Access the opportunities.

# VanEck Emerging Income Opportunities Active ETF

(Managed Fund)

## Emerging markets bonds

Emerging markets (EM) bonds are, as the name suggests, bonds issued in and by emerging markets. Despite emerging markets representing over 50% of global GDP, the level of EM bond issuance and investment is nowhere near what would be implied by their contribution to global growth. Additionally, many emerging markets boast strong economic performance based on good economic policy decision making in the last 20 years which has made them stronger than many of their developed market counterparts. There is a new world order and EM bonds are at the forefront of this change.

There are a number of reasons many investors do not have EM bonds in their portfolio, including awareness, understanding and difficulty of access. All of this means investors are potentially missing out on the diversification and yield benefits associated with EM bond investing. With Australian and global developed markets (DM) bond yields extremely low, the higher yields available on EM bonds provide investors with the potential for higher income with commensurate risk.

An 'unconstrained' approach considers the entire opportunity set within emerging markets. This means being able to take advantage of the best opportunities without being inhibited by benchmark constraints, and allows for flexibility to navigate the idiosyncrasies between countries, currencies, credit, duration, maturities and regions.

The universe of EM bonds consists of four main components, each with its own unique characteristics.

### Hard currency sovereign bonds

This is debt issued by governments in hard currencies, usually US dollars. The yield is typically higher than US treasuries to compensate for the additional risk of investing in EM.

### Local currency sovereign bonds

This is debt issued by governments in their own currency. This is the largest segment of EM debt so it is the most liquid. Investors can also take advantage of the returns from currency movements.

### Hard currency corporate bonds

This is debt issued by companies within emerging markets in hard currencies, usually US dollars. There are many issuers which allows for diversification by sector, country and security.

