

Momentum Continues

By Eric Fine, Portfolio Manager

VanEck Unconstrained Emerging Markets Bond Fund

EMBAX / EMBCX / EMBUX / EMBYX

Market Review

We outperformed in January, with the Fund (Class A Share) up 0.65%, compared to 0.12% for the Fund's 50/50 benchmark made up of the GBIEM and EMBIG indices (The GBIEM was down 1.29%, while the EMBIG was up 1.52%). Even though the Fund was approximately 40% invested in the weakly-performing local currency segment, it was able to outperform. There were several reasons for this and highlighting a few of them in this monthly might be informative both about the market and the Fund's approach. The Fund's Number One winner was local currency Indonesia, where it has an overweight exposure and expected the central bank to be much more tolerant of currency strength than it had been in the past. This played out in January. Winner Number Two was hard currency El Salvador, a very small index component that rallied and to which the Fund has a significant exposure. Winners three and four were Uruguay and Mexico, which were, more or less, in line with the benchmark. Winner Number five was hard currency Argentina, which was up while the benchmark was down. In Argentina, the Fund's strategy has been focused on front-end bonds, which explains that outcome. The themes we hope to convey from that litany are that: a) the Fund outperformed despite having almost half its exposure in the negatively-performing local market; b) significant exposures to small index components continued to boost performance; and c) security selection can be key, as the Fund made money in Argentina despite Argentina being a loser for the indices.

We end January with a portfolio that generates 7.5% in carry, has duration of 5.3, and local currency exposure of approximately 40%. The only material change in these portfolio-level metrics was an increase in duration. As is normally the case, this increase was the result of bond-specific, bottom-up decisions, not a top-down global call on "duration."

(In particular, our process saw value in the long ends of the South African and Czech local currency bond curves.) Our largest country exposures are currently Argentina, Indonesia, El Salvador, Uruguay, South Africa and Ukraine, very similar to last month. We increased exposure a bit in Argentina hard currency, as developments continue to confirm our stance. We also increased exposure to local currency Indonesia, Czech and Thailand, where interest rates can be anchored by global growth concerns due to the coronavirus situation.

We remain bullish on Argentina, where early February saw positive developments. In particular, the Province of Buenos Aires (PBA) backed down from its stance against bondholders quite significantly. Here's the story. PBA initially announced that it was seeking bondholder consent for a postponement of payments (on a bond amortization that was due on January 26, 2020) with no "sweeteners" (i.e., bondholder incentives). The payments were not made on the January 26 due date, raising default risks. But bondholders stood firm and rejected any payment delay. So PBA offered a payment of 30% of principal. And still fewer than 75% of bondholders (the level required to change bond terms) agreed. Facing the end of the "grace period" (during which scheduled payments can still be made without a non-payment event), the province gave up, paying the entire amortization due. Because this was done in coordination with the Argentine republic (where we have the bulk of our exposure), the entire Argentina complex reacted positively in early February, rightly so in our opinion.

The coronavirus outbreak adds risks to the nascent global growth rebound, in our view. A key asset price driver remains global growth and, in particular, Europe's lack of it (which, when pronounced, has hit emerging markets local currencies, credit spread duration and commodities). In our view, the virus comes just when some green shoots were evident and Europe does not look to be in a position to stimulate, unlike China. We are

not letting this concern on global growth dominate our stance, but where there are individual names that could be adversely affected by hits to global growth, we could adjust our stance. Brazil local currency comes to mind.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions are currently: Argentina, Indonesia, El Salvador, Uruguay and Ukraine, very similar to the previous month.

