

Structural Growth to Regain Luster, After Style Rotation Calms

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VanEck Emerging Markets Fund

GBFAX / EMRCX / EMRIX / EMRYX / EMRZX

Performance Review

The VanEck Emerging Markets Fund (the “Fund”) returned 0.52% during the first quarter of 2021, underperforming its market index benchmark, the MSCI Emerging Markets Investable Market Index (“MSCI EM IMI”), which returned 2.86% for the same period.

Average Annual Total Returns (%) as of March 31, 2021

	1Q21†	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	0.52	57.95	4.65	11.99	5.05
Class A: Maximum 5.75% load	-5.26	48.87	2.60	10.67	4.43
MSCI EM IMI	2.86	61.09	6.33	11.75	3.61
MSCI EM Index	2.29	58.39	6.48	12.07	3.65

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable 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 investor’s 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). Index returns assume that dividends of the Index constituents in the Index have been reinvested. Performance information current to the most recent month end is available by calling 800.826.2333 or by visiting vaneck.com.

Expenses: Class A: Gross 1.53%; Net 1.53%. Expenses are capped contractually until 05/01/21 at 1.60% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

First quarter performance was a little disappointing for us. There are three main reasons, in our view. Firstly, the recharged economic momentum of the U.S. versus the stabilization of the Chinese economy impacted dollar based returns. Secondly, although the year started with continued leadership of the most aggressive growth names, that abruptly switched to a value/reflationary trade, without pausing to reward true structural growth at a reasonable price. We believe this will change, when style rotation calms down. Thirdly, some of the very large cap standard bearers of structural growth at a reasonable price, such as Alibaba (6.09% of Fund net assets*), had a challenging quarter, in part due to regulatory concerns. But one thing didn’t change – we continue to see the most remarkable acceleration of digitalization across emerging markets that has created ample opportunity for investing in forward-looking, sustainable and structural growth companies in the space. We do not think this pace is decelerating, rather we see more acceleration in digitization and disruption going forward.

Market Review

During the first quarter, many aspects of economic activity in emerging markets returned to a semblance of normality, despite varying Covid-19 experiences. Whilst vaccination will generally be behind the pace of developed markets, conventional monetary policy and lower fiscal support, compared to developed markets, bodes well for decent economic growth over the next several years. The success in vaccinations in the U.S., aided and abetted by truly remarkable and costly fiscal stimulus, is engendering a reshaped narrative of American economic exceptionalism, just as China pursues a more prudent course.

Inflation expectations have become a concern for all investors. We see this as principally the U.S. concern and our observations on disruption and debt dynamics lead us to the conclusion that sustained inflation into 2022 is unlikely to be a major concern. In our view, it is more likely that global central banks will continue to compress business and capital market cycles, hindering the extrapolation of the current reflationary “trade.” Essentially, digitalization, disruption, demographics and the changing nature of employment make us skeptical that the Phillips curve¹ will work and we believe that as we enter the second half of the year, the reflationary trade will increasingly be seen to be a case of “buy the rumor and sell the news.”

China’s economy continues to consolidate its post-Covid recovery, with what appears to be strong internal and external economic numbers. Year-on-year numbers are challenging, in part due to lapping the initial stages of the lockdown and the annual challenge of incorporating the lunar new year which takes place on differing dates. Careful analysis reveals a solid economic story but, as history shows, with potential challenges. The rise of leverage ratios has been a source of concern for some observers for a number of years now. We do not dismiss this concern but we believe it is well understood and monitored. As an added stress factor, China-U.S. relations continue to be running sore. Whilst the communication has improved and the negative trajectory is less worrisome, there are real challenges ahead, giving some investors pause, despite indubitably exciting investment opportunities, particularly relating to China’s domestic demand. We have spent a great deal of time analyzing domestic demand, structural growth companies that are taking market share from foreign competitors. We think that this is a rich vein to tap and we see forward-looking, sustainable and structural growth opportunities in both the consumer and industrial sectors. We also see some fundamentally exciting investment opportunities in certain sectors that have sold off due to concern about regulatory action. These pockets of alpha exist in areas such as internet, local services and education.

