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Emerging Markets – Brazil Ends the Year on a High Note

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In the fourth quarter of 2023, emerging markets equities largely extended trends seen throughout the year. Taiwan Region, India and South Korea boosted benchmark returns, while China underperformed.

On the whole, emerging markets equities saw positive performance driven by valuation re-rating and currency strength. As noted in prior commentaries, emerging markets valuations remain a focus. Price-to-book values for emerging markets equities did tick up in the fourth quarter and sit just below 15-year averages, but the valuation differential between emerging markets and developed markets remains well below its historical range.

The U.S. Federal Reserve (Fed) continues to remain on pause for future hikes, with the December meeting leaning decidedly dovish. An accommodative Fed potentially bodes well for emerging markets equities, which would benefit from currency tailwinds if the dollar continues to slide. The dollar fell throughout the fourth quarter and is expected to continue lower if the Fed begins to implement potential cuts in 2024.

Fund Performance

The VanEck Emerging Markets Fund (the "Fund") slightly outperformed the MSCI EM IMI on the quarter-to-date basis ending December 31, 2023. Positive relative performance was principally driven by allocation (weighting) and stock selection in Brazil.

Brazil remains our largest country overweight (14.1% for Fund, 5.5% for Benchmark average weight over the quarter). Our allocation and stock selection in Brazil were the biggest contributors to relative performance for both Q4 and the entire year.

The Fund's largest country exposure, China, contributed negatively on both an absolute and relative basis for Q4.

Average Annual Total Returns (%) as of December 31, 2023

	4Q23†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	8.24	10.62	10.62	-10.10	1.85	0.80
Class A: Maximum 5.75% load	2.01	4.26	4.26	-11.85	0.65	0.21
Class I: NAV (Inception 12/31/07)	8.36	11.26	11.26	-9.62	2.36	1.32
MSCI EM IMI	8.02	11.67	11.67	-3.71	4.46	3.00
MSCI EM Index	7.86	9.83	9.83	-5.08	3.68	2.66

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund shares values will fluctuate so that investor's 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). Index returns assume that dividends of the Index constituents in the Index have been reinvested. Performance information current to the most recent month end is available by calling 800.826.2333 or by visiting vaneck.com.

Expenses: Class A: Gross 1.54%; Net 1.54%; Class I: Gross 1.19%; Net 1.01%. Expenses are capped contractually until 5/1/24 at 1.60% for Class A and 1.00% for Class I. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

Fund Review

On a sector level, Industrials, Financials and Real Estate contributed to relative performance, while Information Technology, Consumer Discretionary and Health Care detracted. On a country level, Brazil, Mexico and the Philippines contributed to relative performance, while Taiwan Region, Turkey and South Africa detracted.

Top Contributors

Top contributors to return on an absolute basis during the quarter:

- **JSL S.A. ("JSL") (3.6% of Fund net assets*):** As Brazil's largest logistics platform, JSL showed strong performance this quarter, marked by operational improvements and successful repricing efforts. Its acquisition of IC Transportes and effective management of inflation contributed positively to its financials. With new contracts continually being secured, JSL is solidifying its market leadership. The recent acquisitions present significant opportunities for margin improvements, and the company is expected to maintain its momentum following its impressive quarterly results.
- **MercadoLibre ("MELI") (5.3% of Fund net assets*):** MELI, the leading e-commerce platform in Latin America, is also making significant strides in fintech. The company's performance this quarter exceeded expectations, with significant market share gains in Brazil and rapid revenue growth in Mexico, despite new competitors. Contrary to expectations of margin pressure due to heavy investments, strong sales volumes have led to substantial operating leverage, diluting costs. MELI continues to invest in logistics, and the Black Friday sales figures from 4Q23 indicate sustained growth.
- **Taiwan Semiconductor Manufacturing Co. ("TSMC") (7.1% of Fund net assets*):** After a period of downward earnings revisions, TSMC reported better-than-expected results in 4Q (3Q FY23). Forward-looking guidance suggests a rebound in demand, with strong unit sales growth anticipated for 2024 and 2025. TSMC, with its focus on advanced edge lithography and AI chips, is expected to regain its competitive edge, particularly against Intel. The company's growth prospects remain strong, justifying its significant portfolio position.

