Third Quarter 2021

Environmental Sustainability: It's Just the Beginning

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ENVAX | ENVIX | ENVYX

This quarterly commentary marks the first since the launch of the Environmental Sustainability Fund in July 2021. Since launch, numerous announcements from the U.S., Europe and Asia have focused on furthering the push to reduce the global environmental footprint. This includes policies designed to continue pressing industries to reach emissions, waste reductions, and subsequent net zero targets.

A few of note include President Biden's target for solar to provide 45% of the U.S.'s electricity by 2050, which followed his earlier executive order for zero-emissions vehicles to make up 50% of new car sales by 2030. Ever the nation's leader in electrification, California announced all new construction commercial and multifamily residences would be required to have solar and battery storage capabilities starting in 2023.

Across the pond, the European Commission released its "Fit for 55" legislation. This translates climate goals into concrete action via further application of emissions trading, increased use of renewable energy, a faster roll-out of low emission transportation, and an alignment of tax policies with the European Green Deal objectives.[1]

Following a decade of planning and small-scale rollouts, China finally officially launched its carbon emissions trading scheme (ETS). It will initially focus on the power sector, which accounts for 40% of China's CO_2 emissions, but will eventually cover petroleum refining, chemicals, non-ferrous metal processing, building materials, iron and steel, pulp and paper, and the aviation sectors.[2] Upon full implementation, it is expected to be the world's largest carbon trading market.

The delta between where we stand currently in our environmental footprint and where we need to be in a few short decades is tremendous. We see significant value from product and technology advancements that will undoubtedly disrupt the status quo – and are uncovering the companies best positioned to win share and lead that innovation.

Average Annual Total Returns (%) as of September 30, 2021

	1 Mo†	Life
Class A: NAV (Inception (7/13/21)	-6.97	-4.92
Class A: Maximum 5.75% load	-12.32	-10.39
MSCI All Country World Index[3]	-4.09	-1.88

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 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 share 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 NAV. Index returns assume that dividends from index constituents have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

† Monthly returns are not annualized. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

Expenses: Class A: Gross 1.28%; Net 1.25%. Expenses are capped contractually until 05/01/23 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Mixed Bag: Inflation and Supply Chain

The portfolio weathered a choppy quarter as global supply chain disruptions and weather-related logistics delays pushed demand to the right. Exposure along the value chain in each of our sustainability sectors resulted in a mixed bag performance-wise, although we are seeing pockets of opportunity develop as the inflation story continues to play out. Companies with best-in-class supply chain management are able to weather the bumpiness in cost inflation, while the backdrop for green infrastructure, renewable project development, and agricultural innovation continues to remain strong amidst unchanged or higher demand projections and policy support.

Renewable Energy Still in High Demand…

Our largest sector allocation is currently Renewable Energy, where management commentary and channel checks have reinforced the strong demand heading into 2022. However, hiccups in on-time project development and equipment sales due to the semiconductor shortage and freight crunch dampened optimism in the short term. Wind blade manufacturer TPI Composites (1.8% of fund net assets) felt the brunt of the inflationary and supply chain impact and took down EBITDA (earnings before interest taxes, depreciation and amortization) targets on increased input costs (resin, carbon fiber, logistics), which we expect to be transitory and passed through to the end customer in contract re-negotiations.

On the contrary, rooftop solar project developer Sunrun (2.5% of fund net assets) raised 2021 sales guidance on both its first and second quarter earnings announcements (25%-30% in 1Q, 30% in 2Q) and continues to recognize incremental synergies from its Vivint Solar acquisition completed last year. Growth vectors (battery, electric vehicles or "EVs") continue to open its sales channels, but has been overshadowed by installation costs having increased approximately 5% over the past six months (natural gas prices have increased more than 100% in the same timeframe) in an industry accustomed to cost deflation.

With strong policy support in the form of tax credits and more innovation and streamlining through efficient installation, lower cost of capital, and higher component efficiency, rooftop solar remains cost competitive relative to the traditional alternatives—even more so with the integration of batteries, which we believe should see exponential adoption over the near term.