The remainder of **EM Asia** continues to recover, though with considerable differentiation across the region. In general, northeast Asia has outperformed due to the following factors: better virus control measures, relatively more exposure to global demand for tech products and less to virus-sensitive sectors such as tourism, and less sensitivity to rising dollar yields.² India is suffering a further bout of Covid infection, necessitating another

tightening of mobility restrictions. We are not particularly concerned about this in the long run but we do think that, in general, valuations leave a little less room for error than some other markets.

In **LatAm**, the real business cycle recovery has softened on the back of a rising second wave of the pandemic, which led the authorities in many countries to reinstate stricter social distancing and activity protocols. Even Chile, which has been far ahead of its neighbors in terms of vaccinations, has seen a resurgence of Covid and further mobility restrictions. In Brazil, economic activity has recovered but with depressing predictability – political noise has affected the market. Regionally, we expect the recovery to strengthen during 2H2021 as a result of gradual broadening of ongoing vaccinations, accommodative financial policies, firmer terms of trade and an overall supportive global growth backdrop.³

With regards to **CEEMEA**, it is a mixed picture. The economies with a higher beta to commodity prices (i.e., Russia and South Africa) have fared reasonably well, even as there are increased concerns about new Russian sanctions. Turkey scored a bit of an own goal, as the country’s President replaced the central bank governor just as he was about to establish an increased monetary credibility. Meanwhile, the unacceptably slow EU vaccination effort has weighed upon the economies of Eastern Europe.

Fund Review

On a sector level, Communications, Financials and Consumer Staples contributed to the Fund’s relative performance, while Industrials, Consumer Discretionary and Information Technology detracted. On a country level, companies from South Africa, Malaysia and Tanzania helped the Fund’s performance on a relative basis, whereas Taiwan, Germany (Delivery Hero) and Saudi Arabia detracted.

Top Contributors

Top contributors to return during the quarter:

- **Cholamandalam Investment and Finance Co. Ltd. (Chola)** (1.75% of Fund net assets*) – the contribution of this name showcases our philosophy well over this quarter. This is a >five year position in a business we know and understand well. Chola provides finance to small businesses in India,

¹ The Phillips curve states that inflation and unemployment have an inverse relationship: higher inflation is associated with lower unemployment and vice versa. The Phillips curve was a concept used to guide macroeconomic policy in the 20th century but was called into question by the stagflation of the 1970’s. Understanding the Phillips curve in light of consumer and worker expectations shows that the relationship between inflation and unemployment may not hold in the long run, or even potentially in the short run.

² Source: Goldman Sachs Economics Research. Data as of March 20, 2021.

³ Same as above.

mostly in truck finance. The management team, through a process driven approach to risk that leans hard on data and technology, has delivered ~20% through cycle ROE for 10 years. One of the material benefits of this kind of high quality financial business is that it is able to take market share from weaker competitors in times of stress, allowing for it to further grow over and above its 20-25% long-term growth trajectory with predictably low levels of impairment.

- **Tencent Holdings** (6.37% of Fund net assets*), a longtime holding of the Fund, is a leading Internet company in China with the largest online community, focusing on social networking, chat and online gaming. In China, Internet is a structural growth theme with extensive untapped potential and it continues to increase in demand from current users. Based on its strong customer base, we believe Tencent is well positioned to monetize its enormous base of users through value-add advertising and cloud and payment management services. During the quarter, the company benefitted from increased usage of its gaming assets and saw some potential stabilization of its market share in digital advertising, together with an easier environment around the games approval process.
- **Transaction Capital Ltd.** (1.51% of Fund net assets*) is a niche financial services company in South Africa with leading positions in its micro-lending and debt collection divisions. During the quarter, the issuer outperformed, as lending growth picked up and previous concerns around further asset quality deterioration and provisioning started easing coming out of 2020. Transaction Capital also acquired a 49% stake in WeBuyCars, a used car sales platform with a growing e-commerce presence in South Africa, which opens up new verticals for growth and further improves the outlook for the company.
- **Naspers Limited Class N** (1.93% of Fund net assets*) – Our investment in Naspers, the largest shareholder in global internet company Prosus with exposures to Tencent, Delivery Hero and large investments in key verticals including online classifieds, online food delivery and payments, has performed well during the quarter. Prosus has accelerated its investment spend over the past six months, including a \$5B buyback program in Prosus and Naspers shares (67% complete with another \$1.2B to be spent on the remaining Naspers buyback) and the increase of ownership in Delivery Hero, as well as some M&A transactions. While the Naspers discount to NAV remains wide, we believe management has been taking constructive steps towards reducing the discount and

unlocking shareholder value going forward.

