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VanEck®

JULY 2025

The Era of EM Exceptionalism

Harnessing EM Debt Potential
via Active Strategies

Authors and Investment Team



Eric Fine
Portfolio Manager

Eric oversees the Emerging Markets Fixed Income Team, including asset allocation, fixed income research and security selection. He joined VanEck in 2009, having previously held senior leadership positions at Morgan Stanley, including founding and managing Morgan Stanley's Emerging Markets Proprietary Trading group. Eric has advised numerous governments on economic policies and debt profiles. He has an MPA, International Trade/Finance from Harvard University and a BA, Public Policy from Duke University.



Natalia Gurushina
Chief Economist

Natalia is the Chief Economist for the active Emerging Markets Fixed Income Strategy. Prior to joining VanEck in 2013 Natalia worked at Roubini Global Economics in emerging markets currency/fixed income and G10 currency strategies. Natalia has a PhD, Economic History from the University of Oxford and a BA, Economics from Moscow State University.



David Austerweil
Deputy Portfolio Manager

David is the Deputy Portfolio Manager for the active Emerging Markets Fixed Income Strategy and has been at the firm since 2012. Prior to VanEck, David was Vice President at ING Financial Services on the Emerging Markets Credit Trading & Structuring desk. David has a MS, Financial Engineering from Columbia University and BA, Computer Science from Columbia University.



Robert Schmieder
Senior Corporate Analyst

Robert joined VanEck in 2015 and was previously Executive Director/Head of Latin America Credit Research at BBVA Securities. Prior to that Robert was Managing Director/Head of Latin America Corporate Credit Research at HSBC Securities (USA) Inc. Robert has an MBA, International Finance, MA, Spanish Literature, and a BA, Spanish Language and Literature all from New York University.

Introduction

Many fixed income portfolios do not include an allocation to emerging markets (EM) bonds. Over the past 25 years, EM governments have gone from being in deficit to running up surpluses, while developed markets (DM) governments have been accruing deficits. This change has resulted in a shift in the origin of bond crises since the turn of the millennium.

Fixed income portfolios have yet to reflect this new reality. We think EM bonds are the future of fixed income. Because of the idiosyncrasies between the nations included in the EM universe and the nuances between the different types of bonds available, we believe an active approach, like the one employed by the VanEck's Emerging Markets Bond ETF, is an ideal way for investors to access this important asset class.

The VanEck Emerging Markets Bond ETF is designed to invest in all EM bonds: hard-currency sovereign,

local-currency sovereign, and hard-currency corporate bonds. This approach allows investors to benefit from opportunities wherever they exist in the entire investment universe and sidestep potential problems in an increasingly uncertain world. Despite events such as the COVID lockdowns, Russia's invasion of Ukraine, and the property crisis in China, the fund has outperformed global and U.S. aggregate benchmarks and delivered top-quartile performance within the Emerging Markets Bond category in Morningstar over the past 5 years.

Using the fund's benchmark, which was subject to the crises noted above but without any active management, the asset class has outperformed major developed global bond markets. It is therefore surprising that EM bonds remain under-owned. It is either a misunderstanding of the different risk-return profile since the turn of the century or the challenge of access.

Average Annual Total Returns* (%)

Month End as of 11/30/2025	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
EMBX (NAV)	0.79	3.44	17.38	15.48	11.39	4.26	5.13
EMBX (Share Price)	0.99	3.63	17.60	15.69	11.46	4.29	5.15
50% GBI-EM/50% EMBI	0.83	3.76	15.47	13.55	10.11	1.80	3.89
Quarter End as of 09/30/2025	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
EMBX (NAV)	1.70	4.40	15.41	9.72	13.39	4.87	5.27
EMBX (Share Price)	1.70	4.40	15.41	9.72	13.39	4.87	5.27
50% GBI-EM/50% EMBI	1.59	3.78	13.05	7.98	11.82	2.34	3.93

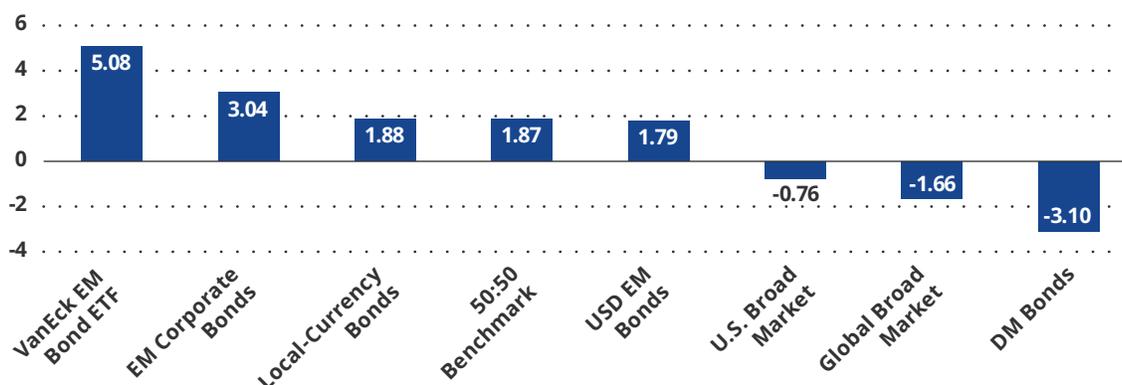
*Returns less than one year are not annualized.

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).

Chart 1: VanEck EM Bond ETF Has Outperformed Over the 5-Year Period

5-Year EMBX returns compared to other fixed income asset classes



Source: VanEck, Bloomberg. Data as of June 2025. VanEck Emerging Markets Bond ETF is represented by Class I (EMBOX). Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Expenses: Class I: Gross 1.37% and Net 0.86%. Expenses are capped contractually through 05/01/26 at 0.85% for Class I. Returns are annualized. EM corporate bonds are represented by the J.P. Morgan CEMBI Broad Diversified Index. Local currency bonds are represented by the J.P. Morgan Government Bond-Emerging Market Index Global Diversified. 50:50 benchmark is represented by the 50% J.P. Morgan Emerging Market Bond Index Global Diversified and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified. U.S. Broad Market is represented by the ICE BofA U.S. Broad Market, Global broad market is represented by the ICE BofA Global Broad Market. USD EM Bonds are represented by the J.P. Morgan Emerging Market Bond Index Global Diversified. DM Bonds are represented by the ICE BofA Developed Markets Sovereign Bond Index. **Performance is calculated net of management fees. Past performance is not a guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Fund performance current to the most recent month end is available by visiting vaneck.com or by calling 800.826.2333. Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).**

It is worthwhile examining the dynamics behind this performance. In this paper, we will discuss:

- **The fundamental case for EM bonds.** EM are generally characterized by low debt levels, higher spreads and independent central banks that maintain higher real policy rates. Many EM countries have stable governments and policies. There are also many winners from DM 'geopolitics' in EM. EM has also benefited from responsible and orthodox policies and DM de-globalization.
- **Fund and asset class performance, highlighting key themes from recent history.** EM bonds have outperformed global bonds on return and volatility-adjusted return bases. Over that time, the many 'advanced' EM countries' local currency bonds behaved like a reserve asset.
- **The Fund's investment process,** which compares fundamentals to bond premia to generate a list of the cheapest EM bonds regardless of whether they are hard-currency or local-currency. We will also address how the fund was managed to avoid the biggest EM challenges in recent years.
- **The case for an actively managed, blended EM bond strategy**—one that spans all EM debt markets—to deliver stronger long-term outcomes for investors.

The Fundamental Case for EM Bonds

EMs generally have lower levels of government and/or total economy debt. This allows central banks independence to focus solely on inflation and not be constrained by concerns about undermining government financing. As they are independent, EM central banks can maintain high real policy rates that keep market rates attractive to those of DM countries. Further, we think DMs are generally facing headwinds from geopolitical developments, while many EMs are experiencing tailwinds from geopolitical developments.

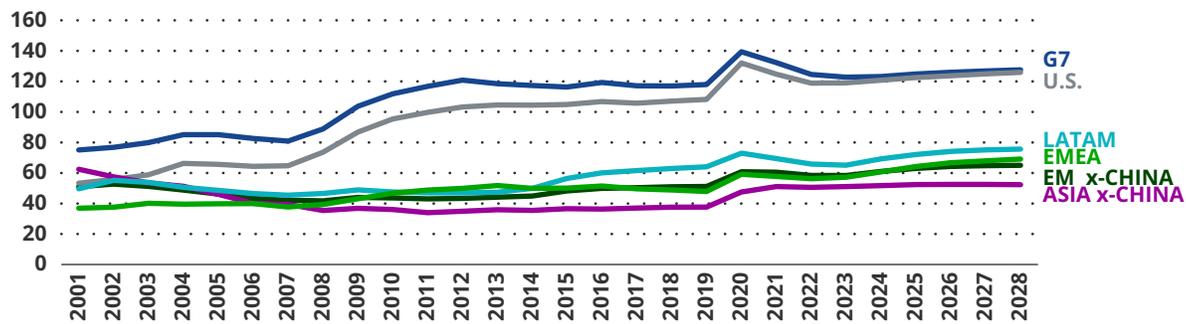
Chart 2 below shows EM central government debt levels, which are lower than those in DM. This is the result of decades of fiscal prudence and central bank independence, particularly in Asia, put in place after the 1997 Asia Crisis.

