December 2022

Emerging Markets – Better Times Appear Ahead

David Semple

Portfolio Manager

VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

The VanEck Emerging Markets Fund (the "Fund") returned 15.27% during the fourth quarter of 2022, outperforming the Fund's benchmark in a period where navigating the shifting sands of equity markets was a challenge. This outperformance was principally driven by stock selection. We think that we are moving into a very different environment in 2023 for emerging markets. We believe that a weaker inflationary impulse combined with the rapid reversal of China's Zero-Covid policy set up a favorable environment for the outperformance of emerging markets stocks. In addition, within emerging markets, the great reset in growth company valuations bodes particularly well for global growth investors.

Average Annual Total Returns (%) as of December 31, 2022

	4Q22†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	15.27	-25.23	-25.23	-8.55	-5.35	0.87
Class A: Maximum 5.75% load	8.65	-29.53	-29.53	-10.34	-6.46	0.27
Class I: NAV (Inception 12/31/07)	15.52	-24.81	-24.81	-8.10	-4.88	1.36
MSCI EM IMI	9.50	-19.83	-19.83	-1.82	-1.10	1.64
MSCI EM Index	9.70	-20.09	-20.09	-2.69	-1.40	1.44

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 shares 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 1.45%; Net 1.45%; Class C: Gross 2.25%; Net 2.25%; Class I: Gross 1.14%; Net 1.00%; Class Y: Gross 1.13%; Net 1.10%; and Class Z: Gross 1.08%; Net 0.90%. Expenses are capped contractually until 05/01/23 at 1.60% for Class A, 2.50% for Class C, 1.00% for Class I, 1.10% for Class Y, and 0.90% for Class Z. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

Market Review

As we consider the fourth quarter, we need to extrapolate events into our outlook for 2023. We have long held the view that the secular forces of disinflation would ultimately claw back the Covid-induced inflationary impulse that we have been living through for the past few years. But the price of that will be weaker in developed markets (DM) economies. The fourth quarter broadly supported that view, and it is important to stress that a soft recession in developed markets is usually an environment that supports emerging markets' (EM) outperformance.

The second major factor in the fourth quarter was the Covid- and economic-related developments in China. EM needs China to perform for the asset class to really regain favor, in our view. As long-time China observers and investors, we started to see very significant shifts in policy related to re-emphasizing economic growth, downplaying regulation, stabilization of the property market and playing nice on the world stage. As we exited the quarter, these positive changes have been rapidly accelerated, in particular by the abrupt exit from the Zero-Covid policy.

Since Xi Jinping's anointment for a third term, and in particular, after the policy-setting meeting in December, there has been an increased emphasis on pulling growth levers to revive a struggling economy. The usual fiscal and monetary tools have been deployed, but the issue had been two large caps on consumer sentiment – the travails of the property sector and frustrations around the strict Zero-Covid policy have limited the impact of other easing measures. In addition, whilst it is clear that there has been less regulatory shock, market participants remain wary, and only absence over time will reverse some of that caution. But as we entered the final weeks of the quarter, it has become clear that there is an abrupt U-turn in the country's Covid policy, and increasingly aggressive relaxation of property restrictions is easing the liquidity crunch for developers. Both of these are, without a doubt, positive for equity markets, but also allow prior easing in fiscal and monetary measures to impact the economy more positively, as domestic sentiment rapidly improves.

We think there will be a struggle to catch up with many long-only managers, in terms of their China weightings. Many have been significantly underweight, seduced by the siren song that has an "uninvestible" chorus. We think this leads to sustained outperformance for this, the largest part, of the asset class. We benefitted from our full weight in China (if we include market proxies, such as **Prosus N.V. Class N** (4.62% of Fund net assets*) and we continue to look for investments to reflect our optimism.