- **Taiwan Semiconductor Manufacturing (TSMC)** (3.69% of Fund net assets*) continues to benefit from its technology leadership over Intel and its growing wallet share of global hardware leaders like Apple and Nvidia – this was a major driver of performance in the past quarter. We continue to believe in TSMC’s global dominance as the principal driver of sustainable high margins and ROE. These key structural factors mitigate cyclical risks associated with variance of memory pricing.

Top Detractors

Top detractors to return during the quarter:

- **New Oriental Education & Technology Group, Inc. (EDU)** (0.96% of Fund net assets*) is the largest provider of private educational services in China. Renewed fears of further regulation of out of school tutoring impacted EDU’s performance in the quarter. Concern about the amount of academic cramming that students are undertaking, in addition to regular school, weighed down the whole sector. However, we think that some of the potential regulations, such as limits on advertising, will relatively benefit a strong incumbent, such as EDU.
- **Delivery Hero** (1.95% of Fund net assets*) is a food delivery service listed in Germany. While the company remains headquartered in Germany, most of its actual operations are based in emerging markets, spanning across EMEA, LatAm and Asia and operating in close to 50 countries globally with a leading position in 90% of them. After a very strong performance in 2020, our position in Delivery Hero underperformed during the quarter, as investors questioned whether 2021 might represent a more challenging year up against a strong base. However, we continue to be encouraged by the finalization of the South Korean Woowa acquisition that puts Delivery Hero in the leadership position in one of the larger and fast growing Asian markets, as well as the continued growth momentum across their geographies along with the gained efficiencies that bring us closer to profitability.
- **Movida Participacoes SA** (0.80% of Fund net assets*) is one of the largest car rental companies in Brazil, operating three primary lines of business: car rental, fleet rental and used car sales (Seminovos). The company has been posting strong results over the last few quarters ahead of consensus and we believe that Q1 numbers will also come strong with

margins at similar levels to those in Q4. Fleet utilization continues to be high. However, the company has provided a more cautious outlook for the remainder of 2021, given the impact of the second wave of Covid on the economy. Movida expects utilization levels to come down. In addition, OEMs⁴ in Brazil are struggling with supply chain issues and there is a chance that they will not be able to provide all cars that Movida is expecting for the year, therefore affecting the company's growth trajectory. Despite this, we view the company as being in a strong financial position as it relates to its cash and debt levels. In addition, it has a much better cost structure in place today vs. before the pandemic, which will be positive going forward.

- **JSL S.A.** (0.56% of Fund net assets*) is a Brazilian conglomerate intermodal logistic company with the largest and most integrated portfolio of services in the sector, including general cargo transportation, dedicated transportation logistics, commodity logistics, internal logistics, bus charter and fleet management with drivers, warehousing and urban distribution. The company has a solid business model and potential growth opportunities coming from the consolidation of the industry. Volumes have been strong on the asset light side of the business, in our view, which includes road transportation (i.e., beverages, food and consumer goods) and the issuer has been able to dilute costs. However, the asset heavy side of the business has been impacted by the sugar and ethanol sector, as well as the automotive sector (OEMs having supply chain issues) and, as such, less cars are being transported. The company has also been impacted by the second wave of Covid in Brazil and not very high liquidity. All these factors affected JSL shares during the first quarter.
- **Alibaba Group Holding** (6.09% of Fund net assets*), a long-time holding of the Fund, is one of the largest digital platform enterprises in China. The company was extremely well held and expectations were probably a little ahead of where they should have been, as we approached the aborted Ant Financial IPO. The overall confusion and lack of a clear regulatory framework led the stock to underperform sharply into the year end. During the first quarter, a combination of growth underperforming globally and general regulatory uncertainty contributed to the stock's overall underperformance.

Top Buys and Sells

During the quarter, we established new positions in MediaTek Inc., Fix Price Group Ltd., Vamos Locacao de Caminhoes Maq., Yifeng Pharmacy and InPost SA.

