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MUTUAL FUND PROFILE

Talking With David Semple

Portfolio Manager, VanEck Emerging Markets

Winning Big in Emerging Markets

By Sarah Max

PHOTO: MATT FURMAN FOR BARRON'S

One year into working as a civil litigator in Edinburgh, David Semple had an epiphany: "I was extremely bored," says the 54-year-old Scot. As a remedy, he took a break from law to travel for a year and a half with his wife, spending much of that time in Asia. "This was in the '80s, and we could see how much was happening there," says Semple, who went home to Scotland with plans to find a more interesting career and get back to Asia.

Nearly three decades later, Semple has logged millions of frequent-flier miles traveling to Asia, and around the world, as the manager of the $2.3 billion VanEck Emerging Markets fund (ticker: GBFAX). Over the past 15 years, the fund has returned an average of 13.5% annually, putting it in the top quartile of its Morningstar category.

The 88-holding fund is up more than 39% over the past year, thanks in part to the ascent of its largest position, Tencent Holdings (700.Hong Kong). As ideas go, this one might seem "a bit ordinary" now that the success of the Chinese tech conglomerate is widely known, says Semple, but it wasn't so obvious when the fund first invested in December 2008. "It's been phenomenally successful in terms of the predictability, operating profitability, and the growth of the corporation," says Semple, noting that the company's conservative approach to advertising offers yet more potential.

Though the fund can invest in companies of any size, Semple focuses most of his attention on finding small and midsize companies rooted in their local economies. What he avoids: cyclical companies whose fates are tied to commodities or exports predicated on cheap labor. "It's the difference between taking the escalator and the elevator: The elevator will get you there quickly, but you have to remember to get off," he says. "That's cyclical investing." Semple prefers the escalator—companies offering visible and predicable growth.

Meanwhile, he says, smaller companies deriving most of their revenue domestically have less correlation with one another, and that means less risk: What happens with a discount retailer in Taiwan, for example, has little to do with a financial-services company in the country of Georgia. A focus on smaller companies, moreover, improves his odds of finding under-the-radar growth at a reasonable price.

One such holding is CIE Automotive (CIE.Spain), a Spanish company that does significant business in emerging markets, including Brazil, China, and India. "Essentially, they buy, and have rolled up, a number of companies that are involved in manufacturing a variety of car parts, but the essence of this company is that they are process engineers," Semple says, explaining that CIE acquires low-margin businesses and makes changes that improve profitability. Since the fund first invested

(over please)

VanEck Emerging Markets

	TOTAL RETURN 1-Year	5-Year*	10-Year*
GBFAX	39.5%	7.5%	5.2%
MSCI EM IMI	26.1	5.8	4.0

TOP 10 HOLDINGS

Company / Ticker	% of Portfolio**
Tencent Holdings / 700.Hong Kong	6.8%
Alibaba Group Holding / BABA	6.1
Samsung Electronics Pfd / 005935.Korea	5.5
Ping An Insurance / 2318.Hong Kong	3.8
Sberbank of Russia / SBRCY	3.7
Naspers / NPN.South Africa	3.5
HDFC Bank / HDFCB.India	2.9
JD.com / JD	2.3
CIE Automotive / CIE.Spain	2.1
Beijing Capital Int'l Airport / 694.Hong Kong	1.9
TOTAL	**38.6**

*All returns as of 3/21, 5- and 10-year returns are annualized.
**As of 2/28

Sources: Morningstar; Van Eck Securities

in April 2015, the company has improved overall margins from 2.8% to more than 12%, he says, and yet the stock trades at 14 times forward earnings. "It's a bit of an orphan, because European funds consider it emerging markets, and yet it's based in Spain, so all the emerging market investors don't really know about it."

Semple made the leap from law to finance working for an Edinburgh-based asset manager, but did manage to make his way back to Asia, working for a Hong Kong investment bank that subadvised an emerging market fund for VanEck. When the Asian financial crisis hit, VanEck brought the fund's management in house and relocated Semple and two of his colleagues to its New York headquarters. That was 20 years ago.

