

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 2024

	1 month	3 months	6 months	1 year	3 years (p.a.)	Since EBND inception (p.a.)
Price Return	-0.32%	0.92%	2.98%	6.55%	-1.99%	-3.13%
Income Return	0.48%	1.48%	3.07%	6.55%	5.53%	5.35%
Total Return	0.16%	2.40%	6.05%	13.10%	3.54%	2.22%
Benchmark	-0.44%	1.68%	4.90%	10.65%	0.80%	-1.05%
Difference	+0.60%	+0.72%	+1.15%	+2.45%	+2.74%	+3.27%

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, 11th February 2020. 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.

Potential for attractive income: 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	105
Number of issuers	71
Modified Duration (yrs)	5.5
Yield to Maturity (%)	9.2
Running Yield (%)	7.8
Weight of top 10 issuers (%)	45.3
Credit Rating Profile	BB+
Time to Maturity (yrs)	10.4
Top Holding Weight (%)	3.4
Investment Grade (%)	32.5

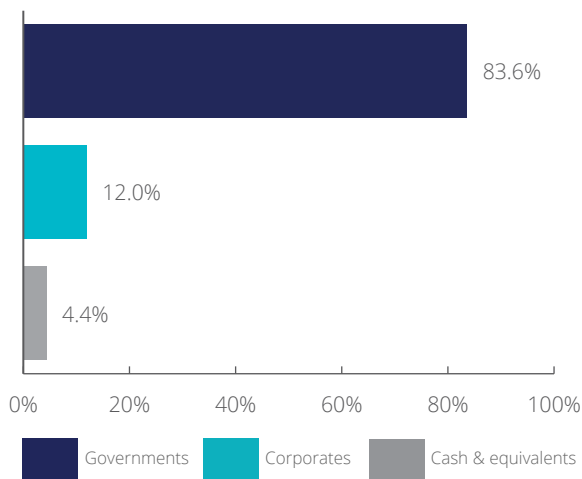
1. As at 31 October 2024

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2025	5.0	5.0	5.0	5.0	-	-	-	-	-	-	-	-	20.0
2024	4.0	4.0	4.0	4.5	5.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0	57.0
2023	4.5	5.0	4.5	4.5	4.5	4.0	3.5	3.5	3.5	3.5	3.5	4.0	48.5
2022	4.5	4.5	4.5	5.5	6.0	5.0	4.5	4.5	4.5	4.5	4.5	4.5	57.0
2021	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.5	4.5	-	-	-	44.0
2020	-	-	-	-	-	-	-	2.5	5.0	5.0	5.0	5.0	22.5

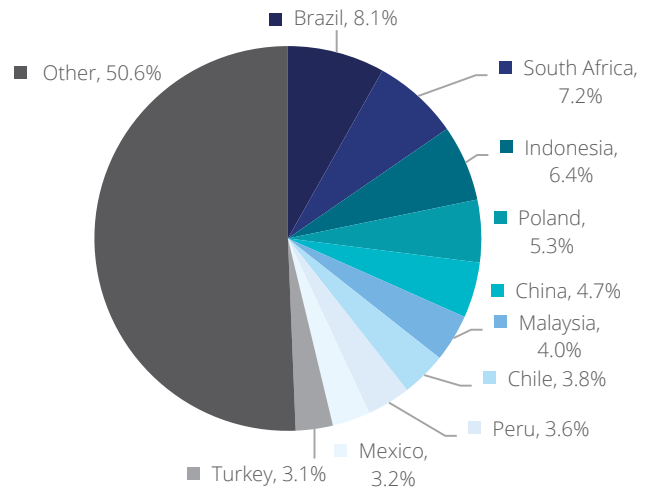
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



