July 2021

The Pause That Refreshes

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VanEck Emerging Markets Bond Fund

EMBAX | EMBUX | EMBYX

Market Review

The Fund was down -1.01% based on net asset value in July, underperforming its benchmark, which was flat at 0.00% for the month. Peru accounted for most of the losses, which we expect to reverse going forward. YTD, the Fund was down -0.88%, compared to down -2.01% for its benchmark. We remain very constructive on Emerging Markets debt, with roughly 60% of the fund in local currency and carry[1] of 5.6%. We continue to favor Mexico, South Africa, Brazil, Colombia, Chile, and Indonesia. And, we continue to have no exposure to Turkey and Russia.

EM debt resisted headwinds in July, following some weakness in June

July's biggest country-specific headwind was Peru, which we view as temporary (the August news has been good; more on Peru below). The market also digested further hawkishness from the U.S. Federal Reserve (Fed), growing fear/uncertainty over the Delta variant, ongoing stimulus angst, as well as risks in key Chinese asset prices. This performance in the face of headwinds supports our view that these concerns are over-stated relative to the strong ongoing underlying trends supporting EM. On the Fed, if rising rates reflect rising final demand, EM debt has historically performed well. On Covid, not only is it disinflationary, we do not see adverse economic or asset price outcomes in many of the countries that are vulnerable (i.e., no lockdowns, and immunity by other means). On fiscal stimulus out of the US, the angst seems to be as reliable as the outcomes – the U.S. Congress just announced approval of a $1.2T infrastructure spending Bill. On China, we will write on it in more detail in a future publication, but we think it is more about the details (which bonds or sectors are cheap) than about big anti-market generalizations about China. We do see Chinese authorities operating from a position of strength, though.

Back-to-back. When will our bullish outlook see a catalyst?

Soon, in our opinion. September should see "back to work", "back to school", "stimulus has your back", "EM central banks and finance ministries have your back", "the Fed has some backbone but it's due to reflation" and "Chinese authorities have dialed back support, but it's from a position of strength". In our view, the market is not positioned for this, having been expecting it all year but largely getting lost in wrong country-specific investments. We keep mentioning this last point, namely that the thesis of reflation and growth seems to have a lot of evidence, not least commodity prices strong almost across-the-board, as well as strong equity markets. But, due initially to rising treasury yields and later due to specific countries that ran into trouble (Brazil in the first quarter, for example), investors threw in the towel. We've tried to avoid these country-specific issues. We'd also note that we've maintained a "bullish" overall exposure to local currency of around 60% of the fund most of this year, but have been able to outperform our benchmark. Keep in mind that local currency debt is down 3.8% YTD[2], highlighting the importance of country-specific developments.

[1] Carry is defined as Current Yield.

[2] Refers to J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified Index (local currency EM debt).

