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MAY 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 May 2021

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	1.29%	1.33%	-1.49%	6.07%	-	-	-4.34%
Income Return	0.40%	1.24%	2.49%	5.61%	-	-	5.17%
Total Return	**+1.69%**	**+2.57%**	**+1.00%**	**+11.68%**	**-**	**-**	**+0.83%**
Benchmark	1.67%	1.92%	-1.69%	1.12%	3.90%	4.18%	-4.56%
Value Add	**+0.02%**	**+0.65%**	**+2.69%**	**+10.56%**	**-**	**-**	**+5.39%**

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	99
Number of issuers	61
Modified Duration (yrs)	5.38
Yield to Maturity (%)	5.24
Running Yield (%)	5.02
Weight of top 10 issuers (%)	47.5
Credit Rating Profile	BB+
Time to Maturity (yrs)	7.48
Top Holding Weight (%)	3.75
Investment Grade (%)	42.04

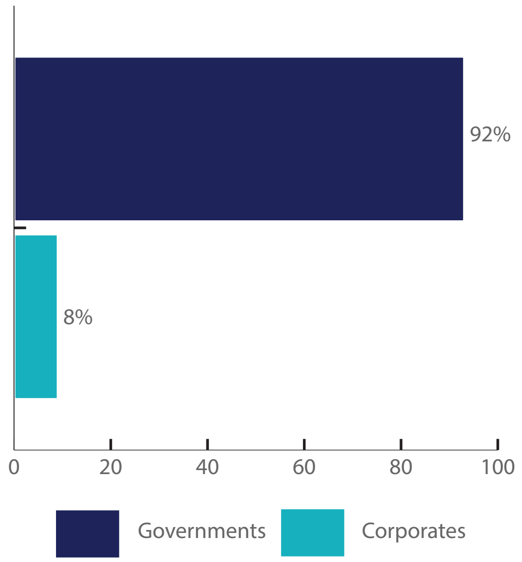
1. As at 31 May 2021.

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	4.5	4.5	-	53.0
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

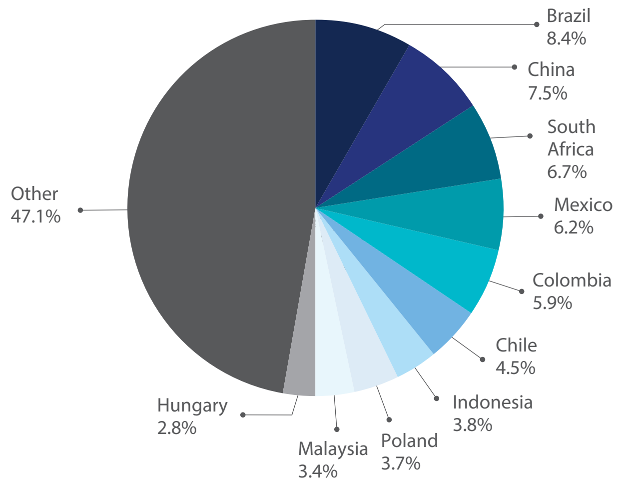
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



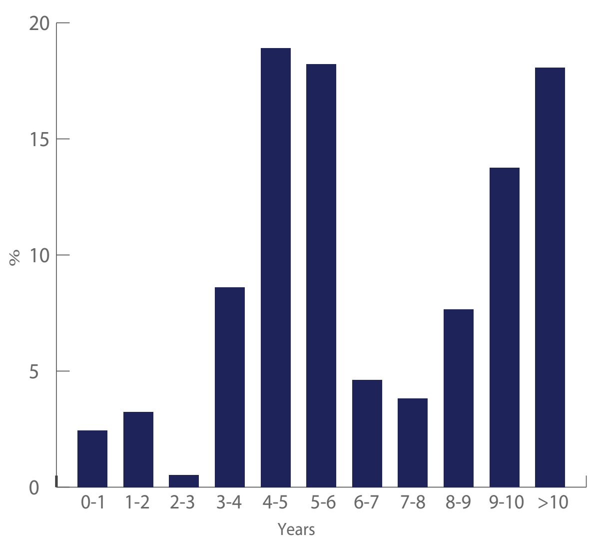
Source: VanEck, as at 31 May 2021.

Top 10 Country Breakdown



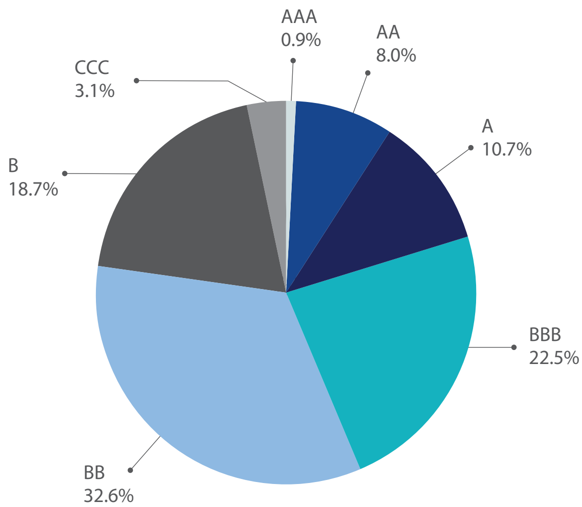
Source: VanEck, as at 31 May 2021.

