

Emerging Markets Outlook For 2022 – Selectivity Is Key



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VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

Performance Review

The VanEck Emerging Markets Fund (the "Fund") returned -8.07% during the fourth quarter of 2021, underperforming its market index benchmark, the MSCI Emerging Markets Investable Market Index ("MSCI EM IMI"), which returned -0.98% for the same period. Continued regulatory and property market concern in China and the significant impact from an expectation of higher rates on growth stocks globally, all affected relative performance.

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

	4Q21 ¹	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-8.07	-12.15	9.83	8.75	6.64
Class A: Maximum 5.75% load	-13.36	-17.20	7.68	7.47	6.01
MSCI EM IMI	-0.98	-0.28	11.58	10.06	5.71
MSCI EM Index	-1.31	-2.54	10.94	9.87	5.49

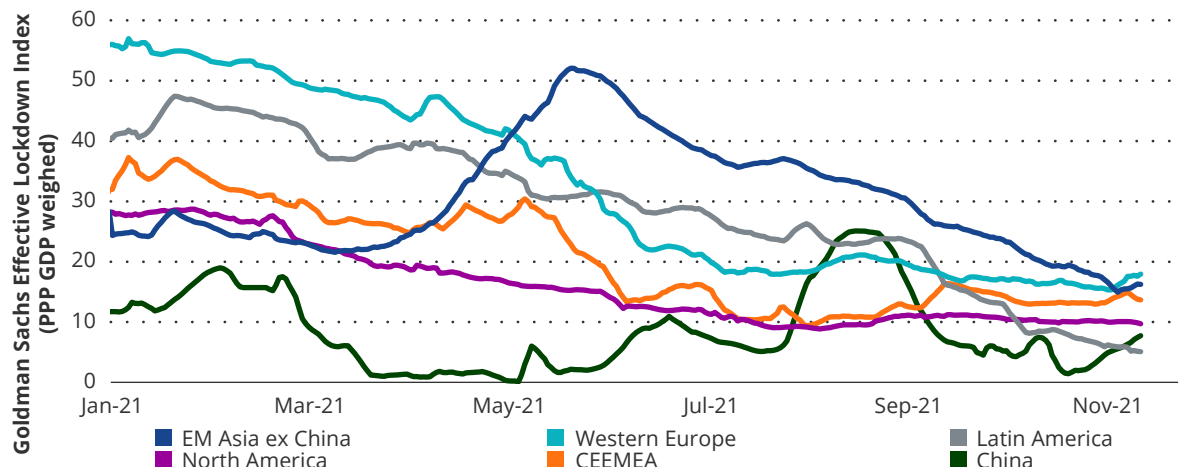
The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment 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 05/01/22 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.

Market Review

Normalization. Domestic restrictions have followed different paths across emerging markets (EM), with China/LatAm now at quite low levels. Rapidly rising immunity should reduce health consequences of future COVID-19 (“Covid”) waves. Looking forward, we have cautious optimism that the worst fears for the new variant will not materialize. Periodic restrictions to economic activity will likely feature along a bumpy road to normalization.

Chart 1 – Domestic restrictions have followed different paths across EM, with China/LatAm now at quite low levels.



Source: Goldman Sachs Global Investment Research, University of Oxford, Google LLC, Wind. Data as of November 15, 2021. *EM countries include Colombia, Mexico, Brazil, Chile, Peru, Argentina, Turkey, South Africa, Russia, Korea, Thailand, Taiwan, Mainland China, Indonesia, Philippines, Malaysia and India.

Inflation. A normalizing supply chain meeting more moderate demand for consumer goods and persistent digitization are amongst the reasons why we are less concerned about strongly persistent inflation in the medium term. Emerging markets are generally in better shape with regards to inflation (with notable exceptions) in part because of a higher food weighting in the Consumer Price Index (“CPI”) basket.