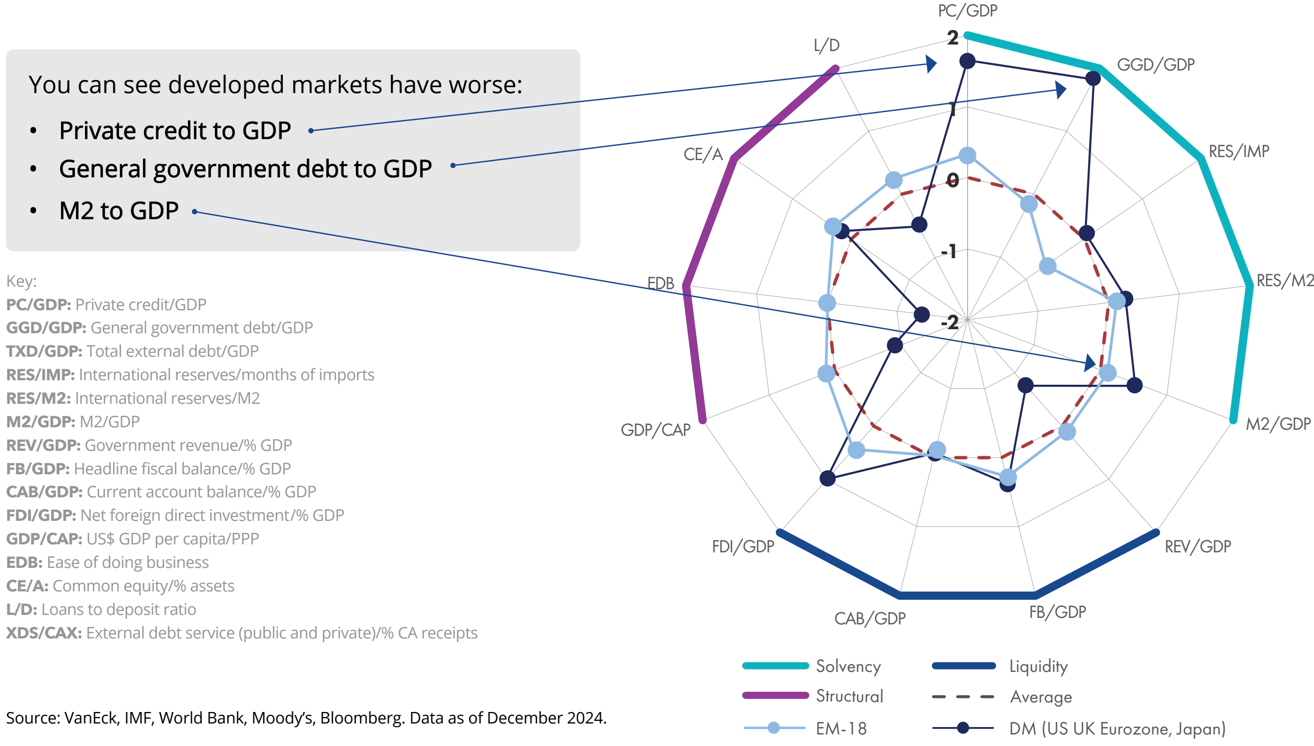
### Local currency corporate bonds

This is debt issued by companies within emerging markets in their own currency. This is the least liquid segment of EM debt.

There is a new world order and EM bonds are at the forefront of this change.

## The “new world” of emerging markets bonds

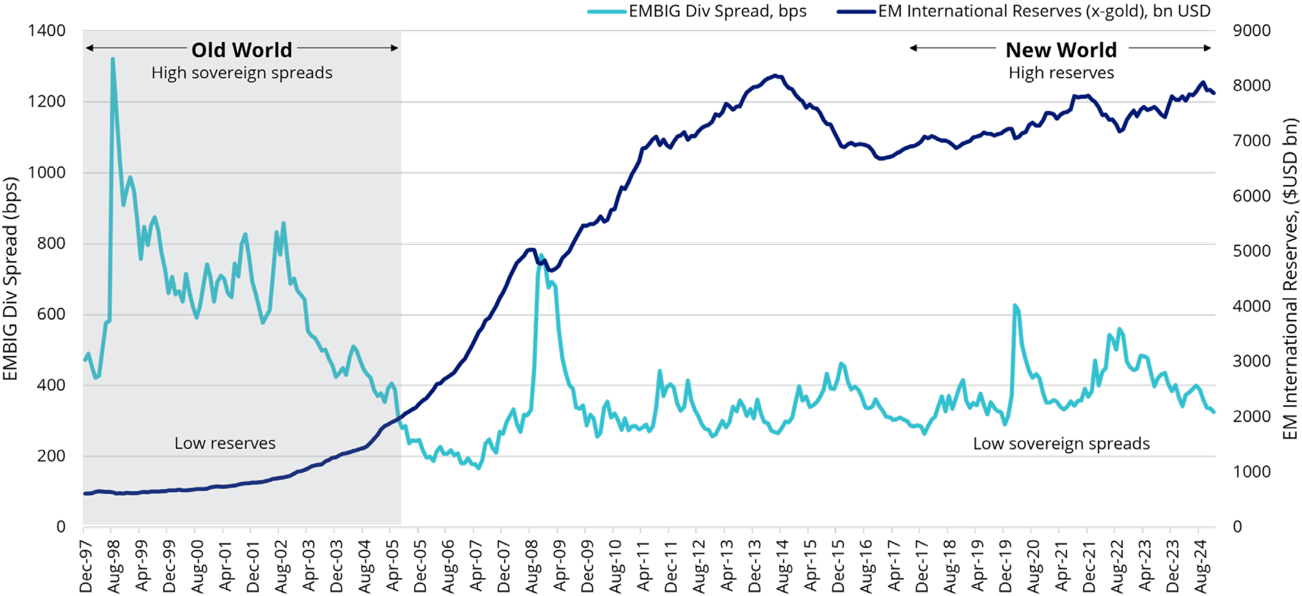
Today, global comparisons show that emerging market economies are as liquid and structurally sound as developed markets. Emerging markets generally have stronger balance sheets. On the radar chart, the red line is the global mean. The circles represent standard deviations above and below the mean. The further you are away from the centre, the worse it is.




Source: VanEck, IMF, World Bank, Moody’s, Bloomberg. Data as of December 2024.

