November 2022

What a Difference One Month Makes

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VanEck Emerging Markets Bond Fund

EMBAX | EMBUX | EMBYX

Overview

The Fund outperformed its benchmark, the 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), by +269 bps in November and was up 10.05% at net asset value for the month, compared to up 7.36% for the benchmark. Year-to-date ("YTD"), the Fund outperformed by +552 bps, with the Fund down -10.26% and its benchmark down -15.78%. The performance is what we telegraphed in our October monthly commentary – namely, we said that "China was basically the sole performance-detractor (for the Fund) month-to-date ("MTD") and YTD, but the Fund held on to its China property names...making China's reopening and policy support for the sector a big winner for that view." The Fund also benefited from our related shift to Asian risks, with Sri Lanka, Thailand and India being the other top contributors to outperformance.

As of November month-end, the local currency exposure was at approximately 46.34% of exposure (due to increased Asian EM FX). The Fund's duration was 6.03 and the carry[1] is a juicy 8.97%.

China's re-opening is a key new un-priced market driver. This was a key risk (the risk of re-opening) to which the market did and does not have much exposure and is a big part of why the fund shifted so much to Asia in recent months. After rumors and hints of a change in China's zero-Covid policy, it now looks like China has significantly loosened controls; this is a clear change in policy. It is also accompanied by increasingly accommodative macro policies. And, by very supportive structural policies – the government keeps encouraging the resolution of defaults and non-payment in the country's property sector (Chinese property and some growth-sensitive HY bonds are our exposure in China). The market responded by making Asian currencies – such as the Thai baht and Indonesia rupiah (among our biggest overweight exposures) – and Chinese corporate bonds explode upward in price. To be clear, our stance was not that it was a certainty that China would reopen, our view was that reopening risk was not reflected at all in selected asset prices such as Asian FX and Chinese property bonds. Those asset prices had the biggest upside risk. We also saw them as having very limited downside risk, as there had already been a de-risking from Asia – there was and remains extremely low exposure to Asia, in our opinion.

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 7.30% as of 11/30/2022. 30-Day SEC Yield is a standard calculation developed by the Securities and Exchange Commission that allows for fairer comparisons among bond funds. It is based on the most recent 30-day period. This yield figure reflects the interest earned during the period after deducting the Fund's expenses for the period. In the absence of temporary fee waivers, the 30-Day SEC Yield for EMBAX would have been 6.11% as of 11/30/22.

The fact of Eurasia is another still-unpriced market driver. Emerging markets (EM) and Asian economies, in particular, could de-couple positively, yet again, from developed markets (DM). Eurasia's development is a form of resource war and risk to commodities supply for DM. We showed a map of Eurasia in our last monthly commentary, which is the best simple explanation of our view. Central Asia is surrounded by Russia, China and Iran. That region and all the economic/financial/security structures that have been built are a new economic entity to which "the West" will have no access. It should take until 2025 for Russia's oil and gas pipelines to be re-directed East, but it is well underway. This is a profound tailwind for the region's growth and financial development. It is also a profound tailwind for DM, which has lost access to Eurasia. China and Russia's leaders have laid out currency bloc plans on the back of all of their structures, so don't be surprised when you see digital gold and other currency arrangements that wean the world off of USD (and by definition, off of EUR and JPY).

These drivers are bullish for commodities, Asian growth, and to the extent that supply chains truly revert, disinflation. It is not, however, bullish for U.S. and DM inflation, nor U.S. and DM growth, because U.S., Europe and Japan are excluded from the Eurasian century. As a result, China's re-opening is positive for China and commodities, but that's it. It could be outright negative for DM risk-free rates (the U.S. Federal Reserve (Fed) doesn't control food and energy prices, after all) because DM will get the inflation risk without the growth. **Stagflation could increasingly define DM.**

As a result, curve inversion in the U.S. treasury market seems to be the wrong reaction. We get the "everything rally" and are obviously positioned for it (see below). But, what about next year? Inflation may not be low enough to let the Fed cut 70bp after May, which the futures market is predicting. That's 70bp of risk-free yield that could be easily challenged next year, without invoking other "off-sides". Similarly, rising recession risks (and deeper recessions) mean that spreads could also come under upward pressure. There is nowhere to hide, in other words. Unless, of course, you are nimble on duration and active in investing. To be super-clear, the market has, in our view, been too complacent in thinking that the turn-in rates is the turn-in risk. Our view is that "the turn-in rates is not the turn-in risk". First, rates are rallying due to technicals – there was too much bearishness, so fundamentals weren't able to express themselves in this period. Second, the Fed can't be happy with risk-on and an easing in financial conditions as they are hiking. Third, the path of inflation might not give the Fed an opportunity in 1H 2023 to say that their policy rate is higher than the inflation rate. Related, we are in a world of headline inflation – core, which the Fed targets – excluded food and energy, and like we said the Fed has limited purchases on food and energy prices. Most people, on the other hand, focus on headline inflation; this underlines the risk.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in November were Malaysia, South Africa, Mexico, China and Thailand:

- We increased our hard currency corporate exposure in China and India, hard currency quasi-sovereign exposure in China, and hard currency sovereign exposure in Sri Lanka. The key driver in China was a policy shift in real estate and the zero-COVID approach – the main factors behind a string of negative growth surprises and downgrades of the consensus growth forecasts for 2022 and 2023. This included a sizable rescue package for property developers and the easing of some pandemic restrictions in major urban areas, which can lead to further easing in H1-2023. In terms of our investment process, this improved the policy test score for China. As regards India, we bought a bond issued by a hydro energy corporate, which gave us exposure to the country's green energy sector. In Sri Lanka, we were motivated by the ongoing progress in debt restructuring, and the prospect of getting additional financing from international financial institutions once an IMF program is finalized. This should improve the country's policy and economic test scores.
- We also increased local exposure in Colombia, South Africa and Poland, as well as hard currency sovereign exposure in Poland. Colombia bonds were oversold on policy concerns, however, both President Gustavo Petro and the congress backed down, improving the policy test score for the country. South Africa was expected to benefit from peaking inflation and credible monetary policy (the central bank frontloaded a fair amount of rate hikes), while a big selloff (in September/October) improved valuations (and the technical test score for the country). In Poland, it looks like the central bank might have room to remain on hold due to nascent disinflation, while the relatively more hawkish European Central Bank (ECB) (vs Fed) can provide a supportive global backdrop for the currency. As regards Poland's hard currency exposure, we do have some questions about the need to borrow externally at this moment in time, but Poland's external position is reasonably solid, so we see no additional risks here that would worsen the economic test score for the country.
- Finally, we increased local currency exposure in Chile, Uruguay, Malaysia and the Czech Republic. One reason in Chile is that the global duration play might be getting exhausted, and local bonds might offer better returns due to improved valuations. Further, the central bank might have more room to stay on hold safely if disinflation continues. In terms of our investment process, this improved the policy and technical test scores for the country. Uruguay remains a great regional disinflation story, which is now supported by the proper inflation-targeting monetary policy framework. Malaysia's political risks subsided after the elections, with the formation of the government (the better policy test score). And in the Czech Republic, disinflation and weaker growth should support the central bank's "pause" and eventual rate cuts.

- We reduced our local, hard currency sovereign and hard currency corporate exposure in Indonesia, as well as hard currency sovereign and hard currency corporate exposure in Mexico, and local currency exposure in South Korea. One general theme in Indonesia and Mexico was exposure to changes in global duration (specifically longer duration). That theme worked well, but now there is a risk that longer yields might rebound if the Fed starts to pivot in the dovish direction. In terms of our investment process, this worsened the technical test score for these countries.
- We also reduced our local currency exposure in the Philippines, Peru and Zambia. Zambia's move reflected a price change; in the Philippines, the change was due to the bond's maturity. And finally, our decision in Peru was motivated by the same reasons as in Mexico and Indonesia – the impact of global duration on very long EM sovereign bonds. We think that this trade's potential is becoming exhausted, with a less attractive upside/downside balance of risks. These considerations worsened the technical test score for Peru.
- Finally, we reduced our hard currency sovereign exposure in the Bahamas and Hungary, and local currency exposure in Thailand. We like the macroeconomic and policy setups for Thailand's local debt, but we chose to trim our long-end exposure for the reasons that we described earlier. Duration considerations were also behind our decision to exit Hungary's sovereign bond. The Bahamas story is a bit different. The Bahamas continues to rebound from the pandemic (tourism), but the country faces higher borrowing costs, and the noise associated with the collapse of a large crypto player might not be beneficial for asset prices.

Average Annual Total Returns (%)

As of November 30, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	10.05	0.52	-10.26	-10.15	-0.22	0.34	0.20
Class A: Maximum 5.75% Load	3.72	-5.26	-15.42	-15.32	-2.17	-0.84	-0.39
Class I: NAV (Inception 7/9/12)	10.09	0.87	-9.85	-9.84	0.13	0.68	0.50
50 GBI-EM GD / 50% EMBI GD	7.36	0.96	-15.78	-14.53	-5.08	-1.82	-0.16

As of September 30, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	-6.31	-2.20	-16.36	-17.99	-2.45	-1.34	-0.12
Class A: Maximum 5.75% Load	-11.70	-7.82	-21.17	-22.70	-4.35	-2.50	-0.71
Class I: NAV (Inception 7/9/12)	-5.98	-1.95	-15.98	-17.60	-2.09	-1.00	0.19
50 GBI-EM GD / 50% EMBI GD	-5.62	-4.63	-21.27	-22.44	-7.06	-3.21	-0.63

† Returns less than one year are not annualized.

Expenses: Class A: Gross 2.33%, Net 1.28%; Class I: Gross 1.74%, Net 0.96%. Van Eck Associates Corporation (the "Adviser") has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses) from exceeding 1.25% for Class A and 0.95% for Class I of the Fund's average daily net assets per year until May 1, 2023. During such time, the expense limitation is expected to continue until the Board of Trustees acts to discontinue all or a portion of such expense limitation. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

The "Net Asset Value" (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV is not necessarily the same as the ETF's intraday trading value. Investors should not expect to buy or sell shares at NAV.

Definitions

International Monetary Fund (IMF) is an international U.S.-based organization of 190 countries focused on international trade, financial stability, and economic growth.

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 promote 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.

A **handle** is the whole number part of a price quote, that is, the portion of the quote to the left of the decimal point.

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There are inherent risks with fixed income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond. When interest rates rise, bond prices fall. This risk is heightened with investments in longer duration fixed-income securities and during periods when prevailing interest rates are low or negative.

Emerging Market securities are subject to greater risks than U.S. domestic investments. These additional risks may include exchange rate fluctuations and exchange controls; less publicly available information; more volatile or less liquid securities markets; and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

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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