- **MediaTek Inc.** (0.73% of Fund net assets*), principally involved in the design, manufacturing and distribution of multimedia integrated circuit chipsets, the company is benefitting from industry tailwinds in its products designed for both the mobile and non-mobile sectors. The issuer is gaining market share from capacity constrained competitors and has successfully targeted customers benefitting from Huawei's issues with the U.S. administration. Product momentum is expected to be strong.
- **Fix Price Group Ltd.** (0.64% of Fund net assets*) is the "dollar store" of Russia with ~4k stores in the country, making it the leader in the variety value retail segment. The company went public during the quarter and we decided to take a position in the name after multiple engagements with company management. We are excited about the issuer's longer-term structural growth opportunity in Russia as well as neighboring countries and what we view as solid unit economics, returns profile of the company relative to its peers in the space and the experienced management team.
- **Vamos Locacao de Caminhoes Maq.** (0.50% of Fund net assets*) is the leader in the truck, machinery and equipment rental in Brazil. The company offers customized solutions to clients with long-term contracts (5 years). It is the largest player with 70% market share. We believe this sector presents solid fundamentals that support sector growth and a large addressable market. As such, we initiated our position in Vamos because of its sustainable and structural growth business model, strong management team and very attractive valuation.

During the period, we exited positions in NCSOFT Corp., Shenzhen International Group and Advtech Ltd.

- **NCSOFT Corp.** (0.00% of Fund net assets*), established in 1997 and headquartered in South Korea, is one of the leading gaming publishers in the world. The company experienced downside risk on earnings due to worse than expected international launch of a key video game "Lineage2Mobile" and the risk of a delay in further major game titles expected this year. Additional regulatory risk

⁴ OEM stands for original equipment manufacturer, an organization that makes devices from component parts bought from other organizations.

around the sale of in-game items made the expected return for this video game unfavorable versus other investment options in this industry.

- **Shenzhou International Group** (0.00% of Fund net assets*) is a leading Chinese clothing manufacturer. Whilst the operational achievements of this textile manufacturer have been impressive and the end customer demand looks very solid, we believe that valuation had simply run ahead of the fundamentals.
- **Advtech Ltd.** (0.00% of Fund net assets*) is a private education provider in South Africa with K-12 schools and tertiary operations. Our conviction in the name has been declining due to tougher economic conditions in South Africa – driving higher emigration out of the country, negatively affecting enrollments over the past few years and weighing down on the company’s growth prospects.

Outlook

We continue to be optimistic about the emerging markets outlook for 2021 and beyond. We see considerable potential for strong growth ahead, boosted by Covid-19 vaccine availability, catalyzing a return to “normal” in EM economies, albeit at a

slower pace for some. Inflation will likely return to lower levels and rates will likely stay at relatively accommodative levels.

This is a conducive environment for investments in companies that represent structural growth at a reasonable price. In many respects, we occupy the middle ground between unjustifiable valuations for long duration, high growth stocks and the “moment in the sun” value trades that have become the new momentum. We spend our time interacting with and analyzing forward-looking, sustainable, structural growth companies that we believe have strong prospects and are led by capable and credible management teams. We do not frantically toggle between styles to try to capture market zeitgeist. We believe that staying true to our style, with persistence and discipline, will be rewarding over the medium and longer term. Investing in emerging markets is for the long haul. Whilst we can’t say exactly how all businesses will recover, we can say, with conviction, that the Fund is well positioned for the future of emerging markets.

†Quarterly returns are not annualized.

*All country and company weightings are as of March 31, 2021. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary.

All indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets countries. The MSCI Emerging Markets Investable Market Index (IMI) is a free float adjusted market capitalization index that is designed to capture large-, mid-and small-cap representation across emerging markets countries.

MSCI Emerging Markets Investable Market Index (IMI) captures large, mid and small cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

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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 the risks associated with its investments in Chinese issuers, direct investments, emerging market securities which tends to be more volatile and less liquid than securities traded in developed countries, foreign currency transactions, foreign securities, other investment companies, Stock Connect, management, market, operational, sectors and small- and medium-capitalization companies risks. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

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