- We increased our hard currency quasi-sovereign and corporate exposures in Argentina. Our general investment thesis there appears to be getting regular confirmation, so we think risks to it have declined and feel comfortable adding to the position. In terms of our investment process, the country's technical test score looks stronger. As regards Argentina's corporate exposure, we added to a position already in our portfolio after recent meetings with the company confirmed our expectations of continued, strong performance, in spite of local economic weakness.
- We increased our local currency exposure in Indonesia, Thailand and the Czech Republic. Indonesia's valuations continue to look attractive and we see no significant deterioration in fundamentals. Strong inflows provide "an icing on the cake." These factors improved the technical test score for the country. The improved technical score was also the reason for increasing our exposure in Thailand. The local debt valuations look better (they moved to the highest initial valuation Bucket 1) and we felt that being underweight the index was no longer justified. As regards the Czech Republic, our thought process was very similar—the country's local debt valuations moved to the highest initial allocation "Bucket 1", strengthening the country's technical test score.
- Finally, we also increased our hard currency sovereign exposure in the Dominican Republic. The bonds were in the second highest valuation bucket, but at the same time their performance lagged the rest of the region, which was not justified by the country's good fundamentals and the structural story. In terms of our investment process, this improved the technical test score for the country.
- We also reduced local currency exposure in Brazil and Chile. In Brazil, we no longer see visible improvements in growth, the expectation of which was supporting the currency before. In terms of our investment process, this worsened the country's economic test score. As regards Chile, both the currency and local rates bounced back after the initial deep selloff, worsening valuations and weakening the country's technical test score.
- We reduced our hard currency sovereign exposure in Belarus and hard currency quasi-sovereign exposure in Mexico. We continue to like Belarus's story, but one of the sovereign bonds started to look weak on the spread-to-yield metrics, which worsened the technical test score. We remain comfortable with the credit in Mexico, but we needed funders for more attractive bonds—so we sold some of our Pemex bonds which rallied a lot since we bought them. In terms of our investment process, this worsened the technical test score for the country.
- Finally, we reduced hard currency corporate exposure in Iraq, Nigeria, Georgia and Cambodia. These reductions were a mixed bag of sales used as funders for other purchase. Several were assets that moved to lower buckets whose sales were used to fund various reallocations in the portfolio, like Iraq and Nigeria. Similarly, in Georgia, tightening spreads and higher prices made for an excellent point to exit the investment. Concerns over the effect of the recent coronavirus outbreak on tourism left us comfortable with using our Cambodia allocation as a funder for other geographies.

Fund Performance

The VanEck Unconstrained Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 0.65% in January compared to a gain of 0.12% 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 Indonesia, Turkey and Mexico. The biggest loser was South Africa, Brazil, and Thailand. The EMBI's biggest winners were Turkey, Mexico and Colombia. The biggest losers were Argentina, Ecuador, and Lebanon.

Average Annual Total Returns (%) as of January 31, 2020

	1 Mo [†]	3 Mo [†]	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	0.65	4.80	0.65	7.89	1.36	2.10
Class A: Maximum 5.75% Load	-5.10	-1.17	-5.10	1.71	0.16	1.31
50 GBI-EM GD / 50% EMBI GD	0.12	2.01	0.12	9.07	4.46	3.28

Average Annual Total Returns (%) as of December 31, 2019

	1 Mo [†]	3 Mo [†]	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	4.14	4.40	12.61	12.61	1.53	2.04
Class A: Maximum 5.75% Load	-1.84	-1.67	6.05	6.05	0.33	1.23
50 GBI-EM GD / 50% EMBI GD	3.07	3.51	14.31	14.31	4.57	3.30

† Monthly returns are not annualized.

Expenses: Class A: Gross 2.05%; Net 1.26%. Expenses are capped contractually until 05/01/20 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at Net Asset Value (NAV). An index's performance is not illustrative of the Fund's performance. Certain indices may take into account withholding taxes. Index returns assume that dividends of the index constituents in the index have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

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. Certain indices may take into account withholding taxes. 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 and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). The J.P. Morgan GBI-EM Global Diversified tracks local currency bonds issued by Emerging Markets governments. The J.P. Morgan EMBI Global Diversified 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.

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Investing involves risk, including loss of principal. You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in below investment grade securities, credit, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, sectors and sovereign bond risks. 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, and the risk that a position could not be closed when most advantageous. The Fund may also be subject to risks associated with non-investment grade securities.

Investors should consider the Fund's investment objective, risks, charges, and expenses of the investment company carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing. Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus.

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