September 2024

Emerging Markets Ride Strengthening Tailwinds

Ola El-Shawarby

Portfolio Manager

David Semple

Strategic Adviser

VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

In the third quarter of 2024, emerging markets equities outperformed their developed and U.S. counterparts. Two highly anticipated developments - the start of the U.S. Federal Reserve (Fed) easing cycle and stronger stimulus measures out of China - were both announced during the quarter, which helped boost emerging markets equities returns.

Emerging markets equities have historically, on average, benefitted when the Fed begins cutting interest rates. Since 1988, emerging markets equities have outperformed developed markets in the 24 months after the last rate hike by an average of 17%.[1]

China's recently announced strong economic stimulus has sparked a significant rally in its equity markets, particularly in Hong Kong, where shares surged dramatically. While the long-term impact of China's measures is uncertain, the immediate boost and strong signaling toward a pivot in policy direction provides additional support for global markets, providing a more positive momentum for Chinese and emerging markets equities, particularly given the light positioning in the asset class.

Market Review

The overarching theme across markets is one of adapting to shifting macroeconomic environments and geopolitical pressures while maintaining a balance between growth opportunities and risk management. A coordinated approach to stimulus and fiscal policies is crucial for recovery, and there is growing focus on addressing inflationary pressures and market dynamics linked to global demand shifts, particularly in technology and artificial intelligence (AI). Our strategy emphasizes a proactive response to local dynamics while positioning our portfolio around resilient sectors with structural growth opportunities in an uncertain global landscape.

Here is a brief overview of some of the largest emerging markets countries and how we view them:

China: Recent government policy and stimulus measures announced near the end of the quarter marked a directional and more decisive shift in tone towards more coordinated and targeted economic support that exceeded market expectations. While monetary easing has been implemented, specifics of fiscal stimulus are still awaited. Noteworthy signals that suggest a turning point in policy direction include equity market support, direct consumption stimulus for "vulnerable populations," trade-in programs for consumer goods like home appliances and autos and a commitment to halting the decline in the property market as highlighted by statements from a recent Politburo meeting chaired by top Chinese leadership. Given the limited efficacy of prior measures on the ground, some investors remain skeptical and a lot depends on the implementation on the ground so we continue to watch developments there very closely.

India: India's macroeconomic resilience remains a positive story, but elevated valuations make selectivity important. Investors may use India as a funding source for reallocations to China if conviction in a more sustainable turnaround and recovery in China continues to rise. This could create opportunities to buy high-quality structural growth Indian stocks at better valuations.

Brazil: Early-year expectations of a continued declining interest rate trajectory have shifted on the back of higher concerns around fiscal spending and stronger-than-expected domestic consumption, leading ultimately to a more hawkish central bank. The combination of stronger-than-expected consumption driving upward revisions to Brazil's GDP growth and a weaker BRL meant that inflation became stickier than originally expected. That, coinciding with a leadership transition at the Central Bank of Brazil with an incoming Governor who is seeking to establish credibility with the market, triggered a dramatic shift in interest rates direction from a rate-cutting cycle that began in September of last year to a rate hiking cycle starting with 25 bps in September of this year and another 25bps in October.

The team visited Brazil this month to assess the implications of the new environment and spent some time on the ground meeting with company management across different sectors and different stakeholders. We came back with a more constructive view on the bottom-up story for most companies, particularly in light of very strong domestic consumption growth and that fears among local investors related to fiscal deterioration risks seem to be exaggerated. We note that as the external environment turns more favorable for Brazil and its currency with easing rates globally and improving outlooks on global growth and commodity prices potentially supported by China's stimulus, the rate hiking cycle may be short-lived. With stock valuations generally at attractive levels in Brazil, we saw an opportunity to upgrade our stock selection in this environment, shifting our focus from some of the more interest rate-sensitive industrial names towards more resilient beneficiaries of the stronger domestic demand growth in healthcare and consumption.

Taiwan: TSMC (6.7% of Fund net assets*), the fund's largest position and a key player in Taiwan's market, is central to the AI-driven structural growth story and remains highly sensitive to global AI valuation trends. While we continue to believe in the uniqueness of TSMC's positioning in its sector globally and the strong fundamentals of the business, we will continue to rebalance our exposure as a function of shifting growth pace expectations and valuations.

