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As Perfect Storm Clears Up, Opportunity Emerges

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VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

The VanEck Emerging Markets Fund (the "Fund") returned -8.84% during the third quarter of 2022, outperforming the Fund's benchmark in a difficult environment for markets generally. This was principally driven by stock selection. Small improvements at the margin will really set the stage for better performance from emerging markets ("EM"), and in particular, the hard-hit growth stocks there. Bad news always feels existential in bear markets, but we are very encouraged by the operational performance of our investee companies.

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

	3Q22†	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-8.84	-35.14	-40.37	-10.22	-6.53	0.37
Class A: Maximum 5.75% load	-14.08	-38.86	-43.80	-11.97	-7.63	-0.22
MSCI EM IMI	-10.79	-26.79	-27.51	-1.20	-1.44	1.27
MSCI EM Index	-11.57	-27.16	-28.11	-2.07	-1.81	1.05

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, mat 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

Looking at the long list of worries – such as the global inflation/U.S. Federal Reserve ("Fed") response, dollar strength, China policy cycle and geopolitical tensions – it is enough to engender caution, but markets are forward-looking creatures, and it really is time to plan for when things actually go right, in our view. The MSCI Emerging Markets Investable Market Index ("MSCI EM IMI") returned -10.79% during the third quarter of 2022. Below we highlight the main developments that we believe affected the asset class:

- ***Global Inflation/Fed Response***
  The third quarter was volatile – especially September – as a result of inflation and the Fed's response. What's interesting is that, in the midst of all of this, EM assets managed to outperform their developed markets ("DM") counterparts. We believe that growth in EM is holding up fairly well. The boost from the staggered reopening of economies, coupled with sound fiscal and monetary policies in place, seems to have outweighed the drag from global inflation and region/country-specific rate hike disruptions. In our view, global inflation has peaked in some of the early tighteners (i.e., Brazil) and in areas of softer recent activity (i.e., China/Taiwan/Korea). Consequently, monetary policy tightening in much of LatAm and CEEMEA[1] is at its more advanced stages – with Brazil and Hungary likely finished, and other central banks in those regions likely to conclude by year-end. In contrast, central banks in most of EM Asia started later are thus likely to continue tightening into early 2023 (of note, inflation acceleration is less in the region versus other EM regions).[2]

- ***U.S. Dollar Strength***
  Concurrent with the unprecedentedly rapid rise in rate expectations in the U.S., we have rapid U.S. dollar appreciation versus virtually every other currency. This acts to the detriment of EM in terms of a real tightening of liquidity, as well as translated returns. Given the dollar's obvious "over-valuation," we believe that the risk of further significant strength into 2023 is limited.

- ***China Policy Cycle***
  In comparison to the rest of the world and other EM economies, China is in a very different economic phase today. Coming out of springtime lockdowns, a tactical rebound is currently underway in China, both in the economy and markets, although it is struggling to develop momentum outside of infrastructure investment. Two key variables to measure are a significant change to the zero-Covid policy and the return of more favorable sentiment to the property sector. With a backdrop of incremental easing (i.e., fiscal and monetary), combined with regulatory forbearance, any improvement in Covid policy and the property market will be warmly welcomed by equity investors. We have incrementally increased our percentage of China investment represented by A-shares, in particular, focusing on renewables, industrial automation and digitization.

- ***Geopolitical Tensions***
  It is hard to predict the ultimate outcome of Russia-Ukraine war, but so far, it is clear that the most bearish expectations for countries like Georgia and Kazakhstan have simply not been right. In fact, both areas have arguably been real beneficiaries in economic terms. We are very comfortable with our holdings in those two countries, **Bank of Georgia Group Plc** (2.85% of Fund net assets*) and **Kaspi.kz JSC Sponsored GDR RegS** (2.51% of Fund net assets*).

  A future potential conflict over Taiwan, seems to us to be not materially closer, despite the popular narrative, particularly in the U.S. More practically, though, the semiconductor and IT hardware cycles have entered a downturn, which is well recognized by the markets. Taiwan is the most exposed to this globally, but while we are currently underweight there, we are clearly conscious that equity prices generally bottom before the cycle does. Most equities in the space are trading at or close to previous lows on traditional valuation metrics.

Fund Review

Like most of our peers in the EM growth category, we were impacted by the tsunami of factor headwinds and market structure churn. When we drill down to a sector level, financials, consumer discretionary and industrials contributed on a relative basis, whereas materials, health care and energy detracted. On a country level, Turkey, Georgia and Argentina contributed to relative performance, while India, China and Saudi Arabia detracted.

