

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 2021

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-1.93%	-4.01%	-1.92%	-3.21%	-	-	-5.09%
Income Return	0.50%	1.25%	2.46%	4.97%	-	-	5.05%
Total Return	-1.43%	-2.76%	+0.54%	+1.76%	-	-	-0.04%
Benchmark	-2.54%	-3.59%	0.33%	-0.94%	3.69%	2.97%	-4.21%
Value Add	+1.11%	+0.83%	+0.21%	+2.70%	-	-	+4.17%

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.

Fundamentals¹

Number of constituents	155
Number of issuers	92
Modified Duration (yrs)	6.89
Yield to Maturity (%)	5.12
Running Yield (%)	4.93
Weight of top 10 issuers (%)	31.2
Credit Rating Profile	BB+
Time to Maturity (yrs)	10.34
Top Holding Weight (%)	2.55
Investment Grade (%)	53.10

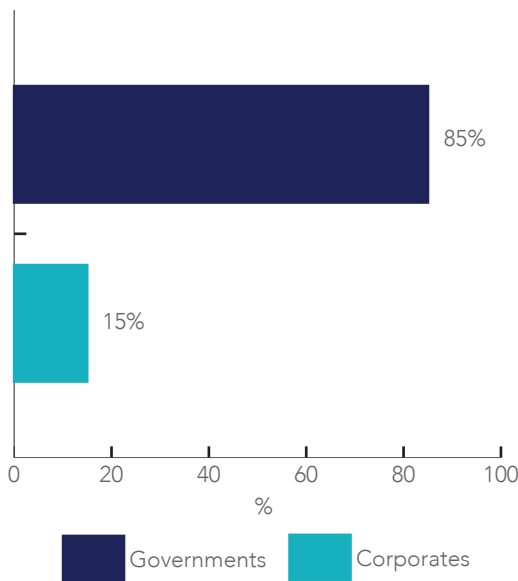
1. As at 31 October 2021.

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2022	4.5	4.5	4.5	5.5	-	-	-	-	-	-	-	-	19.0
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

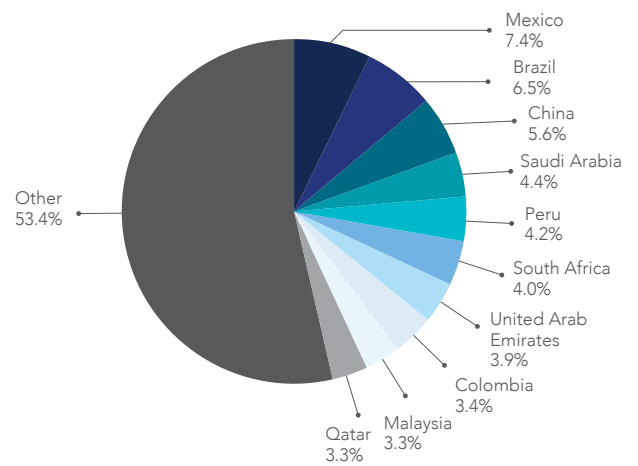
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



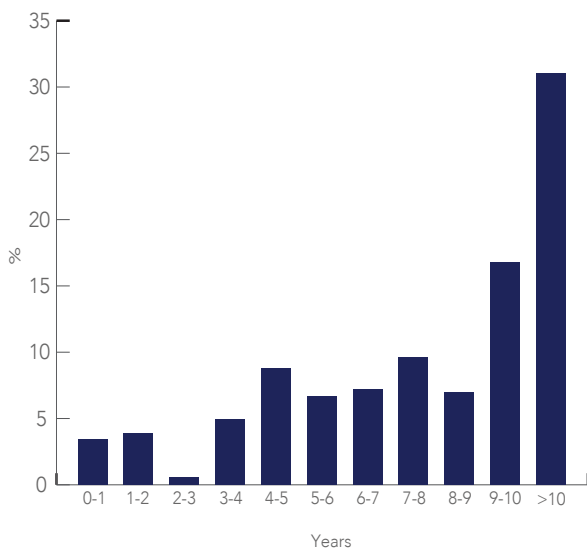
Source: VanEck, as at 31 October 2021.

Top 10 Country Breakdown



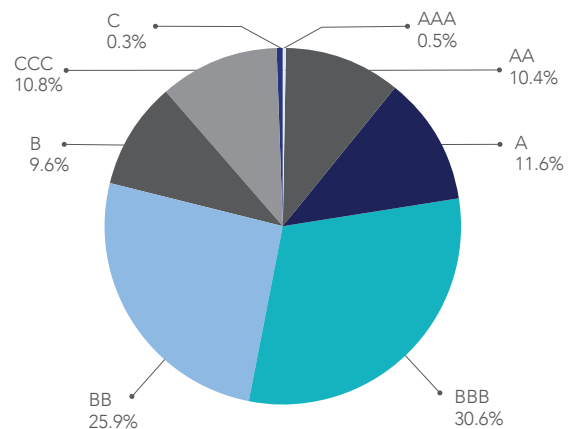
Source: VanEck, as at 31 October 2021.

Time to Maturity Profile



Source: VanEck, as at 31 October 2021.

Credit rating breakdown



Source: VanEck, as at 31 October 2021.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) fell 1.43% in October 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 2.54%.
- Top five country exposures are currently in Mexico, Brazil, Peru, South Africa and Saudi Arabia.
- We are positioned more defensively on emerging markets debt, with roughly 70% of the fund in hard currency.
- There remains plenty of attractive, albeit more uncorrelated or defensive, emerging bonds, especially in US dollars, and even some selective ones in local-currency. Among these are: Zambia is moving towards an IMF agreement, Ecuador's policy and IMF agreement continue to bear fruit, Peru's new government is becoming even more market-friendly, and El Salvador's bonds are cheap enough to reflect near-term risks and they have received a boost from their bitcoin strategy.

