MARKET VECTORS® ETFs

Investment Case For

# Market Vectors Renminbi Bond ETF (CHLC)

Van Eck® Global

SINCE 1955

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# Agenda

I. The Fund

II. Key Definitions

III. Investment Case Overview

IV. The Case for Renminbi Appreciation

V. New, Fast Developing Chinese Bond Market

VI. Investment Risks

VII. About the Index

# Market Vectors Renminbi Bond ETF (CHLC)



The **Market Vectors Renminbi Bond ETF (CHLC)** seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the **Market Vectors Renminbi Bond Index (MVCHLC)**. The Index is designed to track the overall performance of Chinese renminbi (RMB) - denominated bonds that are available to market participants outside of China issued by Chinese and non-Chinese corporate, government, quasi-government or supranational issuers. RMB bonds included in the Index or the parent company of an RMB bond issuer must have at least one investment grade rating.

## Key Features

**Potential for Currency Appreciation**
China's currency is widely considered undervalued given China's strong economic growth

**Investment Grade* Credit Quality**
Index includes only investment grade bonds or bonds issued by issuers whose parent company has an investment grade rating

**Alternative for Accessing RMB Exposure**
Fund seeks to hold primarily RMB bonds, and as such may be able to track the spot market more closely than Non-Deliverable Forward-based products

## Fund Details

| | |
|---|---|
| Fund Ticker | CHLC |
| Index Ticker | MVCHLC |
| Management Fee | 0.35% |
| Gross Expenses | 0.50% |
| Net Expenses* | 0.39% |
| Rebalance Frequency | Monthly |
| Reconstitution Frequency | Monthly |
| Anticipated Distribution Frequency | Monthly |
| Exchange | NYSE Arca |
| Commencement Date | October 11, 2011 |

*Management fees for the fund are capped contractually at 0.39% until 09/1/2013. Cap excludes certain expenses, such as interest.

* See quality description on page 17

Please refer to slide 2 and 3 for disclaimer about risks of investing in ETFs

# Definition of Buzz Words

**Renminbi** – Abbreviated as "RMB," the renminbi is the official name for the legal tender used in mainland China (but not in Hong Kong or Macau).

**Yuan** – Yuan is the primary unit of renminbi. The distinction between renminbi and Yuan is analogous to that between the pound and sterling. Yuan (pound) is the unit of account, while renminbi (sterling) is the actual currency.

**CNY** – International Organization for Standardization (ISO) approved currency code for the renminbi, CNY is widely used in financial markets to refer to the onshore RMB market.

**CNH** – While not an ISO approved currency code, CNH is widely used in financial markets to refer to the offshore RMB market, based primarily in Hong Kong.

**NDF** – Abbreviation for "Non-Deliverable Forward", a cash-settled, short-term contract on non-convertible foreign currency. They are derivative products with associated risks including illiquidity and substantial risk of loss.

**Dim Sum Bond** – RMB-denominated bond issued in Hong Kong.

**QFII** – Abbreviation for "Qualified Foreign Institutional Investor." It is a program launched in 2002 in mainland China to allow licensed foreign investors to access onshore Chinese securities market.

**PBoC** – People's Bank of China, the central bank of the People's Republic of China.

**SAFE** – State Administration of Foreign Exchange, the state agency tasked with regulating foreign exchange market activities, and managing the foreign exchange reserve.

**HKMA** – Hong Kong Monetary Authority, Hong Kong's central banking institution.

**BoC(HK)** - Bank of China (Hong Kong), the designed clearing bank to settle and clear cross-border RMB FX transactions.