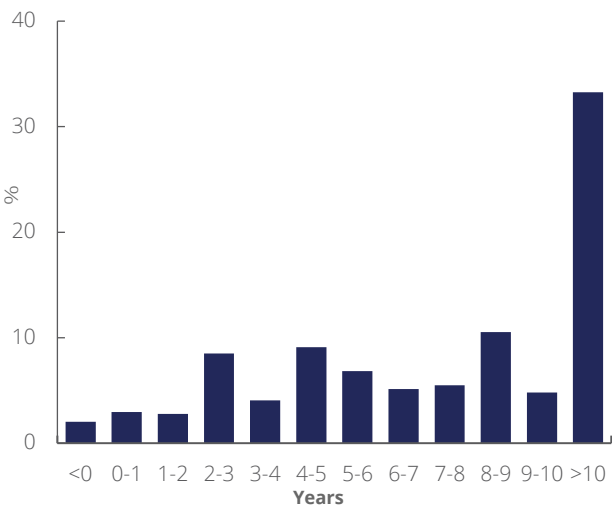
Source: VanEck, as at 31 October 2024.

Top 10 Country Breakdown



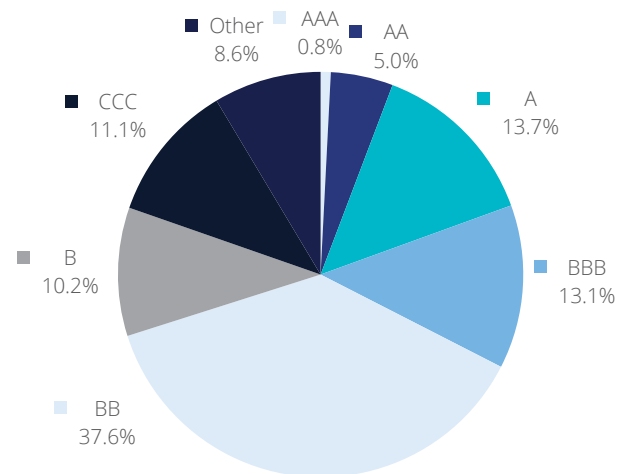
Source: VanEck, as at 31 October 2024.

Time to Maturity Profile



Source: VanEck, as at 31 October 2024.

Credit rating breakdown



Source: VanEck, as at 31 October 2024.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) returned 0.16% 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 by 0.60%.
- During October, the fund sold down its positions in Mexican local-currency government bonds which it held briefly, and it also sold its Colombian local-currency bonds. We allocated to riskier assets such as Brazilian and Chilean local currency bonds, among others.
- We continue to favour select local-currency exposures, especially in what are considered 'higher risk' assets. We have maintained our low duration into the September-October rates sell-off. We consider many of the investment grade (IG) bonds as a US-rates trade, and thus we are averse to holding these. Instead, high yield (HY) sovereigns remain our hunting ground.

Market and Portfolio commentary

EBND returned 0.16% in October, outperforming its benchmark which fell by 0.44%.

Every economic data point released since the US Federal Reserve's 50 basis points (bps) policy rate cut on 18 September has been stronger than expected, creating a 'bearish' environment for rates. The only positive development for rates was a 'peace dividend', as the contained/managed conflict between Israel and Iran led to a big drop in oil prices in October. US elections were a supposed constraint on escalating geopolitical risk, but with the elections concluding, this restraint will no longer be in place. We think that expecting peace from a new US administration is hopeful. Thus, we do not expect geopolitical conflict to disappear anytime soon.

Historically, war has proven to be inflationary. It can undermine demand for some assets such as US treasuries, while boosting demand for assets such as bonds issued by emerging markets (EM) governments with sustainable fiscal policy, independent central banks and no sanctions risk. Gold is also another beneficiary of war, as investors seek bullion as a safe haven.

The rally in gold, as rates began their October selloff, sends an important message for developed markets (DM) and the US dollar. This shift has yet to resonate with the market. This is because gold is still seen as an unconventional asset and is not associated with central banks diversifying into a wider range of safe assets, like EM bonds. Instead, gold is often connected to fiscal concerns, a concept that we term, the "fiscal dominance" thesis.

The IMF, along with us, views central bank purchases of EM bonds as important, with early examples in countries like Singapore and South Korea where EM bonds have gained reserve-status. However, many market professionals find this idea either too complicated, too far off, or too uncertain. There are upside risks to EM bonds, which offer high real and/or nominal carry. We believe EM bonds' slow graduation to reserve status will be a long-term process.