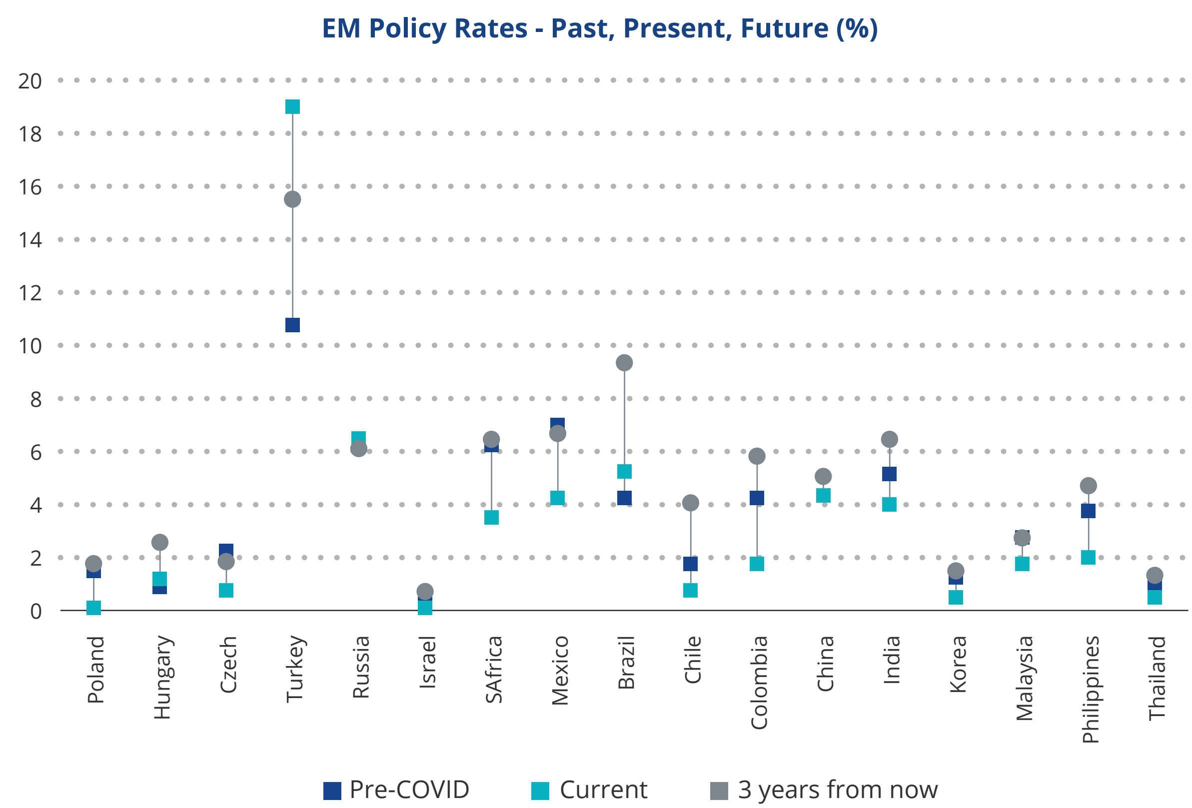
Peru got through

Like Chile, Colombia, Brazil, and even South Africa, Peru faced (in its case, dramatic) social pressure to increase spending. It ended up electing a far-left, market-unfriendly President Pedro Castillo. This and his initial cabinet made it July's worst performer. What happened next? After market weakness, Castillo appointed a market-friendly Finance Minister (Pedro Francke) and re-appointed a market-respected central bank head (Julio Velarde). In our view, we are left with a Peru that has a good finance minister a good central banker, and a president who could easily be gone in months (Peru has had 6 presidents in 5 years). We'll take that. We should note that Peru was the only one of the above-mentioned countries where we thought the risks warranted closing our exposure. We re-established our exposure late in July, as the market was still swooning, but August has already seen the beginning of a serious rebound.

EM debt has resisted some headwinds, and the tailwinds are strong

The ongoing powerful underlying trends supporting EM include global growth broadening out first from China, now from the U.S., and we expect soon from Europe and the rest of the world (ROW). This is happening to an emerging markets universe that has more-than-met the Fed's expected interest rate hikes and is seeing improved fiscal outlooks (revenues are rising faster than expected). On top of that, EMs have extremely resilient external accounts, which have been the primary or only cause of serious setbacks in decades past. And, as referred to above, many EM central banks have already started rate-hiking cycles. For these points, we'll reprint updates of two slides we've used in the past. Exhibit 1 shows rising EM policy rates, and Exhibit 2 shows how much EM FX[3] is lagging its usual relationship with commodity prices. The first is an argument for the carry; the latter is an argument for the upside risks to EM currencies. We tend to look at our investments in local currency debt right now as having attractive carry relative to fundamentals, with additional significant upside risks to their currencies.

