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JUNE 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 June 2022

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-5.51%	-9.20%	-16.28%	-20.15%	-	-	-11.0%
Income Return	0.46%	1.30%	2.72%	4.47%	-	-	4.87%
Total Return	**-5.05%**	**-7.90%**	**-13.56%**	**-15.68%**	**-**	**-**	**-6.13%**
Benchmark	-3.44%	-6.29%	-15.31%	-16.91%	-5.61%	0.98%	-9.32%
Value Add	**-1.61%**	**-1.61%**	**+1.75%**	**+1.23%**	**-**	**-**	**+3.19%**

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	133
Number of issuers	88
Modified Duration (yrs)	7.79
Yield to Maturity (%)	8.45
Running Yield (%)	7.22
Weight of top 10 issuers (%)	27.0
Credit Rating Profile	BBB-
Time to Maturity (yrs)	14.57
Top Holding Weight (%)	3.98
Investment Grade (%)	47.18

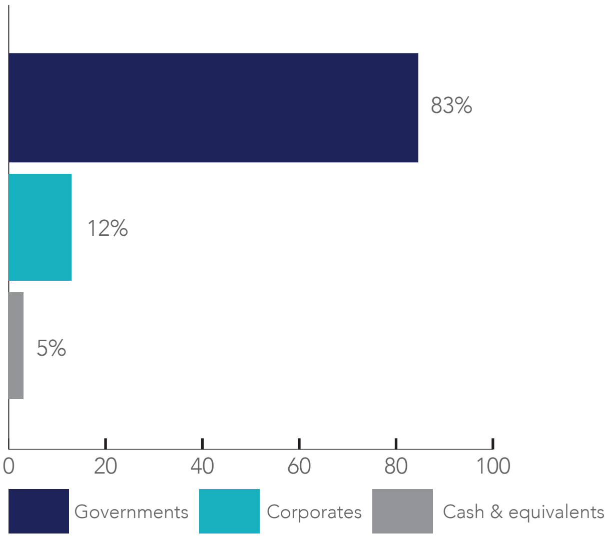
1. As at 30 June 2022.

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	4.5	4.5	57.0
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

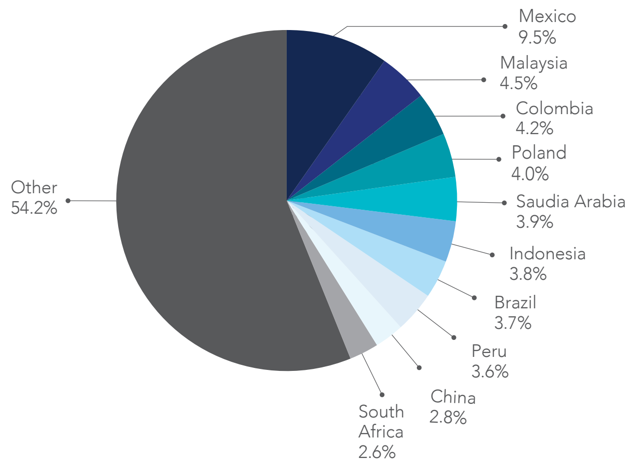
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



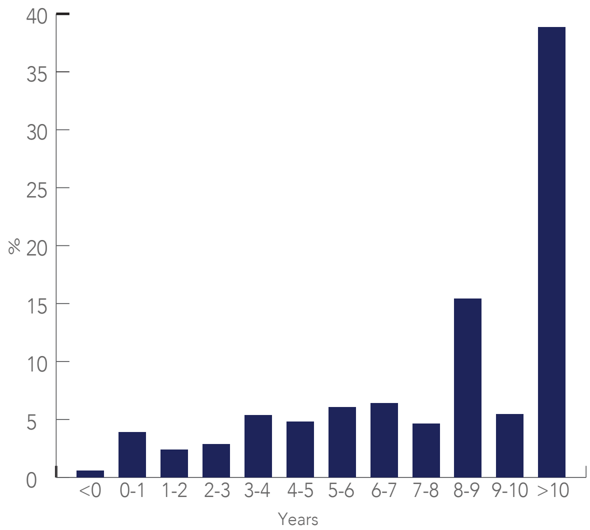
Source: VanEck, as at 30 June 2022.

