October 2021

From Setback to Opportunity

VanEck®

Eric Fine

Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX | **EMBUX** | **EMBYX**

Overview

The Fund was down -0.06% in October based on net asset value outperforming its benchmark, which was down -0.65%. YTD, the Fund outperformed its benchmark by 1.76%; the Fund was down -2.74%, compared to its benchmark which was down -4.50%. Our low exposure to J.P. Morgan Emerging Market Currency Index ("EMFX") helped the Fund in October, and we expect EMFX to remain under pressure. Our exposure to some higher-risk USD-denominated bonds that had hurt the Fund in September rebounded, boosting performance as well. We think this is noteworthy because our re-positioning for a different risk context seems to have worked. We are notably more defensive on Emering Market ("EM") debt, with roughly 70% of the Fund in hard currency, duration of 6.7, and carry[1] of 5.2%. We continue to favor Mexico, Brazil, South Africa, and now Peru and UAE are among our top exposures.

We are less concerned about the setback we warned about in our September monthly ("Setup for Setback"), for four reasons (enumerated below), but largely because the setbacks we were concerned about have happened and we had adjusted the portfolio in anticipation.

As a result, we are now more focused on the opportunities, not the risks. Our basic adjustments after "Setback" were to significantly reduce high-beta EMFX, and to increase USD-denominated bonds. In September we market-performed – despite this anticipatory positioning – but as we noted, having low EMFX still helped performance a lot, and it was the riskier USD bonds that were hit by the general risk-off that kept us performing only in-line with the market that difficult September. As we said last month, we think the USD bonds selloff would be temporary, whereas the EMFX selloff would not. Now that some dust is settling, October seems to show clearly that EMFX is still struggling while EM USD bonds are rebounding (see below), so our conviction on our changes has increased.

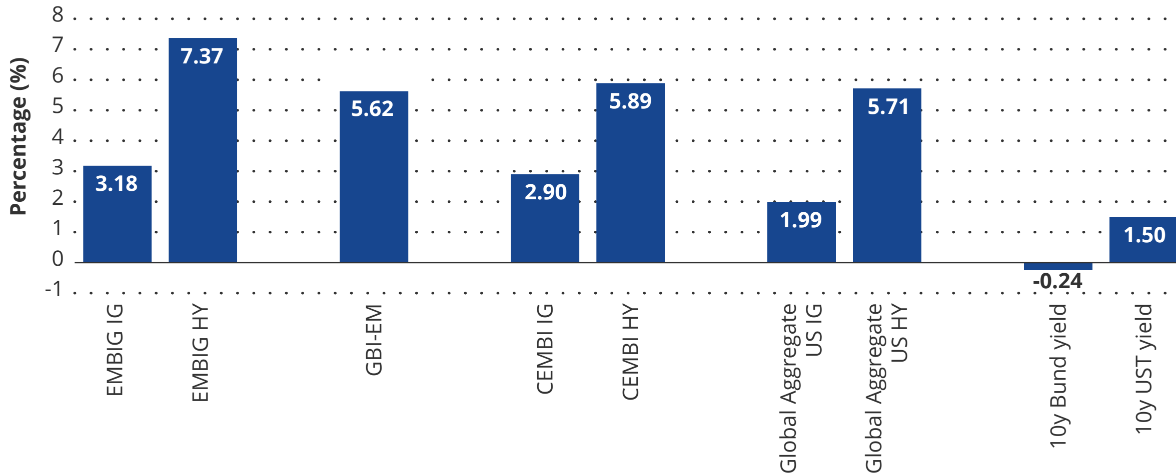
Why less worried about a setback?

First, stagflation[2] is a very popular concern by now (it used to be a key fear of ours), and we may at least see positivity on growth. EM growth shortfalls have been largely due to Covid, while vaccination rates are up, as presumably is natural immunity. Second, the USD has rallied; we expect more and see it as confirming (not ending) our view, but that simply means avoiding high-beta EMFX, not avoiding EM USD debt, which we've already done. Third, the "where else do you go for yield other than HY and EM" story is intact, especially in USD-denominated bonds, which is where we shifted as part of our "Setback" view. Look at Exhibit 1 below, where if you want spread in Investment Grade ("IG") or Hight Yield ("HY"), EM (corporate and sovereign) pays more. Local currency pays high-ish nominal yields, too, but they do not pay the usual premium they do over USD-denominated bonds. Fourth, almost everything we wrote about in "Evergrande is Spreading" has happened, and we are now actually seeing selective opportunities in that space. Exhibit 2 is an update on the bonds we've been tracking since we wrote that piece. Our worry was that the whole property sector needed to be repriced, and now it has. We could obviously be wrong, but our point is that it is much harder to be bearish at prices in their 20s than at prices near par, where they were when we were initially concerned.

