December 2021

Hawks Soar Too

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Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX | **EMBUX** | **EMBYX**

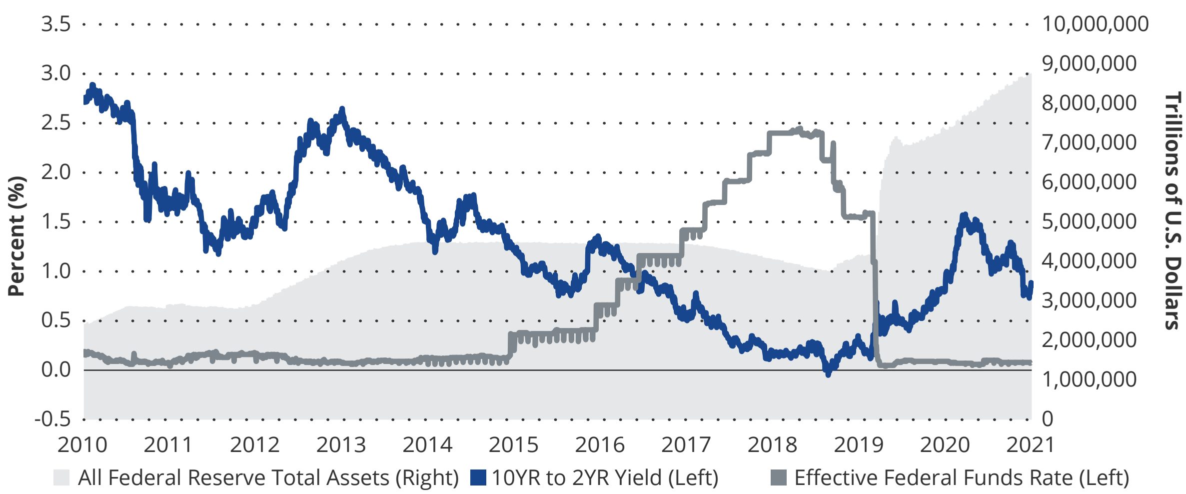
Overview

The Fund underperformed its benchmark, 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), by 136 bps in December. It was up 0.12% based on net asset value, while its benchmark was up 1.48%. Year-to-date, the Fund outperformed its benchmark by 73 bps.

December's EMFX strength, which drove the Fund's underperformance during the month, was a counter-trend rally in a thin market, in our view. We continue to have low local currency exposure, with 71% of the Fund in USD-denominated debt, duration of 6.4, but are still generating around 5.2% carry[1] despite such defensive positioning. Brazil, Malaysia, Mexico, United Arab Emirates and Saudi Arabia are our top country exposures.

We see a hawkish Fed pushing up the entire yield curve as the key initial asset-price driver for 2022; it might be priced in months, but it's the first big thing. Perhaps most importantly, recent Fed minutes show a group of members considering bringing the asset-purchase taper forward by several quarters. There is wariness of using rates, initially, as this could flatten the yield curve. Instead, the idea is that liquidity reduction can allow long-end rates to rise more than front-end rates. This is supposed to be a good thing because a steeper curve theoretically reflects a positive growth outlook. The obvious problem with this thinking, though, is that yield curves are a reflection of economic reality. Making the curve look growth-positive is not the same as making the economy growth-positive.

Exhibit 1 – In 2015-19, Raising the Policy Rates before Reducing the Balance Sheet Flattening the Yield Curve



