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MARCH 2023

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 2023

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	1.76%	3.17%	9.89%	-0.73%	0.01%	-	-5.84%
Income Return	0.36%	1.54%	2.74%	5.51%	5.46%	-	5.15%
Total Return	**+2.12%**	**+4.71%**	**+12.63%**	**+4.78%**	**+5.47%**	**-**	**-0.69%**
Benchmark	2.84%	3.89%	9.27%	0.75%	-1.49%	-0.62%	-5.00%
Value Add	**-0.72%**	**+0.82%**	**+3.36%**	**+4.03%**	**+6.96%**	**-**	**+4.31%**

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]

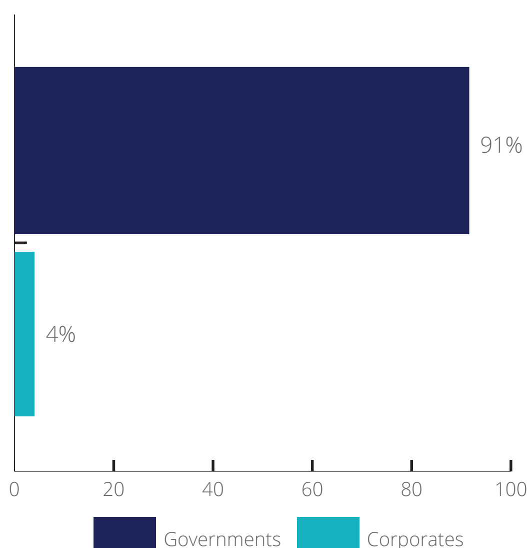
Number of constituents	89
Number of issuers	55
Modified Duration (yrs)	5.2
Yield to Maturity (%)	8.4
Running Yield (%)	6.6
Weight of top 10 issuers (%)	51.6
Credit Rating Profile	BB+
Time to Maturity (yrs)	8.1
Top Holding Weight (%)	3.7
Investment Grade (%)	41.9

1. As at 31 March 2023

Summary

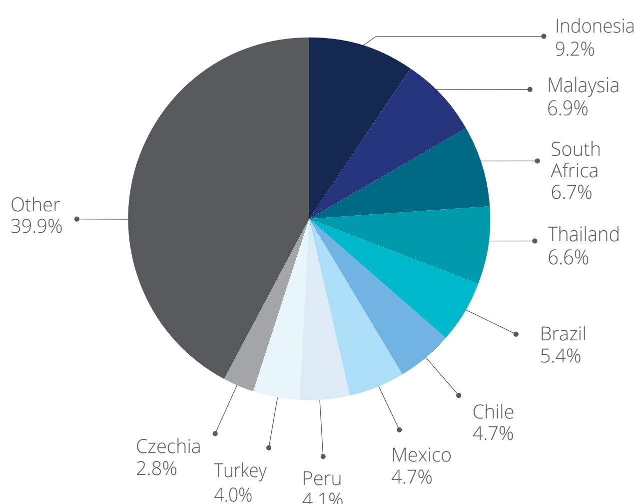
- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) returned 2.12% in March underperforming the 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified Index by 0.72%.
- We think the time is ripe for investors to shift their positioning from developed markets (DM) to emerging markets (EM). Major DM countries are highly indebted, are averse to recession, and have constrained monetary policy, also known as fiscal dominance. They are constrained in their ability to hike rates, as this tends to cause recessions. In contrast, EM have well-capitalised banking systems and economically orthodox EM central banks are going their own way, some are already easing after tightening earlier and faster than DMs.
- Top five country exposures are currently in Indonesia, Malaysia, South Africa, Thailand and Brazil.

Portfolio Allocation



Source: VanEck, as at 31 March 2023.

Top 10 Country Breakdown



Source: VanEck, as at 31 March 2023.

Market and Portfolio commentary

EBND returned 2.12% during March underperforming its benchmark which rose 2.84%. We have completed our duration reduction, mostly via reductions in investment grade corporate bonds. Most of the relative underperformance was because local currency had a big month, but we were underweight some of those that ran hardest such as Brazil. Consistent with our outlook we currently have a maximum allowed allocation to local currency.

During March it was DM that were threatening global markets, with the US and Switzerland facing banking crises. These crises appear resolved for now. Against this backdrop, EM has performed well in this risk-off environment.

A tumultuous few months strengthens our conviction that money will flow out of DM bonds and toward EM bonds due to the fiscal dominance in DM. In our view, non-US-aligned central banks should reduce their ratio of US treasuries as assets, and replace them with gold and EM local-currency bonds.

EM local currency was a big winner in March. The local currency, JPMorgan Government Bond Index-Emerging Markets Index, was up over 5% in March, in the middle of the banking crisis.