Top Detractors

Top detractors to return on an absolute basis during the quarter:

- **China Education Group (1.8% of Fund net assets*):** While still demonstrating solid revenue growth from a combination of organic growth in the number of students and tuition increases, the growth has been modestly below consensus. Additionally, the absence of M&A news negatively impacted the share price.
- **Wuxi Biologics (0.9 % of Fund net assets*):** The company revised its revenue growth expectations downward due to weaker funding for its clients and regulatory delays. However, the long-term outlook for outsourcing in biologics research remains positive.
- **Chroma Ate (1.1% of Fund net assets*):** Faced with demand pressures in key industries such as EV batteries and solar inverters, Chroma's share price declined. The company, operating in a niche market, is affected by factors like EV manufacturers' backward integration and geopolitical pressures on solar modules.

Top Buys & Sells

During the period, we we established new positions in the following:

- **Galaxy Entertainment Group (0.4% of Fund net assets*):** We have reinitiated our investment in Galaxy Entertainment Group, one of the six gaming concessionaires in Macau. The company's prospects look promising due to a robust recovery in visitor and gaming revenue, which recently surpassed expectations. Galaxy Entertainment is well-positioned to increase its market share, supported by an expansion in capacity and a proven track record of successful operations.
- **BYD Co (0.5% of Fund net assets*):** As the world's leading manufacturer of battery-operated electric vehicles by volume, BYD Co has faced share price challenges from pricing pressures and increased inventory. Despite these issues, we believe the company's current low valuation adequately reflects these concerns. Furthermore, BYD is expected to benefit from its new product cycle launching this year.

During the period, we exited the following positions:

- **Zhejiang Huayou Cobalt Co, Ganfeng Lithium Group, Hoyuan Green Energy Co (0 % of Fund net assets*):** We significantly reduced our investment in these companies, which are focused on upstream renewable materials. We anticipate ongoing pressure on their share prices due to cyclical overcapacity in the market. While we foresee potential recovery in their share prices in the future, our current strategy is to remain on the sidelines.
- **Doosan Fuel Cell Co (0 % of Fund net assets*):** Our decision to divest from Doosan Fuel Cell Co was influenced by delays in the advancement of hydrogen energy projects. Despite the company's advantageous position to benefit from sector developments, the uncertain economic prospects compared to other energy sources, challenging project financing conditions and high valuation prompted us to exit this investment.

Emerging Markets Opportunities

We're currently watching several promising developments that could benefit the broad emerging markets asset class:

Declining Inflation Trends: Globally, inflation has been on a notable decline, impacting both emerging and developed markets. A continued decrease in U.S. inflation could prompt the Fed to adopt a more dovish stance. This might lead to more significant interest rate cuts and a softer dollar, positively influencing emerging markets currencies and U.S.-dollar-based returns in EM equities. Interestingly, emerging markets often precede the Fed in monetary policy trends, and we've already seen rate cuts in several EM countries during the latter half of 2023.

China's Economic Recovery: Over the past two years, China's domestic economy has been a drag on the broader emerging markets segment due to various factors such as high consumer savings rates, geopolitical tensions, declining demand for its manufacturing and real estate challenges. However, there's potential for improvement. If China successfully stimulates consumer spending and reduces its dependence on the real estate sector, it could provide a significant boost to the largest player in the emerging markets sphere.

Stabilizing Geopolitical Climate: The past couple of years have been turbulent geopolitically, with events like the Russia-Ukraine conflict, tensions between China and Taiwan Region and renewed conflicts in the Middle East. Any resolution or de-escalation of these issues could greatly enhance investor confidence in emerging markets. Additionally, elections in key emerging markets such as India, Taiwan Region and Mexico in 2024 could lead to market-friendly outcomes, potentially driving positive market movements.

