloomberg, CMBIS; as of 7 Dec 2021

Figure 11: S&P 500's annual EPS



Source: Bloomberg, CMBIS; as of 7 Dec 2021



Correlation of the Chinese market to China's credit impulse is high. Market expects we have seen the bottom of the credit impulse in Q4 21 and it will rebound in 2022 as monetary policy is relaxed and fiscal spending accelerates and the Government becomes more comfortable with leverage again.

Source CLSA

With the reiteration of "housing is for living and not for speculation", we are seeing the Chinese government remain cautious on the monetary easing and perhaps their reluctance to cut interest rates, as this might lead to further speculation in the housing market. There is evidence though, that lending to property companies is improving and mortgage approvals have been accelerated. China's policy makers have adjusted to stabilise the property sector. There are going to continue to be other individual property developers having liquidity issues and creating further negative headlines, but we do not foresee Evergrande problems leading to contagion across the whole sector.

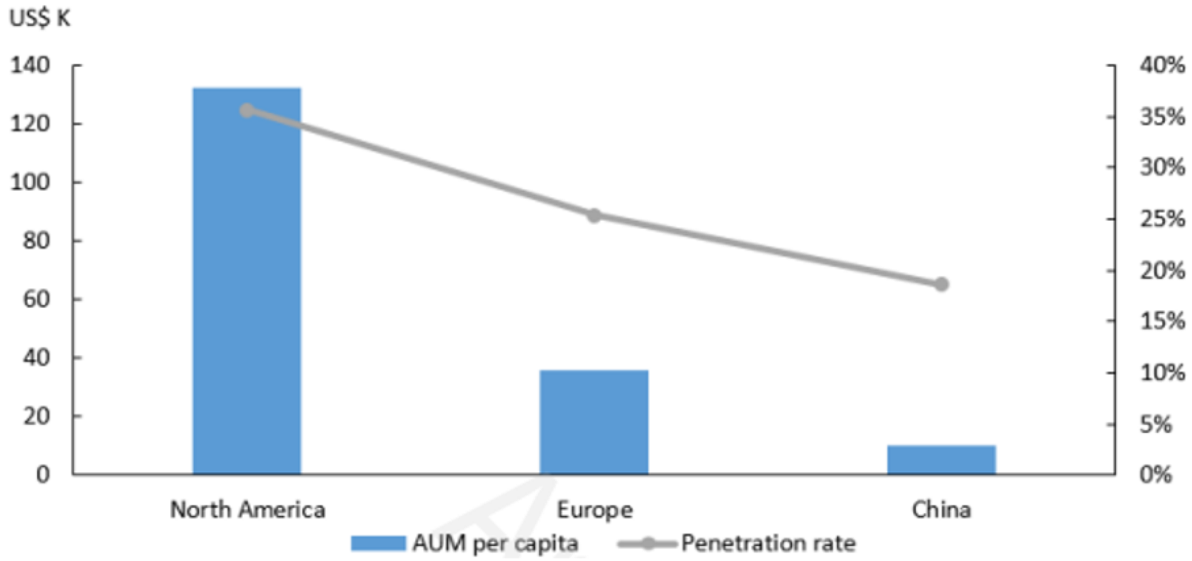
The performance of real-estate assets has been pressured by regulatory scrutiny, with the annual growth rate of the Top 100 cities' house price declining to 2.7% in November 2021 from 18.7% in December 2016. We expect lower house price appreciation in the next several years given the tightened control. This and the new asset management regulation, which has completely weeded out guaranteed return products, should see consumers change the way they allocate their savings going forward. This is in line with the Government's objective to encourage savings towards more productive assets rather than bricks and mortar. We thus expect further capital inflow into NAV based products, such as mutual and private funds.

Savings and Wealth Management

Given the policy tailwinds from the Government to encourage individuals to invest less directly and indirectly into property, we expect to see the Chinese stock market benefit. If property becomes less attractive as price appreciation fails to match expectations and indeed, we might see a decline in prices for 2022, then investors are going to start to look for alternative assets. China is embarking on new areas of investment, be it technology or environmental related areas and they deem investments in these to be a more productive use of savings than into property. We expect this to be a longer-term theme and we are positioning part of the portfolio for this. We also note that once the GDP per capita rises above $10,000, which China surpassed in 2019, household financial assets start to rapidly accumulate with double digit annual growth rates.

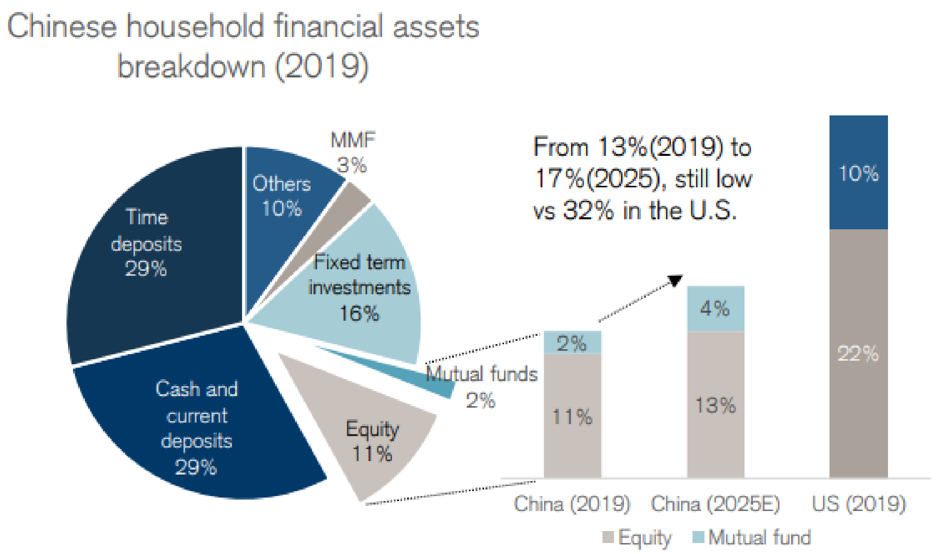
Penetration of Asset Management and Wealth Management in China as of 2020

