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AUGUST 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 August 2021

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	0.71%	1.59%	2.94%	1.31%	-	-	-2.66%
Income Return	0.39%	1.20%	2.49%	5.18%	-	-	5.16%
Total Return	**+1.10%**	**+2.79%**	**+5.43%**	**+6.49%**	**-**	**-**	**+2.50%**
Benchmark	1.16%	3.54%	5.53%	4.77%	5.69%	3.88%	-1.66%
Value Add	**-0.06%**	**-0.75%**	**-0.10%**	**+1.72%**	**-**	**-**	**+4.16%**

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	127
Number of issuers	72
Modified Duration (yrs)	5.52
Yield to Maturity (%)	5.01
Running Yield (%)	5.32
Weight of top 10 issuers (%)	38.9
Credit Rating Profile	BB+
Time to Maturity (yrs)	7.90
Top Holding Weight (%)	4.62
Investment Grade (%)	51.70

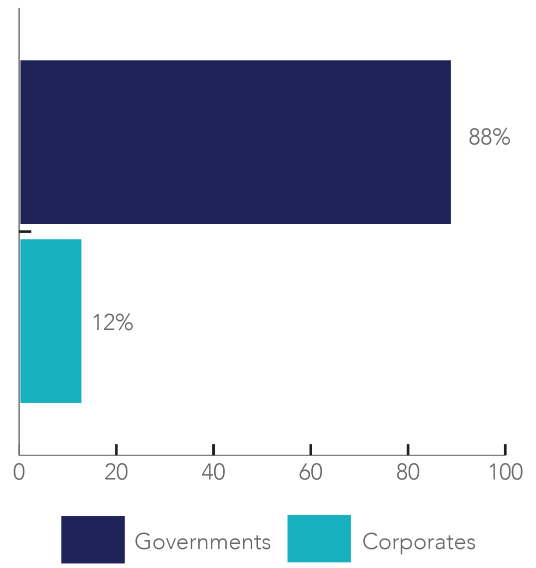
1. As at 31 August 2021.

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2022	4.5	4.5	-	-	-	-	-	-	-	-	-	-	9.0
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

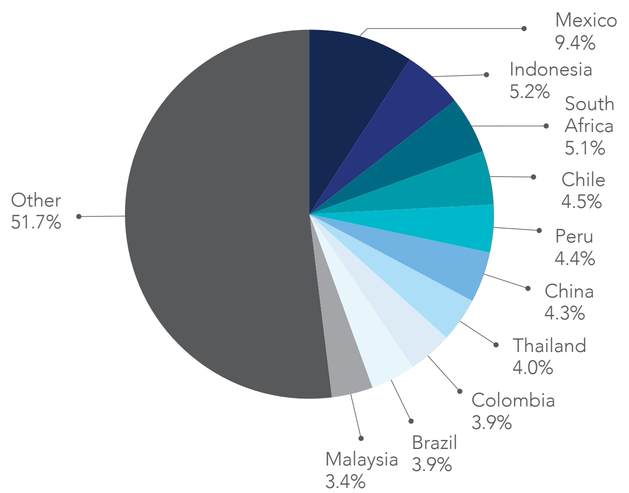
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



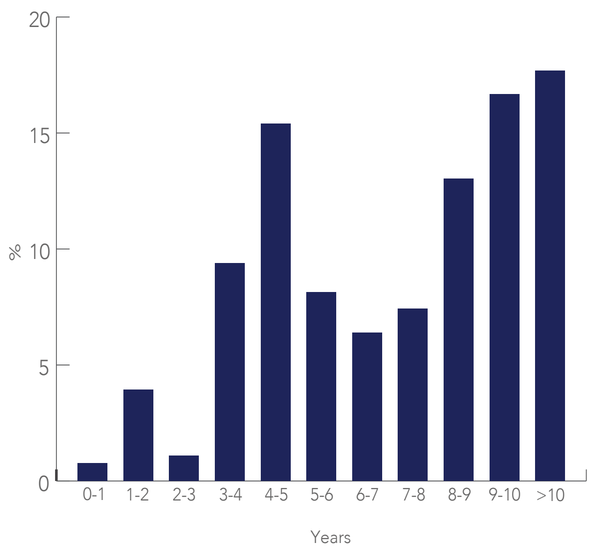
Source: VanEck, as at 31 August 2021.