South Korea: Korea's market is largely driven by global AI and memory cycle expectations, rather than domestic consumption. Reduced demand from China earlier in the year and higher inventory levels have pressured traditional memory prices, partially affecting expectations for companies like **Samsung Electronics (4.8% of Fund net assets*)**. We had taken a more constructive view of Samsung and its ability to improve its HBM3 product development to achieve better alignment with the likes of Nvidia. The slower pace of HBM3 development and the weaker-than-expected operating margins in Q3 have been a disappointment and we continue to watch developments closely. However, despite downward revisions in Samsung's numbers, we believe current valuations offer a positive risk/reward outlook. In addition, Samsung is in the process of restructuring its entire semiconductor group under new leadership appointed in 2Q. There should be additional operational and profitability enhancements visible in the next quarter or two.

Philippines: Our largest position in the Philippines, **ICTSI (3.6% of Fund net assets*)**, with port assets across emerging markets, has been an outperformer on the back of solid execution, prompting some profit-taking. As we became more constructive on domestic demand in the Philippines due to a more pro-business leadership and found valuations to be very reasonable, we took the opportunity to add **Ayala Land (0.5% of Fund net assets*)** to the portfolio. Ayala is a high-quality name in the real estate sector with a solid execution track record and a strong growth pipeline in residential developments catering. We are optimistic about the structural demand growth for residential properties in the Philippines and expect affordability to improve going forward, with declining interest rates in the country.

Mexico: Nearshoring remains a strong structural growth story, but recent political volatility has caused market fluctuations. A judicial reform pushed by the outgoing president in September has raised concerns about judicial independence in the country and whether this may have potential implications for the United States-Mexico-Canada Agreement (USMCA) down the line. We are inclined to believe that these concerns are likely to subside over time if the new President, Claudia Sheinbaum, takes a more moderate approach to implementing judicial reform and focuses on addressing key structural needs in Mexico, e.g., energy and security. In the meantime, our strategy has shifted towards a relatively more defensive positioning in Mexico and will continue to seek opportunities to acquire high-quality bottom-up names amidst the likely market volatility in the near term with the upcoming U.S. elections.

Other markets: With prior success in finding quality compounders in some of the smaller markets, such as Georgia and Kazakhstan, that have been meaningful contributors to performance over time, we continue to look for quality names with idiosyncratic characteristics in different geographies with solid structural growth drivers. By way of example, we have recently added **Credicorp (0.4% of Fund net assets*)**, the leading bank in Peru, following a research trip to the country earlier this year, which led to a more constructive view on the country's political and macroeconomic environment. The bank is over-delivering on growth, digitization and asset quality expectations, offering a strong shareholder value compounder with favorable valuations, and diversifying the portfolio away from broader geopolitical risks.

Fund Performance

The VanEck Emerging Markets Fund (the "Fund") underperformed the MSCI EM IMI on the quarter-to-date basis ending September 30, 2024 (+2.77% for the Fund; +8.24% for the Index). Negative relative performance for the quarter was driven by stock selection in India, as well as allocation (weighting) and stock selection in Turkey.

China and Brazil were the Fund's top contributors for the quarter.

Average Annual Total Returns (%) as of September 30, 2024

	3Q24†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	2.77	10.90	20.04	-5.52	0.47	1.64
Class A: Maximum 5.75% load	-3.14	4.53	13.14	-7.37	-0.72	1.04
Class I: NAV (Inception 12/31/07)	2.97	11.39	20.70	-5.00	1.00	2.15
MSCI EM IMI	8.24	16.26	25.59	1.01	6.52	4.25
MSCI EM Index	8.72	16.86	26.05	0.40	5.75	4.02

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 1.59%; Net 1.59%; Class I: Gross 1.23%; Net 1.01%. Expenses are capped contractually until 5/1/25 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, Materials and Utilities contributed to relative performance, while Financials, Health Care and Consumer Discretionary detracted. On a country level, Taiwan, Germany[2] and Brazil contributed to relative performance, while India, Turkey and China detracted.