Source: Publically available information

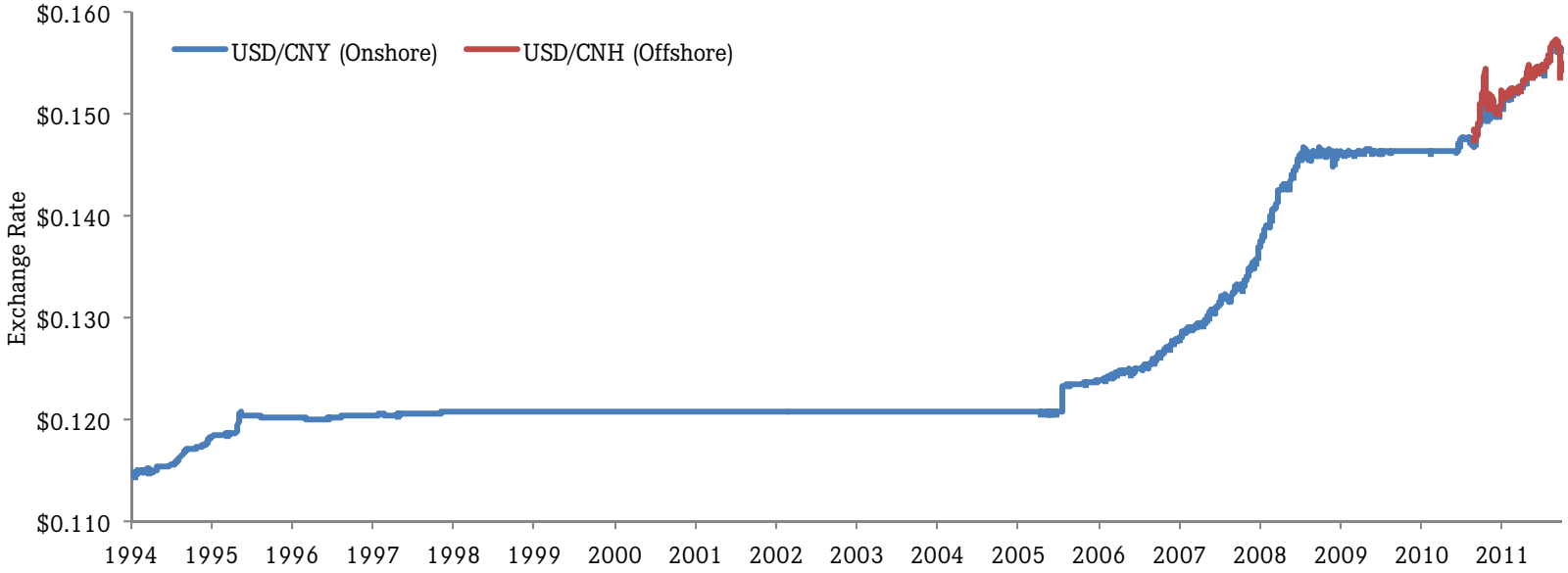
# Investment Case Overview



## Executive Summary:

- **Exponential Economic Growth in China Has Led to Appreciation of Renminbi (RMB)**
  - Expected to appreciate ~5% by 2012, ~ 20% by 2015[1]
- **Prior to 2007, the Renminbi Had Been Tightly Controlled**
  - Government-managed to float within a range
  - Access restricted for non-Chinese investors
- **Offshore Renminbi Market (CNH) Has Developed, Allowing Foreigners Access to RMB**
  - Newly developed "Dim Sum" bond market provides access to currency, and potential for yield

## Historical Performance of Onshore and Offshore RMB[1]:




[1] Bloomberg, September 28, 2011

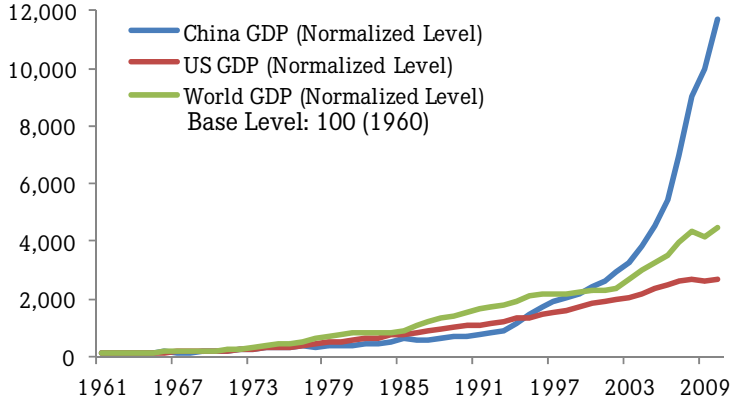
Chart above is for illustrative purposes only and is not indicative of the index or the fund's performance or of the future performance of the asset class.

# The Case for Renminbi Appreciation

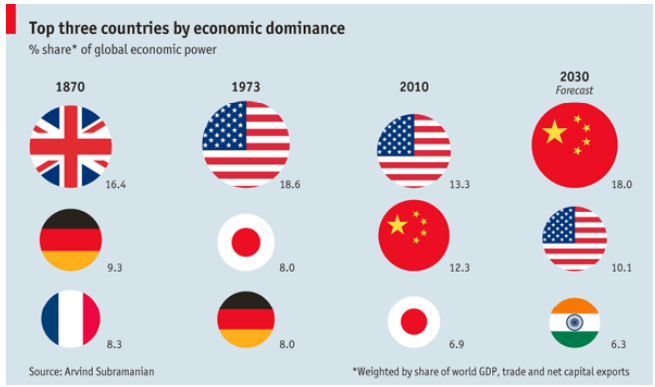


- Given China's economic clout, many market participants believe that the RMB is and has been undervalued, thereby giving Chinese exports a competitive advantage.
- To curb the RMB's rise, China amassed huge amount of foreign-exchange reserves ($3.2T or 54% of GDP, in 2010), the majority of which (approximately $2.0T in 2010) is invested in U.S. Treasuries.[1]