Top 10 Country Breakdown



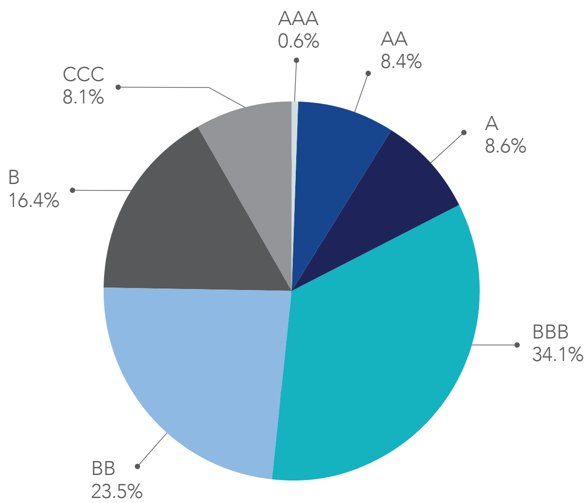
Source: VanEck, as at 31 August 2021.

Time to Maturity Profile



Source: VanEck, as at 31 August 2021.

Credit rating breakdown



Source: VanEck, as at 31 August 2021.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) rose 1.10% in August 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 rose 1.16%.
- Top five country exposures are currently in Mexico, Indonesia, South Africa, Chile and Peru.
- During the month we have become more defensive on emerging market debt. We have reduced our local currency exposure and have reduced exposures to more volatile local currency markets such as Colombia, South Africa, Chile, and Brazil.
- Although we reduced more volatile local currency exposure in some countries, we shifted into less volatile hard-currency bonds in the same country. Emerging markets continue to include many countries with high dollar repayment capacity.

Market and Portfolio commentary

EBND returned 1.10% in August, marginally underperforming its benchmark by 0.06%. The fund has outpaced the benchmark for the past twelve months, returning 6.49% whereas the benchmark has returned just 4.77%. During the month we have become more defensive on emerging market debt. We have reduced our local currency exposure and have reduced exposures to more volatile local currency markets such as Colombia, South Africa, Chile, and Brazil.

Emerging markets debt, particularly some more volatile local-currency debt, appears set for a setback. We have four key reasons for this view:

1. Ongoing contagion in China's offshore bond market remains an under-appreciated risk.
2. China's growth trajectory is faltering.
3. There is now more evidence of a "stagflation" scenario in the US and global economy with key implications, many adverse, for the markets that we focus on.
4. These three risks raise the odds of a fourth, China may be heading for an external adjustment, i.e., a weaker currency. If capital account flows are challenged by Chinese policy, and global "stagflation" challenges current account flows, China will need dollars. The only option in this scenario is to reduce the value of the currency. This will take several quarters to play out, if it does, but bears watching.

China's offshore bond market has been roiled as the Chinese authorities continue to inject "moral hazard". The 'roiling' has so far mostly affected Evergrande, the country's biggest property developer in terms of debt issuance. We think other offshore property debt issuers are now vulnerable. The worrisome dynamic is contagion. For example, Single-B or lower names like Kaisa, are already getting sold in sympathy with Evergrande's price collapse. Some higher-rated bonds are also being sold, because they can be sold at still-high prices, and also because their upside was always low by definition, that's the nature of high-rated bond, and downside risk is now more apparent. Country Garden, which is among the stronger and higher-rated names, is another example – it still trades over par.

