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MAY 2024

VanEck Emerging Income Opportunities Active ETF (Managed Fund)

ASX code: EBND

Investment objective

EBND aims to provide investors with a globally diversified portfolio of bonds and currencies in emerging markets. The fund aims to provide total investment returns, measured over the medium to long term in excess of the Benchmark.

Benchmark

A blended index consisting of 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified.

Performance as at 31 May 2024

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	-0.20%	-1.73%	0.64%	-0.19%	-4.04%	-	-4.13%
Income Return	0.50%	1.47%	3.08%	5.73%	5.29%	-	5.25%
Total Return	**0.30%**	**-0.26%**	**3.72%**	**5.54%**	**1.25%**	**-**	**1.12%**
Benchmark	0.44%	-0.62%	2.94%	5.68%	-1.08%	0.06%	-2.15%
Value Add	**-0.14%**	**+0.36%**	**+0.78%**	**-0.14%**	**+2.33%**	**-**	**+3.27%**

Benchmark is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond Emerging Market Index Global Diversified. The table above shows past performance of the Fund from its Inception Date and of the Benchmark from 31 December 2015. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. Fund results are net of management fees and costs, but before brokerage fees or bid/ask spreads incurred when investors buy/sell on the ASX. Returns for periods longer than one year are annualised. Past performance is not a reliable indicator of current or future performance which may be lower or higher.

Key benefits

Emerging market income opportunities: Emerging markets bonds generally pay higher interest than developed markets bonds offering investors an opportunity to broaden their income horizon with elevated risk.

Active management: An actively managed benchmark-unaware approach that makes high conviction investments.

Potential for attractive income: Income from investing in emerging markets government, semi-government and corporate bonds that provides an attractive addition for investors' growing income needs.

Key risks

An investment in the Fund carries risks associated with: emerging markets bonds and currencies, bond markets generally, interest rate movements, issuer default, currency hedging, credit ratings, country and issuer concentration, liquidity and fund manager and fund operations. See the PDS for details.

Fundamentals[1]

Number of constituents	113
Number of issuers	73
Modified Duration (yrs)	5.69
Spread Duration (yrs)	5.46
Yield to Maturity (%)	7.90
Running Yield (%)	6.62
Weight of top 10 issuers (%)	41.3
Rating Profile	BBB-
Time to Maturity (yrs)	9.00
Top Holding Weight (%)	3.15
Investment Grade (%)	44.34

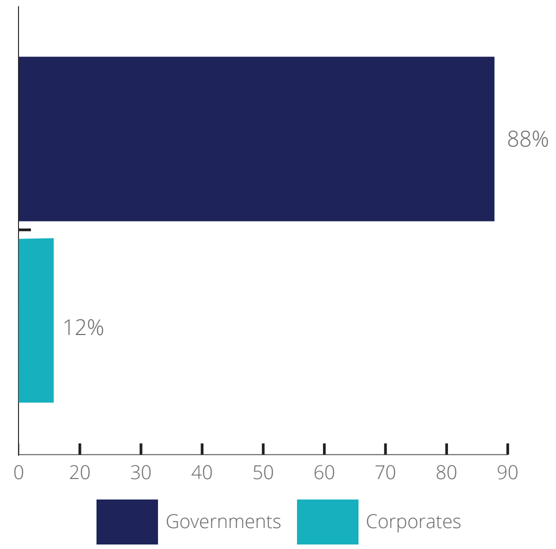
1. As at 31 May 2024

Monthly dividends history (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2024	4.0	4.0	4.0	4.5	5.0	5.5	5.0	5.0	5.0	5.0	5.0	-	52.0
2023	4.5	5.0	4.5	4.5	4.5	4.0	3.5	3.5	3.5	3.5	3.5	4.0	48.5
2022	4.5	4.5	4.5	5.5	6.0	5.0	4.5	4.5	4.5	4.5	4.5	4.5	57.0
2021	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.5	4.5	-	-	-	44.0
2020	-	-	-	-	-	-	-	2.5	5.0	5.0	5.0	5.0	22.5

