Press release

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Three year anniversary of VanEck Vectors Morningstar US Wide Moat UCITS ETF

Annualised performance of 17.5 percent since launch

- Tense valuations on the U.S. equity market; investors should rethink their weightings by market capitalisation
- Alternative indices such as the Morningstar Wide Moat Focus Index are designed to remedy this: seeking selected wide moat rated U.S. stocks at attractive valuations
- VanEck Vectors Morningstar US Wide Moat UCITS ETF (ISIN: IE00BQQP9H09) celebrates its third anniversary; annualised performance of 17.5 percent since launch (data as at 30 September 2018)

If they haven't done so already, investors should rethink their investment process for U.S. stocks after the S&P 500 reached a new all-time high in September. VanEck Vectors Morningstar US Wide Moat UCITS ETF (ISIN: IE00BQQP9H09), which celebrates the third anniversary of its launch, offers a smarter investment approach. Since October 2015 it has generated an annualised performance of around 17.5 percent (data as at 30 September 2018).

Dimitri Klymenko, Product Manager at VanEck, explained: "The U.S. continues to provide interesting opportunities for investment thanks to its strong economic growth and higher employment levels. Following the longest uptrend in the history of the U.S. stock market, valuations are tense. In this setting, simply following the market means buying equities at valuation highs, which means that they are potentially overpriced. This inevitably reduces the earnings potential."

In a market with high valuations investors should consider whether they want to gear their portfolios to indices which consider and weight equities on the basis of market capitalisation. "As we see it, it is more advisable to choose models which work with a number of relevant criteria," said Klymenko. This is true for the Morningstar® Wide Moat Focus Index™, which has outperformed the S&P 500 by 117 percentage points since its launch in 2007 (as at 30 September 2018[1]). Over the past three years the VanEck Vectors Morningstar US Wide Moat UCITS ETF (ISIN: IE00BQQP9H09) has also offered European investors an opportunity to benefit from the exposure to this index. It is the only UCITS-compliant ETF which tracks the performance of the Morningstar Wide Moat Focus Index. Its portfolio consists of between 40 and 80 U.S. equities deemed to offer long-term sustainable competitive advantages, which are valued on the basis of their fair value. The underlying indexing model comprises a multi-tier analysis process developed by the Equity Research team at the research firm Morningstar.

Economic moats enable sustained competitive advantages and the potential for outperformance

Morningstar's moat analysis process is based on a universe consisting of around 1,500 U.S. equities. From this universe, more than 100 Morningstar analysts as a first step filter out all companies which possess sustained competitive advantages and use them to protect their market shares against the competition. In this context, competitive advantages may include intangible assets, cost benefits, switching costs, network effects or efficient scaling. In addition, the analysts establish the extent to which these 'moats' or competitive advantages can be maintained over the

[1] indexes are not available for direct investment

long term. Companies whose competitive advantages are forecast to protect them against the competition for 20 years or more are given a Morningstar® Economic Moat™ rating of "Wide" and are thus eligible for inclusion in the index. One example of such a stock is drinks manufacturer Coca Cola, which has become a brand worth billions thanks to its legendary secret recipe. It is for good reason that the brand value is put at USD 73 billion in the balance sheet, equivalent to more than 40 percent of the company's market capitalisation.

Quality at the right price

A strong competitive advantage or wide moat do not make for an attractive investment by themselves. Buying an economic moat is good business only if the price is right. Based on the assumption that each stock has a long-term inherent value, Morningstar carries out a multi-tier analysis that provides a detailed forecast of the company's future cash flows. This produces the so-called fair value. This fair value is then put in relation to the current price of the stock. If both figures correspond, the current valuation is appropriate, which means that the projected cash flows are factored into the current stock price. If the current price is below the fair price, however, this suggests a favourable valuation. Otherwise, the stock is probably too expensive and thus has no more than limited return potential.

Ultimately, between 40 and 80 U.S. stocks with a corresponding "Wide" moat rating and whose current stock price is the furthest below their long-term fair value make it into the Morningstar Wide Moat Focus Index. A rebalancing takes place every quarter. Investors who have focused on this index with the VanEck Vectors Morningstar US Wide Moat UCITS ETF (ISIN: IE00BQQP9H09) have in the past outperformed the broader market as represented by the S&P 500. This success is not a simple matter of course: After all, according to data provided by Standard & Poor's, over the past ten years around 90 percent of all actively managed U.S. large cap funds that track the S&P 500 as their benchmark have underperformed it (as at 29 December 2017).

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VanEck

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The Morningstar® Wide Moat Focus Index™

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