Exhibit 1 – EM Rates on the Move

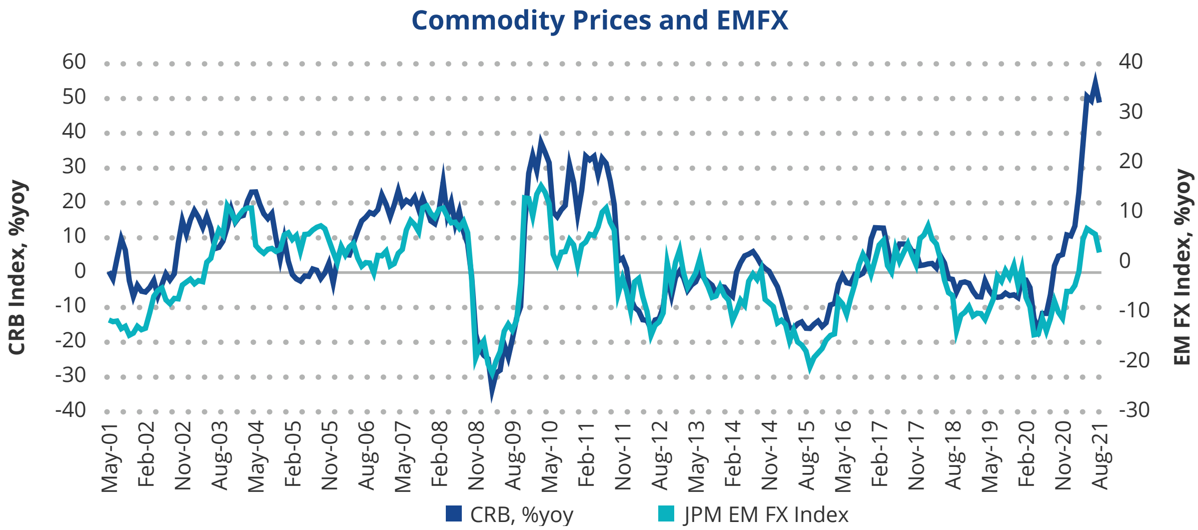


Source: VanEck. Bloomberg. Data as of July 2021.

Note: The 3YR forecast calculation is based on Bloomberg's estimates, priced by the market.

[3] Refers to J.P. Morgan Emerging Market Currency Index (EM FX Index).

Exhibit 2 – Commodities up, EMFX Just Starting



Source: VanEck. Bloomberg. Data as of August 2021.

CRB is defined as Commodity Research Bureau Index.

EM FX is defined as J.P. Morgan Emerging Market Currency Index.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in July were Mexico, South Africa, Colombia, Chile and Indonesia:

- We increased our local currency exposure in Peru and Mexico. The Peruvian assets were initially hit after far-left Castillo was elected President. The appointment of similarly-minded Premier (who never held public office before) raised more questions. However, the new minister of economy is market-friendly, and it now looks like the central bank's (very credible) governor will stay for another term. In addition, the fragmented congress is a major obstacle to any radical policy agenda. Finally, local valuations look attractive. In terms of our investment process, this improved the technical and policy test scores for the country. As regards Mexico, the country is expected to benefit from higher oil prices and a pending infrastructure package in the U.S. The central bank now looks more hawkish, and valuations are attractive. This improves the country's economic, policy and technical test scores.
- We also increased our local currency exposure in Ukraine and Kazakhstan, and hard currency corporate exposure in India. India's corporate bond was a new issue that we believe was attractively priced (top initial allocation bucket). Ukraine benefits from the commodity rally and high remittances. There should be no large tourism outflows in 2021, and the fiscal balance is shaping up better than expected. The IMF's Special Drawing Rights (SDR) allocation is an extra boon - as is a good harvest forecast for this year. Potential risks include sticky inflation, frequent government reshuffles and the need to maintain a high (3-4%) real neutral rate. But on balance, the country's technical and economic test scores appear to look better now. In Kazakhstan, attractive local valuations and higher oil prices continue to improve the technical test score.
- Finally, we increased our hard currency sovereign exposure in Pakistan, Gabon and Costa Rica. Pakistan's external balance improved on the back of high remittances, the country is reasonably well funded externally, and better support from the U.S. is likely to translate into more support from the IMF. The central bank is fairly pragmatic, albeit the current account and external funding can become potential pressure points, and should be monitored. In terms of our investment process, Pakistan's economic and policy test scores looks stronger now. Gabon has finally agreed to a 3-year IMF deal, and part of the funding can be disbursed immediately. The country should also continue to benefit from higher oil prices. This strengthened the technical and policy test scores for the country. Costa Rica is progressing with its IMF program, and the government is making a concerted effort to reduce the fiscal gap. The congress approved the IMF bill, paving the way for the actual disbursement. In terms of our investment process, this improved the policy test score for the country.