It is also worth noting that EMs have lower total economy (i.e. private) debt than DMs. An important point is that the way in which governments treat private debt in their economies might also differ between key EM and DM. Since the GFC, DM central banks have taken risky assets onto their balance sheet, including high yield (HY) ETFs, as was the case with the U.S. This can stabilize markets, but the moral hazard is that it creates market distortions.

Contrast this with China’s recent property crisis, in which policymakers avoided taking these entities onto their balance sheet. This led to collapses in investment grade (IG) corporate bonds. But this was a problem for the fund manager, nobody was forcing anyone to invest in that sector when it was trading at par. For further insight of how the fund handled the China property crisis, which boiled down to not owning any in the lead up to the crisis because it was expensive and didn’t qualify as an eligible investment, refer to chart 2.

In comparing the U.S. and China’s approaches, it is orthodox policy not to guarantee corporate risks, however much short-term pain this entails. That’s the key point, EM, such as China, have shown great caution over debt levels, which protects their economies.

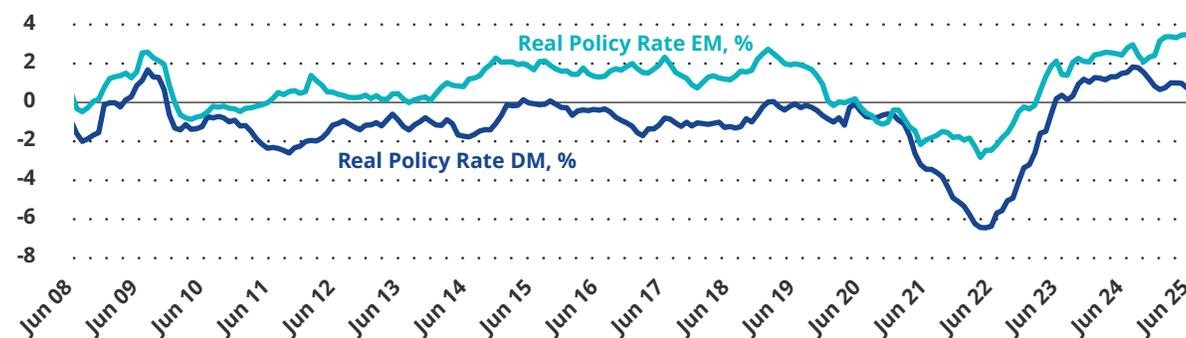
Chart 2: EM General Government Debt Is Lower than DM



Source: VanEck Research; International Monetary Fund; Bloomberg LP. Data as of June 2025. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

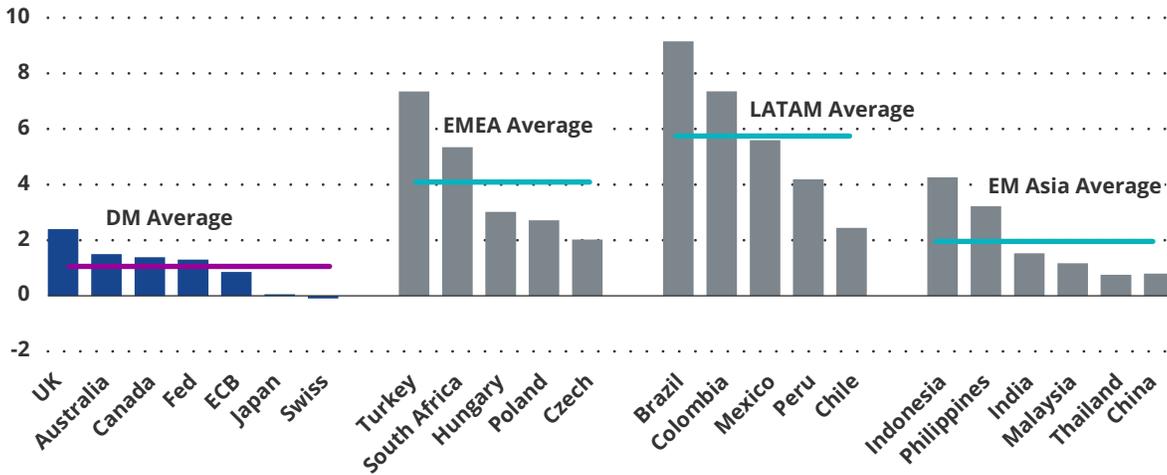
The result is high real policy and market rates in EM. This initial condition of low debt levels allows central banks to focus primarily on inflation, as the maintenance of high real policy rates doesn’t create financing risks for its country’s government, (Available here: [Fiscal dominance: The Clarifying Lens for EM \(and DM\) Bonds](#), is a full discussion on the excessive debt, or fiscal dominance, characterizing many DMs.) This central bank independence is illustrated by the history of real policy rates in EM versus DM below. It shows what one would expect, consistently higher real interest rates than DM.

Chart 3: Real Policy Rates in EM Exceed Those In DM



Source: VanEck Research; Bloomberg LP. Data as of June 2025. Past performance is not indicative of future results.

Chart 4: Real Market Rates, by region/country



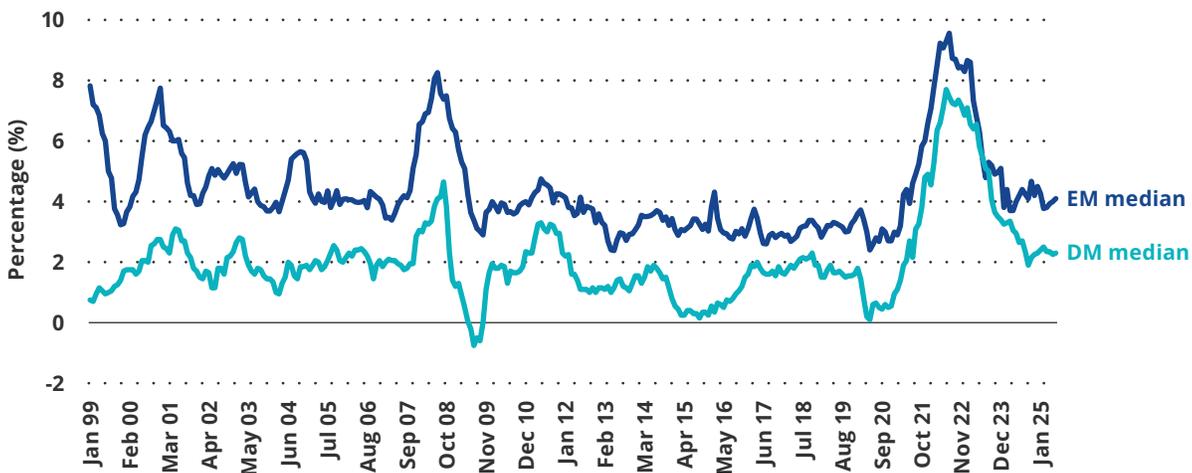
Source: VanEck Research; Bloomberg LP. Data as of June 2025. Past performance is not indicative of future results.

The result of this independence should have been steadily declining inflation since orthodox policy began to infect EM, which we date at the beginning of 1999 for analytical ease (i.e., following the Latin American, Asian, and Russian crises) and to present the full and dramatic picture. This is the ultimate point of economic orthodoxy: a low-inflation, stable currency environment that allows sustainable growth. This sustainable growth is the responsibility of the private sector and good structural policy from the government/political authority, not an additional responsibility of the central bank.

The central bank needs to be as solely focused on inflation as feasible, which is the case in EM. This is exactly what ensued, as is evident in the Chart 5 below. EM inflation is converging to DM inflation. And note the lack of overreaction from EM inflation in the COVID lockdown spike. Due to their strong orthodox bias, EM stopped their fiscal responses earlier than DM. Declining inflation and inflation expectations are the outcome.