Market and Portfolio commentary

EBND fell 1.43% in October, outperforming its benchmark by 1.11%. The fund has outpaced the benchmark for the past twelve months, returning 1.76% whereas the benchmark has fallen 0.94%. During the month we have become more defensive on emerging market debt. Our lower exposure to emerging markets foreign currency (EMFX) helped the fund in October, and we expect EMFX to remain under pressure. Our exposure to some higher-risk US dollar-denominated bonds that had hurt the fund in September, rebounded, boosting performance as well.

We are less concerned about the setbacks we have been warning about during the past two months, largely, because the setbacks we were concerned about have happened and we had adjusted the portfolio in anticipation. As a result, now we are focused on opportunities and not risks. Our adjustments were to reduce the fund's exposure to high volatility EMFX, and to increase US dollar-denominated bonds. In September, we underperformed the market, but as noted above, having lower exposure to EMFX helped performance in October. In addition, the riskier US dollar bonds were hit by the general risk-off sentiment that kept us underperforming September. The US dollar bonds sell-off was temporary, whereas the EMFX sell-off has been shown not to be as evidenced by October. In October emerging markets US dollar bonds are rebounded, so our conviction on our changes has increased.

We are now less worried about the setback we have noted the past few months. Stagflation is now a popular concern and we may, at least, see positivity on growth. Emerging markets (EM) growth shortfalls have been due to COVID-19.

The US dollar has rallied confirming our view to avoid high volatility EMFX and not avoiding EM US dollar debt. Investors searching for yield apart from high yield and EM bonds can consider US dollar-denominated bonds, which is where we shifted our exposure. Investors searching for spreads in investment grade or high yield can consider EM (corporate and sovereign) as it pays more. Local currency pays relatively high nominal yields too, but they do not pay the usual premium over USD-denominated bonds.

During the Evergrande saga, we warned that the whole property sector needed to be repriced, and now it has. We could be wrong, but our point is that it is much harder to be bearish at prices in their 20s than at prices near par, which they were as Evergrande concerns came to the surface.

Even though we are averse to EM local currency currently, EM policymakers are doing a great job in setting their interest rates to be more attractive. EM central banks view their jobs as primarily fighting inflation and inflation expectations. There is more to come, thus our caution. These central banks allow their currencies to have the flexibility to weaken, further supporting our caution. However, we believe it is a good policy as it has practical implications. For over a decade now, EM has not had US dollar shortages. High real interest rates keep EM external accounts strong. This means that while we remain concerned about EM local-currency bonds, we are not, generally, worried about their US dollar-denominated bonds.

There is however, remain plenty of attractive, albeit more uncorrelated or defensive, EM bonds, especially in US dollars, and even some selective ones in local-currency. Among these are: Zambia is moving towards an IMF agreement, Ecuador's policy and IMF agreement continue to bear fruit, Peru's new government is becoming even more market-friendly, and El Salvador's bonds are cheap enough to reflect near-term risks and they have received a boost from their bitcoin strategy. One of our longstanding points is that many EM countries have plenty of dollar assets relative to dollar liabilities, so the dollar bonds of a number of countries that might have other problems, remain defensive in our opinion. Brazil, Chile, Colombia, South Africa, and others are among these.

In regards to US yields, in our view, greater political concerns in the US over inflation combined with new challenges to US spending, have translated into risks of a flatter US yield curve. Risks on the Federal Reserve policy side seem to be on the more hawkish side. While a lower fiscal impulse from political setbacks for the Democrats, along with a China that is less growth-obsessed, should mean long-end rates would rise less. The bottom-line: we are bullish for US dollar, moderate on risk, and open-minded, not outright bearish, on duration.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our hard currency exposure in Brazil, Colombia, and Dominican Republic, and hard currency quasi-sovereign exposure in Colombia. Despite multiple concerns about Brazil's fiscal trajectory, the country's external metrics (international reserves, basic balance) remains strong, and it will only continue to benefit and adjust from the weaker currency, improving the economic test score for the country. Dominican Republic suffered a setback on the tax reform front, but growth, fiscal performance, and inflows are getting a major boost from the revival of tourism and high overseas remittances, all of which improved the economic test score for the country. We added Colombia's exposure after the rating outlook upgrade and encouraging IMF meetings which show the government's coherence, elements of orthodox policy framework (managed to pass a tax reform), and the stronger recovery. In terms of our investment process, this improved the economic and policy test scores for the country.
- We also we increased our hard currency sovereign exposure in Sri Lanka, El Salvador, and Bahrain. During this year's annual IMF Meetings, Sri Lankan authorities showed their determination to meet debt obligations, lining up alternative types of capital inflows (not market-access), and boosting the policy test score for the country in the process. El Salvador's valuations remain very attractive, translating into a positive technical test score, albeit we are aware that: some assumptions behind the 2022 budget are optimistic; and balancing it would require a determined effort to keep spending under control. In Bahrain, bonds are supported by higher oil prices, which make valuations more attractive.
- We reduced our local currency exposure in Mexico, taking partial profits on the position that performed well this year.
- We also reduced hard currency corporate exposure in Ghana and Nigeria. In Ghana, this year's annual IMF Meetings showed no sense of urgency on the fiscal front. Structural reforms are struggling, and the government's strategy continues to depend too much on getting market access. In Nigeria, higher oil prices are not boosting growth or improving fiscal performance, adding to overall policy concerns (including the exchange rate). In terms of our investment process, these developments worsened the company test score for the bonds in question.

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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.

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