

# Emerging Markets – Growth Rotates to Asia



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Portfolio Manager

## VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

The VanEck Emerging Markets Fund (the “Fund”) returned 1.96% during the first quarter of 2023, underperforming the Fund’s benchmark. This underperformance was principally driven by stock selection in China (underweight the outperforming State-Owned Enterprises (SOEs) and Artificial Intelligence (AI) thematic), and weakness out of Turkey and Germany (Delivery Hero). We think that all these factors should reverse in the second and third quarters. We also think China’s non-SOE companies will perform better, as it becomes clear that consumer confidence is healing, whilst companies with a whiff of AI are being bid up to unsustainable levels. Emerging markets (EM), in general, are in a relatively good place, with more leeway to deal with inflationary pressures, and generally strong external accounts. The development of geopolitics remains a wild card.

### Average Annual Total Returns (%) as of March 31, 2023

	1Q23 <sup>†</sup>	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	1.96	1.96	-6.31	1.72	-5.25	0.55
Class A: Maximum 5.75% load	-3.90	-3.90	-11.70	-0.27	-6.37	-0.04
Class I: NAV (Inception 12/31/07)	2.06	2.06	-5.84	2.20	-4.78	1.05
MSCI EM IMI	3.94	3.94	-10.74	9.18	-0.58	2.13
MSCI EM Index	3.96	3.96	-10.70	7.83	-0.91	2.00

*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 1.45%; Net 1.45%; Class C: Gross 2.25%; Net 2.25%; Class I: Gross 1.14%; Net 1.00%; Class Y: Gross 1.13%; Net 1.10%; and Class Z: Gross 1.08%; Net 0.90%. Expenses are capped contractually until 05/01/23 at 1.60% for Class A, 2.50% for Class C, 1.00% for Class I, 1.10% for Class Y, and 0.90% for Class Z. 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 3.94% during the first quarter of 2023. Below we highlight the main developments that we believe affected the asset class:

**Resilient EM growth:** EM economies continue to be strong, outgrowing developed markets (DM) by a significant margin (on average). At a regional level, EM growth remains particularly resilient in Asia, accelerated by the Chinese growth since the end of its Zero-Covid policy and solid first quarter activity data, as reflected particularly in the services sector. Growth has also been relatively resilient in CEEMEA economies, but it has been lagging in LatAm.<sup>1</sup>

**EM inflation past its peak:** Median inflation in EM economies has risen less than in DM economies and we expect headline inflation rates to decline significantly in most EMs over the course of 2023.<sup>2</sup> Please note, the inflation divergence across EM countries is high (every EM country/region is going through its own economic cycle at this point).

**Monetary policy responses – different per EM country:** Given differences in EM country-specific economic cycles, there are different monetary policy responses. But broadly speaking, less inflationary pressure means that there is definite scope for lower rates, in due course, in a number of key EM economies.

## Fund Review

On a sector level, consumer discretionary, industrials and utilities contributed to relative performance, whereas health care, energy and communication services detracted. On a country level, Argentina (MercadoLibre), the Philippines and India contributed to performance on a relative basis, while China, Turkey and Germany (Delivery Hero) detracted.

## Top Contributors

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

- **MercadoLibre, Inc. (“MELI”)** (4.36% of Fund net assets\*) operates an online trading site for Latin American markets. MELI continues to report solid results. The company delivered a solid pace of growth in 4Q2022, with overall gross merchandise value (GMV) expanding 35% Year-over-Year (YoY) and positive results in every country in which they operate. MELI continues to benefit from e-commerce adoption and market share gains. The e-commerce take rate continues to see improvement. MELI also started to be more vocal on advertising revenues, increasing the visibility of the business. As of Q4, it represented 1.4% of GMV but that could more than double over time. Credit quality also showed a positive evolution. MELI continues to present a unique combination of leadership in e-commerce with accelerating growth in fintech.
- **Taiwan Semiconductor Manufacturing Co., Ltd. (“TSMC”)** (6.02% of Fund net assets\*) – the thesis for TSMC is very much intact. We strongly believe it will be the leader in semiconductor manufacturing globally for many years to come, benefiting from the next generation of computer growth around large language models and generative AI. The volatility and variability of share price and multiple of the company shares – over the past year or so has largely flowed from geopolitics – U.S./China-related issues centrally and specifically as they relate to Taiwan. This quarter those fears and risks abated somewhat and the share price of TSMC reflected that, performing well.
- **Prosus N.V. Class N** (5.14% 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 & fintech. We remain positive on the company’s ex-Tencent assets longer term, and also very much 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. Prosus also 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, in addition to also providing more concrete guidance on the path towards and timing of profitability. We are also happy to see a recent recovery in Tencent’s profitability and a resumption of Tencent’s own share buyback program, which supported the share price performance of both Prosus and Tencent.