- “Core Goods” basket—demand for real core goods was still 8.8% above its pre-pandemic trend in September—down from the 18.5% peak in March 2021, though the decline halted in August and September. Please note, **goods price inflation was the highest in the Eurozone and U.S.**
- “Core Services” basket—in contrast to real goods demand, real demand for core services is 4.8% below its pre-pandemic trend as a result of a sudden stop in spending early in the pandemic which led to an initial sharp fall.
- When combined, **aggregate real consumption is relatively close to its pre-pandemic trend**, strongly suggesting that the current inflation is not caused by overall strong demand, but rather is **a result of particularly strong demand in certain areas (core goods) that has overwhelmed the current production and distribution structure. All in all, we do not see it as an EM-specific problem here.**

Regulation. The shifting landscape of regulatory action and property angst in China were widely discussed, but not always understood. Indeed, many regulations will ultimately create a better endpoint for fairer, more sustainable industries, but the journey can be arduous and uncertain. Investors do not like uncertainty. Looking forward, we see very significant signs of a policy change in favor of a pro-growth phase in China and that the effect of heightened regulatory tightening that scared and confused the markets is diminishing.

Chart 2 – Largest antitrust and data privacy fines in the U.S., EU and China.

U.S.	Year	Amount (in M)	% of Proceeding Year's Revenue	Violation
Facebook	2019	\$5,000.00	9.0%	Data privacy & protection
Citicorp	2017	\$925.00	1.6%	Antitrust
Equifax	2019	\$700.00	20.5%	Data privacy & protection
Barclays	2017	\$650.00	5.8%	Antitrust
JPMorgan Chase & Co.	2017	\$550.00	1.0%	Antitrust
EU				
Google	2018	€ 4,340.00	4.6%	Antitrust
Google	2017	€ 2,400.00	3.0%	Antitrust
Google	2019	€ 1,490.00	1.3%	Antitrust
Intel	2009	€ 1,060.00	4.1%	Antitrust
Daimler	2016	€ 1,000.00	0.7%	Antitrust
Qualcomm	2018	€ 997.00	5.3%	Antitrust
Amazon Europe Core	2021	€ 746.00	0.2%	Data privacy & protection
China				
Alibaba	2021	18,228 (Rmb)	3.6%	Antitrust
Meituan	2021	3,442 (Rmb)	3.0%	Antitrust
Tencent	2021	0.5 (Rmb)	0.0%	Antitrust (M&A)
Didi	2021	0.5 (Rmb)	0.0%	Antitrust (M&A)
Suning	2021	0.5 (Rmb)	0.0%	Antitrust (M&A)

Source: UBS, US FTC, US DOJ, SAMR, press reports, Refinitiv, CEIC, NBS. Data as of October 20, 2021.

The Fund continues to invest in well-run structural growth companies across the emerging markets spectrum. No doubt, emerging markets are not particularly favored, at least amongst the U.S. investor base. Not only is it unloved, but it is also cheap in our opinion. This is especially the case in the structural growth stories in which we invest. There seems to be a significant dislocation between corporate and market sentiment, creating compelling fundamental opportunities for patient investors. At the same time, the shift towards pro-growth policies in China should not be underestimated. All this adds up to significant optimism for relative returns in 2022.

Selectivity Is Key. The opportunity set is even more company-specific across emerging markets. After an active year in 2021, we feel very excited about our portfolio companies and strongly believe that we are well-positioned with high conviction, stock-specific opportunities in a diversified portfolio that fits nicely into the evolving emerging markets investment landscape.

Fund Review

On a sector level, healthcare, real estate and communication services detracted from the Fund's relative performance. On a country level, Egypt, Georgia and Kazakhstan contributed to the Fund's performance on a relative basis, while China, Brazil and India detracted.

Top Contributors

Top contributors to return during the quarter:

- **MediaTek Inc.** (3.94% 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.
- **Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC")** (5.20% 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 return on equity ("ROE"). These key structural factors mitigate cyclical risks associated with the variance of memory pricing.
- **Commercial International Bank (Egypt) SAE ("CIB")** (1.33% of Fund net assets*) is the leading private sector bank in Egypt, offering exposure to the country's underpenetrated and high-growth banking sector. During the quarter, CIB outperformed on the back of reporting stronger than expected 3Q21 results driven by positive loan growth trends and cost of risk normalization post-2020, which led management to upgrade their FY21 earnings guidance. We continue to like CIB's strong and liquid balance sheet, its asset quality and high return profile, and we find the current valuation levels attractive for the company.