Top 10 Country Breakdown



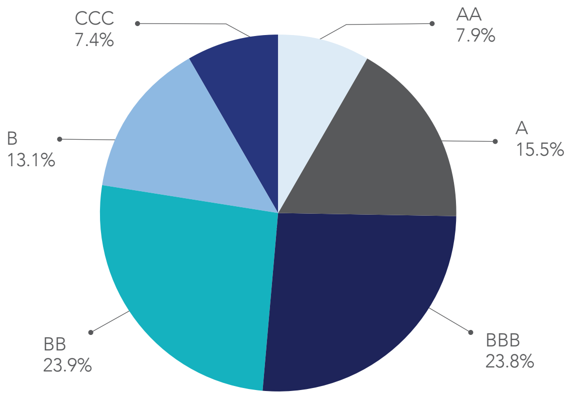
Source: VanEck, as at 30 June 2022.

Time to Maturity Profile



Source: VanEck, as at 30 June 2022.

Credit rating breakdown



Source: VanEck, as at 30 June 2022.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) fell 5.05% in June underperforming 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 by 1.61%.
- Over the past twelve months, the fund is outperforming its benchmark by 123 basis points, with the fund down 15.68% compared to the 16.91% fall of its benchmark. Not owning any Russian assets, despite their large benchmark weight (this time last year) is the biggest contributor to outperformance. During June, overweight positions in Ukraine, Kazakhstan and Peru were the biggest positive contributors to performance.
- Top five country exposures are currently in Mexico, Malaysia, Columbia, Poland and Saudi Arabia.
- Currently, with an outflow-driven market, some countries with IMF programmes and established financing are seeing their bonds sell-off due to their smaller sponsorship combined with outflows. This is not the time to sell, and usually marks the beginning of a renaissance.

Market and Portfolio commentary

EBND fell 5.05% in June, underperforming its benchmark by 1.61%.

Our basic view remains unchanged. We expect a yield curve inversion, which will have different asset price implications than a shift upwards—this will generally be bullish for low-beta duration and the US dollar. The dollar should benefit from a higher rate differential against many major currencies, including Japan and the Eurozone. Our view remains that recession risk is the key market driver. In particular, if inflation surprises on the upside, we think that the 30-year bonds should rally.

China remains a risk, mostly to the downside, in our view. The currency is expected to weaken, and this will affect all EMFX. Chinese local currency bonds are at lower nominal yields than US bonds. Currently, we do not find these Chinese bonds favourable, even though they are cheap in real terms. China is still in the middle of overcoming its real estate crisis.

We are pessimistic on the current macroeconomic scenario. A recession is expected, with markets being volatile. Fed futures are already pricing in a cutting cycle starting next year and EMFX looks oversold. We expect the strength in the US dollar to tighten market conditions, which will cause the Fed to react. Meanwhile, China could surprise markets to the downside.

Portfolio changes

The changes to our top positions are summarised below.

- We increased hard currency sovereign exposure in China and local currency exposure in Poland. In China, we added longer-dated sovereign bonds to express our view that a growing recession risk in Developed Markets (DM) will continue to push down longer DM yields, and that selected sovereign bonds in EM will be able to catch this duration ride. In terms of our investment process, this improved the technical test score for China. Poland is expected to benefit from the resolution of the situation with the EU funds, after President Andrzej Duda signed the bill that created a new accountability panel for judges, replacing the contentious disciplinary body. There is a risk of a dovish policy turn, but the central bank is still expected to continue hiking in order to contain inflation pressures. In terms of our investment process, this improved the policy test score for the country.

- We also increased our hard currency sovereign exposure in the Bahamas and Jordan. The Bahamas bond was a new issue that is expected to benefit from the government guarantee and as a result, this improved the technical test score. In Jordan, authorities continue to conduct adequate policies, including a 50bps rate hike by the central bank. In addition, there are signs of stronger cooperation with the Saudi Arabia government—such as the Saudi government allowing the Bank of Jordan to open its branches in the Kingdom. In terms of our investment process, this improved the policy test score for the country.

- We reduced our local currency exposure in the Czech Republic and Indonesia. The incoming dovish governor of the Czech National Bank who is also a political appointee, and the dovish makeover of the central bank's board, might result in a higher chance of a policy mistake—such as a prolonged pause after a higher than expected rate hike in June. This, in our opinion, worsened the country's policy test score. With regards to Indonesia, we are concerned that higher gasoline and diesel prices can compromise the fiscal consolidation program, and also negatively affect the trade balance and inflation. In terms of our investment process, this worsened the economic test score the country.

- We also reduced our hard currency exposure in Israel and Argentina. Israel's spread-to-yield ratio is among the lowest in the EM fixed income universe, which makes it a US treasury proxy, and so we used it as a funder for other opportunities. Argentina's policy and economic landscape continues to deteriorate—especially with regards to budget performance and the government's inability to meet IMF fiscal targets. The central bank debt financing does little to improve investors' sentiment. We are also concerned about the ongoing decline in the international reserves, despite good seasonality. In terms of our investment process, this worsened the economic and policy test scores for the country.

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