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JANUARY 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 January 2021

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-1.20%	0.64%	1.03%	-	-	-	-4.96%
Income Return	0.87%	1.33%	2.71%	-	-	-	5.10%
Total Return	**-0.33%**	**1.97%**	**3.74%**	**-**	**-**	**-**	**0.14%**
Benchmark	-0.82%	1.58%	0.95%	-4.70%	3.36%	5.66%	-4.77%
Value Add	**+0.49%**	**+0.39%**	**+2.79%**	**-**	**-**	**-**	**+4.91%**

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	92
Number of issuers	61
Modified Duration (yrs)	5.24
Yield to Maturity	5.13%
Running Yield	6.01%
Weight of top 10 issuers	44.4%
Credit Rating Profile	BB+
Time to Maturity (yrs)	7.39
Top Holding Weight (%)	2.73%
Investment Grade (%)	45.02%

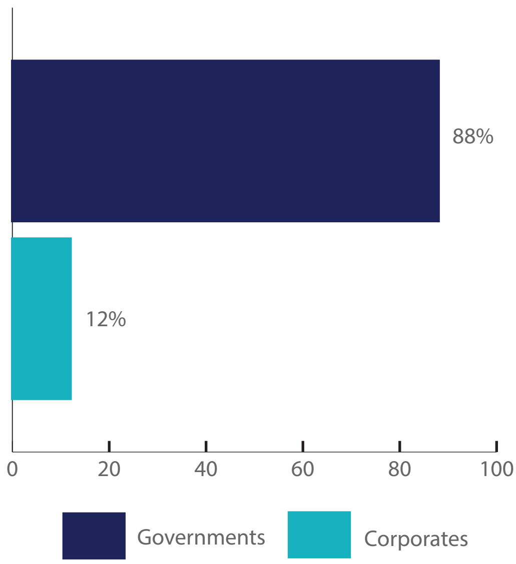
1. As at 31 January 2021

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	-	-	-	-	-	35
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

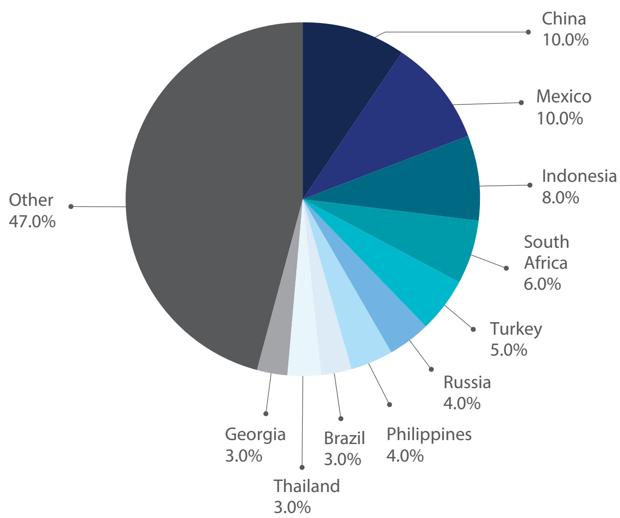
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



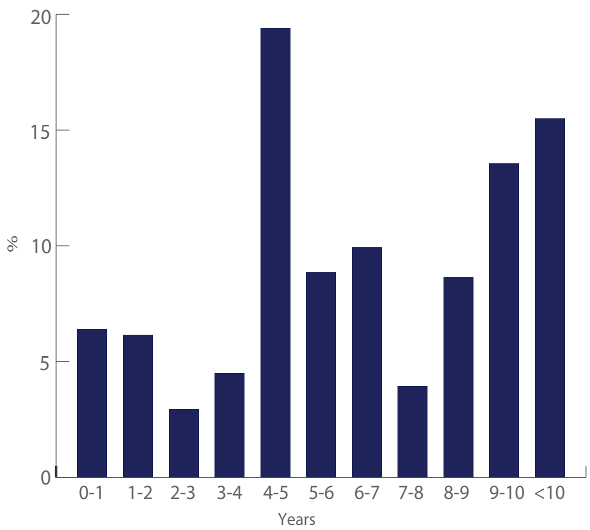
Source: VanEck, as at 31 January 2021.

Top 10 Country Breakdown



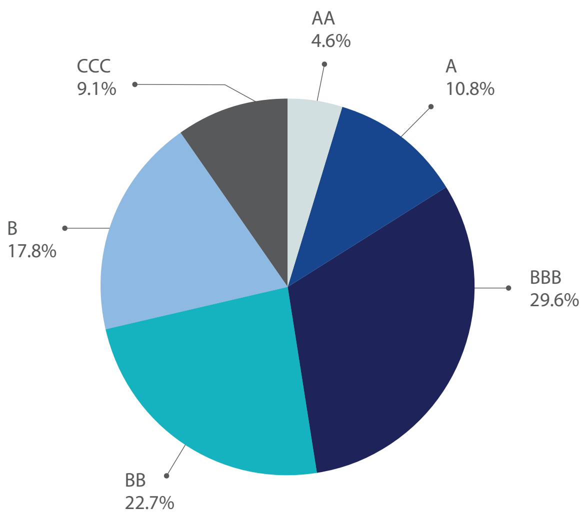
Source: VanEck, as at 31 January 2021.