Chinese growth appears to be faltering too, and given its leadership role in the global recovery, this is worth worrying about. China's August services PMI dove deep into the correction zone, to 47.5 from 53.3 in July, against expectations of a mild decline to 52.0. The manufacturing PMI also undershot consensus, though it did manage to stay in expansion territory, just, at 50.1. The details were bad, with the new orders PMI moving into contraction for the first time since February 2020 and the new export orders PMI slipping to its weakest level since June 2020. The large companies PMI moved perilously close to the expansion/contraction border and the services new orders PMI collapsed to 42.2. The causes could be many, but include the delta outbreak/movement restrictions, supply chain issues and high freight prices. These, though, are temporary. The more worrisome cause would be the regulatory overhaul which state media has called a "profound revolution". That does not sound like something that is "transitory", to use a phrase popular with the US central bank.

There are also global growth concerns, notably, the "stagflation" scenario that concerns us. This scenario speaks for itself, high inflation and low growth are problematic for risky assets. This scenario also seems under-represented in the views we read, at least so far. The August non-farm-payroll number out of the US of 235,000, against a 725,000 consensus could catalyse greater worry about this scenario. We should note that some might fear passage of the US$3.5 trillion infrastructure bill, following statements from West Virginia Democrat Senator Manchin to the effect that a "pause" makes sense. This would potentially challenge inflation concerns. However, we continue to think that the Democrats have no choice but to continue to push spending.

China may also be heading for an external adjustment, i.e., a weaker currency. If capital account flows are challenged by Chinese policy and global "stagflation" challenges current account flows, China will need dollars. The only option in this scenario would be to reduce the value of the currency, This will take several quarters to play out, if it does, but bears watching. Related, Chinese real estate prices strike us as central to China's future. Real estate sales account for around 10% of GDP and the stock of real estate accounts for around 45% of household wealth. China's "common prosperity" policies would seem to point toward lower real estate prices, though some argue that this will be met by low-income housing construction. Our point is that if China was experiencing problems in other sectors, we would not be as concerned.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Thailand and Mexico. One of the main reasons in Thailand is that the COVID outbreak might be easing and the pace of vaccinations is accelerating, both of which are growth-positive. The country's current account should benefit from weaker imports, while the international reserves' dynamics suggest that the central bank is not happy about the currency's depreciation. In terms of our investment process, this improved Thailand's policy and economic test scores. Mexico stands to piggyback on the US recovery and the infrastructure stimulus. The growth outlook is a bit brighter now, evidenced by recovering PMIs. The central bank might have no other option but to remain hawkish, as core inflation is sticky above the target range. In addition, local bond valuations are still attractive. This improves the country's economic, policy and technical test scores.
- We also increased our local currency exposure in Zambia and the Philippines. The main catalyst in Zambia was the outcome of the presidential elections. The unexpected first-round victory of the opposition candidate should be positive for governability and the country's overall economic prospects. In terms of our investment process, this improved the economic and policy test scores for the country. In the Philippines, we decided to cover an underweight position due to the currency's cheapness relative to short-term fundamentals. The latter improved the technical test score for the country.
- We reduced our local currency exposure in Colombia, South Africa and Chile.
    - Colombia's bonds no longer looked as cheap as before, which worsened the technical test score for the country. In addition, Colombia does not screen well on two metrics:
      1. non-resident holdings of local bonds (much higher than during the 2013 taper tantrum), and
      2. twin deficits (expected to be the worst among major EMs in 2021 and 2022).
      These weakened the economic test score for the country as well.
    - On-going concerns about the fiscal deficit/bond supply was the main reason in South Africa, as this weighs both the economic and technical test scores for the country - we used a rally to reduce local exposure.
    - In Chile, a risk of a more populist policy bias after the presidential elections worsens the policy test score the country, and sours investors' sentiment.

Contact us

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

VanEck-Australia
VanEck_Au
VanEckAus

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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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