Chart 5: Inflation Tracks Slightly Higher in EM

EM versus DM median inflation



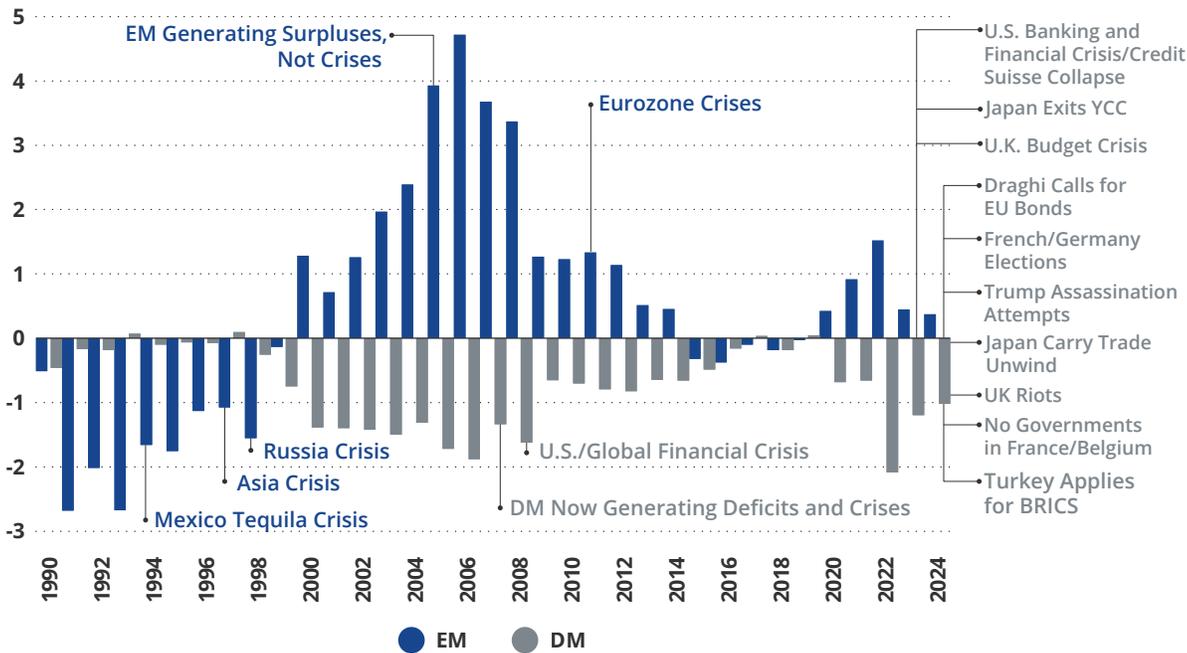
Source: VanEck Research; Bloomberg LP. June 2025.

The shift away from DM to EM is observable and tectonic. We have often used Chart 6 to explain the “fiscal dominance” thesis. It compares EM versus DM current accounts over the past 30 years.

Prior to 1998, EMs were running large and persistent deficits and were responsible for the global financial crises in the 1990s. Since 1998, however, it’s the DMs that have been generating large and persistent deficits. DMs have also been responsible for the crises of the new millennium.

We think this is due to “fiscal dominance”, a state in which monetary policy becomes subsumed to fiscal policy. Most generally, after the Latin American crises of the 80s and 90s, and the Asia and Russia’s crises in 1997 and 1998, EMs, along with the IMF agreed on a “Washington consensus”. Exchange rates were floated, and if inflationary, the central bank had to step in with high real rates. If that was recessionary, the recession was allowed. Thailand and Indonesia experienced 50% declines in USD GDP. Fiscal policy was austere, not stimulative. And insolvent financial and industrial institutions were allowed to fail, i.e. were not put on the government’s balance sheet. You can see the persistent surpluses generated due to these policies in Chart 6. DM’s response to the many crises of the past two and a half decades have been the exact opposite. Policies were implemented, resulting in monetary policy enabling fiscal policy, and coordination was celebrated, insolvent financial institutions were guaranteed, recessions were prevented at all costs.

Chart 6: Almost 30 Years of EM Exceptionalism

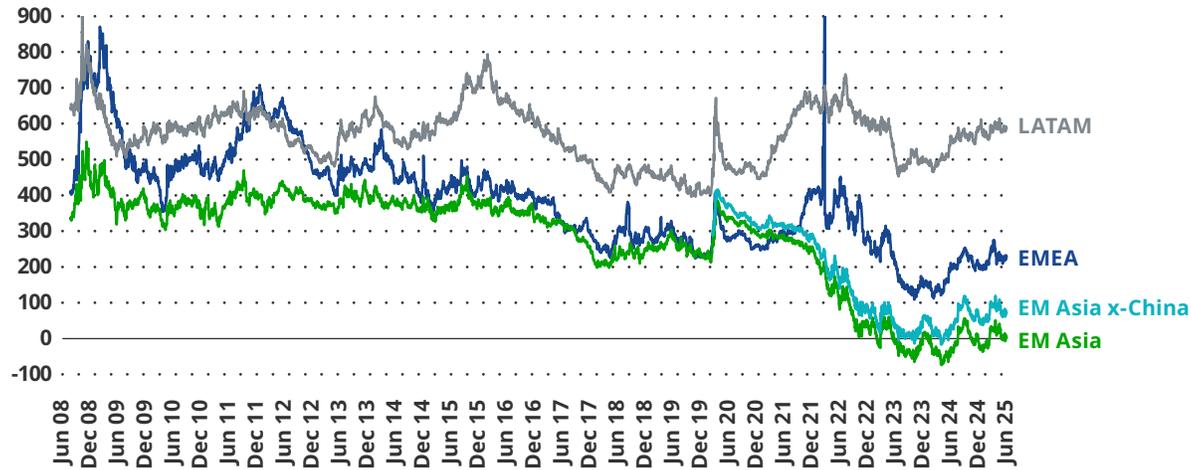


Source: VanEck Research; International Monetary Fund (IMF); Bloomberg LP. Data as of December 2024. Past performance is not indicative of future results.

While we discuss EM bond performance in the next section of this paper, one chart is emblematic of EM’s exceptionalism – the behavior of EM Asian local-currency yields. The chart below shows local currency EM government bond yields minus U.S. yields, by EM region. Asia is the outlier, with yields now comparable to the U.S. and other developed markets’ EMEA experienced the shock of the Russia/Ukraine war, but is *also* experiencing record-low nominal yields relative to U.S. yields. The Latin American region could be the next to benefit from this trend.

Chart 7: EM Asia and EMEA Yields' Secular Decline – Is LatAm Next?

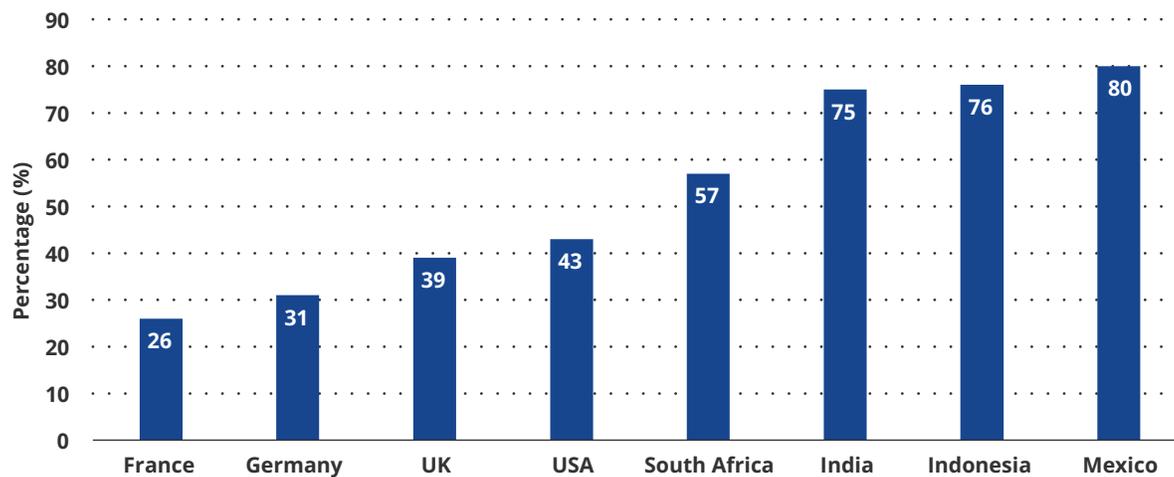
EM Regions - GBI-EM/5Y UST Yield Differentials, bps



Source: VanEck Research; Bloomberg LP. Data as of June 2025. GBI-EM is represented by the J.P. Morgan GBI-EM Global Diversified Index; EMEA represented by J.P. Morgan GBI-EM Global Diversified Europe Index; Latam represented by J.P. Morgan GBI-EM Global Diversified Latin America Index; EM Asia represented by J.P. Morgan GBI-EM Global Diversified Asia Index; EM Asia x-China represented by J.P. Morgan GBI-EM Global Diversified Asia ex-China Index. **Past performance does not guarantee future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index.**

We also think geopolitics is a tailwind for EM. We have established that DM countries have excessive debts, co-opted central banks, and are driving all global financial crises these days. That's the story of Chart 7 above. It's the result of decades of bad policy in DM and good policy in EM. Importantly, in EM these good policies are popular among its citizens. That's why we included Chart 8, which shows the domestic popularity of the leader (or the GNU in South Africa) in some selected countries. Orthodox policy is being rewarded with strong national unity and political strength. This was the profound conclusion that these countries' political systems arrived at: crises need to be avoided, even if it means rigorous policy.

