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NOVEMBER 2020

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 November 2020

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	1.47%	1.23%	7.67%	-	-	-	-4.18%
Income Return	0.44%	1.34%	2.90%	-	-	-	4.26%
Total Return	**1.91%**	**2.57%**	**10.57%**	**-**	**-**	**-**	**0.08%**
Benchmark	2.11%	2.93%	2.86%	-0.72%	3.65%	-	-4.28%
Value Add	**-0.20%**	**-0.36%**	**+7.71%**	**-**	**-**	**-**	**+4.36%**

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	71
Number of issuers	38
Modified Duration (yrs)	5.79
Yield to Maturity	5.06%
Running Yield	5.95%
Weight of top 10 issuers	53.2%
Credit Rating Profile	BB
Time to Maturity (yrs)	8.30
Top Holding Weight (%)	3.32%
Investment Grade (%)	41.32%

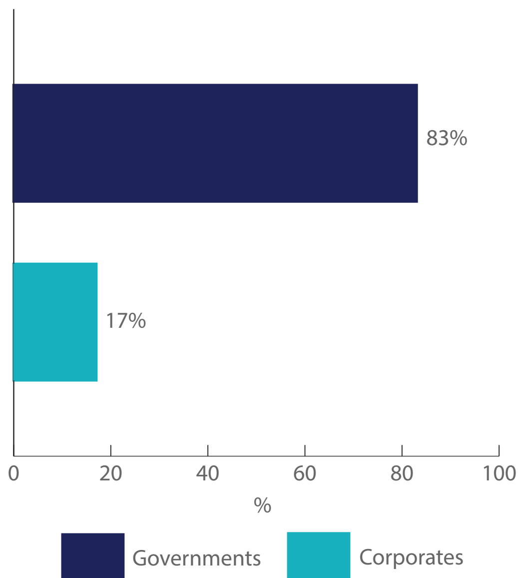
1. As at 30 November 2020

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	-	-	-	-	-	-	-	25
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

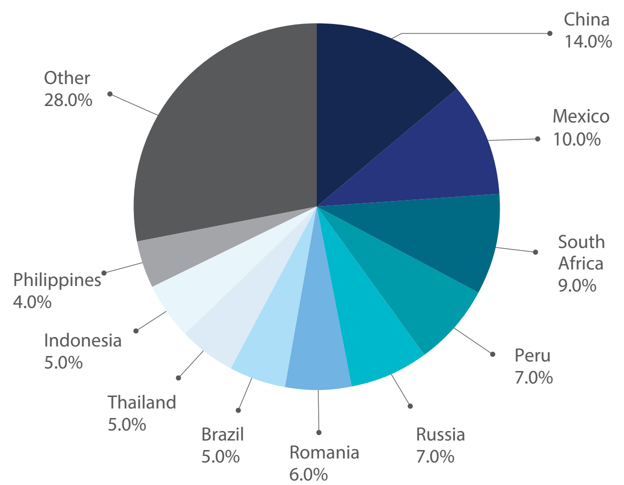
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



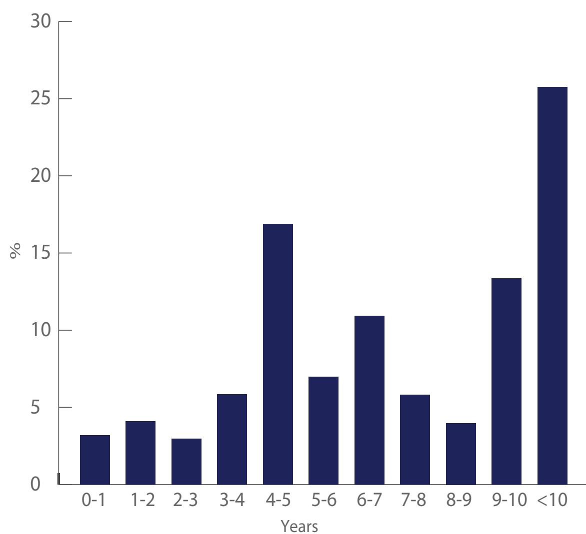
Source: VanEck, as at 30 November 2020.

Top 10 Country Breakdown



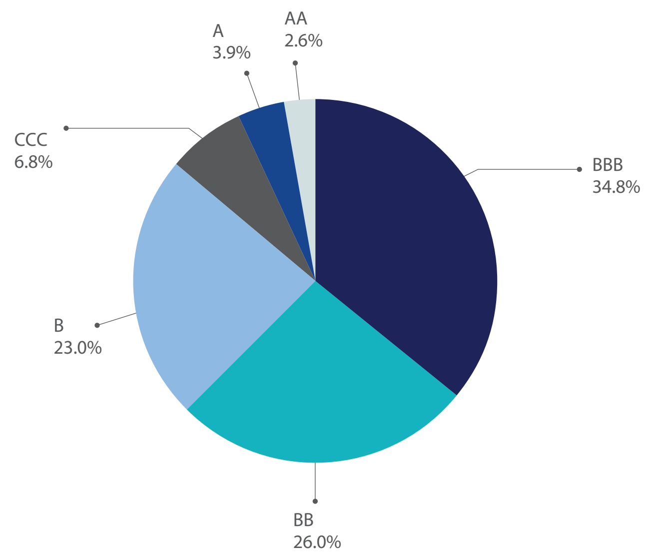
Source: VanEck, as at 30 November 2020.

