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APRIL 2022

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 April 2022

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-3.04%	-9.05%	-11.48%	-13.19%	-	-	-9.12%
Income Return	0.45%	1.24%	2.50%	4.70%	-	-	4.94%
Total Return	**-2.59%**	**-7.81%**	**-8.98%**	**-8.49%**	**-**	**-**	**-4.18%**
Benchmark	-3.33%	-12.74%	-12.02%	-11.73%	-3.10%	-0.29%	-8.71%
Value Add	**+0.74%**	**+4.93%**	**+3.04%**	**+3.24%**	**-**	**-**	**+4.53%**

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 for details.

Fundamentals[1]

Number of constituents	139
Number of issuers	83
Modified Duration (yrs)	5.83
Yield to Maturity (%)	8.34
Running Yield (%)	7.46
Weight of top 10 issuers (%)	36.9
Credit Rating Profile	BB+
Time to Maturity (yrs)	9.45
Top Holding Weight (%)	3.11
Investment Grade (%)	40.55

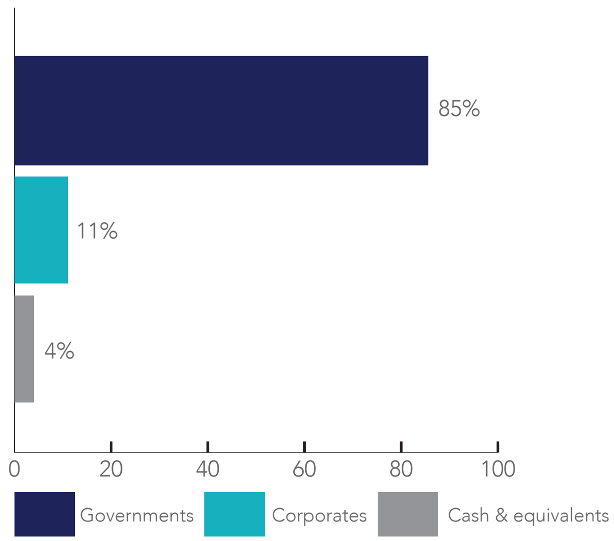
1. As at 30 April 2022.

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2022	4.5	4.5	4.5	5.5	6	5	4.5	4.5	4.5	4.5	-	-	48.0
2021	5	5	5	5	5	5	5	4.5	4.5	4.5	4.5	4.5	57.5
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

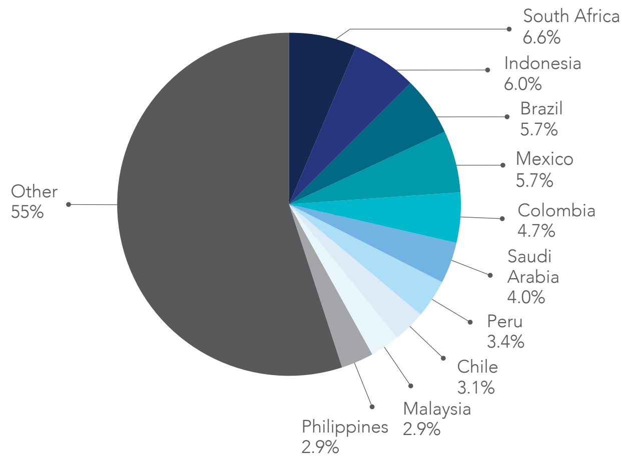
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



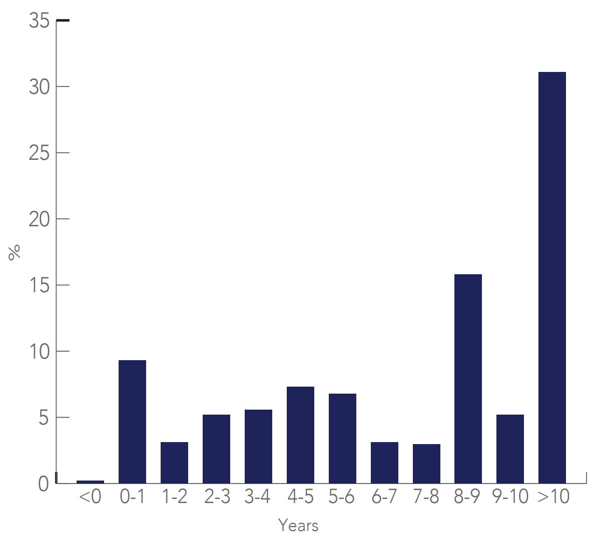
Source: VanEck, as at 30 April 2022.

