

Transition Kicked into High Gear Presents Opportunity



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VanEck Environmental Sustainability Fund

ENVAX | ENVIX | ENVYX

The Russia-Ukraine conflict prompted nations to reconsider energy policies and expedite carbon reduction plans. Volatility in Q1 allowed favorable entry to sustainable growth opportunities.

More Than Meets the Eye

The first quarter of 2022 proved no shortage of activity as nations across the world scrambled to reassess their energy policy amidst the Russia-Ukraine crisis. Perhaps somewhat reminiscent of Russia's own military tactics, the European Union's (EU's) "ask questions later" approach to energy reform was on full display, with definitive plans to reduce dependency on Russian gas released only 12 days following the invasion. Dubbed REPowerEU, the bulk of the plan focuses on diversifying EU's gas supplies while simultaneously speeding up the rollout of renewables. It is a culmination of small actions, but upon closer look, each step function change requires a tremendous pull forward of previous targets from the EU's carbon reduction plan announced last year, Fit for 55. For example, the 20 billion cubic meters (bcm) equivalent of front loading wind and solar installations implies a near doubling of annual installations from 2021 levels – prior expectations were for modest growth in the teens.¹

Reducing dependence on fossil fuels requires a multi-pronged approach, such as the case with Europe's recently proposed energy reform plan for natural gas imports.

¹ <https://iea.blob.core.windows.net/assets/5ae32253-7409-4f9a-a91d-1493ffb9777a/Renewables2021-Analysisandforecastto2026.pdf>

Average Annual Total Returns (%) as of March 31, 2022

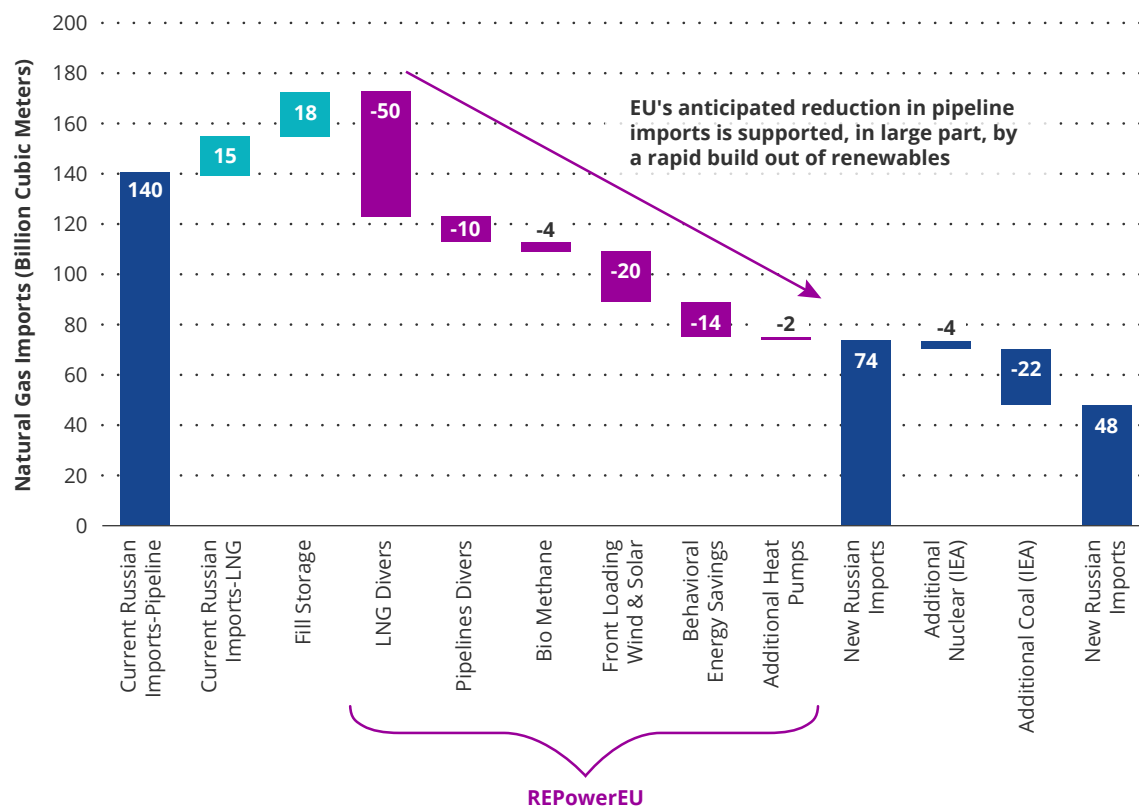
	QTD†	YTD	Life
Class A: NAV (Inception 7/13/21)	-7.28	-7.26	-10.08
Class A: Maximum 5.75% load	-12.59	-12.59	-15.25
MSCI All Country World Index ¹	-5.26	-5.26	-0.75

