June 2022

Challenged Valuations Create Opportunities in Emerging Markets

VanEck®

David Semple

Portfolio Manager

VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

The VanEck Emerging Markets Fund (the "Fund") returned -12.56% during the second quarter of 2022, driven primarily by a clear regime shift from inflation to growth concerns and weakening global demand. The silver linings of this quarter's performance are that the regime shift has resulted in lower interest rate hike expectations and that there has been active easing in China (monetary, fiscal and regulatory). These are conditions that we strongly believe set the stage for better performance from beaten-up growth stocks, and create opportunities for exposure to good companies we believe are great long-term investments.

As we like to reinforce as much as we can, our portfolio is driven by a repeatable process-driven investment solution, designed to access forward-looking, sustainable and structural growth companies across all emerging markets. While we can demonstrate persistent, long-term performance from this disciplined style of investing over time, there have been, and most likely will be, periods when this portfolio faces headwinds in certain market environments. These environments map to the past 18 months where cyclical value and commodities flourished and where investors broadly avoided quality GARP and lower market cap risk.

Extraordinary style and factor churn were predominant factors in 2021 and 2022 YTD. In addition, there are, as always, company-specific developments that can add and detract from performance. In the review sections of this commentary below, we outline some of the main market and fund developments.

Average Annual Total Returns (%) as of June 30, 2022

	2Q22†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-12.56	-28.85	-40.04	-8.11	-2.90	2.18
Class A: Maximum 5.75% load	-17.59	-32.94	-43.49	-9.91	-4.04	1.58
MSCI EM IMI	-12.10	-17.94	-24.75	1.15	2.33	3.20
MSCI EM Index	-11.45	-17.63	-25.28	0.57	2.18	3.06

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 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 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 1.45%; Net 1.45%. Expenses are capped contractually until 05/01/23 at 1.60% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

Market Review: Global Monetary Policy & Demand May Normalize Valuations

The MSCI Emerging Markets Investable Market Index ("MSCI EM IMI") returned -12.10% during the second quarter of 2022. Below we highlight the main developments that we believe affected the asset class:

- ***A clear regime shift from inflation to growth concerns raised prospects of lower-than-expected rate hikes in EM.***

Inflation concerns were dominant earlier in the quarter, driven by continued commodity supply shocks, supply chain disruptions and variable demand recovery. Later on, growth concerns negated these issues as data started to point to tighter policy, likely resulting in much slower GDP globally. This regime shift opened the possibility of lower-than-expected further rate hikes in emerging markets economies. We believe that growth in EM is holding up fairly well: the boost from staggered reopening, coupled with sound fiscal and monetary policies in place, seemed to have outweighed the drag from the aforementioned disruptions.

- ***Active easing in China (monetary, fiscal and regulatory) gained some traction post lockdowns.***

In comparison to the rest of the world and other emerging markets economies, China is in a very different economic phase today. Coming out of two months of lockdowns (April and May 2022), a tactical rebound is currently underway, both in the economy and markets. The country is in the early stages of active easing of monetary, fiscal and regulatory fronts. Policymakers are still firmly in the easing mode and attempting to reduce COVID-related restrictions, with inflation, for now mostly well-anchored.[1] Hence, we believe this should translate into better growth estimates going forward. It is important to note, we also see signs of less regulation in the future and the country's property market is recovering nicely as well.

- ***Signs of weakening global demand likely flowed through to lower global rate expectations.***

Notably, the International Monetary Fund ("IMF"), the World Bank, the European Central Bank, among others, have all revised down their global growth estimates. The IMF, for example, now forecasts global growth to slow from an estimated 6.1%in 2021 to 3.6% in 2022 and 2023. Beyond 2023, global growth is forecast to decline to about 3.3% over the medium term.[2]

- ***As the feeding frenzy on commodities and value subsides, rationally attractive long-term S GARP should find normalized valuations.***

We believe all of our underlying portfolio names are great growth businesses with solid managements and long arc non-cyclical growth models. We are able to track their valuations and can therefore comment accurately on portfolio valuations at any given point in time. Right now, they, as a group, in most cases individually, appear to be trading at valuations close to as compressed as any time in our experience with the portfolio. Therefore, as correlations normalize, we would expect some mean reversion of our very specific types of investments and, at the same time, their intrinsic values should continue to grow or compound per thesis.