Emerging Markets Risks

We're currently monitoring several risks that could hurt the broad emerging markets asset class:

Delay or reversal of anticipated rate easing cycle in the U.S. and/or EM. While the U.S. is currently on pause, and some EM countries have begun to ease, it's possible that the interest rate cuts that the market is predicting will fail to materialize. This could happen if inflation begins to trend higher in the U.S. or abroad and would most likely lead to a 2022 scenario: a strong U.S dollar and weak EM equity returns.

Geopolitical Tensions and Elections. Should these situations escalate or remain unresolved, it could adversely affect investor confidence in emerging markets. Heightened geopolitical risks can lead to market volatility, impacting investments in these regions. Upcoming elections in key emerging markets, notably India and Mexico in 2024, bring a degree of uncertainty. If the elections result in less market-friendly policies or administrations, this could lead to negative market reactions. Political shifts can significantly influence economic policies, regulatory environments, and foreign investment flows, all of which are critical to the health and stability of emerging markets.

U.S. and China Tension Escalates. The U.S.-China relationship, marked by trade and technology disputes, plays a significant role in shaping global economic dynamics, with the issue of Taiwan Region adding a critical dimension to this complex scenario. Taiwan Region, as a major technology player and a strategic point of contention between the U.S. and China, is central to these tensions. The repercussions of this strained relationship are far-reaching, impacting supply chains and causing market volatility that extends to emerging markets, particularly in Asia. These markets, often intricately linked to the economies of the U.S. and China, face the risks of supply chain disruptions, policy shifts and currency fluctuations. The uncertainty surrounding U.S.-China relations, especially concerning Taiwan Region, heightens investor caution, leading to potential capital outflows and volatility in emerging markets, underscoring the importance for investors to remain vigilant and informed about these international dynamics.

Fund Positioning and Outlook

We remain grounded by our investment process and our positioning reflects our convictions from a bottom-up basis heading into the new year. Our process has created some positioning differentials versus the benchmark. Brazil remains overweight to start the quarter (15.1% Fund weight versus 5.8% Index weight), as does the Philippines (5.0% Fund weight versus 0.6% Index weight).

South Korea, Taiwan Region and China are underweight versus the benchmark.

The Fund's objective is to find long-term structural growth companies at fair prices (S-GARP). Investments are chosen based on individual company analysis, focusing on quality, governance, innovative business models and low disruption risk, with active management and detailed research guiding our selection process.

† Quarterly returns are not annualized.

*All country and company weightings are as of December 31, 2023. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary.

All indices listed are unmanaged indices 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 MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets countries. The MSCI Emerging Markets Investable Market Index (IMI) is a free float-adjusted market capitalization index that is designed to capture large-, mid-and small-cap representation across emerging markets countries.

MSCI Emerging Markets Investable Market Index (IMI) captures large, mid, small-cap cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

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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 which may include, but are not limited to, risks associated with active management, consumer discretionary sector, direct investments, emerging market issuers, ESG investing strategy, financials sector, foreign currency, foreign securities, industrials sector, information technology sector, market, operational, restricted securities, investing in other funds, small- and medium-capitalization companies, special purpose acquisition companies, special risk considerations of investing in Chinese, Indian, and Latin American issuers, and Stock Connect risks, all of which may adversely affect the Fund. Emerging market issuers and foreign securities may be subject to securities markets, political and economic, investment and repatriation restrictions, different rules and regulations, less publicly available financial information, foreign currency and exchange rates, operational and settlement, and corporate and securities laws risks. Small- and medium-capitalization companies may be subject to elevated risks. Investments in Chinese issuers may entail additional risks that include, among others, lack of liquidity and price volatility, currency devaluations and exchange rate fluctuations, intervention by the Chinese government, nationalization or expropriation, limitations on the use of brokers, and trade limitations.

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Investing involves substantial risk and high volatility, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. An investor should consider the investment objective, risks, charges and expenses of a fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call 800.826.2333 or visit vaneck.com. Please read the prospectus and summary prospectus carefully before investing.

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