### Exponential Economic Growth in the Last 50 Years[2]

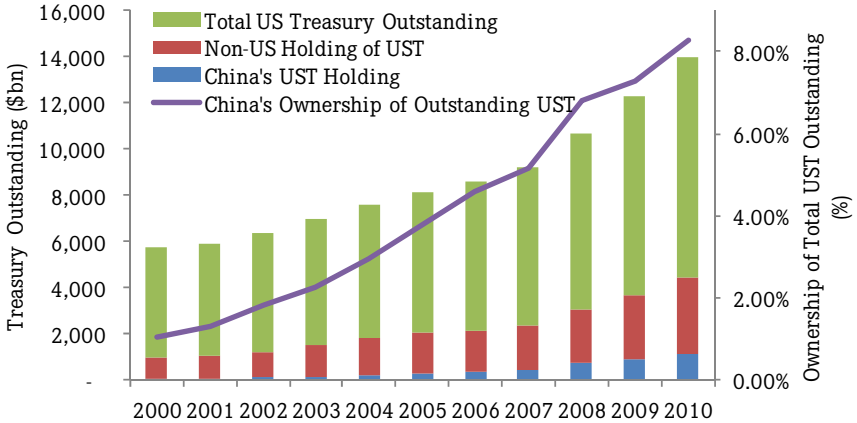



### China Expected to Become World's Largest Economy by 2030[3]




### Undervalued RMB Led to Huge Trade Surplus for China[4]

### China Is Among Largest Holders of US Treasuries[5]




[1] "Climbing Greenback Mountain." The Economist, September 24th – 30th, 2011, pag12-15
[2, 4, 5] Bloomberg, September 30th, 2011
[3] "Spheres of Influence." The Economist, September 9th, 2011
Charts above are for illustrative purposes only and are not indicative of the index or the fund's performance or the fund's performance or of the future performance of the asset class.

## Why the RMB Has Potential to Appreciate:

- **Desire to avoid the "U.S. Dollar Trap"**

  ***Cause:*** Recent global financial crisis and U.S. Federal Reserve's policy of quantitative easing led to unprecedented risks to China's approximately $2.0T worth of U.S. dollar-denominated assets, leading China to conclude that it must reduce reliance on the USD[1]

  ***Effect:*** 1) To reduce reliance on USD, China must strengthen its own currency

  2) On June 19, 2010, China's Central Bank, PBoC, announced that it is prepared to allow the RMB to float more freely against the USD and other foreign currencies [2]

- **Transition from export-led to domestic consumption-driven growth model**

  ***Cause:*** Global financial crisis has weakened economies of many developed countries, stifling demand for Chinese exports

  ***Effect:*** To build up its domestic consumption, China aims to increase consumer purchasing power, as well as curb inflation to prevent its economy from overheating – both positive trends for potential RMB appreciation[3]

- **Ambition for RMB to become the next "reserve currency"**

  ***Cause:*** Given China's heightened gravitational pull in the world economy, the RMB could be an increasingly credible rival to the USD as the next international reserve currency [4]

  ***Effect:*** 1) In March 2009, China's central bank's governor, Zhou Xiaochuan, called for a new reserve currency to replace USD [5]

  2) To achieve status as an international currency, the RMB would need to become fully convertible

  3) China has already taken concrete steps to open its capital markets to foreign investors and more actions are expected[6]

[1,4,6] "From Greenbacks to Redbacks." HSBC Research Report by Qu Hongbin, November 9th, 2010
[2] "China's Central Bank Says It's Ready to Free Up Currency, Making Trade Partners Happy." by Keith Richburg, John Pomfret. www.washingtonpost.com. June 20, 2010
[3] "Yuan Strengthens Most in Two Weeks on Record Reference Rate." Bloomberg News, by Fion Li. September 28th,2011
[5] "China Calls for New Reserve Currency." by Jamil Anderlini. www.FT.com. March 23, 2009



The Case for Renminbi Appreciation

# One Currency, Two Markets, Three Curves



## Previously Closed Market Now Accessible for All

- Prior to 2007, access to RMB market was limited to investors with QFII status or via the NDF market
- In 2007, the Hong Kong RMB bond market (offshore) was established[1]
  - First CNH bond (or "Dim Sum Bond") was issued in June 2007[2]
- In July 2009, China launched a pilot program to allow cross-border trades to settle in RMB; as a result, CNH market saw explosive growth[3]
- Onshore RMB market remains closed to foreign investors
  - Having two separate jurisdictions (Mainland China and Hong Kong) where RMB can exist has resulted in two markets with different supply and demand conditions[4]

## Separate But Related Markets [5]

| Market | Exposure | Regulator | FX Mechanism | Participants |
|---|---|---|---|---|
| CNY | Onshore RMB | PBoC, SAFE | China Foreign Exchange Trading System, Daily fix, PBoC Intervention | Onshore (residents), permitted investors (such as QFII) |
| CNH | Offshore RMB | HKMA, with the cooperation of PBoC | OTC, market clearing | Offshore |
| NDF* | Offshore Non-deliverable Forward | n/a | OTC, CNY fix | Offshore |

*NDF – Abbreviation for "Non-Deliverable Forward", a cash-settled, short-term contract on non-convertible foreign currency. They are derivative products with associated risks including illiquidity and substantial risk of loss.

