

Sustainability Boosted By Clean Energy Policy



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ENVAX | ENVIX | ENVYX

Manufacturing Renaissance? U.S. Policy Boosts Renewables and EV

The passing of the Inflation Reduction Act (IRA) in August proved to be a much-needed piece of legislation for encouraging long-term investment in the U.S.'s clean energy industry. While the bill is comparatively modest in dollars directed toward direct subsidies for emerging technologies (see VanEck's white paper [The Inflation Reduction Act: A Green Catalyst](#)), the duration of some of these policies—10 years for certain tax credits—gives companies significant runway to plan capex investments with confidence around a long-term return on investment.

This comes at a critical period in the development of global energy policy. Aggressive goals toward carbon neutrality coupled with political dissent with China, where the vast majority of raw materials and processing sits for renewables and electric vehicles (EV) supply chains, have spurred investment decisions in building out a much-needed supply chain for new energy infrastructure domestically. Investment decisions initially contemplated were driven by considerations such as supply chain security and ethical mining. Now, manufacturing economics are solidly competitive on a global basis due to the investment and production tax credits (ITC and PTC) from the IRA, which includes bonus adders for domestic content and labor. Expect to see a significant wave of upstream investments in the U.S. in the forthcoming years. Of particular strength in the third quarter was EV demand, which continues to hit new records, with overall market share in the U.S. crossing 6% as of Q3 this year and working toward its goal of 50% by 2030. A slew of new product launches by auto manufacturers are dropping in 2023, which should help meet growing demand in a market still largely dominated by a few Tesla models. Parts and materials suppliers should continue to benefit, particularly as they reaffirm mid-term growth targets for production amidst the wave of global diversification and solid demand.

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

	1 Mo [†]	YTD	1 Yr	Life
Class A: NAV (Inception (7/13/21))	-12.25	-24.34	-22.84	-22.48
Class A: Maximum 5.75% load	-17.29	-28.69	-27.28	-26.17
GDUEACWF Index	-9.53	-25.34	-20.29	-18.29

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

	1 Mo [†]	YTD	1 Yr	Life
Class A: NAV (Inception (7/13/21))	-10.52	-25.58	N/A	-27.84*
Class A: Maximum 5.75% load	-15.66	-29.86	N/A	-31.99*
GDUEACWF Index	-8.39	-19.97	-15.37	-16.16*

The tables above present 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 NAV. Index returns assume that dividends from index constituents have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

[†] Monthly returns are not annualized. *Life returns are not annualized for periods less than 1 year.

Expenses: Class A: Gross 1.28%; Net 1.25%. Expenses are capped contractually until 05/01/23 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

We are still faced with lingering macro headwinds such as rising rates, inflation and meaningful recession risk that are putting a dampener on growth equities despite an otherwise robust and countervailing demand environment. However, policy continues to favor technological innovation and a pathway to continued growth. California recently announced a proposed decision to their Net Metering policy which is highly beneficial for the growth of solar + storage, in our view. We believe this sets an example for how the U.S. evolves in renewables development on a state and local level.

While we are monitoring building economic uncertainty across the globe, we are leaning toward investments in areas of relative safety, buoyed by beneficial FX, supply chain, or policy drivers, and driven by high quality companies whose business models can weather periods of disruption.

Solid Performance (with a Little Help from the IRA)

Relative performance was strong on the quarter, with the Fund (A-Share) returning 1.66% versus -8.37% for the MSCI Global Environment Select Index². Outperformance was driven predominately by stock selection within the Advanced Materials sector, including positive relative contributions from non-index-held names such as battery manufacturer FREYR (5.26% of net assets), battery minerals suppliers Piedmont Lithium (1.97%), Allkem (1.84%), and EcoGraf (0.44%), as well as electric vehicle fast-charging station operator EVGo (1.60%). The Fund also benefitted from its underweight positioning in Smart Resource Management—more specifically, from its underweight to the green building industry where higher interest rates continue to weigh on real estate developers. The largest relative detractor was security selection within the Renewable Energy sector, as a number of solar names not owned by the Fund – such as First Solar, Sunrun and SunPower – bounced back after having suffered considerable losses to start the year.

