Investable Rally Continues

By Eric Fine, Portfolio Manager

VanEck - Unconstrained Emerging Markets Bond UCITS

USD R1 Inc: IE00BYXQSJ74

USD I1 Inc: IE00BYXQSF37

USD I2 Inc: IE00BYXQSG44

USD M Inc*: IE00BYXQSH50

EUR Hedged I1 Inc: IE00BYXQSD13

EUR Hedged I2 Inc: IE00BYX22V58

Average Annual Total Returns (%) as of 30 April 2019

	1 Mo†	3 Mo†	1 Yr	3 Yr	Life
USD R1 Inc (Inception 12/6/14)	0.14	0.59	-2.37	3.15	-1.67
USD I1 Inc (Inception 20/8/13)	0.22	0.83	-1.43	4.00	1.68
USD I2 Inc (Inception 20/8/13)	0.22	0.85	-1.34	4.18	1.83
USD M Inc* (Inception 18/9/14)	0.20	0.78	-1.63	3.92	-0.72
EUR Hedged I1 Inc (Inception 6/10/15)	-0.05	0.05	-4.36	1.66	2.73
EUR Hedged I2 Inc (Inception 22/08/17)	-0.01	0.10	-4.34	-	-1.71
50% GBI-EM/50% EMBI USD[1]	0.03	0.03	0.47	3.86	2.93

**Investment through authorized financial institutions only.*

†Periods greater than one year are annualized.

[1] Life performance for the 50% GBI-EM/50% EMBI - USD benchmark is presented in U.S. Dollars (USD) as of Class I1 inception date of 20/8/2013

Past performance of the Sub-Fund is no guarantee for future performance. Any performance presented herein is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted. Performance information does not take into account the commissions and costs incurred on the issue and redemption of units. Performance information is presented net of fees, but gross of tax liabilities. Each index listed is unmanaged and the returns include the reinvestment of all dividends, but do not reflect the payment of transaction costs, fees or expenses that are associated with an investment in any fund. An index's performance is not illustrative of a Fund's performance. You cannot invest in an index.

Fund Review

The VanEck - Unconstrained Emerging Markets Bond UCITS (Class USD I1) gained 0.22% in April, compared to a gain of 0.03% for the 50/50 J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) local currency and the J.P. Morgan Emerging Markets Bond Index (EMBI) hard-currency index.

Turning to the market's performance, GBI-EM's biggest winners were Russia, Mexico, and the Philippines. The biggest losers were Uruguay, Argentina, and Turkey. The EMBI's biggest winners were Tunisia, Lebanon, and Uzbekistan. The biggest losers were Zambia, Venezuela, and Argentina.

Market Review

We are back to expecting the "investable rally" that characterized our first quarter views. April saw a respite, with "mixed bag" being the theme, but that basically played out (the market was down a bit, our fund was up a bit), and we now again see plenty of opportunities that are not overwhelmed by some broader global macro phenomenon. As a result of our ongoing, basically constructive, outlook (and the fact that we wrote extensively on our views in IMF Takeaways April 2019), this is a short and not especially revelatory monthly report.

We see an investable rally because the global context seems benign to us for the time being. U.S. monetary authorities proved very concerned about risky asset prices, as well as EM and

Chinese growth. A turnaround from this dovish "pivot" seems almost inconceivable to us. In fact, we wrote in our International Monetary Fund (IMF) piece that the era of monetary experimentation looks to be here for good, so the pivot is much more than a one-off "blink," in our view. Chinese fiscal (mostly) and monetary (targeted, of less clear, economic impact) stimuli are working their way through activity data, and the maintenance of CNY stability has meant that the stimulus is not yet leaking abroad/into USD. This means a fairly benign context for emerging markets currencies.

The following also leads us to be constructive: the emerging markets (EM) growth dynamic is improving and we believe there are enough "good" EM fundamental and policy stories out there to maintain an attractive portfolio. One of the first and most common data sets we refer to in our "Current Views" presentations that come out quarterly (the one that just came out is called … wait for it … "Investable Rally Continues") shows growth forecast revisions in EM vs developed markets (DM). We believe, they look even better than they did when we published the data at the beginning of January. EM continue to improve their growth outlook. This is a key determinant of EM asset prices (if one is forced to opine on "EM," whereas our preference is country-by-country).

There are a number of EM countries undergoing potentially profound reforms. This is all covered in our IMF piece, but we'd highlight Brazil, which has an economy in great shape, in our view, but for fiscal/pension issues which are the centerpiece of the newly-elected government's economic program. Indonesia looks set for the re-election of a steady, reformist president with a good macro policy mix, with deeper structural reforms, and even a central bank tolerant of a more flexible exchange rate in the realm of possibility (in our opinion). Ecuador signed an agreement with the IMF that is incredibly ambitious (5% fiscal deficit reduction over three years); we are skeptical on this one, but the point is that agreement was reached and policies are being implemented. Egypt remains in the reforming camp. In Ukraine, we have a big mandate for a newly-elected president whose policies are so far vague, but he campaigned explicitly on maintaining an IMF program, and in our view is basically an anti-corruption populist. There are also, of course, countries that we believe do not really need to do much and just need to not mess things up. Colombia fits this bill, as do Peru, Thailand, Philippines, and some others. We would normally put most of central/eastern Europe in this category, but they have moved in some worrisome directions fiscally, so they are riskier than usual, in our view.