- We reduced our local currency exposure in Poland and China. Poland's central bank is stubbornly dovish, despite the solid recovery and elevated inflation. Local valuations are becoming increasingly stretched (bottom of bucket 4), worsening the technical and policy test scores for the country. China's tech crackdown is affecting the overall market sentiment about the country as an investment destination in general, and financial stability, in particular. Local valuations look less attractive, especially against the backdrop of on-going geopolitical complications. These factors worsened China's policy and technical test scores.
- We reduced hard currency corporate exposure in Macau and local currency exposure in the Dominican Republic. The reduction in Macau reflected the above concerns about China (especially corporate contagion), worsening the technical test score for the country. The Dominican Republic's local bonds are the "richest" in our valuation model (bottom of the lowest initial allocation bucket). We are also becoming concerned about unorthodox policy signals from the central bank, which refused to hike its policy rate despite rising inflation pressures (hoping that the government will "fix" the problem with price controls). In terms of our investment process, this worsened the technical and policy test scores for the country.
- Finally, we also reduced hard currency sovereign exposure in Bahrain and Tunisia. In Bahrain, the IMF's call for urgent fiscal adjustment brought forward concerns about the debt trajectory, worsening the country's policy and economic test scores. In addition, sovereign valuations look less attractive now (which means a weaker technical test score). Tunisia's domestic political crisis can affect the reform agenda and the IMF talks. If there is no IMF program, the central bank's international reserves can drop dangerously low, raising a risk of debt restructuring. In terms of our investment process, this worsened the country's policy and economic test scores.

Average Annual Total Returns (%)

As of July 31, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-1.01	-0.26	-0.88	7.86	5.02	2.80
Class A: Maximum 5.75% Load	-6.70	-5.99	-6.58	1.65	3.79	2.13
Class I: NAV (Inception 7/9/12)	-0.97	-0.18	-0.68	8.09	5.32	3.09
50 GBI-EM GD / 50% EMBI GD	0.00	1.53	-2.01	3.60	3.86	2.94

As of June 30, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-0.72	3.91	0.14	14.25	5.44	2.94
Class A: Maximum 5.75% Load	-6.43	-2.06	-5.62	7.68	4.19	2.26
Class I: NAV (Inception 7/9/12)	-0.69	3.94	0.29	14.41	5.73	3.23
50 GBI-EM GD / 50% EMBI GD	-0.24	3.81	-2.01	7.09	4.11	2.97

† Monthly returns are not annualized.

Expenses: Class A: Gross 2.30%; Net 1.25%. Expenses are capped contractually until 05/01/22 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at Net Asset Value (NAV). An index's performance is not illustrative of the Fund's performance. Certain indices may take into account withholding taxes. Index returns assume that dividends of the index constituents in the index have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

Source: VanEck, Bloomberg.

Prior to May 1, 2020, the Fund was known as the VanEck Unconstrained Emerging Markets Bond Fund.

International Monetary Fund (IMF) is an international U.S.-based organization of 189 countries focused on international trade, financial stability, and economic growth.

The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available The WGBI is a broad benchmark providing exposure to the global sovereign fixed income market. The Blended 50/50 Emerging Markets Debt Index is an appropriate benchmark because it represents the various components of the emerging markets fixed income universe.

Duration measures a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. This duration mea- sure is appropriate for bonds with embedded options. Quantitative Easing by a central bank increases the money supply engaging in open market operations in an effort to increased lending and liquidity. Monetary Easing is an economic tool employed by a central bank to reduce interest rates and increase money supply in an effort to stimulate economic activity. Correlation is a statistical measure of how two variables move in relation to one other. Liquidity Illusion refers to the effect that an independent variable might have in the liquidity of a security as such variable fluctuates overtime. A Holdouts Issue in the fixed income asset class occurs when a bond issuing country or entity is in default or at the brink of default, and launches an exchange offer in an attempt to restructure its debt held by existing bond holding investors. Carry is the benefit or cost for owning an asset.

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Investing involves risk, including loss of principal. You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in below investment grade securities, credit, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, sectors and sovereign bond risks. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, and the risk that a position could not be closed when most advantageous. The Fund may also be subject to risks associated with non-investment grade securities.

Investors should consider the Fund's investment objective, risks, charges, and expenses of the investment company carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing. Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus.

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