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# Manager Commentary: On the Emerging Markets

## Emerging market equities advance cautiously in 4Q

### By: David Semple, Portfolio Manager

**Performance Review**

The Van Eck Emerging Markets Fund (the "Fund") advanced 1.12% in the fourth quarter (excluding sales charge), while the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index gained 4.45% for the same period. To compare, the MSCI Emerging Markets Small Cap Index fell 0.88%, for the same period.

**Average Annual Total Returns (%) as of December 31, 2011**

| | 4Q11[1] | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception 12/20/93) | 1.12 | -26.58 | -2.16 | 9.78 |
| Class A: Maximum 5.75% load | -4.73 | -30.83 | -3.31 | 9.14 |
| MSCI EM Index | 4.45 | -18.17 | 2.70 | 14.20 |
| MSCI EM Small Cap Index | -0.64 | -26.96 | 3.58 | 15.05 |

[1]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.

**Market Review**

We believe that a patch of improving economic data from the United States and the combination of easing inflation and accommodative monetary policy from emerging markets provided a greater level of confidence in the near term outlook for global economic stability. As such, major global equity markets rebounded modestly in the fourth quarter of 2011 after navigating through a stretch of elevated market volatility following Standard & Poor's unprecedented downgrade of the U.S.' AAA credit rating to AA+ in August 2011.

While an unsustainable fiscal situation in peripheral Europe remains, global financial markets appear to have largely adapted to the reality of a slowing European economy, for the time being. Importantly, the fundamental and financial strengths of emerging markets remained evident during the reporting period as many emerging market countries maintained lower debt-to-Gross Domestic Product (GDP) ratios and larger foreign reserves than many developed countries.

From a regional perspective, Latin America outperformed other emerging market regions for the quarter by posting a total return of 8.79% as measured by the MSCI EM Latin America Index. In contrast, Emerging Asia and Emerging Europe, Middle East and Africa (EMEA) both underperformed the index by advancing 3.27% and 2.48% respectively over the quarter. From a sector perspective, consumer staples and utilities were the best performers within the MSCI EM Index. Health care and materials were laggards.

**Fund Review**

Because of the Fund's overweight in the consumer discretionary sector, the Fund is, by design, oriented toward small- and mid-cap stocks. We believe these smaller-cap emerging market equities give investors a significantly better exposure to secular growth themes in emerging markets, and in particular, to domestic demand.

Outperformers for the Fund during the fourth quarter included South Korea-based consumer electronics giant Samsung Electronics (4.4% of Fund net assets). Samsung ended 2011 by posting record quarterly profits on surging sales of its Galaxy smart phones and on a one-time gain from selling its hard disk-drive business. Samsung Electronics sold more than 300 million handsets in 2011, overtaking Apple to become the world's largest smart phone seller. The company also features a market-leading position in OLED (organic light-emitting diode) technology. Another notable performer for the Fund during the quarterly period was Brazilian electronic payment processor Cielo (1.2% of Fund net assets). Cielo has a leading market share position in the Brazilian credit and debit card transaction processing industry. Given the rapid adoption of credit and debit cards in Brazil, this industry, we believe, has a favorable outlook. In our view, the drivers of this growth should prove sustainable and visible regardless of any macroeconomic turbulence that may occur either locally or abroad.

Conversely, key detractors from the Fund's absolute performance during the quarter included two iron ore miners—Vale (1.8% of Fund net assets) which is based in Brazil, and Bellzone Mining (0.5% of Fund net assets), which operates out of the Kalia prospect in

**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.**

Guinea, West Africa. Both companies faced a number of operational headwinds in 2011, including technical, environmental, regulatory and political challenges that ultimately led to higher costs and longer delivery times for new projects. Additionally, while the global iron ore market appears structurally tight from a supply and demand perspective over the medium term, global economic uncertainty and a slowdown in steel production growth in China, led to a weaker iron ore spot market during the fourth quarter of 2011.

In terms of positioning, the Fund has increased its overweight position in Chinese equities over the course of the fourth quarter as we believe China's economic growth should stabilize at reasonably healthy levels, ultimately disproving believers of a hard landing scenario. The increase in China was offset by a decrease in exposure towards India as fiscal and current account deficits, as well as stubbornly high inflation, makes for a challenging environment for the Indian equity market going forward.

The Fund's largest overweight position by sector remains consumer discretionary which we believe 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 has narrowed the extent of its underweight position in the technology sector, primarily by adding to the Samsung Electronics position. Finally, cash levels have decreased throughout the quarter as we were able to redeploy the cash in select stocks which we believe were oversold following the heightened market volatility witnessed in the fourth quarter of 2011.

## Market Outlook

Across emerging markets, we expect GDP growth to be below trend on average, but mostly due to weakness in developed market demand. Underlying demand from within emerging markets should remain buoyant, in our view for several reasons. First, emerging markets have significant tailwinds of demographics and global economic development in their favor. Second, they are generally not burdened with the yoke of oversize government and consumer debt, as is the case with many developed markets. Third, we see solid emerging equity market fundamentals, as valuation multiples of many of the equity markets within the MSCI EM universe appear to already be priced for substantially weaker economic data globally. Even with a better fourth quarter of 2011, risk aversion at the end of the fourth quarter remained high. This left emerging market equities trading at a meaningful discount to both developed markets and to their own historical averages. Despite the potential challenges ahead, then, we maintain our positive secular outlook for emerging market equities and strongly believe there is a favorable balance of risk and reward for the asset class.

All company weightings as of December 31, 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 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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