Time to Maturity Profile



Source: VanEck, as at 31 May 2021.

Credit rating breakdown



Source: VanEck, as at 31 May 2021.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) rose 1.69% in May marginally 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 rose 1.67%.

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

- Reflation is back and we maintain the view that US stimulus is under-appreciated, the growth baton is being handed to Europe and emerging markets, and that the Fed will not rain on this parade. This broadening growth might mean a steeper yield curve, but if the Fed keeps front-end rates low, EMFX looks poised to strengthen.

- A key asset price implication of reflation is stronger emerging markets currencies. That realisation is just dawning as to date EMFX has lagged the rise in commodity prices. EMFX is therefore potentially positioned to catch up with the rally.

Market and Portfolio commentary

EBND returned 1.69% in May, outperforming its benchmark by 0.02%. The fund has also outpaced the benchmark for the calendar-year-to-date, buoyed by the underweight position in Brazil's local currency market and the overweight exposure to Mexico's local currency market. In May we increased our position in the Brazil local currency market partially due to the central bank's early moves to raise rates.

Market participant underappreciate the magnitude and durability of the coming US economic boom, particularly the Biden administration's singular focus on growth at any cost. Deficits, the coronavirus, higher interest rates, or the absence of an infrastructure bill have all been noted as risks to continued growth momentum. As a result markets are looking to Europe and emerging markets for growth.

The possibility of the Fed hiking interest rates early is another risk, but we see no evidence for that as inflation is moving higher, but the Fed's policy stance has not shifted.

Many emerging markets central banks are worried about overheating and several emerging markets central banks have already started normalising interest rates. The market is also beginning to price in hikes. As a result we favour of China, partially due to the central bank's early moves to tighten, but we now have Brazil, Poland, Hungary, Czech, Chile, Colombia, and others that are moving in that direction. An implications of this is stronger emerging markets currencies. So far EMFX has lagged the rise in commodity prices, so it is potentially positioned to catch up with the rally.

In other local developments, Peru has just completed the second round of its Presidential elections, and it appears the far-left, market-unfriendly Pedro Castillo has won the presidency. The election was close and could be contested. In any case, our core rationale for not owning Peru was not that we thought Castillo would win. The impact of asset prices from his victory were stark. President-elect Castillo must appoint a new central bank head in two months, which changes the game-theory around Peru, and we don't want to be part of that.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Poland, Hungary, and Romania. Central European economies are closely linked to the Eurozone and its post-pandemic rebound, which reflects the reopening, stronger tourism revenue, ongoing stimulus, and improving surveys. The pace of vaccinations in the region is high, with Hungary on the cusp of achieving herd immunity, and other countries getting to that stage in the third quarter. Poland and Romania also stand to be among the largest beneficiaries of the European Union recovery funds - both in 2021 and 2022. Regional central banks are pro-active and likely to start hiking in the next three to six months. In terms of our investment process, all three test scores, economic, policy and technical, showed improvement in the past weeks.

- We also increased our local currency exposure in Uruguay, Zambia, and Kazakhstan. Kazakhstan is positioned to benefit from higher oil prices and the country has an improved technical test score. In regards to Uruguay, the bonds we bought were a new issue that came with a nice premium and better valuations. In addition, Uruguay's inflation has returned to be within the target band and is expected to moderate further in the coming months. In terms of our investment process, this translated into the improved technical and economy test scores for the country. The main reasons for getting exposure in Zambia was the renewed prospect of an IMF program and higher copper prices, which boosted the policy and technical test scores for the country.

- Against this, we reduced our hard currency and local currency exposure in Peru, as well as local currency exposure in the Philippines and Israel. The binary outcome of the presidential elections in Peru, with the far-left candidate doing well in the polls, was the main reason for reducing the fund's exposure there, as it worsened the upside-downside risk balance and the policy test score for the country. Our main concern in Israel was the return of political tensions and the risk premium looked low for this setup. In the Philippines, we were not in favour of our exposure to duration, low yields, less attractive valuations and a low upside. A combination of these factors worsened the technical test score for the country.

- We also reduced hard currency exposure in Ecuador and El Salvador. Ecuador's post-election "honeymoon" is ending, and there is a risk that President Lasso will not have the parliament on board for his reform agenda. As a result, the country's political/policy test score is weaker. El Salvador's headline noise and the United States Agency for International Development's decision to redirect assistance away from the government represents adverse signals in terms of a potential IMF program. This worsens the policy test score for the country.

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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.