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SEPTEMBER 2020

VanEck Emerging Income Opportunities Active ETF (Managed Fund)

ASX Code: EBND

Investment objective

EBND aims to provide investors with a globally diversified portfolio of bonds and currencies in emerging markets. The fund aims to provide total investment returns, measured over the medium to long term in excess of the Benchmark.

Benchmark

A blended index consisting of 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified.

Performance as at 30 September 2020

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-0.88%	1.86%	13.32%	-	-	-	-6.17%
Income Return	0.45%	1.36%	3.17%	-	-	-	3.32%
Total Return	**-0.43%**	**3.22%**	**16.49%**	**-**	**-**	**-**	**-2.85%**
Benchmark	-0.42%	-0.62%	3.96%	-3.79%	2.96%	-	-7.39%
Value Add	**-0.01%**	**+3.84%**	**+12.53%**	**-**	**-**	**-**	**+4.54%**

Benchmark is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond Emerging Market Index Global Diversified. The table above shows past performance of the Fund from its Inception Date and of the Benchmark from 31 December 2015. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. Fund results are net of management fees and costs, but before brokerage fees or bid/ask spreads incurred when investors buy/sell on the ASX. Returns for periods longer than one year are annualised. Past performance is not a reliable indicator of current or future performance which may be lower or higher.

Key benefits

Emerging market income opportunities: Emerging markets bonds generally pay higher interest than developed markets bonds offering investors an opportunity to broaden their income horizon with elevated risk.

Active management: An actively managed benchmark-unaware approach that makes high conviction investments.

Target yield of 5% per annum: Income from investing in emerging markets government, semi-government and corporate bonds that provides an attractive addition for investors' growing income needs.

Key risks

An investment in the Fund carries risks associated with: emerging markets bonds and currencies, bond markets generally, interest rate movements, issuer default, currency hedging, credit ratings, country and issuer concentration, liquidity and fund manager and fund operations. See the PDS

Fundamentals[1]

Number of constituents	66
Number of issuers	46
Modified Duration (yrs)	6.05
Yield to Maturity	5.49%
Running Yield	6.55%
Weight of top 10 issuers	44.7%
Credit Rating Profile	BB
Time to Maturity (yrs)	9.00
Top Holding Weight (%)	4.63%
Investment Grade (%)	39.31%

1. As at 30 September 2020

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2021	5	5	5	-	-	-	-	-	-	-	-	-	15
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Summary

- For much of September the VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) was underperforming its benchmark, but by month end the fund had rallied to finish just one basis point behind the benchmark for the month.
- Top five country exposures are currently in Mexico, Uruguay, China, Romania and Mongolia.
- The key global theme is the tension between an ongoing cyclical economic upswing driven by stimulus, against the near-term challenges of a second COVID wave and US political uncertainty. Regionally, Asia seems to be best positioned. In the coming month, the IMF's meetings, starting October 15 can generate new information or policy decisions so are a big focus of emerging market debt market participants.

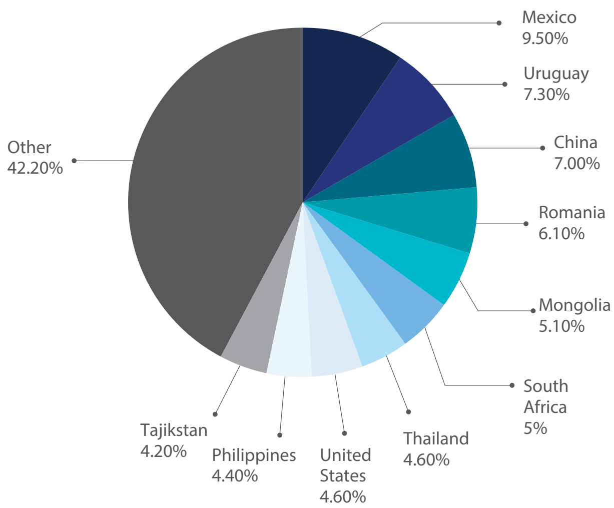
Market and portfolio commentary

The fund marginally underperformed its benchmark in August. The biggest detractors were Sri Lanka, Mexico and Indonesia. This was offset from outperformance from Uruguay, Suriname, and Mongolia. Throughout September we continued to adjust the portfolio to reduce potential risks. The main thematic drivers of those country-specific adjustments were the lower margins for error in a number of bond markets, many emerging markets debt markets are at pre-COVID highs despite country-specific setbacks, and the risks of new COVID-19 waves and US election uncertainty.

We closed a number of positions that had worked well for the portfolio, because of valuation and fundamental reasons. We almost completely sold out of Argentina. Our view became that Argentinian bond prices reflected the potential deal that would be reached with creditors and was not attractive beyond that. We closed our Indonesia local-currency position because we believe the government is engaging in risky monetary experimentation. Markets have barely reacted to these new risks. We also closed our exposures to Angola, Gabon, and Sri Lanka as well. Here, we took profits as price targets were hit and fundamental developments worsened.

