

Emerging Markets – Brazil Snaps Back



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VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

The VanEck Emerging Markets Fund slightly outperformed the MSCI EM IMI Index on the QTD basis ending June 30, 2023 (+2.24% for Fund vs +1.62% for Index). This outperformance was principally driven by allocation (weighting) and stock selection in Brazil and Georgia. Heading into Q2, we were positioned overweight in Brazil (10.5% Fund weight versus 5.2% index weight*), based on the opportunities we saw in individual companies there. JSL, which the Fund held at just over 2% weight over the quarter, rallied over 40%, and is not held in the benchmark index. Another notable performer was Bank of Georgia, which rallied approximately 15% over the quarter with a 3.8% weight in the Fund. Bank of Georgia is another high-performing name that our Fund held, which is not in the benchmark index.

Both of these examples underscore the Fund's objective, which is to find long-term structural growth companies at a reasonable price (S-GARP). Our process is driven by stock selection conducted through rigorous due diligence with a focus on active management interaction and quality, governance and business models with visibility, innovation and low disruption risk.

Average Annual Total Returns (%) as of June 30, 2023

	2Q23†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	2.24	4.24	9.55	-4.89	-2.92	1.21
Class A: Maximum 5.75% load	-3.64	-1.75	3.25	-6.75	-4.07	0.61
Class I: NAV (Inception 12/31/07)	2.47	4.59	10.27	-4.39	-2.42	1.72
MSCI EM IMI	1.62	5.62	3.19	3.60	1.42	3.16
MSCI EM Index	0.90	4.89	1.75	2.32	0.93	2.95

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.

Market Review

The MSCI Emerging Markets Investable Market Index (“MSCI EM IMI”) returned 1.62% during the second quarter of 2023. Below we highlight the main developments that we believe affected the asset class:

Uneven Emerging Markets Rebound Continues (but still underperforming developed markets): The second quarter of 2023 saw mostly positive performance from the largest weights in the benchmark index. Taiwan Region, India, South Korea and Brazil all notched positive performance quarters, while China contributed negatively. In Brazil, stocks rallied in the second quarter off of multi-year valuation lows, while Chinese stocks fell on weaker-than-expected consumer spending and slowing home sales.

Emerging-Developed Markets Growth Differential Accelerating: After falling sharply after the pandemic, the spread between emerging and developed markets growth has rebounded sharply and is estimated to continue upwards. This growth differential could potentially set the stage for stronger emerging markets performance going forward compared to developed markets.

Central Banks on Course to Start Easing in 2023; LatAm First: With inflation rolling over, and the U.S. Federal Reserve (Fed) potentially on pause as of Q2 2023, emerging markets countries are now positioned to begin lowering benchmark rates in the second half of the year. LatAm is expected to begin cutting rates after aggressively (and effectively) hiking to combat inflation post-pandemic. Chile, Colombia, Peru and Brazil are all expected to cut by at least 100 basis points by year-end. India is also expected to begin easing, although to a smaller degree.

Valuation Differentials Point to Wide Historical Comparative Discount: Across multiple time-frames and metrics, emerging markets valuations are comparatively cheap versus their domestic counterparts. Forward Price to Earnings (P/E) and Price to Book Value (P/BV) are trading near 1-standard deviation below 15-year historical means compared to developed markets. When combined with the growth differentials highlighted above, this presents a compelling valuation-based case for investing in emerging markets.

Global Investors are Under-Positioned in Emerging Markets: Compared to historical weightings, global investors are currently under-positioned in their allocations to emerging markets exposure. While emerging markets countries represent just over 10% of the MSCI ACWI Index, global investors hold only 6% of their weights positioned in emerging markets. This indicates that there is money on the sidelines for this asset class, and could also indicate favorable timing from a contrarian investor perspective.

Fund Review

On a sector level, Financials, Communication Services and Energy contributed to relative performance, while Consumer Discretionary, Health Care and Materials detracted. On a country level, Brazil, Georgia and Germany (Delivery Hero) contributed to relative performance, whereas Argentina, Turkey and South Korea detracted.

Top Contributors

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

- **JSL** (2.56% of Fund net assets*) is the leading company in the Brazilian logistic sector with long expertise (60 years) operating in the asset heavy and asset light business. The company continues reporting strong results backed by positive dynamics in the industry. They have been able to expand their client base and increase prices as well as control costs, which has been reflected in strong net income growth. The company continues to leverage its cross-selling opportunities. JSL also completed an acquisition of IC Transportes which was accretive to the numbers. Despite being three times larger than its closest competitor, JSL has a market share of only 1% with plenty of organic and inorganic growth opportunities ahead. The company's expertise in M&A (7 acquisitions since 4Q20) could continue to enhance growth going forward.
- **Bank of Georgia Group Plc** (3.51% of Fund net assets*) is one of the two largest banks, dominating the Georgian banking system, with more than 33% market share. During the quarter, the bank outperformed on the back of stronger than expected earnings delivered in 1Q23 on top of an already strong base in 2022, with return on equity remaining well above 25%. Bank of Georgia's management has undergone significant digitization efforts, resulting in higher efficiency and a superior customer experience.