Stocks to Watch: Innovative, Disruptive and Green

The largest individual contributors included battery manufacturer FREYR, microinverter manufacturer Enphase (6.24%), as well as AI-enabled smart energy storage developer Stem (3.38%). FREYR has announced development of several massive “Gigafactory” plants in Europe and North America and continues to back up those ambitious growth plans with the establishment of numerous, high profile customer relationships for its lithium ion batteries. Meanwhile, Enphase and Stem saw a bump following the roll out of the IRA, where billions were pledged for the buildout of U.S.’ renewable energy infrastructure. Enphase also appears well positioned to challenge for greater global market share, with Europe looking to expedite its solar initiatives as it pivots off of more Russia-reliant energy sources.

China, Rates a Detractor

The largest detractors from absolute contribution included electric vehicle auto manufacturer BYD (2.80%), renewable energy financier Hannon Armstrong (1.27%) and lithium-ion battery manufacturer Contemporary Amperex (1.42%). BYD and Contemporary Amperex are two China-based companies and both suffered from ongoing COVID-related lockdowns in the country as well as a general rout in China-listed equities on lower earnings growth prospects. Hannon Armstrong continued to suffer from higher interest rates in the U.S., which directly impacts the company’s future cost of financing.

With the exception of a small reduction in our position size in Hannon Armstrong, there were no major changes made to portfolio positioning during the quarter.

All company, sector, and sub-industry weightings as of September 30, 2022 unless otherwise noted.

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¹The MSCI All Country World Index (ACWI) (GDUEACWF) captures large and mid cap representation across developed and emerging markets and countries and covers approximately 85% of the global investable equity opportunity set. The MSCI benchmark is a Gross Return index which reinvests as much as possible of a company's gross dividend distributions. ²The MSCI Global Environment Select Index is comprised of securities of companies that derive at least 75% of their revenues from environmentally beneficial products and services. The index is based on key environmental themes: Alternative Energy, Sustainable Water, Green Building, Pollution Prevention and Control, Energy Efficiency and Sustainable Agriculture. The index is further diversified by capping securities at 5%. The index aims to serve as a benchmark for investors seeking exposure to companies whose primary source of revenues increase the efficient use of scarce natural resources or mitigate the impact of environmental degradation. Constituent selection is based on data from MSCI ESG Research.

Any 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 a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

The views and opinions expressed are those of VanEck. Fund manager commentaries are general in nature and should not be construed as investment advice. Opinions are subject to change with market conditions. Any discussion of specific securities mentioned in the commentaries is neither an offer to sell nor a solicitation to buy these securities. Fund holdings will vary. For a complete list of holdings in the Fund, please visit: <https://www.vaneck.com/us/en/investments/environmental-sustainability-fund-envax/>.

The Fund's sustainability strategy may result in the Fund investing in securities or industry sectors that underperform other securities or underperform the market as a whole, and may result in the Fund being unable to take advantage of certain investment opportunities, which may adversely affect investment performance. The Fund is also subject to the risk that the companies identified by the Adviser do not operate as expected when addressing sustainability issues. Regulatory changes or interpretations regarding the definitions and/or use of sustainability criteria could have a material adverse effect on the Fund's ability to invest in accordance with its sustainability strategy.

Companies that promote positive environmental policies may not perform as well as companies that do not pursue such goals. Issuers engaged in environmentally beneficial business lines may be difficult to identify and investments in them maybe volatile. Environmentally-focused investing is qualitative and subjective by nature, and there is no guarantee that the factors utilized by the Adviser or any judgment exercised by the Adviser will reflect the opinions of any particular investor.

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. An investment in the Fund may be subject to risks which include, among others, investing in derivatives, equity securities, emerging market securities, environmental-related securities, foreign currency transactions, foreign securities, investments in other investment companies, management, market, new fund risk, non-diversification, operational, sectors, small and medium capitalization companies, special purpose acquisition companies. Small- and medium-capitalization companies may be subject to elevated risks.

Diversification does not assure a profit or protect against loss.

Investing involves substantial risk and high volatility, including possible loss of principal. 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.

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