Despite their stronger fundamentals, emerging market governments and corporations generally pay more than their developed market counterparts when they issue bonds. This is an opportunity for investors to look beyond the past.

## How EM bonds have changed




Source: Bloomberg. Data as of December 2024. EMBIG spread is the difference between EM hard currency sovereign bonds and US treasuries, and is captured by the J.P. Morgan Emerging Bond Index Global Sovereign Spread.

Two decades ago, in the "old world", EM bonds were risky and volatile due to low reserves and the limited ability to absorb losses. This was typified by the 1997 "Asian financial crisis" and the 1998 Russian financial crisis. The Asian financial crisis began in 1997. Thailand's currency devalued as foreign investors withdrew, concerned the country was bankrupt. With no reserves, Thailand's government could do little. The crisis spread throughout the region and those hardest hit were the ones with low domestic reserves. Finally the IMF stepped in to stabilise the Korean, Thai and Indonesian economies. This crisis was closely followed by the similar Russian currency crisis and Argentina's much publicised default in 2001.

These crises set the scene for significant economic reforms through the early part of the new millennium in many emerging markets. Governments were forced, often for the first time, to be fully transparent with foreign investors and global monetary funds. As a result many came out of the GFC structurally stronger than their developed market counterparts. Many emerging market governments were able to better implement counter-cyclical fiscal expansion to reignite growth because of their growing foreign exchange reserves, strong budgets and robust balance of payments.

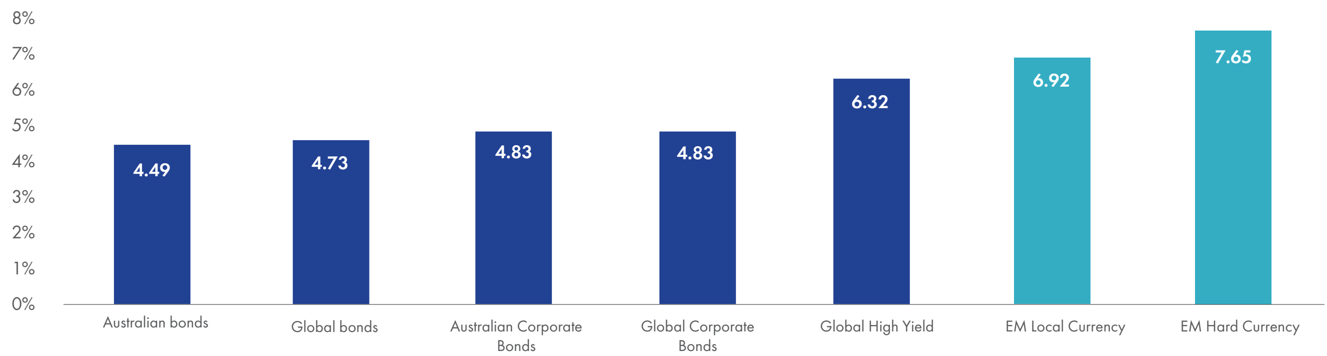
The "new world" in emerging markets is characterised by higher reserves and lower spreads on bonds. Current accounts and government budgets are largely in check. Policy makers, appealing to an ever growing and better educated middle class encourage savings and pension reforms driving capital investment. Some of the best managed economies are in emerging markets.

It's little wonder more and more investors are embracing EM bonds, especially when they consider the yields being offered.

## Yield and performance

EM bonds offer access to debt with attractive yields relative to DM bonds.