[1] CEEMEA is defined as Central and Eastern Europe, Middle East and Africa.

[2] Source: Global Sachs Global Investment Research. Data as of October 2, 2022.

Top Contributors

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

- **MercadoLibre, Inc. ("MELI")** (3.09% of Fund net assets*) operates an online trading site for Latin American markets. MELI's shares performed well during the quarter after the company delivered strong results and demonstrated strong execution and solid fundamentals across all business segments. Sales were at record highs, as the company reached 40.8M buyers in the quarter. Gross merchandises value ("GMV") results continued to benefit from e-commerce adoption and market share gains across categories. Advertising and logistics segments, for example, offer significant opportunities for monetization. With penetration levels still low versus more mature countries, MELI is positioned as a clear leader in e-commerce and fintech in LatAm.

- **Bank of Georgia Group Plc** (2.85% 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 has outperformed on the back of much stronger than expected earnings and returns numbers in 1H22, with return on equity exceeding 25%. Bank of Georgia's management has undergone significant digitization efforts, resulting in higher efficiency and a superior customer experience. The stronger-than-expected results were also supported by macro tailwinds, driving very solid lending growth and asset quality numbers for the bank.

- **MLP Saglik Hizmetleri AS Class B ("MLP")** (2.28% 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 1H22, driven by growing international demand and increasing MLPs 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 and has reflected positively on recent share price performance.

Top Detractors

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

- **Pharmaron Beijing Co.** (1.37% of Fund net assets*) is a leading pharmaceutical R&D service platform with global service capability. Pharmaron is currently the second-largest pharmaceutical R&D platform in China in terms of revenue. It will likely continue to be a major beneficiary of R&D outsourcing not only in China but globally, as it ventures into next-generation technologies such as gene therapy. There is a meaningful upside to the company's share price if it is able to establish itself as a legitimate CDMO[3] – a space that continues to see significant mismatches in the supply and demand of manufacturing capacity. The stock underperformed after reporting a margin squeeze related in part to a slower, costlier ramp-up of new overseas facilities.

- **Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC")** (5.75% 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 over the past two years. 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.

- **A-Living Smart City Services Co., Ltd.** (0.99% of Fund net assets*) is a property management company in China, primarily (but not exclusively) focused on residential property management. During the quarter, the company was negatively impacted by the ongoing lack of momentum in the property sector. As their parent company, Agile, is still not out of the woods in securing balance sheet liquidity, the feared knock-on effect on A-Living has investors cautious on the name.

Top Buys and Sells

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

- **Zhejiang Supcon Technology Co.** (0.30% of Fund net assets*) is an A-share company engaged in industrial automation control systems. The company is delivering strong revenue momentum, particularly in new business lines, demonstrating its leading market position in the process automation industry. This industry is in a clear secular sweet spot, given the desire of China industry to move up the value-added curve, but with fewer available workers.

- **Jinxin Fertility Group Ltd.** (0.22% of Fund net assets*) is the largest non-state-owned provider of assisted reproductive services in China. It has a diversified range of offerings and a demonstrably high success rate. Like quite a few other countries, China is experiencing low birth rates, a concern for the government. Consequently, we expect favorable policies for the sector. Additionally, there are significant opportunities in other geographies. While the Chinese Covid situation has depressed operating momentum, it has allowed us to invest at levels that we think are very attractive for the longer run.

[3] CDMO is defined as a Contract Development and Manufacturing Organization.

During the period, we exited the following positions:

- **China Feihe Limited** (0.00% of Fund net assets*) –a baby milk manufacturer, in part because of our investment in **Jinxin Fertility Group Ltd.** (0.22% of Fund net assets*). We would prefer to be further "upstream" and the growth dynamics for Jinxin look superior.
- **China Conch Venture Holdings Ltd.** (0.00% of Fund net assets*) – China Conch Ventures was an investment after the spin-off of China Conch Environment Protection (0.07% of Fund net assets*), which was the business that was most attractive to us. Consequently, we now own the latter, which is China's largest provider of industrial waste treatment using environmentally friendly high-temperature cement kilns.
- **Fawry for Banking Technology and Electronic Payment** (0.00% of Fund net assets*) – a bill payment and financial services company in Egypt is a strong competitor in its space, but stock price performance looked challenged in the face of weaker-than-expected revenue growth and worse-than-expected operational costs.

Outlook

To summarize, this has been a perfect storm of heightened inflation and interest rate expectations, unreasonable China regulatory fear and China Covid resurgence, topped off with the commodity rally driven by Russia's war. 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. Selectivity continues to be key in the space. 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 an 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 September 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 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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