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. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

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.

Europe's Plan To Reduce Its Dependency on Russian Natural Gas Imports



Source: IEA, EU Commission. Data as of March 2022. "LNG" refers to liquefied natural gas.

Skeptics question the ability of the EU to achieve these lofty targets, as the building of these projects and related infrastructure will undoubtedly overextend an already stretched supply chain and add to inflationary worries. We are more optimistic; we believe that the ongoing energy transition leading up to this crisis has now been kicked into high gear. The near term should be an opportunity for great operators to utilize built out supply chains and healthy balance sheets to deploy at a faster pace, as well as provide new entrants with truly game changing technologies to accelerate to commercial scale. Despite the urgency to speed up the transition, our view is that the global markets are more selective toward unproven technologies and require a watertight pathway to viability and soon thereafter profitability. The next leg of the transition will be bumpy, but will yield many interesting investment opportunities.

A look back on the quarter

The [VanEck Environmental Sustainability Fund \(ENVAX\)](#) returned -7.26% (excluding sales charges) during the first quarter of 2022. Inflationary pressures and supply chain woes kept a lid on growth stocks broadly, while unfavorable regulatory dynamics pressured certain sectors.

▪ Renewable Energy led performance amidst growing supply chain disruptions.

This past February, a small domestic solar panel manufacturer filed a request with the Department of Commerce (DoC) for an investigation into antidumping of solar modules and cells – specifically, whether the components were being manufactured in China and assembled in Cambodia, Malaysia, Thailand and Vietnam. The decision of the DoC has resulted in a halt of panel imports, and the investigation timeline draws a final determination due in January 2023. As solar panels from these countries represent 80% of U.S. imports with potential tariffs retroactive to today, significant disruption is expected in panel supply as the cost uncertainty is causing buyers and sellers to pause on project advancement as they await more clarity. We expect this to impact utility scale solar projects most heavily, as panel costs are a greater proportion of the overall project cost and returns tend to be tighter than for their residential peers.

However, this overhang impacts select parts of the supply chain less directly, particularly those exposed to storage and Europe. Our solar inverter holdings SolarEdge (3.62% of fund assets as of end-March) and Enphase (3.74%) led performance in the quarter, given significant European residential and commercial growth and their ability to weather the supply bottlenecks better than their peers.

- **Advanced Materials and Smart Resource Management – tailwinds were stronger than ever, but supply chains were still crippled.** China's COVID shutdowns have impacted production of critical parts of the battery and electric vehicle (EV) supply chain. Global demand for batteries has continued to grow, particularly in light of REPowerEU, as storage is viewed as the linchpin to renewables adoption. With 80% of the world's batteries coming out of China/South Korea/Japan, China leading the pack with recent innovative technologies to further reduce battery system costs, the Zero COVID policy has further exacerbated the global battery shortage.

