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MARCH 2021

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 31 March 2021

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-1.74%	-4.84%	-2.45%	10.55%	-	-	-7.51%
Income Return	0.40%	1.62%	2.54%	6.04%	-	-	5.07%
Total Return	**-1.34%**	**-3.22%**	**+0.09%**	**+16.59%**	**-**	**-**	**-2.44%**
Benchmark	-1.23%	-5.02%	-1.53%	2.36%	1.26%	4.02%	-7.81%
Value Add	**-0.11%**	**+1.80%**	**+1.62%**	**+14.23%**	**-**	**-**	**+5.37%**

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	103
Number of issuers	65
Modified Duration (yrs)	5.95
Yield to Maturity	5.94%
Running Yield	5.57%
Weight of top 10 issuers	45.2%
Credit Rating Profile	BB+
Time to Maturity (yrs)	8.35
Top Holding Weight (%)	3.45%
Investment Grade (%)	48.48%

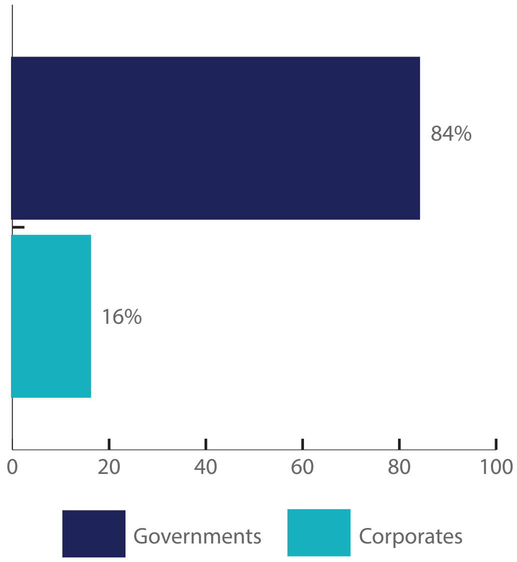
1. As at 31 March 2021

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2021	5	5	5	5	5	5	5	4.5	4.5	-	-	-	44
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

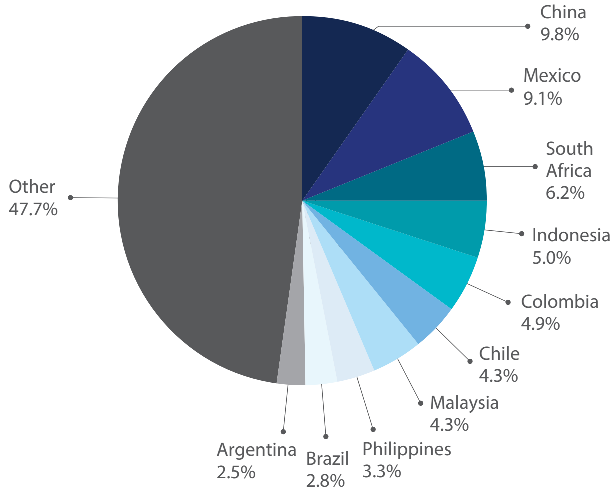
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



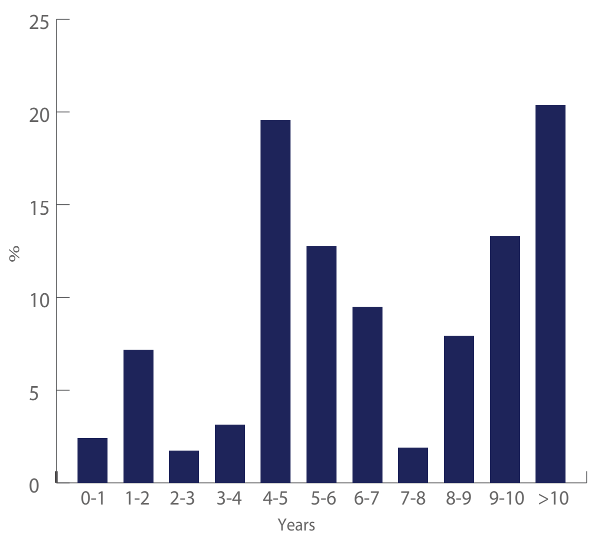
Source: VanEck, as at 31 March 2021.

Top 10 Country Breakdown



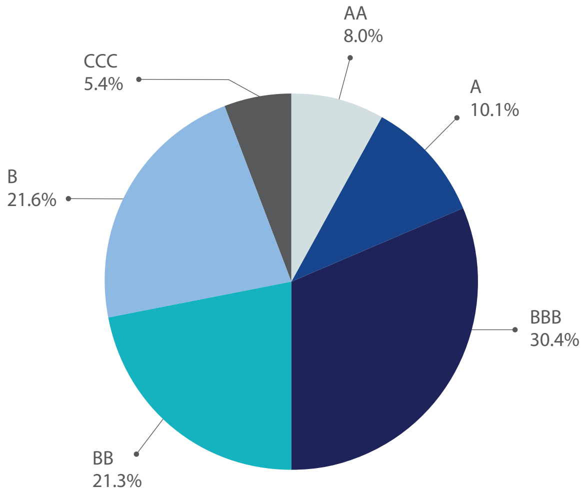
Source: VanEck, as at 31 March 2021.

