

Manager Commentary: On the Emerging Markets

Emerging market equities experience “relief rally” in 1Q

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the “Fund”) advanced 21.57% in the first quarter (excluding sales charge), while the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index gained 14.14% for the same period. To compare, the MSCI Emerging Markets Small Cap Index advanced 16.67%, for the same period.

Average Annual Total Returns (%) as of March 31, 2012

	1Q12 ¹	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	21.57	-8.61	0.51	12.17
Class A: Maximum 5.75% load	14.53	-13.89	-0.67	11.50
MSCI EM Index	14.14	-8.52	4.97	14.47
MSCI EM Small Cap Index	16.67	-12.43	5.26	15.29

¹Quarterly 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.

Market Review

Emerging market equities and the Van Eck Emerging Markets Fund (“the Fund”) experienced a great start to 2012. In part, this was a relief rally related to a feeling that the situation in Europe was, in some way, “backstopped”. Adding to this feeling was the upside surprise of several U.S. economic data points. Positioning was fairly negative going into the first quarter, resulting in an appreciable scramble for market exposure during the quarter.

Emerging markets benefitted from easing concerns in developed markets. Better demand from the U.S. has started to be reflected in trade data, and extreme pessimism about the Eurozone would appear to have been partially allayed for the time being. In addition, and intrinsic to emerging markets, we saw earnings downgrades start to level off, and the attitude towards China’s growth become more balanced.

The 2011 reporting season for emerging markets was relatively unremarkable. Broadly speaking, most companies met expectations, but those expectations had been aggressively cut in the second half of last year. After the rally of the first quarter, forward valuations appear to us to be only slightly cheap. But we do think that, on balance, we will see a modestly better than expected outcome for earnings in 2012. For the most part, revenues have held up fairly well, but margins disappointed. We think that quiescent input prices, and the impact of a modestly better global demand outlook, will translate into earnings upgrades for the balance of the year. Combined with ample liquidity, which tends to push up valuation multiples, we anticipate tangible gains for the balance of the year.

Fund Review

The Fund benefitted from an overweight position in Chinese equities (22.8% of Fund net assets). However, there are still many doubters on the subject of Chinese economic growth. For the last year or so, most of the debate has been framed in terms of “hard landing” versus “soft landing.” We don’t think these terms are particularly helpful, partly because the definition is lacking and because China’s economic growth will naturally slow down over the long term. The days of persistent double digit growth are behind us, but we feel that fears of some kind of “crash” are wide of the mark. We concede that there is a reasonably high degree of uncertainty about the immediate trajectory of China’s growth, but we don’t think that investors should get carried away by the scare stories. Shaky video camera footage of ghost cities, exposing of seedy companies and concerns that local government debt is essentially some form of ponzi scheme all make good copy. All have a kernel of truth in them. All are exaggerated. All have to be seen in the context of the vibrant growing economy that is still transforming from a command, investment-driven economy to more of market-based, private-led, consumptive economy. We believe that it is equally important for us to focus on real longer term issues such as interest rate reform, property tax, renminbi internationalization, as well as the communist party’s developing attitude to the emergence of so-called netizens and their social media network.

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But, we are closely following the most immediate information on the state of the Chinese economy. Tentatively, the news is good. Whilst January and February numbers were weaker than expectations for a number of sectors, as we moved into March there are real, tangible signs of a pickup in activity with confirmatory signals from a number of sectors – steel, cement, container manufacturers and consumer plays. Broad enough that, for now, we believe that the first quarter will probably be the weakest quarter of 2012. We see no reason why China can't print an economic growth number at around 8% or perhaps slightly higher.

The Fund's positioning in terms of countries and sectors did not significantly change over the quarter. We continue to seek companies that are fully exposed to the secular and emerging growth themes in emerging markets. We have taken profits on some of the individual stocks around those themes and combined with inflows, have let our cash position accumulate to a higher than normal level. This does not mean that we have a negative outlook, simply that we anticipate something of a hiatus in the upward movement of emerging market equities. We want to have some ammunition, in case of some market uncertainty as we start the second quarter. As we write, there is much less of an upward surprise to the U.S. economic data, and headlines around the Spanish debt situation are a little troublesome. So a higher cash position could be described as tactical in nature, and will be drawn down as opportunities in individual stocks present themselves. Although we principally look at the world on a stock by stock basis, in aggregate, we continue to underweight in India (2.5% of Fund net assets) and South Africa (3.6% of Fund net assets) relative to the MSCI Emerging Markets Index. India remains challenged by twin deficits (fiscal and trade), is particularly vulnerable to higher oil prices, and decision making at the center is hindered by volatile politics. The South African call is more one of valuation. However, we do have almost as much exposure to the African story through non-South African companies, listed in places like London and Canada. These stocks are principally in the resource sector.

In Brazil, we have some stocks where we have been long-term investors, such as BR Malls (1.7% of Fund net assets) and Localiza (2.0% of Fund net assets). Both business models are attractive in our opinion. But we are certainly not wedded to such names independent of valuation. We have taken some profits elsewhere in Brazil and we have introduced in some new names into the portfolio over the last few months, such as Arezzo (an accessory retailer; 0.5% of Fund net assets) and Brazil Hospitality Group (a hotel operator; 0.5% of Fund net assets).

Russia is a place where we remain fairly constructive. The price of crude has a lot to do with that as the economy (and the listed sector) are geared to the hydrocarbon outlook. Valuations are reasonable, and we have a fairly optimistic sense of the possibilities of a more reform based agenda once Putin has put his government in place. The ruble should be on the stronger side, which helps. The negatives are longer run; demographics are bad, there is a relative paucity of investment opportunities that are non-extractive, earnings growth trails economic growth and corporate governance still has a long way to go. We do hope that the new government will be active in prodding the state owned companies such as Gazprom (0.0% of Fund net assets), Transneft Sberbank (0.5% of Fund net assets) and so on, further down the road of efficiency and transparency.

Finally, turning to Association of Southeast Asian Nations (ASEAN), the relative emergence of Indonesia's investment story has been truly outstanding. Going forward we are lukewarm. In stark contrast to Russia, there is a huge demographic tailwind to Southeast Asia; a very young population is expected to substantially increase the working population in the coming years. Corporate governance is generally acceptable (in an emerging market context), and the domestic investor base is rapidly increasing, broadening and deepening the capital markets. Yet, valuations are demanding. Pretty much everywhere you look, companies trade at healthy premiums. There are some macro economic warning signs. The Indonesian central bank has probably been a little too accommodative and probably needs to tighten a little to prevent an inflationary spike, in our opinion.

Market Outlook

In conclusion, we remain constructive about emerging markets. We think (and hope) that we can, in some sense, move away from the "risk on/risk off" trading that has characterized the most recent period of emerging market history. We are certainly not anticipating outsize gains, but we believe the outlook is conducive for growth-at-a-reasonable-price (GARP) stock picking by a seasoned portfolio management team. We look forward to the rest of the year with confidence and enthusiasm.

All country and company weightings as of March 31, 2012.

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 MSCI Emerging Markets Small Cap Index, targets companies that are not in the standard emerging markets index. The MSCI EM Latin America Index is a subset of the MSCI Emerging Markets Index.

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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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Van Eck Securities Corporation, Distributor
335 Madison Avenue | New York, NY 10017