We ultimately believe that economics will prevail and that companies with an established supply chain and preferential suppliers will weather the disruptions better, but the near term will impact manufacturers across the board. Manufacturers in industries impacted by rising commodity costs and the semi shortage struggled with margin growth this quarter, despite continued strength in backlog and orders (Infineon (2.63%), Atlas Copco (2.29%). This was offset by our allocations toward upstream plays in the battery supply chain – including Piedmont Lithium (2.22%) and MP Materials (1.43%) – we believe stand to benefit alongside the broader commodity rally, as do infrastructure plays, Quanta Services (4.00%) and EVgo (2.14%).

- **Agriculture Technology was largely aided by commodity inflation.**

The agriculture markets have witnessed record high food prices, amplified by the Russia-Ukraine crisis given both countries' dominance in the wheat trade (together they amount to more than a quarter of the world's wheat supply²), as well as ripple effects on fertilizer and feedstock prices. In the quarter, this benefited Deere & Co (3.46%), Darling Ingredients (2.49%), and Bunge (2.24%). Companies closer to the end consumer, bearing the brunt of input cost inflation, underperformed.

Top Quarterly Contributors/Detractors

Holding	End Weight	Est. Contribution	Comment
Enphase	3.74%	0.79%	Resilient supply chain and ability to remain competitive allowed for increased pricing, as well as anticipation toward rapidly entering the European market this year with a premium product
Quanta Services	4.00%	0.76%	Continues to benefit from tailwinds in utility infrastructure spend
SolarEdge	3.62%	0.72%	Exposure into rapidly growing European residential and commercial and industrial (C&I) markets as well as expansion into related verticals outside solar
Holding	End Weight	Est. Contribution	Comment
Infineon	2.63%	-1.09%	Cycle concerns and continued supply chain shortages impacting near term profitability
Stem	2.30%	-1.02%	Stronger backlog offset by margin weakness given supply chain challenges and higher operating expenses
Atlas Copco	2.29%	-0.79%	Impacted by ability to pass along pricing given long duration contracts

Source: FactSet; VanEck. Data as of March 31, 2022. Contribution figures are gross of fees, non-transaction based and therefore estimates only. Figures may not correspond with published performance information based on NAV per share. Past performance is not indicative of future results. Portfolio holdings may change over time. These are not recommendations to buy or sell any security.

Positioning Changes: Finding Value in the Near Term

We made a number of changes to the portfolio during the quarter, as dislocations and volatility provided a good entry point to some holdings we view as solid growth operators.

We initiated positions in LG Energy Solution (1.82%) and Contemporary Amperex Technology (1.66%). We believe these are high conviction plays within the EV battery manufacturing space that are providing low cost and high volume batteries in a market deeply short on supply.

On the solar supply chain, we added to our positions in SolarEdge, Enphase, and Stem (3.62%, 3.74% and 2.30%, respectively). Inverters, in our view, are best positioned to benefit from some of the regulatory and trade headwinds hitting the entire supply chain, and these companies have proven to be resilient over the past two years during COVID related dislocations in shipping and manufacturing.

Conversely, some of these same regulatory issues in the solar industry were the main driver behind exiting one of our long-held names in the space, Sunrun (not held as of end-March). A lack of clarity on California's revised net metering proposal cast a pall on the near-term outlook for what is currently the largest residential solar market in the U.S.

We established two new positions in agriculture technology to take advantage of the fertilizer shortage caused by the Russia-Ukraine crisis, including OCI (0.35%) and Yara (0.49%). We added to our Oatly (1.32%) position given increased conviction on its ability to enter new geographies and end markets, largely ignored by the market.

² Agricultural Market Information System (<https://app.amis-outlook.org/#/market-database/supply-and-demand-overview>)

Important Disclosure

All company, sector, and sub-industry weightings as of March 31, 2022 unless otherwise noted.

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¹The MSCI All Country World Index (ACWI) 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. ²Source: <https://iea.blob.core.windows.net/assets/5ae32253-7409-4f9a-a91d-1493ffb9777a/Renewables2021-Analysisandforecastto2026.pdf>

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.

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