Both South East Asia and Mexico are, and will be, benefitting from efforts to construct a more diverse supply chain for manufactured goods. But this is often focused on incremental investment, a so-called China "plus one" strategy, and it will take time to play out. The concern lies more in the semiconductor space, where it seems very likely that supply chains will be increasingly bifurcated, and subject to increased subsidy support in both the U.S. and China. We stick to our view that as far as manufacturing is concerned, the companies of North East Asia will continue to dominate the space. At the moment, there is something of a cyclical downturn in the space, but we have started to anticipate better times in the second half of 2023.

India has been the darling of the EM world for some time now. There is no doubt that the economy is strong, reflected in numbers like credit growth and/or Purchasing Managers Index (PMI). Both our largest holdings **Reliance Industries Limited** (5.60% of Fund net assets*) and **HDFC Bank Limited** (4.74% of Fund net assets*) performed well over the quarter. But for the market as a whole, we remain concerned about valuation levels.

Optically, India had a strong fourth quarter. However, most of that was clawing back the miserable performance of the last couple of weeks in September, when volatility rocked markets globally. That said, results for the third quarter were, by and large, stronger and average/market valuations are around the midpoint of the longer-term range (India vs. India) and rates appear to have peaked, with core inflation likely coming down. There's a strong structural disinflation story playing out in India, as the economy continues to become swiftly more efficient. Although there are crazy multiples out there –

it is not necessary to pay them to still get good structural growth exposures in companies, such as Reliance Industries Limited and HDFC Bank Limited.

The Middle Eastern markets have been a focus through the year, due, in large part to the strength of crude and the U.S. dollar. As we move into 2023, we are not so sure that either factor will be strongly positive for another year. That being said, we are impressed by the changes taking place in Saudi Arabia in particular, and we continue to look for reasonably priced opportunities in the region.

Whilst we may have missed out on some of the runs in the Middle Eastern stocks, we fully participated in other EMEA regions that performed very well despite being written off by "consensus." Turkey, for example, was definitely the biggest surprise performer. We readily concede that macro-economic policy could be most generously called "unorthodox". But at a more micro level, corporates are adapting well and we have been very pleased with their operating performance. In both Georgia and Kazakhstan, our investments – **Bank of Georgia Group Plc** (3.40% of Fund net assets*), **Georgia Capital Plc** (0.73% of Fund net assets*) and **Kaspi.kz JSC Sponsored GDR RegS** (2.88% of Fund net assets*) – rounded out the year well, and we are happy holders.

In Latin America, the focus has been firmly on the twists and turns in Brazilian politics. Although Luiz Inácio Lula da Silva's (Lula's) re-election was widely anticipated, the concern was and remains, what kind of Lula will we actually get? Post-election announcements and cabinet nominations have not been market-friendly, as they indicate a fiscal loosening that Brazil can ill afford. Loose fiscal policy encourages the central bank to tighten further on monetary policy, depressing sentiment and valuations. We have stuck to our investments in Brazil, as we believe, with cynicism born out of experience, that the impact of politics tends to be greater at the start of a new political regime. Gradually, compromise and practical reality will mitigate the grand political promises that are initially articulated. Brazil is very cheap, and a whiff of better local sentiment and/or lower rates should lead to significant performance.

Fund Review

As mentioned above, stock selection was the main driver of the Fund's outperformance during the quarter. On a sector level, consumer discretionary, financials and health care contributed to relative performance, whereas industrials, communication services and information technology detracted. On a country level, Turkey, China and Georgia contributed to relative performance, while Brazil, South Africa and South Korea detracted.