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 4.22% as of 10/31/2021.
[2] Stagflation is defined as a period of inflation combined with a decline in gross domestic product.

Exhibit 1 – EM Debt, Especially HY, Still Looks like the Belle of the Ball (Just not Local-Currency EM)

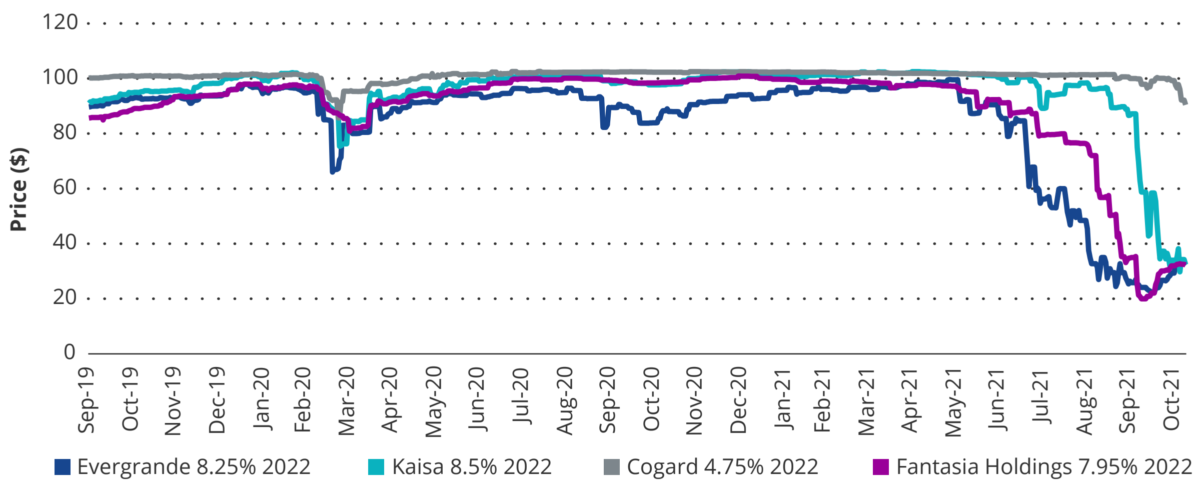
Yield to Maturity



Source: VanEck, Bloomberg; data as of August 31, 2021. Past performance is not a guarantee of future results.

Exhibit 2 – Harder to Be Worried About China Property With Much of Sector Already Re-Priced

Evergrande vs Peers - Bond Price Chart



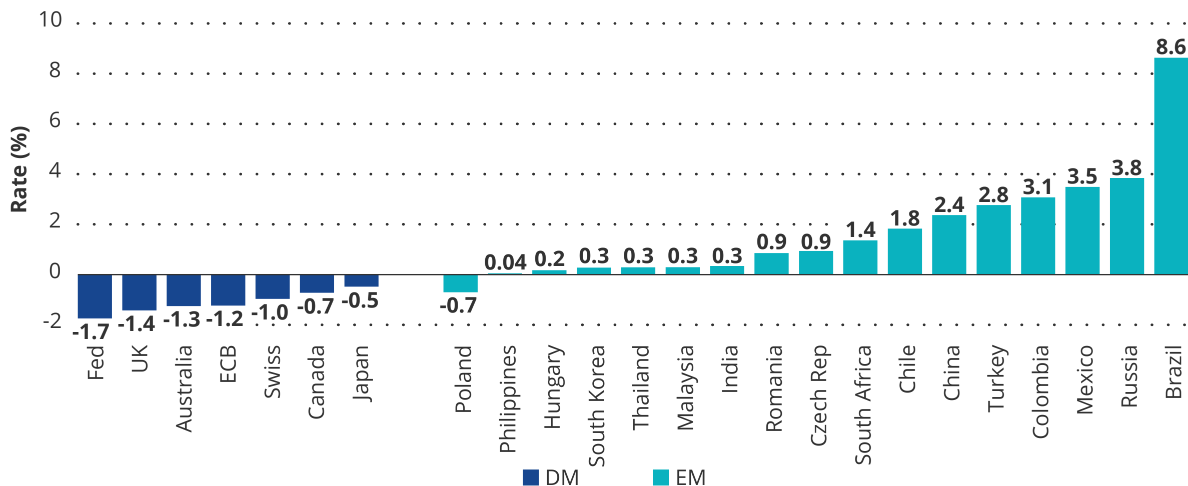
Source: Bloomberg; data as of November 8, 2021. Not intended as a recommendation to buy or to sell any of the securities mentioned herein. Holdings will vary for the Funds and their corresponding Indices. Past performance is not a guarantee of future results.