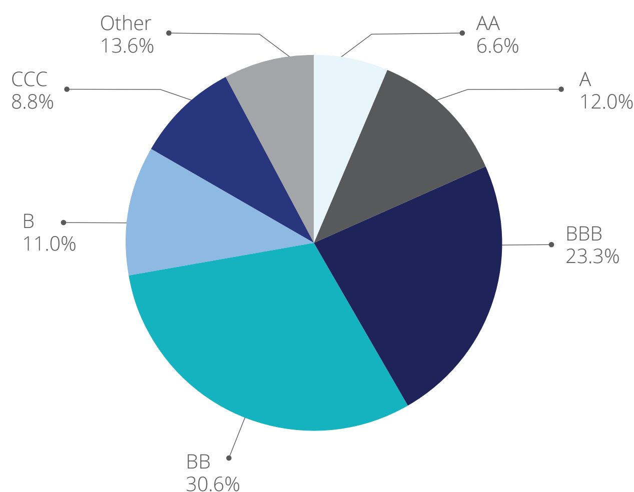
In our view, one of the biggest risks is the advent of a geopolitical configuration involving DM nations. For reasons stated below, we think the time is ripe for investors to shift their positioning from DM to EM.

- Major DM countries are highly indebted, are averse to recession and have constrained monetary policy.
- As DM Central Banks are constrained in their ability to hike rates which tends to lead to recessions, thus, their currencies bear the burden.
- Currency declines in DM will initially appear painless. One of the reasons is due to the structural demand from US dollar in a risk-off environment, due to most debt being denominated in US dollars.
- Major DM debtors respond to financial crises or recessions with liquidity in DM currencies.
- Meanwhile, heavily-indebted DM are sanctioning their creditors.
- In contrast, economically orthodox EM are going their own way, such as hiking rates earlier than DM as soon as they saw inflation.
- EM have well-capitalised banking systems.
- They also often have world-class administrators and leaders, who are fluent in multiple languages and are trained in western educational tradition.

Too many business models, we think, rely on the old geopolitical configuration of allocating into DM. The market is not priced to reality. In our view, this is the biggest mispricing we see in markets. China, Russia, Saudi Arabia, United Arab Emirates, Iran, India, Brazil, South Africa, and more, are using each other's currencies in trade. These countries have yet to borrow in each other's currencies, which will create secular money demand, which can be met by secular money supply. The result of this non-inflationary expansion of EM balance sheets is massive growth and fiscal space for the EM. Investors should consider positioning their portfolio to include EM.

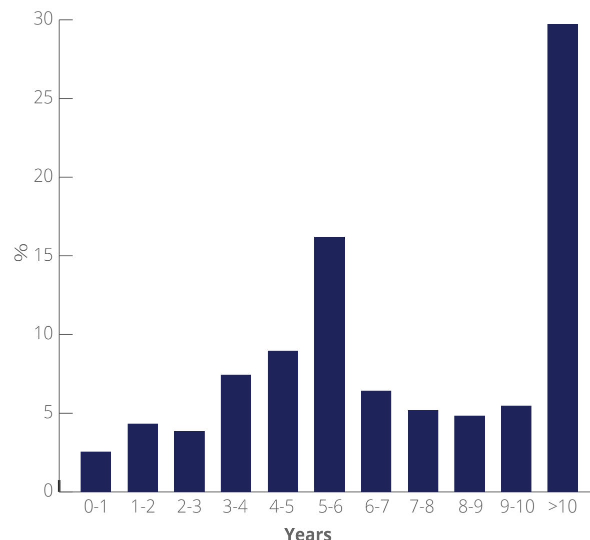
Without structural reform or a reversal of geopolitical developments, DM could be overtaken by EM. We see no prospect of any structural or fiscal reform in the DM, perhaps with the exception of Japan.

Credit rating breakdown



Source: VanEck, as at 31 March 2023.

Time to Maturity Profile



Source: VanEck, as at 31 March 2023.

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2023	4.5	5	4.5	4.5	4.5	4	3.5	3.5	3.5	-	-	-	37.5
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	-	-	-	44.0
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 changes

The changes to our top positions are summarised below.

- We increased our hard currency sovereign exposure in Turkey. Turkey's idiosyncratic policy mix is one of the main reasons why we stay away from local debt, but the country's sovereign debt is now attractively valued, while the unorthodox FX framework somewhat reduced pressure on the international reserves. In terms of our investment process, this improved the technical test score for the country.
- We also increased our hard currency sovereign exposure in Qatar and Saudi Arabia. Both countries are among the key beneficiaries from higher oil prices due to Russia's invasion of Ukraine, especially in regards to growth, fiscal positions, and external balances. Saudi Arabia also demonstrates consistent structural efforts to strengthen governance and diversify the economy from oil. In terms of our investment process, this improved the economic, policy, and technical test scores for the country.
- We reduced our hard currency sovereign exposure in Hungary and local currency exposure in Poland. In Hungary, the ruling party's re-election with a larger than expected margin, and signals that it can get embroiled in the Russia/Ukraine war in addition to political/legal complications with the EU—which can cost it disbursements from the EU's recovery funds—worsened the country's policy/politics test score. Poland is exposed to the fallout from the Russia/Ukraine war—the recent cutoff of Russian gas supplies shows that upside inflation risks can prove more persistent. The government's expansionary fiscal stance can create additional technical issues for local debt. In terms of our investment process, this negatively affected the technical and policy test scores for the country.
- We also reduced our local currency exposure in Brazil, hard currency corporate exposure in Moldova, and hard currency sovereign exposure in Angola. The Brazilian réal's stretched net long positioning means that it can get caught in the global selloff on the back of China's growth concerns. Against the backdrop of the deteriorating technical test score, we decided to take partial profits on this position which worked well early in the year. In Moldova, we sold a corporate bond after the company lost access to sea after Russia attacked Ukraine.

Contact us

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

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