Fund Review: Headwinds & Market Structure Churn

Like most of our peers in the Emerging Markets growth category, we were impacted by the tsunami of factor headwinds and market structure churn. When we drill down to a sector level, materials, health care and real estate contributed to relative performance, whereas consumer discretionary, industrials and financials detracted. On a country level China, India and South Korea contributed to relative performance, while Brazil, Argentina and the Philippines detracted.

Top Contributors

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

- **Prosus N.V. Class N** (4.42% of Fund net assets*), a subsidiary and recent spinoff from our long-time holding in South Africa's Naspers, comprises a portfolio of leading internet assets outside of South Africa across Asia, emerging Europe, MENA and LATAM. In addition to its 28% stake in Tencent Holdings and 21% stake in Delivery Hero, Prosus is heavily invested in three key e-commerce verticals that are beneficiaries of structural growth in digital trends globally, namely online food delivery, online classifieds and payments and fintech. We remain positive on the company's ex-Tencent assets longer term, and also welcome Prosus' management and board's recent actions to address the hefty discount of share price to the net asset value (NAV) of the company. They have introduced an unlimited and open-ended share buyback program funded through a simultaneous gradual reduction of the Tencent stake in absolute terms (while actually maintaining or even increasing the exposure to Tencent on a per share basis) to unlock shareholder value, which reflected positively on recent share price performance. We are also happy to see that management's incentive structure has been adjusted and tied to narrowing the discount, in a sustainable manner, over the short and long-term, ensuring further alignment between management and shareholders' interests.

[1] Source: Goldman Sachs Global Investment Research. Data as of June 21, 2022.

[2] Source: The IMF. Data as of April 19, 2022. https://www.imf.org/en/Publications/WEO

- **Wuxi Shangji Automation Co. Ltd.** (1.45% of Fund net assets*) develops and manufactures precision machine tools. The company is currently transitioning from a high-end solar equipment maker to a major mono-wafer[1] supplier for 210mm and all other wafer standards. Its global market share could reach 20% with 60GW shipments in 2023 vs. 6.5GW in 2020; competitive production costs and recognized wafer quality should drive these gains and outsized earnings growth. The company's outperformance relative to market expectations in the second quarter can be attributed to management's guidance for stable net profit margins in the coming quarters, despite investor concerns around rising input prices.
- **Pharmaron** (2.34% of Fund net assets*) is a China-based contract research organisation (CRO) serving global clients. Starting with lab services, the company has extended its business to cover the full drug development value chain. It has three key business segments: 1) lab services; 2) chemical, manufacturing and controls (CMC); and 3) clinical CRO. Currently, the company is the second largest lab service CRO in China. Pharmaron's share price performed well in 2Q22 as it participated in a broad based rally among Chinese healthcare stocks which were viewed as beneficiaries of easing COVID lockdowns in China.