Chart 8: Leader/Government Approvals. DM Leaders Are Less Popular than EM Leaders



Source: VanEck Research, Bloomberg LP.

Another point about geopolitics is that the whole world is not de-globalizing. DM is de-globalizing via sanctions, and there is a growing rift between the U.S. and China. But the other parts of the world are globalizing. All of Russia’s pipes are heading east, generating a permanent and material positive terms-of-trade shock to India and other Asian nations. Markets still can only guess what India is really paying for oil. The BRICS (BRICS is an intergovernmental organization comprising ten countries – Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates) was formed to have less dependence on the DM or the U.S. financial system. These are examples of globalization, to our eyes.

Perhaps the best example is the declining use of U.S. treasuries in central bank reserves. This is also the result of geopolitics, in particular, sanctions. All central banks noticed the sanctions on Russian central bank reserves, and sanctions are now a new risk they can’t ignore. EM is a winner from this dynamic. EM local-currency bonds are increasingly sought by central banks as reserve assets, in addition to gold purchases. This will be a long process, but we think EM bonds are becoming reserve assets, and geopolitical developments are a tailwind for this, as they are a headwind for DM markets.

Chart 9: U.S. Treasuries in Global Central Bank Reserves at Record Lows

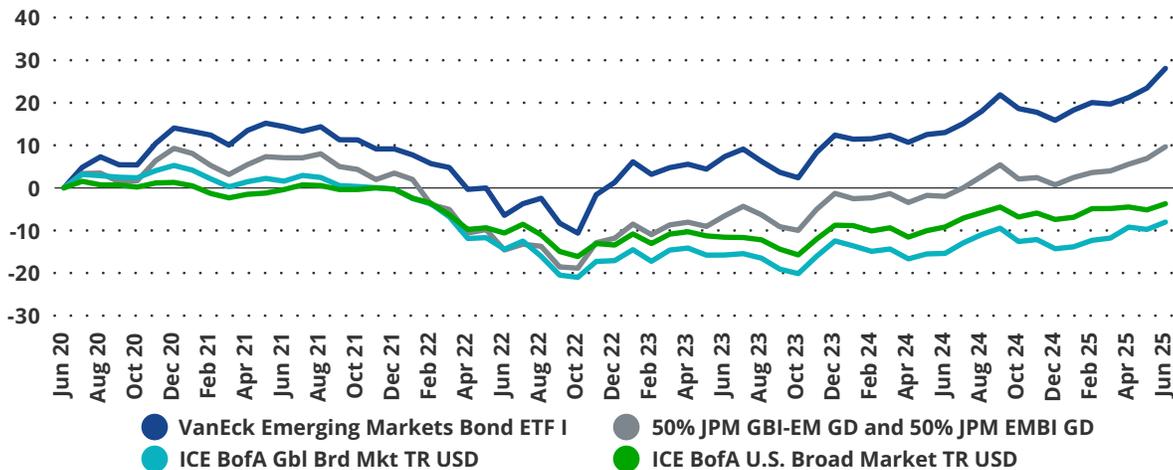


Source: International Monetary Fund (IMF); Bloomberg LP. Data as of March 2025. Past performance is not indicative of future results.

An Analysis of Performance

We highlighted the outright return history of the fund in the first chart of this paper. The below shows the path to that return in more detail. In the first chart, the fund performed best overall. High nominal and real yields provide significant carry and added cushion to withstand market turbulence and a strong USD in recent years. Another contributing factor to outperformance has been its exposure to local-currency bonds, which can benefit from EMFX appreciation against the U.S. dollar. Your choice of fixed income category should not be a proxy decision on USD performance when you can avoid it. The fund and EM bonds overall have benefited from these dynamics, substantially outpacing U.S. and global fixed income.

Chart 10: Performance Over the Past 5 years



Source: VanEck Research, Bloomberg LP. Data as of June 2025. **Past performance is no guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Fund performance current to the most recent month end is available by visiting [vaneck.com](https://www.vaneck.com) or by calling 800.826.2333.** Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).

It can be instructive to examine these returns in a portfolio context by generating an Efficient Frontier. The Efficient Frontier is derived from the Modern Portfolio Theory (MPT), and it suggests the most 'efficient' investment portfolios to generate returns for a set level of risk. The risk measure used is the standard deviation of returns.

Below, we show the output from using the frontier on global fixed income asset classes. These are the fixed-income investments investors may consider in constructing their portfolios, including EM debt. Analysis of a data stream going back 20 years (using the 50/50 benchmark) shows that an optimal allocation to EM in a fixed income portfolio would have been around 27% for a mid-level volatility level of 7.5.

The Efficient Frontier is a formal framework used by investors for thinking about asset allocation, and we wouldn't suggest an unbounded model. Considering portfolio limits, it's likely that this optimal allocation of 27% is far *higher* than most investors maintain. The point is that the allocation should be higher than zero. It also means that the optimal allocation to *other* fixed-income categories in the analysis, which tend to be the largest and most popular allocations, like global aggregate or U.S. government bonds, is much *lower* than most investors maintain.

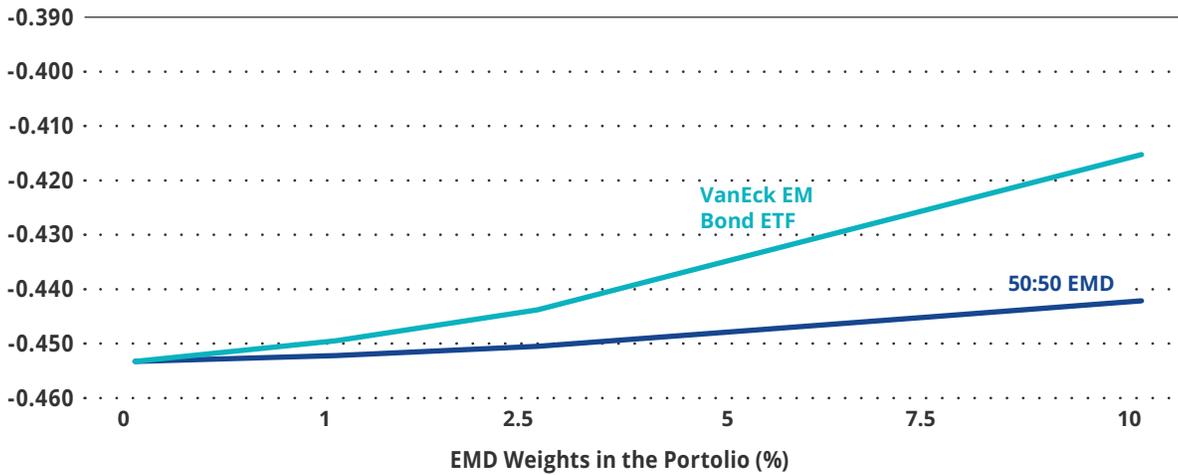
Table 1: What Does the Efficient Frontier Say About the Optimal Level of EM Bonds?

Portfolio st dev	LOW RISK												HIGH RISK	
	4.57	4.62	4.91	6.04	6.37	7.17	7.51	7.55	8.03	9.00	10.00	11.00	12.00	12.92
GBI-EM	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EMBIG HY	0%	0%	0%	11%	15%	23%	27%	27%	32%	42%	51%	77%	45%	0%
CEMBI HY+	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	55%	100%
Global Aggregate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Treasury	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global government related	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global corporates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global securitized	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Aggregate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. HY	25%	26%	34%	40%	40%	40%	40%	41%	41%	41%	41%	23%	0%	0%
Euro Agg	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Treasury	75%	74%	66%	49%	45%	36%	32%	32%	27%	17%	8%	0%	0%	0%
CEMBI IG+	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EMBIG IG	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EM FI (GBI-EM, EMBIG, CEMBI)	0%	0%	0%	11%	15%	23%	27%	27%	32%	42%	51%	77%	100%	100%

Source: VanEck Research; Bloomberg LP. Data as of December 2024. GBI-EM is represented by the J.P. Morgan Global Diversified Index; EMBIG HY is represented by the J.P. Morgan EMBI Global Diversified Investment Grade Index; CEMBI HY+ is represented by the J.P. Morgan CEMBI High Yield Index; Global Aggregate is represented by the Bloomberg Global Aggregate Bond Index; Global Treasury is represented by Bloomberg Global Treasury Index; Global government related is represented by Bloomberg Global Aggregate Government Related Index; Global corporates represented by Bloomberg Global Aggregate Corporate Index; Global securitized represented by Bloomberg Global Aggregate - Securitized Index; U.S. Aggregate represented by Bloomberg U.S. Aggregate Bond Index; U.S. HY represented by Bloomberg U.S. Corporate High Yield Bond Index; Euro Agg represented by Bloomberg Euro-Aggregate Index; U.S. Treasury represented by Bloomberg U.S. Treasury Index; CEMBI IG+ represented by J.P. Morgan CEMBI Investment Grade Index; EMBIG IG represented by J.P. Morgan EMBI Global Diversified Investment Grade Index; EM FI represented by an equally weighted blend of the J.P. Morgan GBI-EM Global Diversified Index, the J.P. Morgan EMBI Global Diversified Index and J.P. Morgan CEMBI Broad Diversified Index. Efficient frontier comprises investment portfolios that offer the highest expected return for a specific level of risk. Standard deviation measures how much the investment returns deviate from the mean of the probability distribution of investments. **Past performance is not a guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Please see index definitions and other important disclosures at the end of this content.** *Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).*