Top Contributors

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

- **MercadoLibre ("MELI") (5.3% of Fund net assets*):** MELI continues to report strong performance, with Gross Merchandise Value (GMV) growth accelerating to 36% in Brazil during Q2. Its GMV has consistently outpaced competitors, gaining market share each month. The company is also benefiting from the broader shift from offline to online shopping. Additionally, MELI is investing in expanding and improving its logistics network to stay ahead of both local retailers and international e-commerce platforms. The company's outlook remains highly promising, as e-commerce in Latin America is still underpenetrated. Advertising growth has the potential to improve margins, and there is a significant opportunity in Mercado Pago, a payment platform with one of the largest user bases in Latin America, where MELI enjoys a major advantage in customer acquisition costs due to its extensive database of client information. Overall, the future continues to look very positive for the company.

- **Prosus N.V. (4.5% of Fund net assets*):** Prosus N.V. controls a diverse portfolio of leading internet assets across Asia, emerging Europe, MENA, and Latin America, including substantial stakes in Tencent Holdings (25%) and Delivery Hero (21%). The company is strategically positioned in key e-commerce sectors poised for growth, including online food delivery, online classifieds and fintech. Recent improvements in Tencent's profitability and improved sentiment toward the Chinese economy, fueled by stronger-than-expected stimulus announcements, have positively impacted Tencent's share price and enhanced the outlook for Prosus' stake. Efforts to reduce the discount to net asset value (NAV) through structural simplification are also encouraging. Additionally, the appointment of a new CEO, with a strong operational background in food delivery and complementary skills to the Group President & CIO, signals a renewed focus on profitability, value maximization, and disciplined capital allocation. With a robust cash position, Prosus is well-positioned to act as a consolidator in its sectors, potentially seizing global opportunities.

- **International Container Terminal Services ("ICTSI") (3.6% of Fund net assets*):** ICTSI serves as a key indicator of emerging markets growth, leveraging its significant pricing power to achieve high operating leverage and the strongest margins among its peers. Continuous earnings per share (EPS) upgrades by analysts have kept ICTSI's valuations attractive, even after its notable outperformance. The company's 2025 estimated price–earnings ratio (PER) of 18x and earnings before interest, taxes, depreciation and amortization (EBITDA) multiple of 9.80x, while higher than Philippines Stock Exchange PSEi Index (PCOMP) averages, remain appealing, especially given its industry-leading return on equity (ROE). Key drivers of future growth include: (i) volume increases from recent expansions in Australia and Mexico, (ii) higher tariff rates at two major port operations—the Manila International Container Terminal and the Victoria International Container Terminal in Australia, and (iii) further global expansion through mergers and acquisitions. ICTSI is also well-positioned to benefit from macroeconomic trends like the U.S.-China decoupling and the global energy transition.

Top Detractors

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

- **Samsung Electronics (4.8% of Fund net assets*):** It has been a challenging quarter for the semiconductor sector, and Samsung has particularly felt the impact. The company faced delays in rolling out its commercial-scale HBM3 memory, which is critical for AI and machine learning applications. This setback left Samsung vulnerable to the weak demand in China. All eyes are now on their third-quarter earnings report, expected at the end of October, to assess any progress in this crucial area. At present, Samsung's valuation appears to be under pressure, reflecting the uncertainty around its ability to catch up in this key segment.
- **SK hynix (2.5% of Fund net assets*):** Like Samsung, SK hynix experienced significant profit-taking as the market anticipates third-quarter results. This was partly driven by setbacks at Nvidia, which impacted the entire sector globally. Additionally, analyst reports have raised concerns that memory demand for AI GPUs may fall short of expectations for the third and fourth quarters of 2024. While SK hynix has yet to report its third-quarter earnings, Micron, a close competitor, has already done so. Given the similarities between Micron and SK hynix, there's optimism that SK hynix's results will reach the higher end of expectations, which could positively influence its stock price.
- **Kaspi.kz (2.6% of Fund net assets*):** Kaspi.kz JSC is Kazakhstan's leading payments, marketplace and fintech platform, engaging with over 90% of the country's adult population on a monthly basis. Kaspi's business model is highly profitable, driven by a well-integrated ecosystem that fuels growth across its three core segments. Since going public, first in London and more recently in the U.S., Kaspi has consistently exceeded market expectations, demonstrating its ability to leverage scale and its ecosystem to explore new opportunities, such as online grocery and travel services. Although the company's share price faced some pressure during the quarter following a short-seller report that raised governance concerns, a thorough analysis of these claims, combined with a formal statement of confidence from Kazakhstan's regulator regarding Kaspi's governance and risk management protocols, provided reassurance. Kaspi's response to the allegations further supports the view that there is insufficient evidence to validate the concerns. We remain confident in Kaspi's strong growth and earnings potential.

