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OCTOBER 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 31 October 2020

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	0.64%	0.39%	15.60%	-	-	-	-5.57%
Income Return	0.45%	1.34%	3.16%	-	-	-	3.77%
Total Return	**1.09%**	**1.73%**	**18.76%**	**-**	**-**	**-**	**-1.80%**
Benchmark	1.23%	-0.63%	5.62%	-3.05%	3.41%	-	-6.25%
Value Add	**-0.14%**	**+2.36%**	**+13.14%**	**-**	**-**	**-**	**+4.45%**

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	61
Number of issuers	41
Modified Duration (yrs)	5.92
Yield to Maturity	7.28%
Running Yield	6.03%
Weight of top 10 issuers	45.5%
Credit Rating Profile	BB
Time to Maturity (yrs)	8.87
Top Holding Weight (%)	4.69%
Investment Grade (%)	37.72%

1. As at 31 October 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	-	-	-	-	-	-	-	-	20
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.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) underperformed its benchmark in October by 14 basis points.
- Top five country exposures are currently in Mexico, South Africa, Romania, Thailand and China.
- As some emerging markets have become fully priced, particularly in hard currency we have increased our local currency exposure. During October we increased the fund's local-currency exposure, adding to Indonesia, Russia, South Africa, Malaysia, and Peru. These were funded by reductions in hard currency Israel, Costa Rica, Mongolia bonds. We wouldn't characterise the portfolio changes as risk-increasing because they are in local-currency. The hard-currency bonds that we sold entailed risks, including spread duration, and some of our local-currency purchases were arguably low-risk bond markets that also have a correlation to global growth, such as China, Thailand and Philippines.

Market and portfolio commentary

The fund's biggest detractors for October were Suriname Tajikistan, and Russia. This was mitigated by outperformance from in Mexico, Ghana, South Africa, and Mongolia which contributed to relative performance. During the month we increased the fund's local-currency exposure, adding to Indonesia, Russia, South Africa, Malaysia, and Peru. We also closed some of our positions in Uruguay, where we took profits.

The rationale for the increased exposure to local currency is that as emerging markets bonds have rallied, local currency bonds, in line with their currencies have lagged. This has created mispricing opportunities as some local currency bonds can offer a combination of defensive and offensive i.e. correlation to growth characteristics due to good polices and economic frameworks.

Additionally, some global themes support emerging markets local currency bonds:

1.Low or negative yields on many developed markets bonds

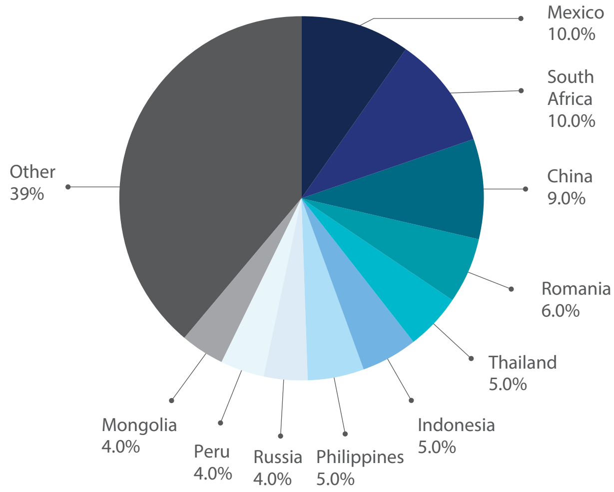
2.Some emerging markets currency valuations moving in a different direction to their fundamentals

3.Central banks in emerging markets implementing orthodox monetary policies

Global government bond markets are undergoing two serious challenges now. First, many of them pay low yields or even guarantee losses. Their 'safety' value is fully-priced and subject to distortive stimulation or 'hothouse' effects. Second, the classic "60/40" stocks/bond portfolio is challenging given the low or negative yields on many developed market bonds. We think emerging markets bonds will be help filling that "40" portion of the portfolio.

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.

Country breakdown



Source: VanEck, as at 31 October 2020.

Another reason supportive of local currency is emerging markets policymakers' generally orthodox stances – paying high real interest rates and maintaining fiscal space by 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 has plenty of flexibility to stimulate its economy if growth is needed to drive asset prices, but also pays high real yields if growth doesn't materialise quickly.