It's natural, then, for investors to wonder about risk. The Sharpe ratio combines the return measure with the volatility (risk) measure to quantify the relationship between the returns and risk. Staying within the U.S. investor's bond menu, let's look at the same data, showing the change in Sharpe to a broad U.S. fixed income portfolio from the addition the VanEck Emerging Markets Bond ETF's benchmark (EM 50:50) and the Fund to a fixed income portfolio. Let's consider how it changes the Sharpe ratio for each 1% of additional allocation of the benchmark, or the Fund, to a fixed income portfolio. You can see that the benchmark is additive, and the Fund more so. This is both about EM bonds and their relative attractiveness to DM bonds, as well as the evidence of the alpha achieved by the Fund. Alpha can be generated on top of the basic asset allocation decision to just add EM bonds. We think investors' allocations to EM bond strategies that can capture alpha are too low.

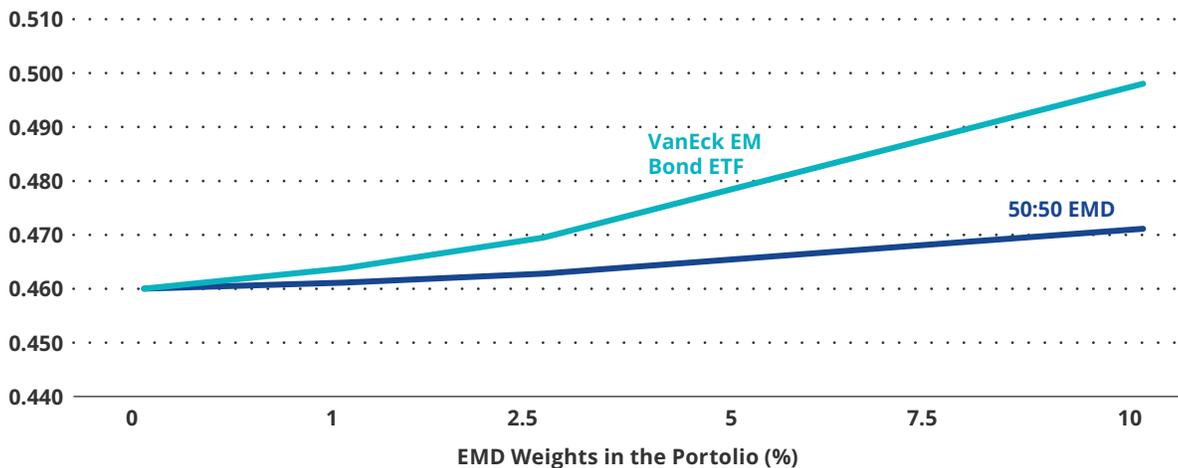
Chart 11: Sharpe Ratios improve after adding EM bonds to a U.S. fixed income portfolio



Source: VanEck Research, Bloomberg LP. 50:50 EMD is represented by the 50% J.P. Morgan Emerging Market Bond Global Diversified/50% J.P. Morgan Government Bond-Emerging Market Global Diversified Index. U.S. bond portfolio is represented by the Bloomberg U.S. Bond Aggregate. The Sharpe ratio is a useful measure of risk-adjusted return, but it assumes normally distributed returns and may not fully reflect downside risk or extreme market volatility. Investors should evaluate it alongside other performance metrics when assessing fund risk and return. Sharpe ratio results are based on historical data, are sensitive to the selected period and risk-free rate, and may not fully capture asymmetric or non-normal return patterns. Sharpe ratio shown is based on performance over the 5-year period ending in June 2025. Calculated using 10-Year U.S. Treasury yield as the risk-free rate. **Past performance is no guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Please see index definitions and other important disclosures at the end of this content. Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).**

And, for completeness, we have conducted the same exercise but in the complete 60/40 portfolio for investors, using U.S. equities and bonds. Again, the same conclusion is achieved – the 50/50 EM benchmark increases portfolio Sharpe, and the fund more so.

Chart 12: Sharpe Ratios improve after adding EM Bonds to a U.S. 60/40 portfolio



Source: VanEck Research, Bloomberg LP. 50:50 EMD is represented by the 50% J.P. Morgan Emerging Market Bond Global Diversified/50% J.P. Morgan Government Bond-Emerging Market Global Diversified Index. U.S. bond portfolio is represented by the Bloomberg U.S. Bond Aggregate. The Sharpe ratio is a useful measure of risk-adjusted return, but it assumes normally distributed returns and may not fully reflect downside risk or extreme market volatility. Investors should evaluate it alongside other performance metrics when assessing fund risk and return. Sharpe ratio results are based on historical data, are sensitive to the selected period and risk-free rate, and may not fully capture asymmetric or non-normal return patterns. Sharpe ratio shown is based on performance over the 5-year period ending in June 2025. Calculated using 10-Year U.S. Treasury yield as the risk-free rate. **Past performance is no guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Please see index definitions and other important disclosures at the end of this content. Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).**

We think the key observations of the above analysis of the performance of EM bonds and the Fund are as follows:

- Zero is the wrong allocation for EM bonds.
- Over various time periods, the Fund generated alpha relative to its 50:50 benchmark, and this has implications for asset allocators supporting active management.
- EM bonds have the potential to increase Sharpe ratios for U.S. fixed income portfolios, but not by as much as the potential for an active approach like our Fund.

We think the above justifies the consideration of funding allocations to EM bonds and the Fund, with lower allocations to DM bonds that dominate U.S. investors' portfolios.

Our investment process

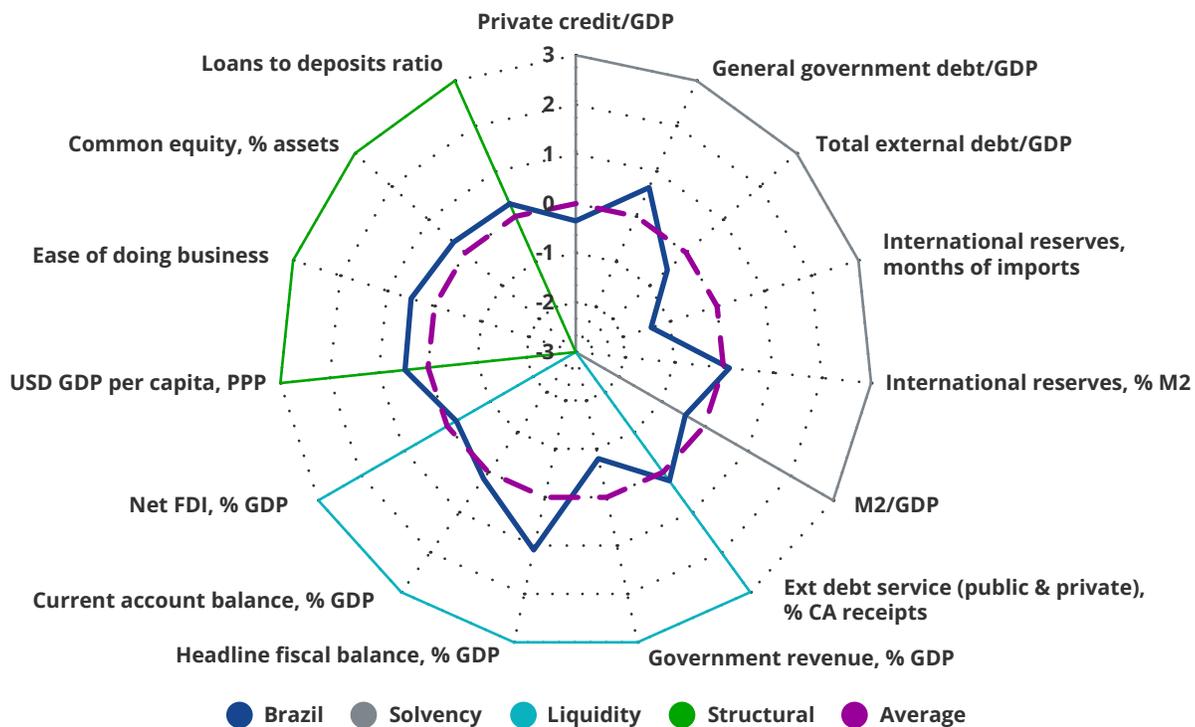
VanEck's EM bond strategy is valuation-based. Simply, we want to buy cheap bonds, not good or bad risks.