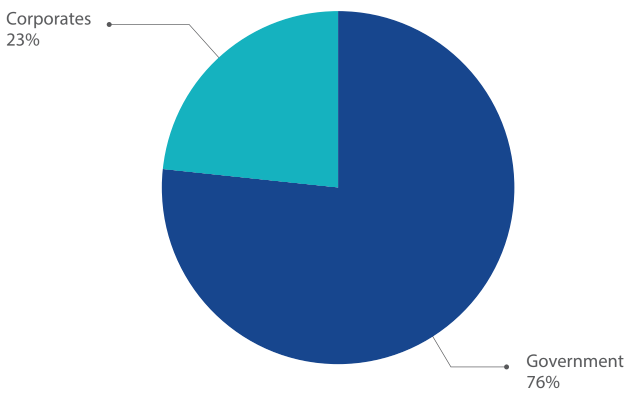
We also increased exposures to China in local currency, adding to our Chinese corporate bonds in US dollars. In local currency, China pays higher real rates following its selloff in recent months. China's external accounts have improved sharply and policy credibility is slowly making Chinese local bonds a safer-haven. It is also benefitting from its steady inclusion in indexes creating supportive technical. We also increased our exposure to Thailand local-currency.

Country breakdown



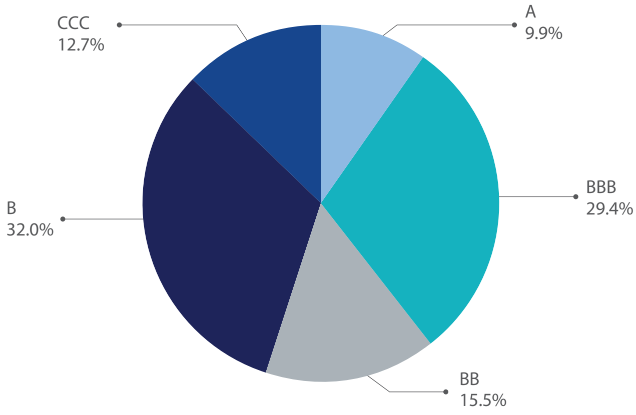
Source: VanEck, as at 30 September 2020.

Portfolio Allocation



Source: VanEck, as at 30 September 2020.

Credit rating breakdown



Source: VanEck, as at 30 September 2020.

Portfolio changes

The changes to our top positions are summarised below.

- Our largest positions are currently: Mexico, Uruguay, China, Romania and Mongolia.

- We increased our local currency exposure in China and Thailand. China's real rates are grinding higher, as authorities are not flooding the system with cheap credit, sticking to the "drip" stimulus instead. In addition to reducing a risk of asset bubbles, this also reduces inflation pressures. As a result, China's local valuations look more attractive than several months ago. In addition, FTSE Russell has confirmed that China's government bonds will be included in its benchmark World Government Bond Index (WGBI) starting from October 2021. It is estimated that the inclusion may attract as much as US$120bn inflows. This should create a nice technical backdrop for the currency, all things being equal. Another aspect of the inclusion is China is emerging as a safer haven investment destination, given that the WGBI focuses on high-quality and highly liquid bonds. These factors strengthened China's policy, economic, and technical test scores.

- While political noise spiked in Thailand we think the risks are exaggerated. Local bond valuations are solid, and the latest data releases confirmed that the current account is recovering from the COVID-19 related slump. The Thai baht also has one of the highest historic correlations with the Chinese yuan, which improves the technical test score for the country.

- We also increased our hard currency sovereign and corporate exposure in Mongolia. Mongolia's new issue was attractively priced. An additional consideration is that Mongolia is uniquely positioned to benefit from China's ongoing recovery.

- We reduced our hard currency sovereign exposure in Angola, Sri Lanka, and Gabon. The market did not like the IMF report on Angola which suggested that more debt relief would be required if the oil price falls further. This was not a revelation, but it worsened the technical test score for the country. The IMF issues regarding Sri Lanka are much more serious. Contrary to expectations, the new government was reluctant to engage the IMF immediately after the elections. It is unclear how the authorities will be able to manage without the deal. Numerous calls with officials failed to clarify the situation, and we lowered the country's policy and economic test scores as a result. Our decision was confirmed when Sri Lanka got a rating downgrade soon after we divested. Our main concern in Gabon was that domestic policies may be at risk, as the positive impact of the G20 debt deal fades. In addition, the country's VaR is quite high, which we thought warranted reducing exposure amid the global wave of de-risking. In terms of our investment process, this worsened the country's technical test score.

- We also sold out of our hard currency and local exposure in Indonesia. On the sovereign level, there was some unsettling news regarding the central bank's independence specifically that representatives of The Ministry of Finance and other ministers can sit on the board and vote for policy decisions. The re-introduction of large-scale COVID restrictions in Jakarta brought new downside risks to growth and fiscal performance (= bond issuance). Summing up, the country's economic, policy, and technical test scores worsened at the same time.

- Finally, we reduced our hard currency sovereign and corporate exposure in Argentina. We started this process of divesting after the successful debt exchange and we continued to lock in profits in September.

Contact us

vaneck.com.au
info@vaneck.com.au
+61 2 8038 3300

VanEck-Australia
VanEck_Au
VanEckAus

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EBND invests in emerging markets which have specific and heightened risks that are in addition to the typical risks associated with investing in the Australian bond market. The PDS contains details of the key risks.

No member of the VanEck group guarantees the repayment of capital, the payment of income, performance, or any particular rate of return from EBND.