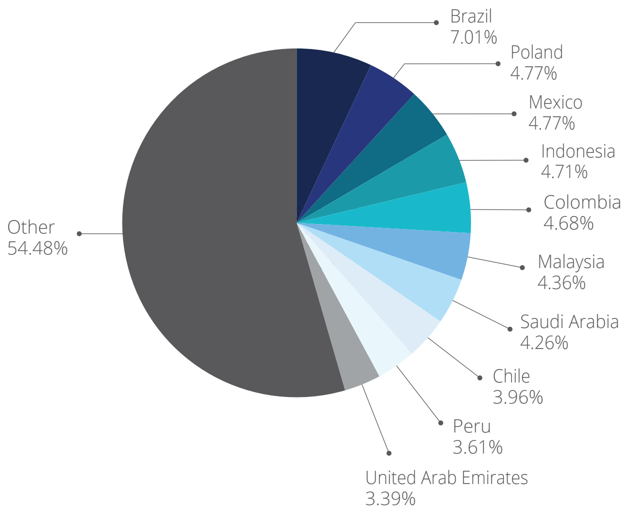
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio allocation



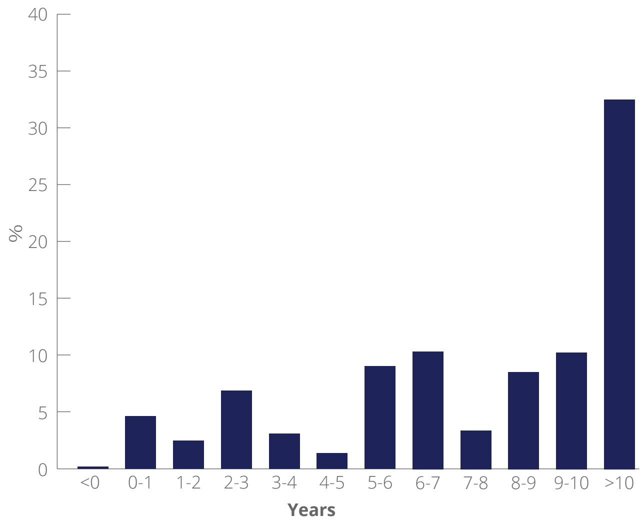
Source: VanEck, as at 31 May 2024.

Top 10 country breakdown



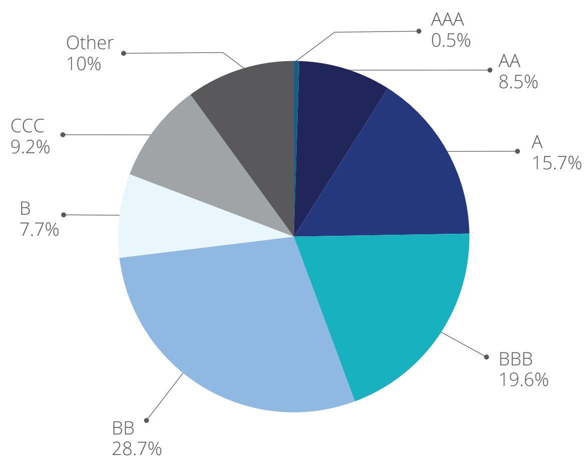
Source: VanEck, as at 31 May 2024.

Time to maturity profile



Source: VanEck, as at 31 May 2024.

Credit rating breakdown



Source: VanEck, as at 31 May 2024.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) returned 0.30% in May underperforming the 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified Index by 0.14%.
- In May, the fund increased local currency exposure in Asia such as Thailand, Malaysia and Indonesia. Due to the country's economic and policy traction, the fund also added some China corporate exposure. The fund reduced its local currency exposure in Brazil, as the country begins an important debate on the role of the central bank, and we view this as unfavourable. We also increased duration.
- We believe selected EMFX will outperform and have tilted the fund towards longer duration as concerns on US rates appear over-ripe. Rate cuts will support EM local currency. Our biggest exposures are local currency positions in South Africa, Thailand, Indonesia and Malaysia.