Step 1 of our investment process builds a radar chart showing each country's superiority, or inferiority, relative to the global average measured in units of standard deviation across a range of 16 fundamental metrics. These metrics include:

- Standard measures such as general government debt/GDP
- Flow measures such as the current account deficit/GDP
- Structural measures, such as the banking system's common equity-to-assets ratio

We display these as a radar chart, as shown below. When the country result is inside the global mean result, it is superior to the global mean. Conversely, when the result is outside the global mean, it is inferior to the global average.

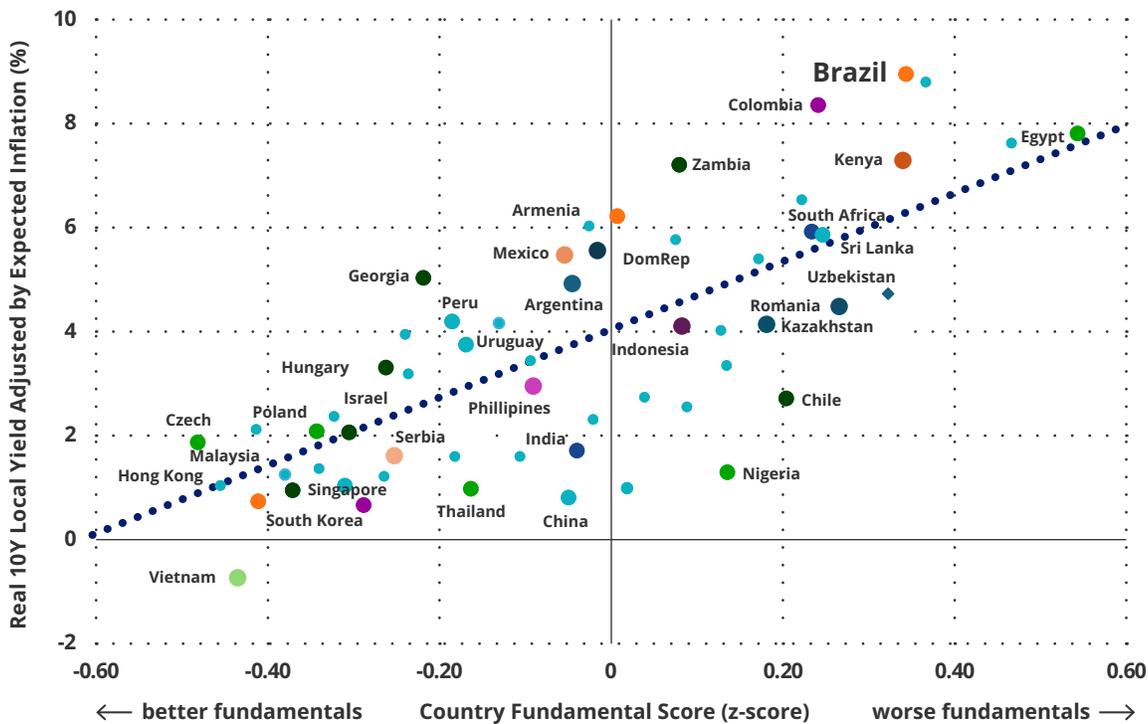
Chart 13: Brazil's Radar Chart Measuring Fundamental Risk



Source: Bloomberg LP. Data as of June 2025. Past performance does not guarantee future results.

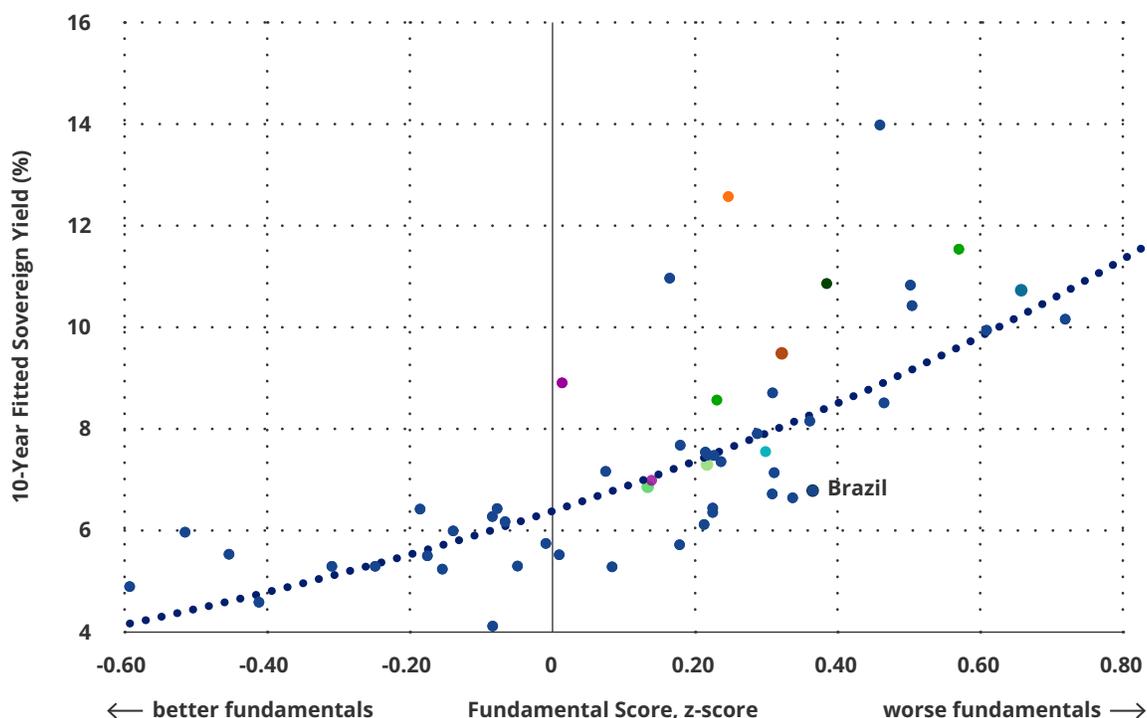
We then “line up” all the radar charts for the countries and companies in the investable universe. We do this by calculating a z-score based on each country’s superiority, or inferiority, to the global mean, as measured by the metrics detailed in the chart. We compare these z-scores and bonds with similar yields. You can see the fundamental z-score on the x-axis in the chart below. Those with superior fundamentals are on the left, inferior to the right. We highlight Brazil and see that the real yields (y-axis) of Brazil’s 10-year local-currency bonds are *higher* than the predicted level (along the dotted line), based on all the other EM 10-year local-currency bonds. They are therefore considered cheap. We conduct this exercise for every tenor of bond. And we conduct it for hard-currency bonds using yield or spread on the y-axis, which you can see in Chart 18. In this chart, you can see that Brazilian hard-currency bonds are *expensive*. The output of Step 1 in our process is a list of the cheapest bonds in EM, whether local, hard, sovereign, or corporate, based *entirely* on their deviation from the predicted level. The cheaper they are, the more they are liked and therefore the higher they are on the list. You may notice that Step 1 favors tenors/duration based entirely on cheapness relative to fundamentals, not the investment teams’ top-down opinion on U.S. ‘duration’. If the 20-year Brazilian local currency bond was cheaper relative to the predicted level than the 10-year Brazilian local currency bond, the 20-year bond is higher in the ranking.

Chart 14: Real 10-year Local Currency Valuations and Country Fundamentals Determine which 10-year Local Currency Bonds Pay Real Yields that are Relatively Too High



Source: VanEck Research; IMF; World Bank; Moody’s; Bloomberg LP. Data as of June 2025. Past performance is not indicative of future results. Z-score is a statistical measurement that describes a value’s relationship to the mean of a group of values.

Chart 15: Sovereign 5-year Bond Valuations and Country Fundamentals Determine which 5-year Hard Currency Sovereign Bonds Pay Yields that Are Relatively Too High



Source: VanEck Research; IMF; World Bank; Moody's; Bloomberg LP. Data as of June 2025. Past performance is not indicative of future results. Z-score is a statistical measurement that describes a value's relationship to the mean of a group of values.

The result of Step 1 is a list of the cheapest bonds in EM, without reference to whether they are local-currency, hard-currency sovereign, or hard-currency corporate. It is an entirely quantitative process.

In EM, however, there are many non-systematic risks, such as politics, elections, index exclusions/inclusions, global trade partnerships and treaties that are not appropriately managed by the quantitative framework in Step 1. This is why we have Step 2, which may eliminate or impact the ranking of bonds chosen by Step 1.

Step 2 of the process involves three 'tests':

1. Political/policy
2. Economic
3. Technical

A 'strong fail' result on any of these removes a bond from the list. Each test is applied bond-by-bond, so the investment team can fail a 10-year local currency bond from a country but not a 5-year hard-currency bond from the same country. All changes in Step 2 are subjective and documented by the investment team monthly.