Top Detractors

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

- **Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC")** (5.93% of Fund net assets*) continues to benefit from its technology leadership over Intel and its growing wallet share of global hardware leaders like Apple and Nvidia—this was a major driver of performance in the past year or two. We continue to believe strongly in TSMC's global dominance as the principal driver of sustainable high margins and return on equity ("ROE"). Although performance of the business has been strong over the past quarter, the share price weakness has been notable and driven by overall sector weakness in global technology price multiples as risk appetite declines into rising fears of a global recession.
- **MercadoLibre ("MELI")** (2.13% of Fund net assets*) operates an online trading side for the Latin American markets. The company's website allows businesses and individuals to list items and conduct sales and purchases online in either a fixed-price or auction format. MELI's share price underperformed in the second quarter due to unwarranted concerns around optically high NPL ratios for their rapidly growing fintech business. Additionally, the stock has been heavily correlated to the long-duration complex, which continued to sell off as a result of rising interest rates.
- **International Container Terminal Services, Inc. ("ICTSI")** (2.87% of Fund net assets*) has become a leading operator, innovator and pioneer in its field of acquiring, developing and operating freight ports and terminals worldwide. The company has a long track record in acquiring terminals and adding substantial value by enhancing their efficiency. The management's knowledge, skills and expertise also enable us to navigate and operate in different political and economic environments, giving them unique exposure to the long-term structural growth trends in non-G7 trade growth trends. The weaker performance over this period follows every year for the shares that are due a rest and reflect a fear of a slower global economy going forward, which should not materially impact our core investment thesis.

Top Buys and Sells

During the quarter, we established a new position in Delhivery Ltd.

- **Delhivery Ltd.** (1.25% of Fund net assets*) operates a software-first business model and is the largest logistics operator in India. The business is effectively the operating system for commerce through a combination of world-class infrastructure and logistics operations together with cutting-edge data engineering and technology capabilities. In our thesis, we believe Delhivery's greater scale and full stack integrated solutions offer competitive advantage over other companies. It can enter at multiple points in the customer supply chain as well as cross-sell other services, thereby increasing the customer stickiness and breadth, dominating this large high-growth opportunity within a very fragmented industry.

During the period, we exited a position in Qingdao TGOOD Electric Co. Ltd.

- **Qingdao TGOOD Electric Co. Ltd.** (0.00% of Fund net assets*) is the leading operator of charging stations in China. As the market leader in China for energy charging stations, we originally liked the company's first-mover advantage to secure good real estate. However, it became clear over time that pricing was more unpredictable than we had first thought. We became concerned about the accuracy of projecting future returns on capital, and therefore maintaining high conviction on sustained margins that drive our structural growth suitability assessment and strategy requirement.

[1] Monocrystalline solar panels (or wafers) are generally considered a premium solar product. They are called "monocrystalline" to indicate that the silicon used is single-crystal silicon. Because the cell is composed of a single crystal, the electrons that generate a flow of electricity have more room to move.

Outlook: Positive Changes Ahead for EM

To summarize, this has been a perfect storm of heightened inflation, heightened interest rate expectations, unreasonable China regulatory fear and China COVID resurgence, topped off with the commodity rally driven by Russia's invasion. As we go through these, one by one, we see a strong argument for some, or all of them, changing in a positive way for the Fund. Operationally, our investee companies are doing well, but the valuation collapse has opened up a tremendous opportunity in our view. In fact, broadly speaking, the last time we remember such attractive upside for the types of stocks we invest in, was in the depths of the global financial crisis. We think that this adds up to a bright outlook for a structural growth portfolio that sticks to its discipline, as we have done over time.

† Quarterly returns are not annualized.

* All country and company weightings are as of June 30, 2022. 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 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 and small cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

This is not an offer to buy or sell, or a recommendation to buy or sell any of the securities/financial instruments mentioned herein. The information presented does not involve the rendering of personalized investment, financial, legal, or tax advice. Certain statements contained herein may constitute projections, forecasts and forward-looking statements, which do not reflect actual results, are valid as of the date of this communication are and subject to change without notice. Information provided by third-party sources is believed to be reliable and has not been independently verified for accuracy or completeness and cannot be guaranteed. VanEck does not guarantee the accuracy of third-party data. The information herein represents the opinion of the author(s), but not necessarily those of VanEck.

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 the risks associated with its investments in Chinese issuers, direct investments, emerging market securities which tends to be more volatile and less liquid than securities traded in developed countries, foreign currency transactions, foreign securities, other investment companies, Stock Connect, management, market, operational, sectors and small- and medium-capitalization companies risks. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

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.

VanEck®

Van Eck Securities Corporation, Distributor

666 Third Avenue | New York, NY 10017

vaneck.com | 800.826.2333