A review of gold reserves relative to money supply (M0) for key central banks highlights what we are talking about. EMs have a lot of gold relative to M0, while DMs such as Japan and UK, have little gold relative to M0.

We think China is a more important factor for EM local currency than US politics. Our approach to the US elections avoided drawing connections between US politics and EM asset performance. Instead, our primary framework was focused on a) tracking data trends, and b) downplaying confidence about how any election candidate might impact global asset prices. China is a positive example of EM resilience. We have noted in the past the stability of the Chinese yuan, especially in the face of financial ripples from Japan's currency wobbles.

But what about Chinese fiscal policy? The key event for China, in our opinion, is that we are now in the fiscal intervention phase. We think the story of the fiscal phase will follow the story of the two prior phases we have experienced in the last two months – the structural and the monetary phases. The reason we are excited about Chinese bonds in the portfolio is

because China did not guarantee its property sector and allowed their bonds to collapse. This makes credit quality post-restructuring a different game, and this is a good policy. In the GFC and Eurozone crises, DMs used policy to support asset prices and therefore injected greater moral hazard into policy. Currently, China's currency and rates are stable. Our base-case expectation is that China will become the centre of international finance over the next decade.

The absence of Mexico in the fund, has also been one of the reasons for the fund's outperformance versus its benchmark, in October and YTD. The fund had no or low exposure to its local-currency bonds (Mbonos), which have been among the weakest assets this year.

Our investment process shows Mexico to be cheap based on Step 1 (real rates versus fundamentals) but was rejected in Step 2 of the process (where we test bonds for non-systematic risks). Correlation with US rates adds risk for Mexico. Going forward, we are still avoiding Mexico due to issues such as migration battles with the US. Mexico's status as a 'near-shoring' candidate is also challenged by changes to its judiciary. This will take time, in our view.

Conversely, Brazil we favour, along with other EM local positions such as Indonesia, South Africa, and Chile. Brazil is considered cheap, based on Step 1 of our investment process, with market rates around 13%, a policy rate of 10.75%, and inflation around 4.5%.




Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Poland, Turkey, Hungary, and Indonesia, and our hard currency corporate exposure in Turkey. The Polish central bank remains hawkish and investor positioning light. The country should also be expected to benefit from a potential post-election ceasefire in Ukraine. Turkey's policy U-turn is progressing well, earning it another sovereign rating upgrade from S&P. Hungary shows signs of fiscal stabilisation, while the central bank had paused its easing cycle. Indonesia's new cabinet lineup sent an orthodox policy signal to the market and the central bank left the policy rate on hold before the US presidential elections. In terms of our investment process, this improved the policy test score for these countries.
- We also increased our local currency exposure in Brazil, Chile, and Uruguay. Brazil's central bank is tightening its policy stance to address sticky inflation expectations and uncertainty about spending cuts in 2025 and beyond. The failure of the social security referendum in Uruguay removed significant fiscal risks. These developments improved the policy test score in both countries. Chile is expected to benefit from China's policy stimulus and growth rebound, which should be positive for copper. In terms of our investment process, this improves the technical test score for the country.
- We reduced our local currency exposure in Mexico, and Colombia. Mexico's domestic developments and policy signals are overshadowed by the US presidential elections, worsening the technical test score for the country. Colombia was hit by another wave of negative fiscal headlines associated with the constitutional reform bill to increase regional budget transfers. This weakened the policy test score for the country.
- We also reduced our hard currency sovereign exposure in Qatar and Bolivia, and local currency exposure in Malaysia and Thailand. We took profits in Malaysia and Thailand after the respective currencies' mega-rally and with rising concerns that stronger growth in the US can boost the US dollar, while local rates can get hit by duration concerns, which worsened the technical test score for both countries. Duration risks were behind our decision to reduce exposure in Qatar, whereas Bolivia might suffer from a lack of strong positive catalysts after the recent rally.

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