Step 3 is portfolio construction. In Step 1, the cheaper a bond is relative to the predicted level, the greater the allocation. If a bond is in the top quartile of cheapness, it gets the maximum allocation of 1.5 times the benchmark weight for that country. If a bond is in the second quartile, the maximum allocation is 1.25 times the benchmark weight for that country and so on, until the portfolio is full. The portfolio is constructed in consideration of risk constraints.

The Case for a Blended EM Bond Approach

The discussion above raises key questions for investors:

Should I invest in a local-currency only, a hard-currency only or an EM corporate (which is primarily a hard-currency market) only EM bond fund?

Switch between them or have an even split?

The fund was designed as an investment solution to consider *all* types of EM bonds. In this way, investors could achieve an outcome that was not dependent on the decision between local or hard currency. Local has done better than hard for many years, hard has done better than local for many years, and the investment team’s goal is to optimize that over the long term. This allows investors to stay invested in EM bonds and not depend on predicting the type of EM bond that will outperform.

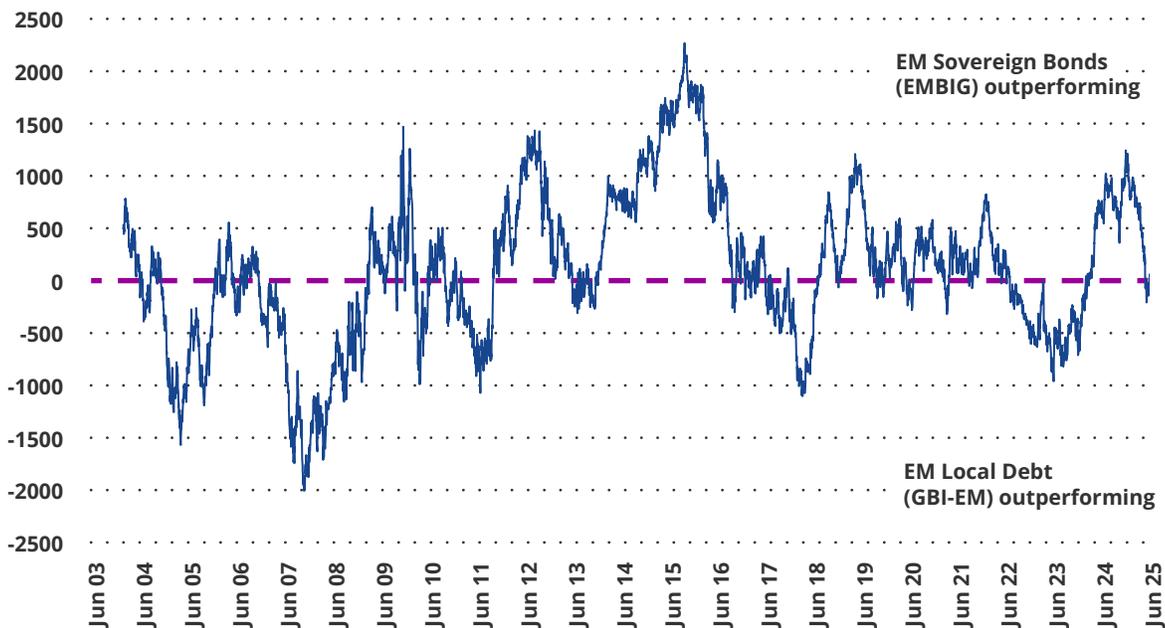
When the team and approach were being established, the seed investor originally wanted a local-currency-only approach because local-currency indices had done well in the three years before the investment being considered. The team, with many years of experience investing in emerging markets suggested a high active share, blended strategy. And, for most of the 13 years since that investment was made, the team has had the bulk of its exposure to hard-currency bonds, which have outperformed local-currency bonds over that time. Over the past few years, the strategy has been favoring local-currency bonds again.

Most appealing to investors is that the investment process chooses individual bonds on a bottom-up basis, not based on the team’s view of top-down considerations like ‘the dollar’ or ‘U.S. rates’.

We think a flexible, blended approach is the best for many investors because local and hard currency EM bonds can outperform or underperform each other for long periods. Hard-currency EM sovereigns outperformed over several years; more recently, local-currency EM sovereigns have outpaced them. Investors, including large institutions, that only had hard currency or only local currency exposure, therefore, may have had a ‘bad’ experience with EM bonds. All their success or failure in EM bonds depended on getting this call right.

Chart 16: Bond Performance EM Sovereign vs. EM Local

EMBIG-GBI EM Total Return differential, (12m rolling, bps)



Source: VanEck Research. Data as of June 2025. **Past performance is not indicative of future results. Index performance is not representative of strategy performance. It is not possible to invest directly in an index.**

To provide a better perspective, we examine the past 20 years of asset class performance in Table 2. You can draw two key observations:

1. EM bonds (local and hard) have outperformed the global agg over the years. This is one of our key points: don't over-rely on DM.
2. Second – which also underpins the importance of a blended approach - you may notice how our benchmark (50:50) looks compared to only local or only hard. It has never been the worst performer. This is another reason we think an approach that allows investors to allocate to all types of EM bonds can generate outperformance.

Table 2: Total Annual Returns

Year	Global Aggregate	EM Sovereign (EMBI Global Diversified)	EM Local (GBI-EM USD unhedged)	EM 50:50
2004	9.27	11.62	22.97	17.29
2005	-4.49	10.25	6.27	8.26
2006	6.64	9.86	15.22	12.54
2007	9.48	6.16	18.11	12.13
2008	-4.79	-12.3	-5.22	-8.63
2009	6.93	29.81	21.98	25.9
2010	5.54	12.24	15.68	13.96
2011	5.64	7.35	-1.75	2.8
2012	4.32	17.44	16.75	17.1
2013	-2.6	-5.25	-8.98	-7.11
2014	0.59	7.43	-5.72	0.86
2015	-3.15	1.18	-14.92	-3.87
2016	2.09	10.15	9.94	10.05
2017	7.39	10.26	15.21	12.73
2018	-1.2	-4.26	-6.21	-5.24
2019	6.84	15.04	13.47	14.25
2020	9.2	5.26	2.69	3.98
2021	-4.71	-1.8	-8.75	-5.27
2022	-16.25	-17.78	-11.69	-14.73
2023	5.72	11.09	12.7	11.9
2024	-1.69	6.54	-2.38	2.08
20 Yr Avg	2.4	6.22	5.02	5.62

Source: VanEck Research. Data as of December 2024. Global Aggregate is represented by the ICE BofA Global Broad Market Index. EM Local is represented by the J.P. Morgan GBI-EM Global Diversified Index; EM Sovereign is represented by the J.P. Morgan EMBI Global Diversified Index. EM 50:50 is represented by the 50% J.P. GBI-EM Morgan Global Diversified Index / 50% J.P. Morgan EMBI Global Diversified Index.

Past performance is not indicative of future results. Index performance is not representative of strategy performance. It is not possible to invest directly in an index.

The flexible, blended approach we take has allowed the fund to navigate significant EM events in recent years.

How the Fund Faced Market Challenges

The COVID lockdowns

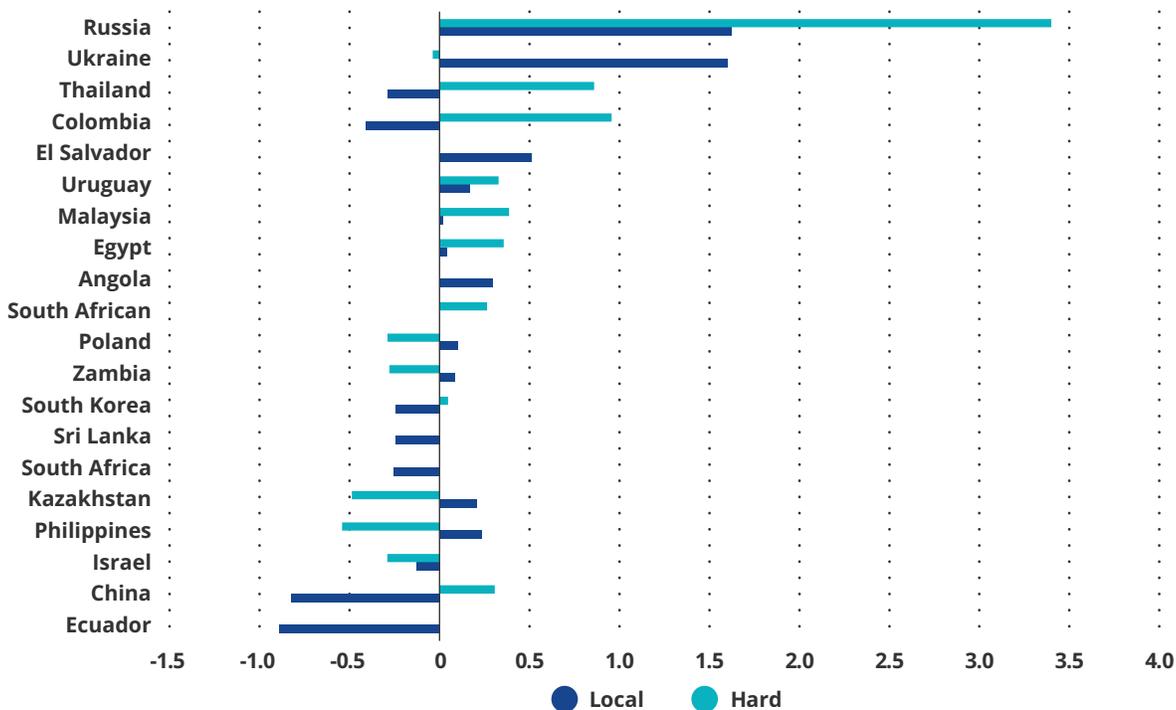
This was a unique period. All markets crashed. The team followed its investment process. Step 1 of the process showed significant numbers of hard-currency sovereign bonds were now extremely cheap. In riskier countries, the subjective judgements in Step 2 of the investment process became more important. The team also observed that the IMF and G-20 launched a series of lending and other facilities for these 'risky' countries, which led to passing grades on the Step 2 tests for many countries. 2020 was one of the fund's best years for outperformance, exceeding the benchmark by 7.6%.