Source Credit Suisse



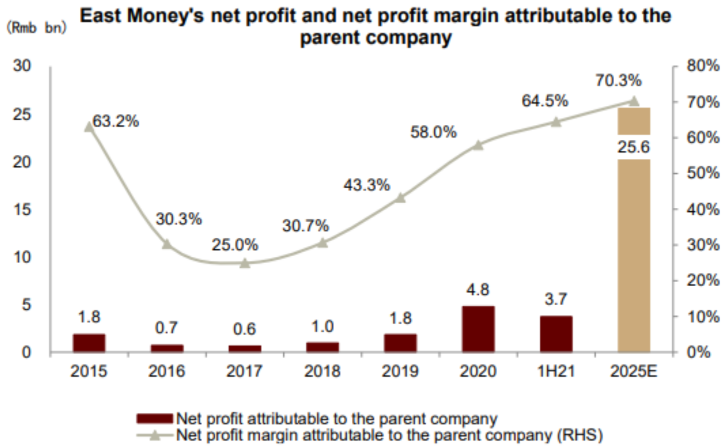
A new addition to the holdings in the Fund in 2021 has been **East Money Information**. For UK investors they are best described as an equivalent to Hargreaves Lansdown based here in the UK. They started out as a financial news website providing data and advertisement services and directing traffic to traditional brokers. They then received a fund sales and securities license and morphed into being an internet broker and online sales platform and are a major beneficiary of: 1) rising household financial assets amid diversification from property; 2) reallocation from low yield deposits to more sophisticated investment products, and 3) better investor education and fast rising online channels. Only 20% of Chinese household assets are in financial assets, compared to 70% in the US, and within this equity and mutual funds represented no more than 13% in 2019. So the potential shift into the equity market is a huge opportunity.

Figure 12: Rising asset allocation towards equity/mutual funds



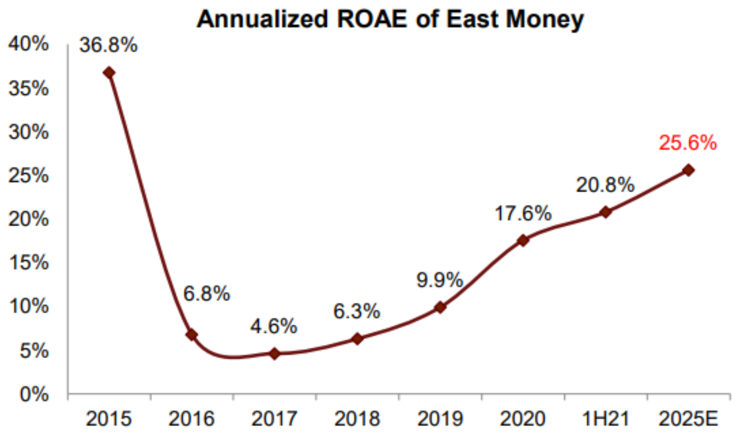
Note: not including MMF. Source: Oliver Wyman, Federal Reserve, Credit Suisse estimates

In particular East Money offers very attractive trading commission rates compared to legacy wealth management businesses at the large Chinese banks. They charge the minimum allowed at 2.5bps, which is significantly below offline peers, and for fund subscriptions where offline banks might charge 100bps one-off upfront charge and recurring sales service fee of 40bps, East Money charges 15bps upfront fee and 5bps service fee. Given the competitive pricing they are rapidly taking market share. All this is done whilst achieving very respectable margins and ROE. The chart below shows you the progression of margins, which are currently running at 65% and a ROE north of 20%. If CICC are correct in their forecasts and given the operational gearing of running an internet business, margins as well as the ROE can go higher over the next 5 years.



Net profits are expected to grow significantly over the next 5 years, with margins at envious levels.

Source: Corporate filings, CICC Research



Room to further improve their return on equity, which is already significantly higher than Chinese brokers.

Source: Corporate filings, CICC Research

We also remain long term holders of Noah, the wealth manager in China which focuses on a completely different set of individuals to East Money. Typically, entrepreneurs and businessmen who wish to use an adviser and have more than $1.5m to invest are prepared to lock up their money for longer periods of time in investments such as private equity and hedge funds. In addition to these two, we continue to hold AIA, a stock we have owned since our inception, which also benefits from growing wealth and savings across the whole of Asia as well as expanding their reach into China. Together these three holdings make up 9.1% of the Fund today.

Conclusion

China currently represents about 45% of our Fund, having added to the country over the last few weeks. We believe it is set up for positive returns in 2022, both from earnings growth and likely multiple expansion, as monetary conditions are eased and worries over growth in the economy dissipate over the next 12 months. With 50% of the Fund invested in other countries with strong earnings growth coming from economies that are reopening, even if they temporarily have to dial back plans for a couple of months as Omicron takes hold, should deliver double digit returns in 2022 for the Fund, having delivered low single digit returns in 2021.

Andrew Williamson-Jones 13/01/22