Time to Maturity Profile



Source: VanEck, as at 31 March 2021.

Credit rating breakdown



Source: VanEck, as at 31 March 2021.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) fell 1.34% in March 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 which fell 1.23%. Not having any exposure to Brazil and Russia aided performance, although our overweight to Turkey erased these gains. We have since exited our position in Turkey, concerned over risk of capital controls under the current policy path.

- Top five country exposures are currently in Mexico, China, South Africa, Columbia and Indonesia.

- US Treasuries continued to drive markets (US 10-year Treasuries sold off by over 30 basis points) in March. Emerging markets local-currency outperformed emerging markets hard-currency debt, which suggests that the local-currency market has already absorbed a lot this year's move in US Treasuries.

- If US Treasuries are pausing or reversing, it's a big deal for emerging markets bonds. First, it means that the carry trade is back, and would benefit higher-yielding emerging market bonds. Second, interest rates rose due to higher US growth prospects and this is good for emerging market debt fundamentals, and thus means lower credit spreads and stronger currencies. Higher US growth increases imports from emerging markets, boosting commodity prices, and improving financing conditions.

- Looking ahead, we remain in favour of EMFX, but are no longer averse to duration. US rates could grind sideways for months until the next big economic development starts driving markets (which we think will be the US Infrastructure Bill in the second half 2021).

Market and portfolio commentary

EBND marginally underperformed its benchmark in March. Not having any exposure to Brazil and Russia aided performance, although the overweight to Turkey erased some gains. We have since exited our position in Turkey, concerned over risk of capital controls under the current policy path.

US Treasuries continued to drive markets in March. Emerging markets local-currency outperformed emerging markets hard-currency bonds. Investors went into 2021 expecting emerging markets debt to rally. But that didn't happen in the first quarter. What did happen is that emerging markets bonds dipped, but they went down almost in line with the US Treasury selloff. Credit spreads barely rose, and emerging markets currencies – other than Brazil and now Turkey – hardly moved. In our view, nothing happened in the first quarter other than a US Treasury selloff sparked by improving economic conditions.

If the selloff in US Treasuries pauses or reverses, it could be a big boost for emerging markets bonds. First, it means that the carry trade is back. Second, interest rates rose due to higher US growth prospects and this good for emerging markets debt fundamentals leading to lower credit spreads and stronger currencies. Higher US growth increases imports from emerging markets, boosting commodity prices, improving financing conditions.

EMFX looks well positioned to benefit from global reflation as rising yields are being generated by "risk-on" economic conditions, not "taper-tantrum" conditions. Commodity prices look set to continue rising, consistent with our positioning. Note that US front-end rates remain anchored – the 2-year yield barely rose in March. This should be negative for the US dollar. Once the market has digested the Treasury selloff, the improvement in global growth outlook should support emerging markets debt. The magnitude of the US expansion should not be underestimated, and it can have an adverse impact on the US dollar.

We remain in favour to EMFX, but are no longer averse to duration. US rates could grind sideways for months, until the next big economic development starts driving markets (we think it will be the US Infrastructure Bill in the second half of the year).

EBND has around 60% of its exposure in local currency. We think that when the Treasury selloff stops, the rally in many "risk" assets related to the US dollar could be sharp and swift. Note that our duration is higher than it has been since December 2020.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our hard currency sovereign exposure in El Salvador and Ecuador. In El Salvador, President Bukele's party won a supermajority in the legislature. As a result, the Finance Ministry confirmed that the government will pursue a 3-year IMF Extended Fund Facility program. In terms of our investment process, this improved the country's policy test score. The initial reasons for having exposure in Ecuador still hold – the bonds are cheap to fundamentals and debt is now negligible after the restructuring (US buying China's debt). We still had some room to increase our exposure after our first allocation in January, and since both the policy and the technical test scores for the country looked good, we made the move last month.

- We further increased our local currency exposure in Chile and Colombia. In Colombia, the currency still looks cheap to oil, and short-term bonds look cheap to fundamentals. The bonds are also likely to benefit from a benign inflation outlook. We expect to see a wider fiscal deficit for 2021, but Colombia's unprecedented access to the IMF Flexible Credit Line should help with the 2021 financing needs. In terms of our investment process, this improves the country's technical (valuation) and economic test scores. The Chilean economy should continue to benefit from an improved outlook for copper exports on the back of a stronger global growth outlook and "green" policies both in emerging markets and developed markets. At the same time, inflation remains low, and we expect that the forthcoming referendum on the new constitution will have constructive and peaceful outcome. In terms of our investment process, this strengthens the policy and technical (correlation) test scores for the country.

- Conversely, we reduced our local currency exposure in Russia and Turkey. In Russia, the sanctions risks might prove stronger than expected, there is more pressure from the US (election interference) and potentially more coordination with the EU on this matter. In addition, there are a lot of "sanction hawks" among the newly-appointed members of the Biden administration. These factors worsen the country's policy test score. In Turkey, the shocking removal of the orthodox governor of the country's central bank reversed the recent policy U-turn, bringing back old concerns about macroeconomic imbalances and worsening the country's policy and economic test scores.

Contact us

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

VanEck-Australia
VanEck_Au
VanEckAus