Russia/Ukraine War

The strategy had no exposure to Russia or Ukraine before the start of the invasion. At the time, many investors were concerned we were missing an opportunity. At the time, the team wrote the explanation for its view and positioning in the fund's monthly reports. A key response was that the team invested in regional peers, including Georgia, Turkey and Uzbekistan. In the fund's communications, the team stated Russia was cheap in Step 1 of its investment process, but that Russia was removed due to failing tests in Step 2. In particular, the policy/politics test, due to the risk of war and sanctions, and the technical test, due to the risk of index exclusion.

This crisis highlighted the experience of the EM team. The team had extensive experience with the Crimea and the unfolding crisis. In the early 1990s, the head of the team worked for the U.S. in Moscow, where he built the physical infrastructure onto which SWIFT messaging software was placed. Additionally, he later became a Russia and EMEA economist at Morgan Stanley. This made him attuned to what buy-side portfolio managers were doing, as they were his clients. Unlike many in the market, the team was not reluctant to have a zero position in a big index weight. In the design of the fund, its strategy allows the team to exclude countries if the team judges that appropriate. During this period of "no Russia or Ukraine", the team also briefly excluded Turkey and Argentina due to capital control risks.

Chart 17: 2022 Contribution to Return Difference versus the Benchmark

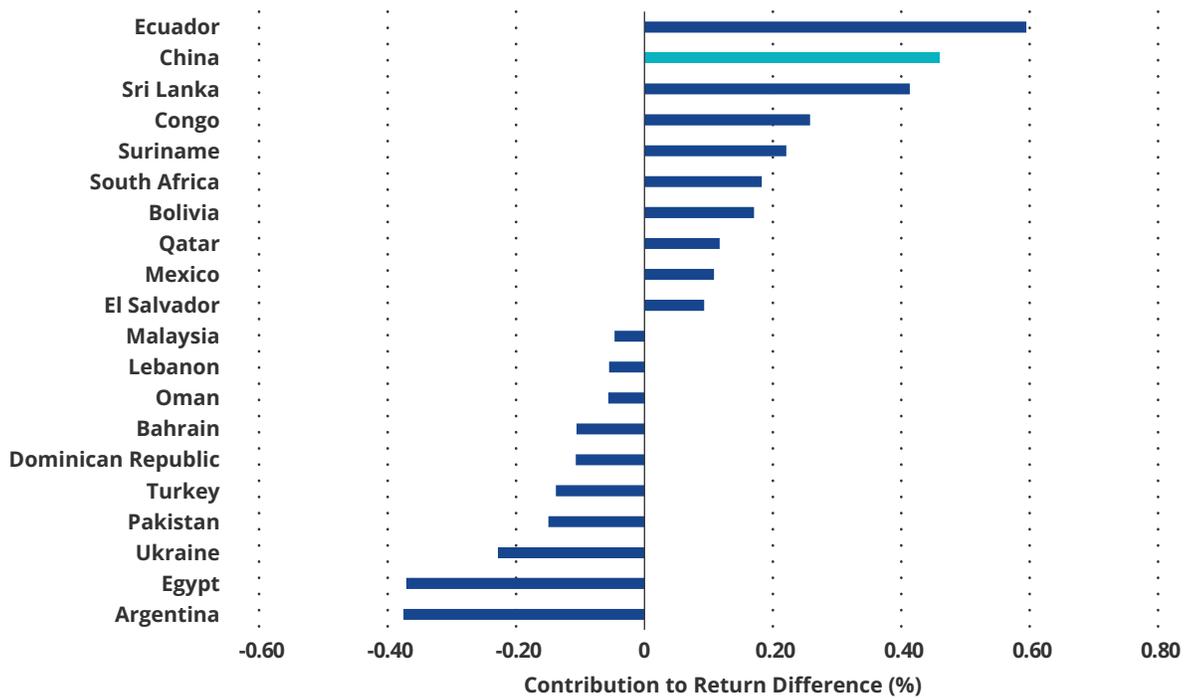


Source: VanEck Research, Factset. Data as of June 2025. Past performance is no guarantee of future results.

Chinese Property Collapse

The strategy had no exposure to Chinese corporate bonds before the collapse because they were not cheap. Remember, most of the property sector was rated investment-grade before the collapse, and given what everyone now knows, those ratings were wrong. Step 1 didn't result in anything cheap among Chinese corporate bonds. So, the selloff phase boosted the fund's relative performance as it didn't have any exposure. Following the selloff, though, Step 1 started to find many cheap Chinese property names. Ones that passed the tests of Step 2 were added to the portfolio. These bonds have also been a source of outperformance against the benchmark – Chinese corporates were in the top contributors to relative hard-currency performance last year. The team remained attracted to this sector.

Chart 18: Hard Currency Contribution to Return Difference versus the Benchmark – 2024



Source: : VanEck Research, Factset. Data as of June 2025. Past performance is no guarantee of future results.

Disclosure

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The Sharpe Ratio is a useful measure of risk-adjusted return, but it assumes normally distributed returns and may not fully reflect downside risk or extreme market volatility. Investors should evaluate it alongside other performance metrics when assessing fund risk and return. Sharpe ratio results are based on historical data, are sensitive to the selected period and risk-free rate, and may not fully capture asymmetric or non-normal return patterns. Sharpe ratio shown is based on performance over the 5-year period ending in June 2025. Calculated using 10-Year U.S. Treasury yield as the risk-free rate. **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. **Carry** is the benefit or cost for owning an asset. **Yield to worst** is a measure of the lowest possible yield that can be received on a bond with an early retirement provision. Averages are market weighted. The yields presented do not represent the performance of the Fund. These statistics do not take into account fees and expenses associated with investments of the Fund.

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.

J.P. Morgan EMBI Global Diversified Investment Grade Index tracks the USD-denominated emerging market sovereign IG bonds.

The J.P. Morgan CEMBI Broad Diversified Index tracks the performance of U.S. dollar-denominated bonds issued by emerging market corporate entities.

The JPM Corporate Emerging Market Bond HY Plus Index (CEMBI HY+) tracks the USD-denominated emerging market corporate HY bonds.

The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-seven local currency markets.

The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets.

Bloomberg Global Aggregate Government Related Index measures the subset of government-related bonds in the Bloomberg Global Aggregate index.

Bloomberg Global Aggregate Corporate Index is a flagship measure of global investment grade, fixed-rate corporate debt.

The Bloomberg Global Aggregate Securitized Index tracks investment grade, fixed-rate securitized bonds, including MBS Pass-Through and Covered bonds, ABS and CMBS.

The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market

The Bloomberg Euro Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, euro denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

The JPM Corporate Emerging Market Bond IG Plus Index (CEMBI IG+) tracks the USD-denominated emerging market corporate IG bonds.

The Bloomberg Global Aggregate Index measures the performance of global investment grade fixed income securities.

The FTSE Treasury Benchmark 10 year measures the return of the 10 year U.S. Treasury.

ICE BofA Global Broad Market Index tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

ICE BofA U.S. Broad Market Index tracks the performance of U.S. dollar denominated investment grade debt publicly issued and settled in the U.S. domestic market, including U.S. Treasury, quasi-government, corporate, securitized and collateralized securities.

ICE BofA Current 10-Year U.S. Treasury Index is comprised of the most recently issued 10-year U.S. Treasury note.

The MSCI ACWI Index is a global equity benchmark that captures large- and mid-cap stocks across 23 developed and 24 emerging markets, representing approximately 85% of the global investable equity universe.

The S&P 500 Index is a widely recognized U.S. equity benchmark that tracks 500 of the largest publicly traded companies, reflecting the performance of the core U.S. stock market.

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