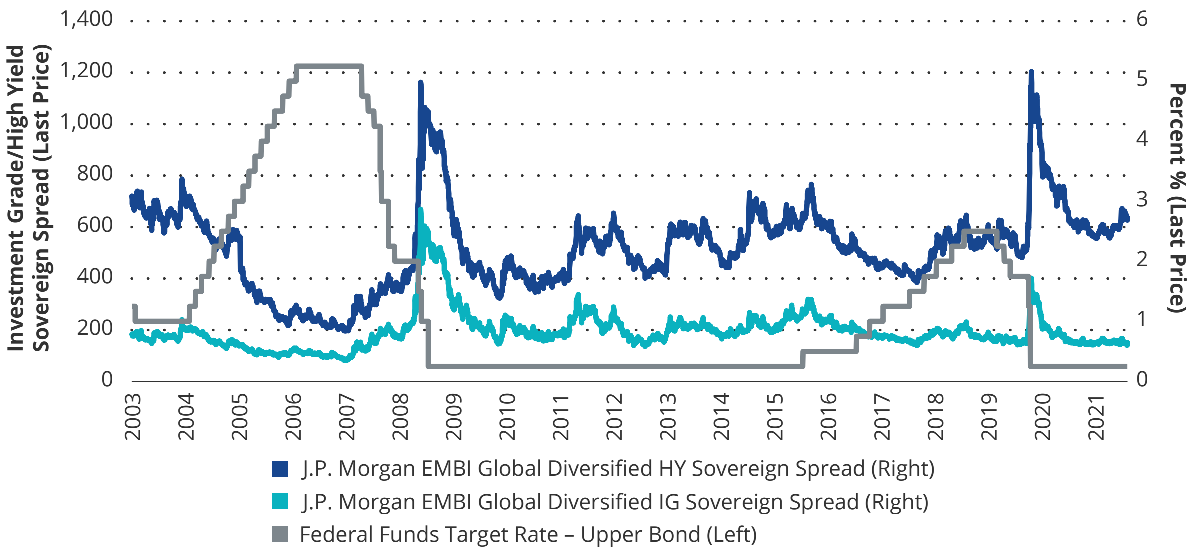
Note: Blue line shows the spread between the 10-year and two-year nominal interest rates, a proxy for the slope of the yield curve.
Source: Board of Government of the Federal Reserve System (Haver Analytics); Bloomberg LP. Data as of January 7, 2022.

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 4.62% as of 12/31/2021.

We also think that the seeming collapse in popular support for the Democrats is a market risk; when and if fiscal stimulus is "needed" by the market, perhaps as a result of Fed tightening, we don't expect it to materialize. Nobody seems to agree with us on this point, and our sense is that nobody wants to get into discussions about politics…even if the entire exercise is purely aimed at analyzing market implications. It's funny how political risk is a normal discussion point for market analysis of almost any country on earth…but never when it's your own advanced nation. Then, of course, your side is all good and the other side is all bad. Our take-away (from this general unwillingness to discuss politics) is that this makes such political risk even more impactful. Anyway, practically, this translates into a risk of a clash between an inflation-focused Fed and any need for "stimulus" in the future. Washington DC (i.e. seat of U.S. government) won't be doing it, so the Fed will be forced to, eventuality. **This means the onus will be on a newly-inflation-focused-Fed-how quickly can they pivot back? … We believe there will be volatility and uncertainty ahead!**

Hawks can soar, too, and we see three key reasons to be bullish Emerging Markets ("EM") debt. First, their ability to repay USD-denominated liabilities is very strong. In previous monthlies, we've shown EM economies' secular run of current account surpluses. Many are net creditors, even. Most EM countries have very strong U.S. dollar credit quality. Second, as Exhibit 2 below shows, we think that spreads are at the wide end of their range other than during the global finance crisis ("GFC") and COVID-19 crises. It also shows that high yield ("HY") spreads are especially wide to investment grade ("IG") spreads.

Exhibit 2 – EMBIG Spreads at Wides, Excluding GFC and Covid Crises



Source: Bloomberg. Data as of January 7, 2022.

Third, there are a number of uncorrelated and high-spread bonds that can turn the performance dial meaningfully. That's where our portfolio is focused. Some examples of the USD-denominated bonds with high spreads are as follows. We have around 2.5% of the portfolio in El Salvador bonds yielding from 8%-14%. We have 4% of the Fund in government-owned Pemex bonds yielding form 6%-8%. We have about 2.5% of the Fund in Ecuador bonds with a yield of 10% (and it's under an IMF program). We have about 2% of the Fund in Argentina, with a 16% yield-to-maturity (YTM). These are examples of bonds with high spreads whose performance will largely be driven by their credit quality, not by global correlations.