…But Is Only One Driver for Secular Growth in Smart Resource Management

Smart Resource Management makes up the infrastructure and manufacturing plays to renewable and mobility growth in this era of electrification. Electricity demand is expected to increase +50% from current levels by 2050, with that growth in tandem with the rapid decarbonization of electricity supply. As a result, the grid must grow sustainably, beyond just addressing the rising share of renewables. Mass electrification (EVs, battery storage, and new unforeseen use cases) will drive the need for expansion and upgrades, as well as new capabilities at the distribution level to support two-way flows. The capex required to re-haul an aging piece of embedded infrastructure is enormous, and presents attractive opportunities globally along the entire value chain.

In Q3, the sector led in fund performance, aided by a well-received acquisition announcement from Quanta Services (2.9% of fund net assets), a specialty infrastructure solutions provider for the utility sector. Quanta seeks to acquire Blattner (not held by the fund), a renewable power and storage engineering, procurement and construction (EPC) at accretive multiples pre-synergies. Following the transaction, Quanta will be the largest service provider from renewable energy generation to transmission and distribution, which we believe are the core areas that should benefit from the U.S. grid infrastructure upgrade occurring over the next decade.

Advanced Materials Mixed on Inflationary Environment

Advanced Materials includes the entire value chain around the electrification of mobility. The ongoing announcements by auto original equipment manufacturers (OEMs) on future rollouts of their EV product suite over the past years and most recently in rapid succession over the past months (Ford, BMW – neither held by the fund) requires a high level of metals and semiconductor use. Both of these have been impacted by the inflationary trends over the past year. We are selective on our investments in this sector with a strong bent toward valuation, particularly taking advantage of short term dislocations amidst an extremely strong demand backdrop.

The quarter reflected mixed performance, with outperformance from companies closer to the consumer offset by those bearing the crunch of higher raw material costs. EV manufacturers (BYD, 3.3% of fund net assets; Tesla, 3.1% of fund net assets) continue to gain share in their respective markets amidst a tight demand backdrop, while auto semi manufacturing leader Infineon (3.6% of fund net assets) continues to build its order book given the global shortage.

Agriculture Technology: Steady as She Goes

Results in the agriculture technology sector were mixed in the quarter. In general, companies that sit closer to the end consumer, such as Beyond Meat (0.8% of fund net assets) and Oatly (0.5% of fund net assets), lagged as margins tightened due to increased input cost inflation. On the other hand, commodity producers, such as renewable diesel producer Darling Ingredients (1.7% of fund net assets), contributed to performance given healthy renewable diesel prices.

In the near-term, those companies higher in the supply-chain – such as Darling Ingredients and agriculture equipment manufacturer Deere (2.5% of fund net assets)– should benefit from the continued inflationary environment, which has sent crop and crop chemical prices soaring.

All company, sector, and sub-industry weightings as of September 30, 2021 unless otherwise noted.

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[1]Source: https://www.climate-kic.org/news/eus-fit-for-55-to-spur-policy-innovation-for-climate-action/. [2]Source: https://www.csis.org/analysis/chinas-new-national-carbon-trading-market-between-promise-and-pessimism.

[3]The MSCI All Country World Index (ACWI) captures large and mid cap representation across developed and emerging markets and countries and covers approximately 85% of the global investable equity opportunity set. The MSCI benchmark is a Gross Return index which reinvests as much as possible of a company's gross dividend distributions.Any 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 a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

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Companies that promote positive environmental policies may not perform as well as companies that do not pursue such goals. Issuers engaged in environmentally beneficial business lines may be difficult to identify and investments in them maybe volatile. Environmentally-focused investing is qualitative and subjective by nature, and there is no guarantee that the factors utilized by the Adviser or any judgment exercised by the Adviser will reflect the opinions of any particular investor.

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. An investment in the Fund may be subject to risks which include, among others, investing in derivatives, equity securities, emerging market securities. environmental-related securities, foreign currency transactions, foreign securities, investments in other investment companies, management, market, new fund risk, non-diversification, operational, sectors, small and medium capitalization companies, special purpose acquisition companies. Small- and medium-capitalization companies may be subject to elevated risks.

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