Top Contributors

Top contributors to return on an absolute basis during the quarter:

- **MLP Saglik Hizmetleri AS Class B ("MLP")** (3.05% of Fund net assets*) is the largest private hospital group in Turkey. In addition, the group has a sizable medical tourism business to capitalize on the high-quality and cost-competitive care offered by its hospitals. This business line has shown very strong performance in 2022, driven by growing international demand and increasing MLP's foreign currency revenues against a weakening Turkish lira. Management's successful efforts to deleverage and strengthen its balance sheet have also positioned MLP very favorably for further inorganic expansion and share buybacks, which increases shareholder value and has reflected positively on recent share price performance.
- **China Education Group Holdings Limited** (3.83% of Fund net assets*) is an M&A-focused private higher education provider in China. The company operates universities and a vocational college, and enrolls students across all provinces in mainland China. China Education provides bachelor's degree programs, junior college diploma programs and vocational education programs. Our thesis of this M&A-driven, structural growth business model that should deliver 20% compound annual growth rate (CAGR) over the foreseeable future continues to play out. In addition, the company has definitely been in favor recently as it plays the long-term, structural growth trend of growing private education while avoiding some of the regulatory pressure on the K-12 after school space. The company performed strongly, reflecting its strong fundamental outlook and after, we believe, irrational weakness caused by regulatory changes in the space that should not directly or indirectly effect this company.
- **Bank of Georgia Group Plc** (3.40% of Fund net assets*) is one of the two largest banks, dominating the Georgian banking system with more than 33% market share. During the quarter, the bank has outperformed on the back of much stronger than expected earnings and returns numbers in 2022, with return on equity exceeding 25%. Bank of Georgia's management has undergone significant digitization efforts, resulting in higher efficiency and a superior customer experience. The stronger-than-expected results were also supported by macro tailwinds, driving very solid lending growth and asset quality numbers for the bank.

Top Detractors

Top detractors to return on an absolute basis during the quarter:

- **Delhivery Limited** (0.77% of Fund net assets*) operates a software-first business model and is the largest logistics operator in India. The business is effectively the operating system for commerce through a combination of world-class infrastructure and logistics operations together with cutting-edge data engineering and technology capabilities. In our thesis, we believe Delhivery's greater scale and full-stack integrated solutions offer a competitive advantage over other companies. It can enter at multiple points in the customer supply chain as well as cross-sell other services, thereby increasing the customer stickiness and breadth, dominating this large high-growth opportunity within a very fragmented industry. The shares were weak this quarter – partly because it is still 4-6 quarters to profitability – so Delhivery shares were punished alongside "profitless tech" globally. In addition, management experienced more problems integrating a recent large acquisition than anticipated. However, the latter problems are now resolved.
- **Movida Participacoes SA** (1.15% 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 quarterly results were weaker than expected, as it is seeing the normalization of the Seminovos (used car vehicles) margins happening faster than expected, as well as depreciation and interest expenses increasing. This is happening faster for Movida than its competitors, as it was very aggressive during the pandemic, buying cars at higher prices and purchasing models that were more premium and less popular. The company is at a different point in the renewal cycle when compared to other players. A key factor that accelerated the normalization was demand for cars that softened at the dealers, putting pressure on car prices and leading to those same dealers giving large discounts on car purchases. The changes in Seminovos' margins impacted the bottom line. In addition, higher rates also impacted Movida, as it has higher leverage and a more limited balance sheet. Despite the normalization of Seminovos, operationally, results continue to be positive with still good demand and a pricing outlook that remains supportive in the next year for RAC (rent a car) and fleet management. Valuation is also supportive of trading at one standard deviation below historical averages and still at a huge discount to other players.

- **Wuxi Shangji Automation Co., Ltd. Class A** (0.94% of Fund net assets*) develops and manufactures precision machine tools. Currently, the company is transitioning from a high-end solar equipment maker to a major mono-wafer[1] supplier for 210mm and all other wafer standards. Its global market share could reach 20% with 60GW shipments in 2023 vs. 6.5GW in 2020; competitive production costs and recognized wafer quality should drive these gains and outsized earnings growth. The company's share price pulled back in the quarter, in part due to prior good performance and some concerns in the marketplace about the extent of new capacity coming on stream in 2023.