Portfolio changes

The changes to our top positions are summarised below.

- Our largest positions are currently: Mexico, South Africa, Romania, Thailand and China.

- We increased our local currency exposure in South Africa and Russia. The main driver in South Africa was the expectation that the government's budget presentation will be realistic, with a clear path to the stabilisation of debt-to-GDP ratio. These expectations materialised. As usual, there are implementation risks, but for now these developments improved the country's policy test score. In addition, there are clear signs that the historically low prime rate is having a positive impact on consumption and growth. In terms of our investment process, this improves the country's economic test score. In regards to Russia, we think much of the bad news related to geopolitics is already priced in. For example, the ruble is among the worst-performing currencies in 2020 despite stellar macroeconomic fundamentals which improves the country's technical test score. Against this backdrop, it is difficult to justify a big underweight in Russia.

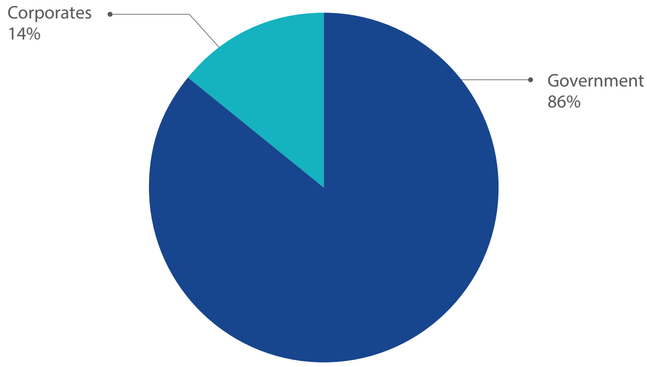
- We also increased our local currency exposure in Malaysia and Peru. One reason for choosing Malaysia is that the currency has one of the highest historic correlations with China's renminbi, so it presents a good way to get diversified exposure to the region and express the China growth outperformance theme. In terms of our investment process, this improved the country's technical test score. Peruvian assets have been hit in recent months due to the high COVID mortality rate, deep recession, political noise associated with withdrawals from local pension funds and attempts to impeach the president.

These developments improved local valuations, and limited future vulnerabilities, strengthening the country's technical test score. We also believe that Peru is likely to experience large FX inflows if there is another round of pension fund withdrawals, which bodes well for the currency (in addition to the sizable international reserves and limited external account pressures).

- Against these, we reduced our hard currency sovereign exposure in Costa Rica and hard currency corporate exposure in Mongolia. The Costa Rican government unexpectedly decided to pull and reassess its initial proposal to the IMF following large-scale demonstrations. That the Congress was not on board was a major contributing factor. In terms of our investment process, this worsened the country's policy test score. In regards to Mongolia, the corporate bond that we held there experienced a 20+ point price appreciation since May. We could not see any further price upside.

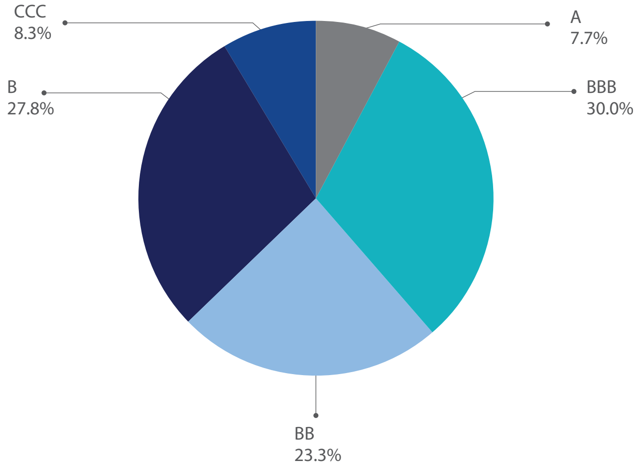
- We also continued to divest from our local currency exposure in Uruguay as valuations no longer looked as compelling after a big rally.

Portfolio Allocation



Source: VanEck, as at 31 October 2020.

Credit rating breakdown



Source: VanEck, as at 31 October 2020.

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