Top 10 Country Breakdown



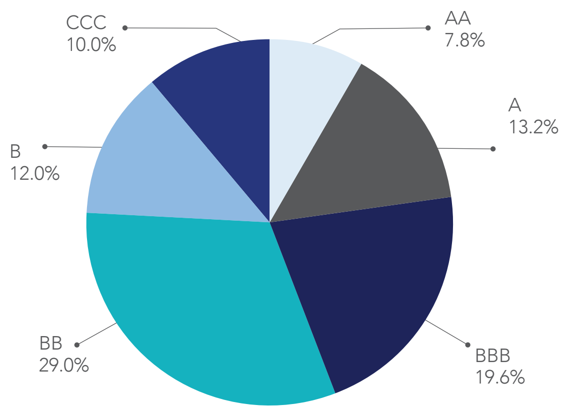
Source: VanEck, as at 30 April 2022.

Time to Maturity Profile



Source: VanEck, as at 30 April 2022.

Credit rating breakdown



Source: VanEck, as at 30 April 2022.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) fell 2.59% in April outperforming the 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified Index which fell 3.33%.
- The outperformance during the month was due to the fund's low duration position. On a country-specific basis, Thailand, Poland and Hungary were our big winners, because we had so little of them.
- Top five country exposures are currently in South Africa, Indonesia, Brazil, Mexico and Columbia.
- Over the past few months, we have been making some portfolio changes. Earlier in the year, we saw higher inflation/policy rates and higher commodity prices as unpriced and we therefore favoured EMFX but maintained very low duration. Now, though, we have significantly increased duration and reduced EMFX. As of the end of April, we have reduced our local currency position to 40%, and duration is up to 5.6. We plan to increase duration to a 6 handle.

Market and Portfolio commentary

EBND fell 2.59% in March, outperforming its benchmark by 0.74%. The fund's outperformance was mostly attributable to its duration. During the month, we reduced our local currency position and have been taking on more duration.

The portfolio has changed to reflect a change in our stance. The fund has moved from a portfolio with low duration and high EMFX to a portfolio with high duration and low EMFX. Currently, the team's view is that the bad news of higher policy rates is priced into the front-end of the US yield curve and unlikely to change. However, the bad news of low-growth is not yet priced. As a result, we continue to look to increase low-beta duration and decrease EMFX. US recession risks are rising, with a European recession, oil embargo risks and China's zero-COVID uncertainties adding to the Fed rate hikes as economic growth headwinds.

The Fed is unlikely to change its policy path soon. The fast increase in policy rates is with us all year, we think. We think we are getting closer to stability in long-end US treasuries.

What the market hasn't fully digested, we think, are the risks to growth. Recession risks are mounting.

Policy rates reflect a likely policy path and that is why we think it is time to accumulate duration. Fed Funds Futures have priced in the hikes upcoming, but the futures markets has also priced in two cuts in 2023, the end to the hiking cycle. The real Fed Funds rate could already be at neutral.

Emerging market's central banks are well positioned because they were hiking already. If the Fed is early, late or whatever, emerging markets has a built in cushion because they entered the Russia/Ukraine crisis having already tightened monetary policy. This is the first time that emerging markets' central banks pre-empted Fed hikes.

While developed market rate hikes have been priced by markets, the headwinds to global growth may not have been.

We were looking at a promising global recovery before Russia's invasion of Ukraine, the supply chain shocks that created inflationary pressures and upward pressure on policy rates were fading. At the time, it felt like the worst was behind us. Now supply chain issues are arguably worse, with the complexity of fertiliser production a popular example of how significant Russia's exit from global commodity markets is.

There are also the risk of a European recession and China seems to have political incentives that trump economic ones, adding to slowdown risks. We think embargo risk is high and markets are unprepared. We also think that Chinese authorities are going to continue to be less growth-focused due to political concerns. On top of this, the US fiscal impulse is declining. All of these conspire to work against global growth. There is a risk to the renminbi which is facing downside pressures, exacerbated by the sharp rise in US rates.

Portfolio changes

A weak Eurozone and weak China make us wary of a lot of different EMFX.

That's the bottom line of how we've positioned the portfolio for the coming environment.

A weak Eurozone means the ECB will be torn between hiking along with the Fed versus hiking into a recession. That will not be supportive of central/eastern European local bond markets that make up a big portion of the benchmark.

A weak China means limited growth upside in Asia, and because Chinese market rates may face upward pressure, it's hard to see tailwinds for Asian local currency bonds.

We worry too about Latin currencies, as they are generally volatile in a risk-off environment.

What this leaves us with is a bias to reduce local currency exposure overall, in favour of increasing exposure to long-duration lower volatility emerging markets bonds in US dollars. We are maintaining our low-duration high-yielding US dollar exposures.

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