Top Detractors

Top detractors to return during the quarter:

- **A-Living Smart City Services Co., Ltd.** (1.26% of Fund net assets*) is a top property manager in China, primarily (but not exclusively) focused on residential property management. The company's structural growth themes include the following: M&A, benefitting from increased urbanization and limited management contracts, deeper penetration of existing customers with value-added services and expansion into non-residential areas and government contracts. During the quarter, the company was negatively impacted by the ongoing regulatory upheaval in China, the stock price valuation has contracted, but we have not seen any reason to materially reduce forecasted earning power or growth trajectory.
- **LG Chem Ltd. ("LGC")** (2.64% of Fund net assets*) is an example of a global electric vehicle ("EV") battery leader the Fund is invested in. The Korean EV battery sector has underperformed since mid-August. We attribute this underperformance to: i) weaker-than-expected sales resulting from semiconductor shortages; ii) competition from alternative battery chemistries, namely lithium iron phosphate ("LFP") batteries; and iii) anticipation of LG Energy Solution's IPO which is driving retail investors out of LG Chem.
- **Sea Ltd.** (1.34% of Fund net assets*) is the largest Internet conglomerate in Southeast Asia with a leading presence in gaming, e-commerce and financial services. The stock has experienced a brutal correction over the last two months that was driven by concerns on valuation, post-Covid growth normalization and Tencent's decision to start monetizing its stake in Sea.

Top Buys and Sells

During the quarter, we established new positions in Sungrow Power Supply Co., Ltd. and Raizen SA.

- **Sungrow Power Supply Co., Ltd.** (0.62% of Fund net assets*) is one of the world's leading solar inverter manufacturers and has a significant presence in energy storage. The company will benefit from rapid growth in demand for solar power and energy storage, with less cyclical than more upstream solar exposure. Valuation decline made exposure more attractive.
- **Raizen SA** (0.41% of Fund net assets*) is a 50/50 joint venture between Cosan and Shell in Brazil, with ambitious plans to scale cellulosic ethanol.¹ They are a play on the global de-carbonization effort of clean power replacing fossil fuels. The company offers a set of cost-competitive assets from sugar and ethanol to marketing and retail.² It has advanced technology to produce fuel from waste and it has successfully mastered the process to reach commercial scale. We believe Raizen is a strong growth and profit story, ready to pioneer new projects and ride the global energy transitions wave via second-generation renewables while benefiting from a favorable sugar and ethanol backdrop.

During the period, we exited positions in Alibaba Group Holding Ltd., Rumo SA and OneConnect Financial Technology Co., Ltd.

- **Alibaba Group Holding Ltd.** (0.00% 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 quarter, the company was negatively impacted by the ongoing regulatory uncertainty in China.
- **Rumo SA** (0.00% of Fund net assets*) is Latin America's largest, independent, rail-based logistics operator focused on agricultural commodities. During the quarter (and the year), the crop forecasts for corn and soybean in Brazil did not meet expectations. The year started with a deceleration in volumes, implying a downside risk to year-end volume and earnings before interest, taxes, debt and amortization ("EBITDA") expectations. The company has been impacted by persistent drought and heat, causing losses in crop production. La Nina has been hitting the nation's agriculture for two years in a row now, causing the company to miss guidance over the last two years (although the 2025 guidance remains unaltered). Although long-term fundamentals remain positive, we believe in the medium term there will be continued pressures around volume and volatility.
- **OneConnect Financial Technology Co., Ltd.** (0.00% of Fund net assets*) is a software services company out of China, offering technological applications to financial institutions such as digital services, revenue and risk management. Initial expectations about the company's ability to sell its products to non-related financial service companies and banks were not achieved. The company's changing product mix is likely to bring down gross margins and push growth further out.

¹ Cellulosic ethanol is ethanol produced from cellulose rather than from the plant's seeds or fruit. It can be produced from grasses, wood, algae, or other plants. It is generally discussed for use as a biofuel.

² Source: Bloomberg, Company Data.

Outlook

In 2021, the “toggle” between aggressive growth at any price and low-quality value did no favors to our Fund, which is guided by the philosophy of forward-looking, sustainable and structural growth. Looking forward, selectivity is key, as the opportunity set is even more company-specific across emerging markets. After an active year in 2021, we feel very excited about our portfolio companies and strongly believe that we are well-positioned with high conviction, stock-specific opportunities in a diversified portfolio that fits nicely into the evolving emerging markets investment landscape.

[†] Quarterly returns are not annualized.

* All country and company weightings are as of December 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.

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. Investing involves risk, including possible loss of principal. An investor should consider the Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.



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