Time to Maturity Profile



Source: VanEck, as at 30 November 2020.

Credit rating breakdown



Source: VanEck, as at 30 November 2020.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) returned 1.91% in November.
- Top five country exposures are currently in Mexico, South Africa, China, Peru and Russia.
- We think local currency bonds are attractive for three reasons:

1. EMFX hasn't yet retraced its pre-COVID highs, unlike the other emerging market debt categories that have fully retraced.
2. Economic policy in many countries is good, with several government bond markets paying decent yields.
3. Any re-evaluation of the "60/40" growth/defensive portfolio construction model should consider emerging market debt.

Market and portfolio commentary

The biggest contributors to relative outperformance over the month were South Africa, Mexico, Russia, China, Ghana, and Peru, but these gains could not match the detraction from Indonesia, Brazil, Turkey, Colombia and Poland.

We now have a substantial allocation to Russia, after avoiding it for years due to sanctions risks. Until now, we had chosen Ukraine, Belarus, and Georgia as safer alternatives, and these substantially outperformed Russia. Now that the Russian ruble is near its all-time lows, and sanctions risks look to be abating, we decided to buy the bonds given their cheap valuations.

We remain positive on the near-term outlook for emerging local currency bonds. EMFX has lagged the COVID-19 recovery despite many good economic policies in emerging markets so are a potentially attractive alternative to developed market bonds.

Developed government bond markets are undergoing two serious challenges right now. First, many of them pay low yields or even guarantee losses. Their safety value is arguably fully-priced, if not subject to distortive "hothouse" effects. Second, the classic "60/40" growth/defensive portfolio is being challenged by these low or negative yields. We think emerging markets bonds will be a growing answer to filling in whatever that "40" portion of the portfolio is.

Unlike other assets, EMFX hasn't even retraced half of its pre-COVID lows. Most asset-prices have rebounded, with gold and Chinese equities rising well above pre-COVID highs. Everything else – including all the hard currency emerging markets debt categories are back to pre-pandemic levels.

Another reason supportive of local currency is their policymakers' generally orthodox stances – paying high real interest rates and maintaining fiscal space via limiting debt and deepening structural reform. China is a good example of such a market. Most of China's debt comprises corporate debt, with varying degrees of implicit government support. But let's put that aside given the tightness of the country's financial controls. China not only has a lot of flexibility to stimulate if growth is needed to drive asset prices, but also pays high real yields if growth doesn't materialise quickly.

There are a number of individual emerging market currencies that have lagged for which there is no fundamental rationale to explain the deterioration. For example why has the Russian ruble weakened in line with the de-rating Turkish lira. Given the country's low debt, high reserves, plenty of fiscal and monetary space, and improving economic structure we don't see a good reason for this lagged currency performance. Similarly the Peruvian sol has been a laggard. This is surprising as Peru's economy is correlated to global growth due to its mining sector. It also has good defensive characteristics due to its strong balance sheet and good policy track record. Both of these examples pay high real interest rates relative to their fundamentals, and are consistent with the core of our investment process.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Russia and Brazil. The main driver in Russia is that political risks appear less elevated following the election of Joe Biden as the next US president. This improved the country's technical test score. In regards to our exposure in Brazil, Brazilian assets – especially the currency – have been lagging other emerging markets. The market was concerned about a perceived lack of commitment to fiscal adjustment, but the improving growth outlook can make it easier for the government to phase-out the COVID-related stimulus. In terms of our investment process, this strengthened the country's technical and economic test scores.

- We also increased our local currency exposure in the Czech Republic and Peru. Peru's market was negative on the presidential impeachment and its implications. The rapid succession of three interim presidents in 10 days was nerve-racking, but the final candidate turned out to be a centrist, and this factor can improve the election chances of a moderate president in the 2021 ballot. We also think that the second round of withdrawals from private pension funds is likely to lead to additional FX inflows. In terms of our investment process, this improved the country's technical and policy/politics test scores. Valuations of Czech local rates improved significantly since we held them at the onset of the COVID crisis. In addition, the Czech Republic is not affected by the rule of law spat with the European Union, which means its structural EU disbursements are not at risk in 2021 (unlike Poland and Hungary). We are, therefore, happy to use this particular vehicle to add exposure to the region. In terms of our investment process, this resulted in the improved technical score for the country.

- Against these, we reduced our hard currency sovereign exposure in Tajikistan and Honduras. Our main concern about Tajikistan is on ESG, especially governance risks. We chose to exit this position to fund other more attractive opportunities. The main driver in Honduras was technical – the country's bond valuations look significantly less attractive these days, and we see no additional positive developments on the macro/policy side to justify this exposure.
- We also reduced hard currency exposure in Indonesia and hard currency exposure in United Arab Emirates. In regards Indonesia, we exited our position in a quasi-sovereign bond which had very long duration. We are concerned that the ongoing global recovery might increase duration risks, and this worsened the technical test score for the bond in question. Similar concerns were behind our decision to reduce our position in the United Arab Emirates. There are also legitimate concerns that oil prices might be pushed lower under US President-elect Biden. In terms of our investment process, this worsened the technical 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.

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