Despite a universe of thousands of stocks, Semple—whose team includes a deputy manager and two senior analysts—is able to quickly whittle down the list by tossing out cyclical companies with low liquidity and poor corporate governance. Based on their research, they eventually get to a "focus list" of about 150 companies they either own or have waiting in the wings. Then they put together a portfolio that balances country, sector, and macroeconomic risk. If Semple is worried about a weakening currency, for example, he might tilt the portfolio toward exporters.

"We travel a lot," Semple says. "A very rough benchmark for us is at least 200 company meetings per person, per year." It was through such travels that Semple first learned about Transaction Capital (TCP. South Africa), a South African company that provides financing and other services to the owner-operators of minibus taxis. "These are 18-seater taxis that gather on a street corner and follow a fixed route; they are a fundamental part of transportation," says Semple, who first invested in July 2016 and thinks the company can grow earnings 20% a year for the foreseeable future. While the market grows, Transaction Capital has improved its outcomes through technology that tracks minibus movement. "Not only do they know where the collateral is, they also know if the operator is working and where he's going," he says.

Retail is a tough business, and particularly in Taiwan, but discount chain Poya International (5904.Taiwan) has managed to improve its operating margins by fine-tuning store formats and strategically adding new locations, about 180 across Taiwan. "They are the equivalent of a Dollar Store," says Semple, who first started buying the stock in August 2014 when the company had fewer than a hundred locations. With a forward PEG ratio (price/earnings divided by growth) of about 1.1, says Semple, the stock still qualifies as a bargain. Because most of its items are inexpensive last-minute purchases, says Semple, there is little risk of extinction à la e-commerce.

Semple is willing to venture into frontier markets, provided there is an opportunity for persistent growth at a great price. Such has been the case for Bank of Georgia, which trades as BGEO Group (BGEO. UK) on the London Stock Exchange. Since the fund invested in 2012, the bank has met or exceeded its return-on-equity target of 20% a year—including about 25% ROE in 2017. Even so, the stock's forward price/earnings ratio of less than nine times earnings translates to a 0.46 PEG. "Georgia has its challenges, including a somewhat aggressive neighbor [Russia], and its cuisine," says Semple, but the bank is steadily and visibly gaining ground every year.

IMPORTANT DISCLOSURES

Performance History: Average Annual Total Returns (%)
As of 12/31/2017

	1 YR	3 YR	5 YR	10 YR
VanEck Emerging Markets Fund: Class A				
NAV	49.70	9.08	7.49	2.15
Max 5.75% Sales Charge	41.12	6.95	6.22	1.55
MSCI EM IMI	37.28	9.39	4.84	2.19
MSCI EM Index	37.75	9.50	4.73	2.02

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Expenses: Class A: Gross 1.53% and Net 1.53%. Expenses are capped contractually through 05/01/18 at 1.60% for Class A. Investment returns and Fund share values will fluctuate so that investors' 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).

The Fund's inception date was December 20, 1993, but prior to December 18, 2002, it operated with a substantially different investment strategy. Specifically, it invested primarily in the common stocks and other equity securities of global large-cap growth companies and could invest no more than 10% of its assets in emerging markets securities.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results; current data may differ from data quoted. Current market conditions may not continue. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

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. 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 Investment Market Index (MSCI EM IMI) is a free float-adjusted market capitalization index that is designed to capture large-, mid- and small-cap representation across 24 emerging markets countries. Emerging Markets countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. The Morgan Stanley Capital International Emerging Markets (MSCI EM) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI EM Index consists of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

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 emerging markets securities, which tend to be more volatile and less liquid than securities traded in developed countries. 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. The Fund is subject to risks associated with investments in derivatives, illiquid securities, and small or mid-cap companies. The Fund is also subject to inflation risk, market risk, non-diversification risk, and leverage risk. Please see the prospectus and summary prospectus for information on these and other risk considerations.

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