Time to Maturity Profile



Source: VanEck, as at 31 January 2021.

Credit rating breakdown



Source: VanEck, as at 31 January 2021.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) fell 0.33% in December 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 fell 0.82%.

- Top five country exposures are currently in Mexico, Indonesia, China, South Africa and Russia.

- Investors went into 2021 bullish on emerging market debt, especially local-currency debt. We remain bullish on emerging markets local-currency and have increased allocations accordingly.

- Looking ahead, US rates look set to rise. This is a duration risk, especially for "safe" investment-grade bonds. EMFX looks set to benefit from global reflation and commodity prices look set to continue rising, consistent with our positioning.

Market and portfolio commentary

EBND outperformed its benchmark in January, aided by holdings in exposure to China, where the portfolio has an overweight exposure to a strong local currency and US dollar corporate bond market. The underweight to Brazil also aided performance as that market was weak. Paraguay, Suriname, and Ecuador also contributed to relative performance.

The portfolio has about 60% in local currency. It is worth noting that we have been actively culling long duration bonds that have spreads that are low as a percentage of their yields. The shorter duration bodes well in a reflation environment.

Our key asset price views for 2021 are largely unchanged – we like EMFX and prefer shorter duration bonds.

China remains one of our favoured exposure. If the mainland authorities challenge currency weakness, the bonds should rally – they offer among the highest real yields in emerging markets.

We are also overweight Indonesia which is a reform stalwart with high real yields. Russia's fundamentals are better than ever, and we think sanctions risks have been priced in, so we remain overweight. We have also added Turkey in local currency, to our Turkish dollar-denominated bonds. Turkey's real policy rate is the highest in the emerging markets world, and it looks as if policy is orthodox, for now. The market seems to have little exposure there.

There are numerous fundamental drivers underlying our views and positioning. First, US fiscal stimulus looks likelier now that Democrats control the Senate. Stimulus should continue to generate even bigger current account deficits, which generally help emerging markets economies. We think there are too many market participants translating their aversion to US President Biden's new policies to negativity about markets. We see instead likelier stimulus which puts greater upward pressure on US fiscal and current accounts, which are bullish for emerging markets.

Second, Chinese currency strength translates into global inflation.

Third, higher oil and commodity prices should further boost inflation and emerging markets fundamentals. It does not look like US rate rises will be viewed as a challenge to the Fed, which seems willing to accept them for now. If we do get to the point of yield curve control (as implemented in Japan) when the Fed realises it is simply the government's organ and cannot bankrupt it with high interest payments, it will be momentous. That could be negative for the dollar, and positive for risk assets.

G-10 rates have been highly correlated, and the rise in US rates should be mirrored in other bond markets that are considered risk-free. If so, this means that we will not simply see higher US rates, which by themselves could be bullish for the US dollar. We also maintain our longstanding view that if rates are risky due to greater final demand, this tends to be positive for risky assets such as equities and EMFX. It is difficult to find serious inflation pressures in emerging markets, and we tend to own bonds with high real interest rates. In addition, emerging markets tends to export the things that create inflation (food and energy), which means their external accounts (and currencies) should be well supported. Inflation should ultimately be the result of policy, not these one-off price rises in emerging market economies. This is because central banks in emerging markets tend to be orthodox unlike developed market central banks.

Since the start of the year, we have seen higher US rates, higher commodity prices, higher equities but not yet higher EMFX. We think that EMFX is taking a breather, due to overdone concerns about the Fed's early taper and worries about retail investor trading. We think the trifecta of higher rates, higher commodity prices and a lower USD should remain in the first quarter. EMFX still remains below its pre-COVID highs.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Turkey. We remain concerned about the country's institutional strength, particularly the fact that so much depends on the whim of just one person, President Erdogan, who is known to have some highly unorthodox views, appears to have taken a recent policy U-turn. The policy rate is positive following the recent sizable rate hikes, and the central bank governor's reiteration on his higher-for-longer promise in the first quarterly report of the year. Higher interest rates should help to curb credit expansion, promote external adjustment, and reduce pressure on the international reserves. In terms of our investment process, this improved the economic and policy test scores for the country.

- We also increased our hard currency exposure sovereign and hard currency corporate exposure in Saudi Arabia. Bonds in Saudi Arabia were cheap relative to fundamentals. Rapprochement with Israel created a much better geopolitical backdrop to be invested in this part of the world. In terms of our investment process, this improved the country's politics and technical test scores.

- We reduced our local currency exposure in Brazil and Peru. The reason we continued to take profits in Peru is that the previous story of lower political risks and FX inflows after the second round of pension fund withdrawals played out and the market started to focus on less "appetising" developments, such as the pension system overhaul, which worsened the policy test score for the country. Brazil's fiscal issues are creating too much noise, and this might force the central bank to raise its policy rate earlier than previously thought. In terms of our investment process, this worsened the policy test score for the country.

- We reduced our hard currency sovereign exposure in Jordan. The bond's valuation became less attractive. We used the proceeds to fund more attractive opportunities.

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