Now for two global risks that are worth paying attention to: a steeper U.S. yield curve, and a re-leveraging China. We also covered this in our IMF piece. In the U.S., we see a pivoted (to dovish) Fed as unlikely to re-pivot ("rivot"?) soon, and in fact sounding more dovish. Vice Chairman Richard Clarida theorized about interest caps recently, and William C. Dudley recently said cuts are in order. This, combined with a tight labor market, okay growth environment, and a market expecting/pricing a low and flat curve points to curve steepness, in our opinion. Practically for EM, we see this as a greater risk for duration in local currency low-yielders like Thailand or the Czech Republic, and that is where we have taken action and reduced. It could also hit long-duration, low-spread credit in USD, but we had little exposure to those names in general (for bottom-up reasons … those low-spread names include ones we remain worried about such as Mexico, South Africa, Turkey, and Russia). Our China concern is simple. The government, rightly worried about leverage, promised to reduce it and did so successfully. And now that the market hiccupped over trade and other concerns, it is returning to leverage for growth. Maybe there is room; the IMF told us they see room for maybe 5% higher debt-to-GDP. But, our point is that it is a tricky game to be adding freezing, then boiling, water to the bathtub, and policymakers tend to lose sight of whether the water is spilling out of the bath itself (which would be represented in the dramatic reserve losses they saw in 2015/2016). Anyway, it's a risk, in our view.

We also remain very concerned about Turkey, Mexico, and South Africa, all market "stalwarts" and big index components. We've harped on about these names over our monthlies and in our IMF piece. What they all have in common is governments that are moving in heterodox directions (greater tolerance of fiscal slippage, encroachments on central bank independence, and reversals of structural reforms, to be specific). Those choices are political. Our problem is that, if one chooses that policy direction, one needs to have built reserves to see them through (or in our view, to watch them fail, and have reserves there to fix things up when they do). But, they do not have the reserves to maintain market confidence for these moves to be seen through, however they turn out. We saw what happened in Turkey—runs on reserves. We are not predicting anything immediately in Mexico or South Africa (whereas we have argued repeatedly that Turkey is probably in the midst of a balance of payments crisis), but you do not want to be long, cute, or tactical in a profound de-rating scenario, which is our characterization of those countries.

As a result of all of this, we've made mostly country-specific changes, increasing our exposure to Ukraine and Brazil, and reducing it in

Thailand, Poland, Malaysia, and the Czech Republic. We should make one note about Argentina, where we see tactical opportunities, but want to emphasize that these are tactical at this stage. We closed our Argentina position earlier in the year (locking in profits that made it one of our top four gainers for this year). We closed it because the bullish case relied on improved economic outcomes (growth and inflation especially) that simply were not happening. That still looks like the basic central case for now, boosting the case for a win by the least market-friendly presidential candidate—Christina Kirchner. So, we closed our position, which had been largely bullish for about seven years. Nonetheless, the market positioning has been so overwhelmingly positive that we see serious risks of undershooting in pricing as funds capitulate. Our only point is that we may take advantage of some of these possible developments, but are looking at these as tactical, very unlike our seven-year view that Argentina was re-pricing upwards. This would not be like that.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions are currently: Brazil, Indonesia, Colombia, Ukraine, and Ghana.

- We increased our hard currency sovereign and local exposure in Ukraine and local exposure in Brazil. The outlook for Brazil's pension reform looks brighter, with the bill clearing the first hurdle in the lower house and indications that the government might be able to keep most of the planned fiscal savings in place. In terms of our investment process, this improves the policy test score for the country. In Ukraine, the presidential elections' uncertainty is behind us, with the market-friendly candidate winning the poll by a wide margin. In terms of our investment process, this translates into the stronger policy test score for the country.

- We also increased our hard currency sovereign exposure in Tunisia. We were attracted by the cheaper valuations (top valuation bucket) and the improved visibility regarding the next IMF tranche. The country's macroeconomic backdrop also looks better. In terms of our investment process, this strengthened Tunisia's policy and technical test scores.

- We also increased hard currency corporate exposure in Iraq and Mongolia. In Iraq, we added exposure to a Kurdistan Regional Government (KRG)-based oil structured bond (top valuation bucket), as a result of better relations between KRG and the Iraqi government and proven financial support by the structurer of the bond, a BBB-rated international corporate. In Mongolia, we bought a new corporate issue with a highly attractive valuation (top valuation bucket).

- We reduced local currency exposure in Thailand and Malaysia. The reduction in Thailand reflected the worsening policy score (after the elections) and concerns about the current account dynamics which were pushing down the country's economic test score. In Malaysia, we had concerns about illiquidity, which worsened the technical test score for the country.