Top Buys & Sells

During the period, we we established new positions in the following:

- **KE Holdings Inc - BEKE US** (0.31% of Fund net assets*) operates as a platform for housing-related services, including sales, rentals and renovations, in China. It has both online and offline operations. The company has impressed with resilient profitability through a difficult period in the Chinese property market. Margins have been resilient despite lower property sales, driven by successful cost optimization. We believe that an exit from Zero-Covid policy and even more positive policy measures in the property market will be very beneficial to the company.
- **Samsung Biologics Co Ltd - 207940 KS** (0.24% of Fund net assets*) is the world's largest biologics contract manufacturing organization (CMO) in terms of production capacity. It currently operates two main businesses: 1) a CMO and 2) development and sales of biosimilars through its 100% owned subsidiary Bioepis. We believe that Samsung Biologics' advanced technological capabilities and unmatched scale makes them well-positioned to capitalize on the structural growth of biologics as well as the trend of biotech companies increasingly outsourcing their manufacturing capacity.
- **Americana Restaurants Internat - AMR UH** (0.24% of Fund net assets*) is the YUM brands master franchisee in the Middle East and North Africa (MENA) and Kazakhstan with the UAE, KSA, Kuwait and Egypt being the core markets, while Saudi Arabia is expected to be the main driver of growth over the next few years. We believe the company offers high-quality growth with attractive returns in underpenetrated markets, where demand for out-of-home dining continues to accelerate. The company has a robust balance sheet and strong cash flow generation that is set to support management's ambitious expansion plans and the company's scale puts it well ahead of the competition.

During the period, we exited the following positions:

- **NAVER Corp - 035420 KS** (0.00% of Fund net assets*) is a South Korean internet company with five businesses: 1) search platform, 2) Commerce, 3) Fintech, 4) Contents and 5) Cloud. Naver generates more than 90% of operating profits from digital ads, which has been its cash cow business. Naver's platform has been losing engagement and, as a result, its market share in the digital ad space has decreased from 53% in 2019 to less than 40% in 2022. This trend is mainly due to consumer preferences shifting to short video, while reading less text and images. We don't have confidence Naver will be able to adapt in the near term. In addition, Naver also faces significant headwinds in e-commerce, as the market becomes increasingly saturated and competition remains fierce – boding negatively for growth and margins.
- **GDS Holdings Ltd - 9698 HK** (0.00% of Fund net assets*) is a developer and operator of high-performance data centers in China. GDS offers colocation and managed services, including cloud solutions and has a presence in most tier-1 cities, including Shanghai, Beijing, Shenzhen and Guangzhou. The Chinese data center market is going through some structural changes that are proving to be challenging for GDS. The aggressive competition from major telecom operators and peers may result in a persistently slower ramp-up of IDCs and thus lower margins for GDS, deterring further investments /acquisitions, especially when the option of external capital raising is limited.

Outlook

Frankly, like many market participants, we are glad to see the back of 2022. From Russia's provocations prolonging an inflationary cycle, to concerns about China's economy, and Washington's attitude to China's role in the world, there have been many factors that we could have done without.

But we approach 2023 with a remarkably good heart. The conditions are ripe for the outperformance of the asset class. As always, we have hewed closely to our structural growth philosophy and we expect the growthy part of EM to perform at least as well as the more value side of the spectrum. We are encouraged by very broad, solid operating performance from our investee companies, and we expect valuations to be steady or even rise from here. It has become fashionable to write off the asset class. Whilst we don't deny some of the longer-run structural challenges, we are undeniably optimistic about the outlook for the next year.

[1] Monocrystalline solar panels (or wafers) are generally considered a premium solar product. They are called "monocrystalline" to indicate that the silicon used is single-crystal silicon. Because the cell is composed of a single crystal, the electrons that generate a flow of electricity have more room to move.

[†] Quarterly returns are not annualized.

*All country and company weightings are as of December 31, 2022. 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 the 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, small-cap cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

Van Eck Securities Corporation, Distributor
A wholly-owned subsidiary of Van Eck Associates Corporation

666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333