- **Movida** (1.45% of Fund net assets*) is one of the largest car rental companies in Brazil, operating three primary lines of business: car rental, fleet rental and used car sales (Seminovos). During the quarter, the company had some important changes including the announcement of a new CEO. They also changed the focus of the company for the next few quarters with 3 new important pillars: 1) liability management (repaying expensive debt and reducing cost); 2) resizing the company; and 3) new governance. The company has now entered a level of maturity where it will focus on value generation and ROIC. All these changes were reflected in the results, with an overall improvement in utilization rates and revenue generation. Movida also continues to see increase in volumes of daily rentals, better tariffs and a very resilient fleet division. On the Seminovos division, there was a normalization of margins and peak of depreciation has passed with a much better car purchase condition. The company has managed to reduce debt levels, however leverage is still high, so it is a big beneficiary in an scenario of lower rates.

Top Detractors

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

- **China Education Group Holdings Limited** (2.03% of Fund net assets*) is a private higher education provider focused on tertiary education in China. The company operates universities and a vocational college and enrolls students across all provinces in mainland China. China Education provides bachelor's degree programs, junior college diploma programs and vocational education programs. We believe that the company should provide approximately 15% annual organic growth from its existing campuses and, once private valuations adjust, some upside from M&A. We have patience in the process of finding suitable (and suitably priced acquisition targets), but the market appears to have expected some quicker results after recent fundraising. In addition, there is some opacity in the process and consequences of conversion of their assets to full "for profit" status. Whilst the settling of the regulatory landscape in this regard has been frustrating, we believe that the ultimate effect will be benign.
- **MercadoLibre, Inc.** (4.16% of Fund net assets*) has underperformed despite reporting earnings beats in both Q1 and Q2 2023. The underperformance was driven by a combination of profit taking after a strong run YTD and investors rotating into rate sensitive consumer names in Brazil. In addition, there are concerns around MELI Argentina's exposure and more recently higher competition from cross border players. We believe fundamentals remain strong with continued growth in GMV, market share gains and better margins. MELI continues to present a unique combination of leadership in e-commerce with accelerating growth in fintech.
- **MLP Saglik Hizmetleri AS Class B ("MLP")** (1.38% of Fund net assets*) is the largest private hospital group in Turkey. The group also has a sizable medical tourism business to capitalize on the high-quality and cost-competitive care offered by its hospitals. This business line has shown very strong performance in 2022 and year to date, driven by growing international demand and increasing MLP's foreign currency revenues against a weakening Turkish lira. Management's successful efforts to deleverage and strengthen its balance sheet have also positioned MLP very favorably for further inorganic expansion and share buybacks. After very strong share price performance in 2022, the company continued to show solid operational performance in 1Q23 results, which were partially overshadowed by a one-off earthquake related tax expense and somewhat weighed down on share price performance this quarter. We continue to be excited about the growth outlook for MLP and the upcoming expansion plans and the potential to be the consolidator of Turkey's private healthcare market.

Top Buys & Sells

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

- **MINISO Group** (0.79% of Fund net assets*) is engaged in the retail and wholesale business of value-for-money products in categories such as household, toys, cosmetics and snacks. It operates in China and many other countries around the world as an asset light model, with retail partners selecting and operating stores. The company has expanded rapidly, offering a retail experience which lends itself to impulse shopping in physical stores. We believe their business model has a good cash cycle and is more immune to consumer sentiment than other retailers.
- **Full Truck Alliance** (0.69% of Fund net assets*) is the largest digital freight platform globally – connecting privately owned truck capacity with freight shippers. It dominates China's digital freight market with over 70% market share. Considering the ongoing cost reduction efforts and efficiency enhancement trends within China's logistics industry, we expect FTA to be the largest beneficiary of the increasing demand for digital freight platforms. The proven online transaction service business model is the key long-term growth driver in our thesis.

During the period, we exited the following positions:

- **Pharmaron Beijing** (0.00% of Fund net assets*), which provides research and manufacturing services for a wide range of pharmaceutical entities, has disappointed investors with its operating results. Margins have been worse than expected, in part due to challenges in ramping up facilities overseas. We have also had concerns about the funding environment for early stage clinical projects, which Pharmaron is particularly exposed to.
- **A-Living Smart City Services** (0.00% of Fund net assets*) is a property management company partly owned by the Agile group. The parent company has been struggling with liquidity issues, and there are question marks about receivable from the parent. In addition, competition for non-parent private real estate, commercial and governmental contracts has been fierce, depressing margins

Outlook

We remain grounded by our investment process and our positioning reflects our convictions from a bottom-up basis heading into the second half of the year. Our process has created some positioning differentials versus the benchmark. Brazil remains overweight to start the quarter (11.1% Fund weight versus 5.6% index weight*), as does Georgia (4.5% Fund weight versus 0% Index weight*). Again, these weights are reflective of our company research and are not macro-based.

China and Taiwan Region are significantly underweight versus the benchmark, which does not reflect a bearish macro view on the region, but is a reflection of the opportunities we see. The China weighting is slightly larger than it first appears because we have a holding in Prosus (4.97% Fund weight*) whose principle asset is their holding in Tencent. Excluding this, we are currently allocated roughly 33% weight between China and Taiwan Region, focused specifically on those companies that pass our due diligence process.

[†] Quarterly returns are not annualized.

*All country and company weightings are as of June 30, 2023. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary.

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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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