- We also reduced local currency exposure in Poland and the Czech Republic. In the Czech Republic, the main reason was worsening valuations, which affected the country's technical test score. In Poland, we are concerned that the pre-election fiscal package will have a longer-lasting impact. In terms of our investment process, this worsened the policy test score for the country.

- We also reduced hard currency sovereign exposure in El Salvador. The main reason was our unwillingness to tender the short-term bond that matures later this year. In terms of our investment process, this negatively affected the technical test score for the country.

R-Squared is the percentage of a fund's movements that can be explained by movements in a benchmark index.
DXY is the U.S. Dollar Index that measures the value of the United States Dollar relative to a basket of foreign currencies.

This material is for informational/advertisement purposes only and does not constitute any legal or investment advice. It is mainly dedicated to professional investors and is not to be regarded as an offer for the purchase and the sale of the fund's shares. Investors should consult the prospectus and key investor information before subscribing. The prospectus, the key investor information documents and the financial reports can be obtained free of charge from vaneck.com and upon request from VanEck ICAV's registered office and the offices of all local information agents. The documents, except for key investor information, are only available in English. Past performance of the Sub-Fund is no guarantee for future performance. Please see the reverse side for important disclaimers.

Emerging Markets Hard Currency Bonds refers to bonds denominated in currencies that are generally widely accepted around the world (such as the U.S.-dollar, euro or yen). Emerging Markets Local Currency Bonds are bonds denominated in the local currency of the issuer. Emerging Markets Sovereign Bonds are bonds issued by national governments of emerging countries in order to finance a country's growth. Emerging Markets Quasi-Sovereign Bonds are bonds issued by corporations domiciled in emerging countries that are either 100% government owned or whose debts are 100% government guaranteed. Emerging Markets Corporate Bonds are bonds issued by non-government owned corporations that are domiciled in emerging countries.

Duration measures a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. This duration measure is appropriate for bonds with embedded options. Quantitative Easing by a central bank increases the money supply engaging in open market operations in an effort to promote increased lending and liquidity. Monetary Easing is an economic tool employed by a central bank to reduce interest rates and increase money supply in an effort to stimulate economic activity. Correlation is a statistical measure of how two variables move in relation to one other. Liquidity Illusion refers to the effect that an independent variable might have in the liquidity of a security as such variable fluctuates overtime. A Holdouts Issue in the fixed income asset class occurs when a bond issuing country or entity is in default or at the brink of default, and launches an exchange offer in an attempt to restructure its debt held by existing bond holding investors. Carry is the benefit or cost for owning an asset.

All indices are unmanaged and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Fund. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made. The Fund's benchmark index (50% GBI-EM/50% EMBI) is a blended index consisting of 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified (GD) and 50% J.P. Morgan Emerging Markets Bond Index (EMBI) GD. The J.P. Morgan GBI-EM GD tracks local currency bonds issued by Emerging Markets governments. The index spans over 15 countries. The J.P. Morgan EMBI GD tracks returns for actively traded external debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S. dollar emerging markets debt benchmark. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used or distributed without J.P. Morgan's written approval. Copyright 2018, J.P. Morgan Chase & Co. All rights reserved. The Blended 50/50 Emerging Markets Debt Index is an appropriate benchmark because it represents the various components of the emerging markets Fixed income universe.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time and portfolio managers of other investment strategies may take an opposite opinion than those stated herein. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck Securities Corporation ©2018 VanEck.

IMPORTANT INFORMATION - FOR AUTHORIZED USE ONLY

All documents on VanEck ICAV's sub-funds are for informational/advertisement purposes only and do not constitute any legal or investment advice. It is mainly dedicated to professional investors and is not to be regarded as an offer for the purchase and the sale of the fund's shares. Investors should consult the prospectus and key investor information before subscribing. The prospectus, the key investor information documents and the financial reports can be obtained free of charge from vaneck.com and upon request from VanEck ICAV's registered office at 25/28 North Wall Quay, Dublin 1, Ireland and the offices of all local information agents. The documents, except for key investor information, are only available in English. Please read these documents before investing and take note of the risk factors. Note: No guarantee can be provided that the Sub-Funds presented will attain their objectives. The value of an investment may decline as well as increase. All persons interested in investing in one of the Sub-Funds presented are recommended to seek advice from independent legal and tax advisors in order to ascertain whether the investment is appropriate to their own objectives.

You can lose money by investing in the Sub-Fund. Any investment in the Sub-Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in emerging markets debt securities. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may also be subject to credit risk, interest rate risk, sovereign debt risk, tax risk, hedging risk, non-diversification risk, and risks associated with non-investment grade securities.

For investors in Switzerland: The distribution of Shares of the Fund in Switzerland will be exclusively made to, and directed at, qualified investors (the "Qualified Investors"), as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended ("CISA") and its implementing ordinance. A copy of the latest prospectus, the Key Investor Information Document, the annual report and semi-annual report, if published thereafter can be found on our website www.vaneck.com or can be obtained free of charge from the representative in Switzerland: First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich, Switzerland. Swiss paying agent: Neue Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zürich. Place of performance and jurisdiction is at the registered office of the Representative.

Please see the prospectus and key investor information document for information on these as well as other risk considerations.