Our predictions and themes are consistent with a stronger USD. Higher rates in the US should support the US dollar against a lagging (in terms of rates and growth) Europe and Japan. Political uncertainty that hits markets is by-definition "risk-off", also bullish USD, in our thinking. And we'd note that all of last year, EMFX didn't rally along with commodity prices (on which we remain bullish), and we don't know why that should reverse now.

Exposure Types And Significant Changes

The changes to our top positions are summarized below. Our largest positions in December were: Brazil, Malaysia, Mexico, the United Arab Emirates, and Saudi Arabia.

We increased our local currency exposures in Malaysia and Zambia. Malaysia's very sizable trade surplus and benign inflation outlook create a desirable combination of large foreign exchange ("FX") inflows and little pressure to engage in aggressive policy tightening, despite improving domestic activity. In fact, the consensus expects the central bank to stay on hold for most of 2022. We also just learned that the U.S. chipmaker Intel intends to invest USD7B in a new facility in Malaysia—a boon for domestic activity and export revenues. In terms of our investment process, this improved the country's economic test score. The key driver in Zambia was the government's ability to reach a staff-level agreement with the IMF for a 3-year program. This means a prospect of fresh disbursements, but also more progress on structural issues, which the country badly needs to support the recovery and assure debt sustainability. Having an IMF program is also a key prerequisite for future rating upgrades. These factors significantly improved the policy test score for the country.

We also increased our hard currency sovereign exposures in Egypt and Ghana. Egypt's credit has underperformed in the year-end selloff despite a relatively stable macro outlook. This underperformance reflected concerns about potential capital outflows, given large non-resident participation in the domestic government debt market. As regards Ghana, sovereign valuations started to look very attractive, albeit we remain cognizant about persisting fiscal risks and monitor them very closely. In terms of our investment process, these factors improved the technical test scores for Egypt and Ghana.

We reduced our hard currency corporate exposure in China by taking profits on some higher-rated real estate developers, which rallied after authorities started to fine-tune the sectoral policy, removing some restrictions. The general policy stance also turned more accommodative—as witnessed by several targeted measures and a 50 bps cut in the reserve requirements for banks. Even though these developments improved the policy test score for the country, the subsequent rally worsened the technical test score for the bonds in our portfolio.

We also reduced local exposure in Peru and hard currency sovereign exposure in Hungary. The main driver in Hungary was a fairly low spread-to-yield ratio for the bonds that we held. This increased our duration risks in case the U.S. Federal Reserve turns more hawkish. In terms of our investment process, this worsened the technical test score for the country. We had multiple concerns in Peru. Inflation keeps surprising to the upside, which means more pressure on the central bank to frontload rate hikes. The current cabinet lineup does not look very certain—including some key ministries (such as Ministry of Finance). And we keep hearing that President Pedro Castillo wants to introduce changes in the constitution. In terms of our investment process, this worsened the economic and policy test scores for the country.

Average Annual Total Returns (%)

As of December 31, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	0.12	-1.94	-4.57	-4.57	4.59	2.26
Class A: Maximum 5.75% Load	-5.63	-7.58	-10.06	-10.06	3.36	1.62
Class I: NAV (Inception 7/9/12)	0.02	-1.93	-4.30	-4.30	4.87	2.55
50 GBI-EM GD / 50% EMBI GD	1.48	-1.49	-5.30	-5.30	3.79	2.44

As of September 30, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-2.72	-2.81	-2.68	5.32	4.70	2.54
Class A: Maximum 5.75% Load	-8.32	-8.40	-8.28	-0.73	3.47	1.88
Class I: NAV (Inception 7/9/12)	-2.66	-2.70	-2.41	5.59	5.01	2.84
50 GBI-EM GD / 50% EMBI GD	-2.75	-1.90	-3.87	3.53	3.03	2.67

† 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.

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 190 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.

All indices are unmanaged 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 Fund's benchmark index (50% GBI-EM/50% EMBI) is a blended index consisting of 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). The J.P. Morgan GBI-EM Global Diversified tracks local currency bonds issued by Emerging Markets governments. The J.P. Morgan EMBI Global Diversified tracks returns for actively traded external debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S dollar emerging markets debt benchmark.

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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. Past performance is no guarantee of future results.

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