

## Manager Commentary: On the Emerging Markets

### Emerging market equities impacted by global downturn in 3Q

By: David Semple, Portfolio Manager

#### Performance Review

The Van Eck Emerging Markets Fund (the "Fund") lost 25.8% in the second quarter (excluding sales charge), while the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index lost 22.5% for the same period.

#### Average Annual Total Returns (%) as of September 30, 2011

	3Q11 <sup>1</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-25.88	-20.58	0.93	10.84
Class A: Maximum 5.75% load	-30.15	-25.18	-0.26	10.20
MSCI EM Index	-22.46	15.89	5.17	16.41
MSCI EM Small Cap Index	-23.75	-20.65	7.53	17.33

<sup>1</sup>Quarterly returns are not annualized.

#### Expenses: Class A: Gross 1.74%; Net 1.74%.

Expenses are capped contractually until 05/01/12 at 1.95% for Class A. Cap excludes certain expenses, such as interest.

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 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 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](http://vaneck.com).

#### Market Review

Global equities suffered from a broad-based sell off in the third quarter as the markets were fearful that European policymakers would not be able to find a solution to Europe's debt and banking problems. The United States also added to the uncertainty as a deadline to raise the federal debt ceiling came down to the wire pushing the economy to a near-brush with default. Against these uncertainties and significant risk events, emerging market equities suffered from heightened risk aversion and witnessed a strong correction in local equity prices. Deleveraging and capital outflows also led to emerging market currency weakness as

a flight-to-safety trade led to higher demand for perceived safe-havens like the U.S. dollar and gold. Despite equity market reactions, emerging market macro fundamentals remain in a relatively favorable position compared to developed market peers. For the most part, emerging market economies and their banking sectors are not as financially levered. Additionally, emerging market central banks have a broader array of monetary policy tools at their disposal to stimulate growth in their respective markets should the global economy enter a recession.

From a regional perspective, Emerging Asia proved to weather the downturn relatively better than other emerging market regions by declining -21.9% for the quarter. Emerging Europe, Middle East and Africa (EMEA) and Latin America both underperformed the MSCI EM Index with -24.2% and -24.6% returns respectively. From a sector perspective, telecommunications and consumer staples were the best performers within the MSCI EM Index. Financials and materials were laggards, as these cyclical sectors were hampered by expectations of a moderation in global economic growth.

#### Fund Review

Outperformers for the Fund during the third quarter included Brazilian shopping mall developer, BRMalls (1.8% of Fund net assets). Members of the research team traveled to Rio de Janeiro during the quarter to check in with management and to tour some of the company's properties. Overall, we came away with positive impressions as the company has been successful in executing their diversified growth strategies of acquiring existing malls in the market and developing their own greenfield projects. The company has a very defensive growth profile as they engage in a high margin business with highly visible and stable cash flow projections due to their tenants signing long term contracts that are adjusted annually for inflation. Detractors for the fund in the quarter include Russian food retailer, X5 Retail Group (0.5% of Fund net assets). Recent trading updates from the company indicated that their sales growth has been coming in a little lighter than what the market was expecting. This appears to be due to deterioration in the macroeconomic environment which is forcing customers to trade down to more value-oriented products as consumer confidence has weakened in Russia.

In terms of positioning, the Fund has moved from an overweight position in Russia from the beginning of the quarter to underweight. The Russian economy tends to be highly correlated to moves in the oil price and is highly cyclical in nature due to the economy's large dependence on commodity exports. The Fund's largest overweight position by sector remains consumer discretionary, which we believe

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should be somewhat insulated from slower growth in developed markets given rising real income levels for middle class consumers within emerging markets. Additionally, the Fund's cash levels increased throughout the quarter in response to increased market volatility. At quarter's end we were able to redeploy the cash in select stocks which we believe were oversold. We continue to see attractive entry points for a number of quality companies in our universe post the recent market turmoil and will seek to take advantage of such opportunities as they arise.

#### Market Outlook

We remain cautiously optimistic on emerging market equities as a great deal of pessimism appears to be priced into the markets at the moment. Our optimism revolves around the fact that valuations for emerging markets remain attractive as of the end of the quarter, with some countries trading at discounts to valuations reached during the depths of the 2008 financial crisis. Additionally, the majority of the countries and companies within our universe have strong fundamentals heading in to the current downturn when compared to their situation prior to the 2008 downturn. Finally, in our opinion, pessimism on China is exaggerated as concerns on shadow banking, ghost cities and hard landings are being used to accentuate the negatives and do not represent the market in its entirety.

All company weightings as of September 30, 2011.

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 Morgan Stanley Capital International (MSCI) Emerging Markets Index, captures 60% of the publicly traded equities in each industry for approximately 25 emerging markets. The Morgan Stanley Capital International (MSCI) Emerging Markets Small Cap Index, targets companies that are not in the standard emerging markets index. The MSCI Emerging Markets Large Cap Index is calculated with dividends reinvested. The Index target a coverage range around 70% of free float-adjusted market capitalization in the emerging markets.

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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 emerging market 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, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, CMOs and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk and leverage risk. Please see the prospectus and summary prospectus for information on these as well as other risk considerations.

**Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.**

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