Market and portfolio commentary

EBND returned 0.30% in May, underperforming its benchmark which rose 0.44%.

The direction of US rates is dominating markets, and we think markets are unprepared for an increase in recession risk and a rally in duration. The "higher for longer" scenario has been priced in, but economic weakness has not. Thus, this might contribute to market volatility. The following, we think, are important drivers of lower policy and market rates for the coming months.

- Low confidence of markets due to unprecedented US political and policy uncertainty and this is a significant challenge to economic actors' propensities to consume, save, and invest;
- Real incomes and wealth are challenged, especially at the lower ends of economic wealth, and remember this is in a political year;
- The US Federal Reserve (Fed) will view higher oil prices as disinflationary because of the hit to real income, rather than inflationary; and
- The market is only publishing "higher for longer" articles at this point and bond positioning is cautious on duration, despite four cuts having been priced out so far this year.

Despite increasing political risk in the US and Europe, market participants still believe that emerging markets' political risk is higher and requires more attention. We think this is untrue. For instance, Mexican, South African, and Indian elections were accepted by all parties, but the implications near term are policy and not politics. Policy risk is the reason the fund is underweight Mexico. Our concern was that the Mexican central bank would have more board members supporting accommodative policy, among other risks. This is similar to the South African elections, which entail policy risk, rather than political risk. In contrast, the US and Europe face both political and policy risks.

Geopolitical risks are increasing, which maintains emerging markets-supportive supply risk in commodities. The true conflicts, we think, in Europe and the Middle East or West Asia are now—NATO vs Russia in Europe and Israel vs Iran vs Turkey in the Middle East (not Ukraine vs Russia, and Israel vs Hamas). Popular media attention will turn to the risks of nuclear conflict, and we expect this to support US bond duration. In our view, any pauses in geopolitical conflict, such as a "ceasefire" between Ukraine and Russia or a pause in the Israel/Hamas conflict, is temporary and might broaden into a larger conflict. We do not think these conflicts will end anytime soon.

Portfolio changes

The changes to our top positions are summarised below.

- We increased our local currency exposure in Thailand, Malaysia, and Indonesia. EM Asia's local duration looks attractive given the outlook for rate cuts in the US, which has priced out four cuts this year. In addition, Asian EMs can benefit from China's measures to support the housing sector and prop up growth. These factors improved the technical test scores for all three countries. Furthermore, Thailand's stronger-than-expected Q1 GDP growth can ease pressure on the central bank to cut rates, while Thailand's tourism is doing well, which includes tourists from China. This strengthened the economic and policy test scores for the country.
- We increased our local currency and hard currency sovereign exposure in South Africa, and hard currency corporate exposure in China. China's increase was due to a larger and more targeted support for housing, including unfinished projects and unsold housing stock. This is a move in the right direction, and it improved the policy test score for the country. South Africa's pre-election polls pointed to a less extreme governing coalition, against the backdrop of better fiscal outcomes and an absence of the pre-election spending spree. The coalition talks are still ongoing, but there is a good chance of having a market-friendly alliance between the ANC and the DA party. If this scenario materialises it will improve the policy test score for the country.
- We reduced our local currency exposure in Brazil. The central bank is poised to pause as inflation expectations drift higher, including the expectations for 2026. The pace of fiscal consolidation also looks less certain, while the appointment of the central bank's new governor might push towards more policy easing than necessary. In terms of our investment process, this weakened the economic and policy test scores for the country. The market is bullish, but unprepared for a long policy debate on the status of the central bank.
- We reduced our hard currency quasi-sovereign exposure in Mexico (Pemex), and local currency exposure in Singapore. We used Singapore's bond as a funder for other higher-yielding opportunities. Bonds issued by Mexico's state-owned petroleum company Pemex staged a rally recently, due to continued government support for the oil producer; that support is already priced in and was the basic thesis for the investment, so we decided to take profits on this position. Pemex also has a layer of ESG risk that may not be priced into the bonds.

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