And, even though we are averse to EM local currency currently, EM policymakers are doing their usual great job of making their interest rates more attractive.

The chart below shows some EM policy rates versus some DM policy rates. EMs keep hiking. Their central banks view their jobs as primarily fighting inflation and inflation expectations. There's more to go, thus our caution. They allow their currencies the flexibility to weaken, thus our caution. But, make no mistake, it is good policy. And, it has practical implications. For over a decade now, EM has basically not had USD shortages. There are many reasons behind this, and we've written about them. But the bottom line is that high real interest rates keep EM external accounts strong. This means that while we remain concerned about their local-currency bonds, we are not (generally speaking) worried about their USD-denominated bonds. Look at Exhibit 3 and tell us which countries' central banks are confidence-inspiring.

Exhibit 3 – EM Policy Rates High and Rising

Real Policy Rates in EM and DM (%) 12m from now
if current expectations for rates and inflation were to materialize



Source: VanEck; Bloomberg. Data as of November 8, 2021.

There remain plenty of attractive - albeit more uncorrelated or defensive - EM bonds.

Zambia is moving towards an IMF agreement, Ecuador's policy (and IMF agreement) continue to bear fruit, Peru's new government is becoming even more market-friendly, El Salvador's bonds are cheap enough to reflect near-term risks and they've received a boost from their Bitcoin strategy, etc. Also, one of our longstanding points is that many EM countries have plenty of dollar assets relative to dollar liabilities, so the dollar bonds of a number of countries that might have other problems, remain very defensive in our opinion (the song would be titled 'ninety-nine problems but dollars ain't one'). Brazil, Chile, Colombia, South Africa and others are among these.

A comment on U.S. yields.

Greater political concerns in the U.S. over inflation combined with new challenges to U.S. spending, translate into risks of a flatter US yield curve, in our view. Risks on the U.S. Federal Reserve (Fed) policy side seem on the more hawkish side, to us. While a lower fiscal impulse from political setbacks for the Democrats (along with a China that is less growth-obsessed) should mean long-end rates rise less. Bottom-lines: bullish for USD, OK for risk and be open-minded (not outright bearish) on duration.

EXPOSURE TYPES AND SIGNIFICANT CHANGES

The changes to our top positions are summarized below. Our largest positions in October: Mexico, Brazil, China, Peru, and United Arab Emirates. We increased our hard currency exposure in Brazil, Colombia and Dominican Republic, and hard currency quasi-sovereign exposure in Colombia. Despite multiple concerns about Brazil's fiscal trajectory, the country's external metrics (international reserves, basic balance) remains very strong, and it will only continue to benefit (adjust) from the weaker currency, improving the economic test score for the country. Dominican Republic suffered a setback on the tax reform front, but growth fiscal performance, and inflows are getting a major boost from the revival of tourism and very high overseas remittances, all of which improved the economic text score for the country. We added Colombia exposure after the rating outlook upgrade and encouraging IMF meetings which show the government's coherence, elements of orthodox policy framework (managing to pass a tax reform), and the stronger recovery. In terms of our investment process, this improved the economic and policy test scores for the country.

We also increased our hard currency corporate exposure in China and Tanzania. Corporate bonds in China were issued by battered real estate developers. Their prospects improved after authorities blinked and eased some mortgage regulations for large banks until the end of the year, and after some developers paid their coupons. In addition, the central bank told developers to honor their debt obligations, stopping (at least for now) the vicious circle. In terms of our investment process, the policy test score for the country was no longer deteriorating, while the technical test score for companies in question improved a lot. A Tanzanian corporate bond was a new issue. The company is also Investment Grade with very decent valuation (the initial allocation bucket #2).

Finally, we increased our hard currency sovereign exposure in Sri Lanka, El Salvador and Bahrain. During this year's Annual IMF Meetings, Sri Lankan authorities showed their determination to meet debt obligations, lining up alternative types of capital inflows (not market-access) and boosting the policy test score for the country in the process. El Salvador's valuations remain very attractive – translating into a positive technical test score – albeit we are aware that (a) some assumptions behind the 2022 budget are optimistic, and (b) balancing it would require a very determined effort to keep spending under control. In Bahrain, bond are supported by higher oil prices, which make valuations more attractive.