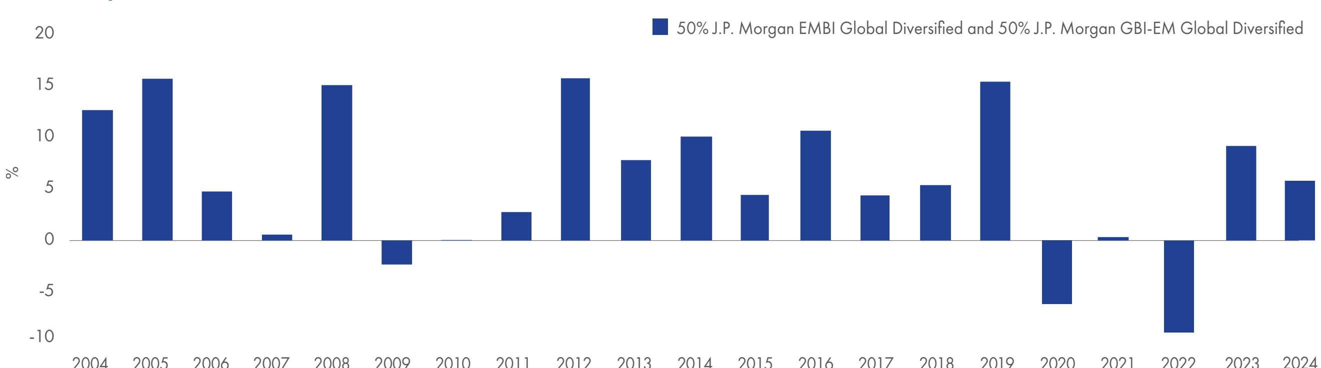
### Yield to maturity as at December 2024




Source: Bloomberg. Data is in Australian dollars. Yield to Maturity (YTM) is the estimated annual rate of return that would be received if the fund's current securities were all held to their maturity and all coupons and principal were made as contracted. YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of, the future return of the fund which will vary from time to time.You cannot invest in an index. Past performance is not a reliable indicator of future performance. Indices used: Australian Bonds – Bloomberg AusBond Composite 0+ Yr Index; Global Bonds – Bloomberg Barclays Global Aggregate Total Return Index Hedged AUD; Australian Corporate Bonds – Bloomberg AusBond Credit 0+ Yr Index; Global Corporate Bonds – Bloomberg Barclays Global Aggregate Corporate Bond Index (AUD Hedged); Global High Yield – Markit iBoxx Global Developed Markets Liquid High Yield Capped Index (AUD Hedged); EM Hard Currency – J.P Morgan Emerging Markets Bond Index Global Diversified (EMBIGD) – EMBIGD is unhedged, EBND will hedge its hard currency; EM Local Currency – J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM).

EM bonds have produced positive returns in 18 of the last 21 calendar years.

### Calendar performance




Source: Morningstar Direct. Data as at 31 December 2024. Data is in Australian dollars. EM Bonds is 50% J.P. Morgan EMBI Global Diversified and 50% J.P. Morgan GBI-EM Global Diversified. This index is used to illustrate historical performance of the EM Bond market only. It is not the benchmark for EBND. You cannot invest in an index. Past performance of the market is not a reliable indicator of future performance of the fund.

## Taking advantage of EM bonds

With Australian and global DM bond yields extremely low, the higher yields available on EM bonds provide investors with the potential for higher income with a commensurate increase in risk. However to take full advantage of the opportunities within EM bonds, it is necessary to take an unconstrained approach.

VanEck Emerging Income Opportunities Active ETF (Managed Fund) (ASX: EBND) takes an unconstrained approach and is available on ASX.

## The benefits of an unconstrained approach

EBND has the flexibility to invest in all types of EM bonds: sovereigns and corporates in hard and local currencies.

- **Greater ability to diversify**: EBND's investment team attempts to exploit the different risk and return characteristics of different EM bonds and currencies to optimise country and portfolio risk-adjusted returns. With its unconstrained approach, the team has a greater ability to maintain exposure to attractive yields while diversifying by currency, region, maturity, duration and credit.
- **Conviction**: EBND will often be composed of high-conviction investments, with a maximum weighting of 15%.
- **Contrarian views**: The investment team avoids crowded investments and often strives to find the next best investment ahead of other investors.

## The VanEck advantage

- The depth and breadth of VanEck's experienced and stable emerging markets bond team is unparalleled. The team has an average of over 25 years* of investing experience across a variety of market conditions and stages of the economic cycle.
- VanEck manages in excess of US$3.5 billion* in emerging markets fixed income.
- VanEck has been investing in emerging markets since 1993.

## 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.

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*As at 31 December 2024.