Top Buys & Sells

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

- **Smartfit Escola de Ginastica ("Smartfit") (0.5% of Fund net assets*):** Smartfit, the largest fitness company in Latin America, offers a strong investment case due to its dominant market position and growth potential in an underpenetrated, fragmented market. Its affordable $20/month membership and resilient business model, with low churn, position it well for continued expansion. Mature gyms achieve 50% EBITDA margins and a 28% return on invested capital (ROIC), and with ongoing new gym openings, the company's growth is supported by both new locations and operating leverage. While there is a risk of stock overhang due to potential share sales by major shareholders, this could also improve liquidity.
- **Ayala Land Inc (0.5% of Fund net assets*):** Ayala Land, the largest property developer in the Philippines, is well-positioned to benefit from the country's property market recovery following years of stagnation due to COVID. While investors are concerned about high, unsold inventory and the sustainability of growth in the high-end segment, these fears seem overdone, as reflected in the company's strong quarterly earnings. Ayala Land stands to gain significantly from the upcoming rate cut cycle due to its high residential exposure and stock performance, which has averaged a 60% gain during the last three easing cycles. Over the next three years, Ayala Land's revenue is expected to grow at a low double-digit rate, driven by the real estate market recovery, strong sales in the premium segment and increased mall revenue post-renovations. With slight margin expansion, EPS growth is projected at a 20-25% compound annual growth rate (CAGR).
- **Credicorp Ltd (0.4% of Fund net assets*):** Credicorp offers a strong investment opportunity despite political instability and macroeconomic challenges in Peru. The company has consistently delivered positive results, supported by Peru's low banking penetration, high market concentration and favorable regulation. With improved macro conditions, Credicorp is poised for growth, including 3-5% loan growth in 2024 and 6-8% in 2025. The company is expected to achieve an ROE of 17-18% by 2025, with improving asset quality and business sentiment.

During the period, we exited the following positions:

- **Qualitas Controladora SAB:** The company delivered strong performance in 1H24, with volumes up 30% and a healthy combined ratio. However, a slowdown in volumes to more normalized levels of 20% is expected going forward. Despite the positive outlook, the company and the sector are facing concerns regarding tax litigation. The Mexican IRS is challenging the deduction of tax credits in the computation of the 16% VAT, a case now at the judicial level. The company has made no provisions for this issue and expects resolution in the next 6-12 months. Given the potential for a significant impact on profitability, the sector may experience volatility until the litigation is resolved.
- **Georgia Capital PLC:** During the quarter, we exited our position in Georgia Capital and chose to consolidate our exposure in Georgia by focusing on Bank of Georgia. The bank continues to compound earnings and shareholder value, remaining the largest contributor to Georgia Capital's net asset value, while also offering greater liquidity as a stock.
- **MediaTek Inc:** We exited our position in MediaTek this quarter, having gradually reduced it throughout the year. We believe there are more promising opportunities for capital allocation within the semiconductor sector, especially considering the unpredictable smartphone demand that MediaTek continues to face.

Fund Positioning and Outlook

We remain grounded by our investment process and our positioning reflects our convictions from a bottom-up basis. Our process has created some positioning differentials versus the benchmark. Brazil remains overweight to start the quarter (11.3% Strategy weight versus 4.5% Index weight), as does the Philippines (5.5% versus 0.6% Index weight).

Taiwan and India remain underweight versus the benchmark.

The Strategy'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.

[1] Source: JP Morgan as of March 2024

[2] Delivery Hero SE is a German-listed company with operational exposure almost entirely EM

*All country and company weightings are as of September 30, 2024. 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.

VanEck®

Van Eck Securities Corporation, Distributor
A wholly-owned subsidiary of Van Eck Associates Corporation

666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333