We reduced our local currency exposure in Mexico, taking partial profits on the position that performed well this year.

We also reduced hard currency corporate exposure in Ghana and Nigeria. In Ghana, this year's Annual IMF Meetings showed no sense of urgency on the fiscal front. Structural reforms are struggling, and the government's strategy continues to depend too much on getting market access. In Nigeria, higher oil prices are not boosting growth or improving fiscal performance, adding to overall policy concerns (including the exchange rate). In terms of our investment process, these developments worsened the company test score for the bonds in question.

Finally, we also reduced hard currency sovereign exposure in Turkey and Gabon. Turkey's policy framework continues to deteriorate. President Recep Erdogan's decision to fire more members of the central bank's monetary policy council forced the latter to deliver a larger than expected policy rate cut, which increased pressure on the currency. For now, we see little evidence of currency interventions, but there is a risk that they will return, in which case Turkey's sovereign bonds will suffer. All this means, that Turkey's policy test score continues to deteriorate.

Average Annual Total Returns (%)

As of October 31, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-0.06	-1.88	-2.74	5.32	4.70	2.51
Class A: Maximum 5.75% Load	-5.80	-7.52	-8.33	-0.74	3.46	1.86
Class I: NAV (Inception 7/9/12)	-0.03	-1.77	-2.44	5.58	5.02	2.81
50 GBI-EM GD / 50% EMBI GD	-0.65	-2.54	-4.50	2.65	3.11	2.57

As of September 30, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-2.72	-2.81	-2.68	5.32	4.70	2.54
Class A: Maximum 5.75% Load	-8.32	-8.40	-8.28	-0.73	3.47	1.88
Class I: NAV (Inception 7/9/12)	-2.66	-2.70	-2.41	5.59	5.01	2.84
50 GBI-EM GD / 50% EMBI GD	-2.75	-1.90	-3.87	3.53	3.03	2.67

† Monthly returns are not annualized.

Expenses: Class A: Gross 2.30%; Net 1.25%. Expenses are capped contractually until 05/01/22 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.

Source: VanEck, Bloomberg.

Prior to May 1, 2020, the Fund was known as the VanEck Unconstrained Emerging Markets Bond Fund.

International Monetary Fund (IMF) is an international U.S.-based organization of 190 countries focused on international trade, financial stability, and economic growth.

The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available The WGBI is a broad benchmark providing exposure to the global sovereign fixed income market. 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.

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 mea- sure 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 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.

Broad based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Past performance is no guarantee of future results. The 50% GBI-EM/50% EMBI benchmark ("the Index") is a blended index consisting of 50% J.P Morgan Emerging Markets Bond Index (EMBI) Global Diversified and 50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM). The J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified tracks local currency bonds issued by Emerging Markets governments. The index spans over 15 countries. The J.P Morgan Emerging Markets Bond Index (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. 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 2014, J.P. Morgan Chase & Co. All rights reserved. The J.P. Morgan Corporate Emerging Market Bond Index series (CEMBI) track USD denominated debt issued by emerging market corporations. The Bloomberg Barclays Global Aggregate Bond Index is a measure of global investment-grade debt performance. The Barclays Capital U.S Corporate High-Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt. Barclays Capital US Corporate Investment Grade Index consists of publicly issued, fixed rate, nonconvertible, investment grade debt securities. The Barclays Capital US Treasury Index is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year of more. The MSCI All Country World Index is an unmanaged, free float-adjusted market capitalization weighted index composed of stocks of companies located in countries throughout the world. It is designed to measure equity market performance in global developed and emerging markets. The index includes reinvestment of dividends, net of foreign withholding taxes. The S&P 500 Index® (SPX) includes 500 leading companies in the United States and captures approximately 80% coverage of available market capitalization. The Citi inflation surprise index Emerging Markets measures the level of actual inflation compared with inflation expectations in emerging markets. The Citi Emerging Markets Economic Surprise Index measures the degree to which economic data is either beating or missing expectations in emerging markets. The 10-Year Bund Yield Index measures Germany 10-Year government bond. The 10-Year UST Index measures U.S. 10-Year treasury notes.

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 2021, J.P. Morgan Chase & Co. All rights reserved.

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 Van Eck Securities Corporation @ 2021 VanEck.

Not intended as a recommendation to buy or to sell any of the securities mentioned herein. Holdings will vary for the Funds and their corresponding Indices.

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.

©2021 VanEck

Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333