<sup>1</sup> A key reason why LatAm is unusually weak is because the tightening in LatAm financial conditions has been unusually large due to more aggressive tightening by central banks and relatively stronger FX performance. Source: Goldman Sachs Global Investment Research. Data as of March 15, 2023.

<sup>2</sup> Source: Goldman Sachs Global Investment Research. Data as of March 15, 2023.

## Top Detractors

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

- **China Education Group Holdings Limited** (2.81% 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 around 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.
- **MLP Saglik Hizmetleri AS Class B ("MLP")** (2.35% of Fund net assets\*) is the largest private hospital group in Turkey. In addition, the group 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, 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, which increases shareholder value. After very strong share price performance in 2022, we believe the recent share price weakness is a reflection of the uncertainty surrounding the political environment and upcoming elections in Turkey but we continue to be excited about the growth outlook for MLP and the upcoming expansion plans.
- **Delivery Hero SE** (1.10% of Fund net assets\*) is a food delivery service listed in Germany. While the company remains headquartered in Germany, most of its actual operations are based in EM, spanning across EMEA, LatAm and Asia and operating in more than 70 countries globally with a leading position in more than 70% of them.<sup>3</sup> During the quarter, Delivery Hero announced slightly lower-than-expected revenues mainly as South Korean growth, which is their most important market, continued to normalize after the relaxation of Covid restrictions. However, we were happy to see operating profits tracking ahead of expectations, which increases our conviction in management's medium-term profitability guidance and reinforces our belief that Delivery Hero is a long-term winner in the space.

## Top Buys & Sells

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

- **Meituan – 3690 HK** (0.22% of Fund net assets\*) is China's leading e-commerce services platform company. Its apps connect consumers, including local businesses, for food delivery, in-store dining and hotel bookings, among other services. Through strong execution on cross-selling an expanding array of lifestyle services to users and its merchant-oriented focus, Meituan has become the largest food delivery network in the world, completing 25 million orders per day. The increase in the Fund's position was primarily driven by an in-specie spinoff from Tencent. In addition, we believe that market concerns about the competitive environment in food delivery are overstated, whilst their hotel and travel segment continues to be well supported by increased consumption.
- **Eurobank Ergasias Services and – EUROB GA** (0.17% of Fund net assets\*) is one of four leading banks in the Greek banking sector. After nearly a decade of adjustments following the Greek economic crisis, we believe the bank has successfully restructured and cleaned up its balance sheet. In 2022, Eurobank had achieved record high profitability and elevated returns, tracking well above expectations and with further room for increase going forward. We see an exciting growth opportunity for Eurobank to be a key player in financing the new and long overdue investment cycle in Greece across many sectors including renewables, infrastructure, technology and tourism & hospitality with strong backing from the EU. Our view is that Eurobank can continue to grow its lending book while further enhancing profitability and returns, benefiting from significant efficiency gains post-restructuring and sector consolidation.
- **Sterling and Wilson Renewable – SWSOLAR IN** (0.16% of Fund net assets\*) is an India-based turn-key renewable energy EPC provider. We visited the company in Mumbai in the fourth quarter of 2022, and gained a full understanding of competitive and comprehensive service solutions and global reach. We believe strongly that the company will be a dominant player in the India energy transition opportunity with likely strong participation elsewhere in the region including in the Middle East and Africa. We stressed tested margins and risk following a restructuring and are confident in long-term profitability and growth in order books.

<sup>3</sup> Source: VanEck Research, Company Data, Bloomberg. Data as of March 31, 2022.

During the period, we exited the following positions:

- **GoerTek Inc – 002241 C2** (0.00% of Fund net assets\*) grew up as a component maker in AV and more recently as a component maker and assembler of AirPods for Apple – which speaks to qualification levels and execution skills.
- **China Conch Environment Protec – 587 HK** (0.00% of Fund net assets\*) offers one-stop waste disposal solution services in China, covering collection and transport, testing and storage, compounding and transport, disposal and incineration of waste. The company represented a small position, which we exited as we thought that competition would squeeze markets and there appears to be a significant industry oversupply in the waste treatment industry.

## Outlook

The debate on the trade-off between sticky inflation and concern about economic weakness in DM has impacted the appetite for EM. We think that the impact of lower rates and a weaker U.S. dollar will ultimately prove to be positive in an asset class that has demonstrated its orthodox approach to financial management. With the strong tailwind of building economic confidence in China, the outlook is bright.

† Quarterly returns are not annualized.

\*All country and company weightings are as of March 31, 2023. 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.

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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](http://vaneck.com). Please read the prospectus and summary prospectus carefully before investing.**

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