[1,2,3,4,5] "The Offshore Renminbi." HSBC Research Report, by Daniel Hui, Dominic Bunning. December 1, 2010

Chart above is for illustrative purposes only and is not indicative of the index or the fund's performance or of the future performance of the asset class.

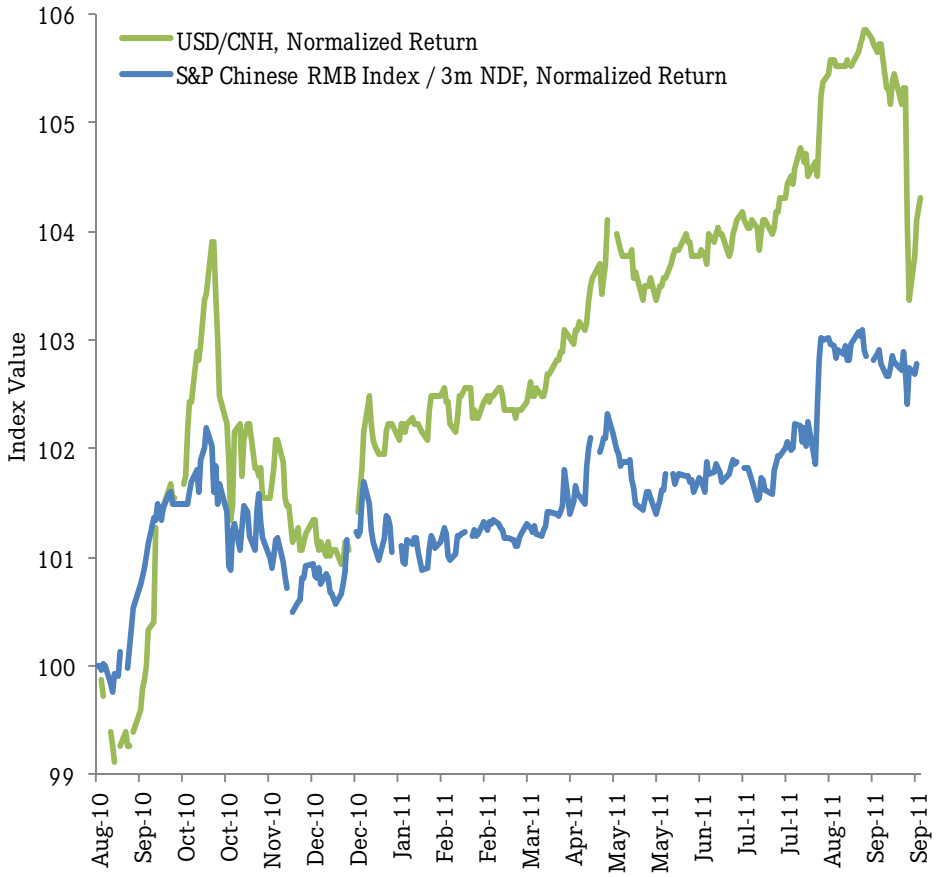
# CNH Market Has Become Dominant Offshore RMB Market

- As of August 2011, "CNH surpassed NDF markets, in terms of daily turnover, as the dominating offshore RMB market."[1]
- "As cross-border capital flow channels open up, NDF is expected to become more of a niche market in the future."[2]

## CNH vs. NDF [3]

| | CNH Market | NDF Market |
|---|---|---|
| **Pro** | • Allows for purchase of real assets such as bonds<br>• Potential to earn positive yield on RMB-denominated assets<br>• Market is rapidly becoming bigger and more liquid | • May be attractive for investors seeking to take large RMB appreciation positions in the short term |
| **Con** | • Market is relatively new and is subject to some regulatory uncertainties in the near term<br>• Bonds have credit risk and duration risk | • Although still liquid now, this market is expected to decline as CNH develops<br>• Negative implied carry cost could be material for long term positions |
| **Daily Trading Volume** | • CNH Spot: $1.5bn<br>• CNH Forwards & Swaps: $2.7bn | • $3.75bn |
| **Investor Base** | • Generally buy-and-hold, long-term investors | • Generally speculative, short-term investor |

## CNH Outperforming NDF Since September 2010 [4]




[1,2,3] "Offshore Renminbi – An Updated Primer." HSBC Research Report, by Paul Mackel, Daniel Hui. September 20, 2011

[4] Bloomberg, September 28, 2011

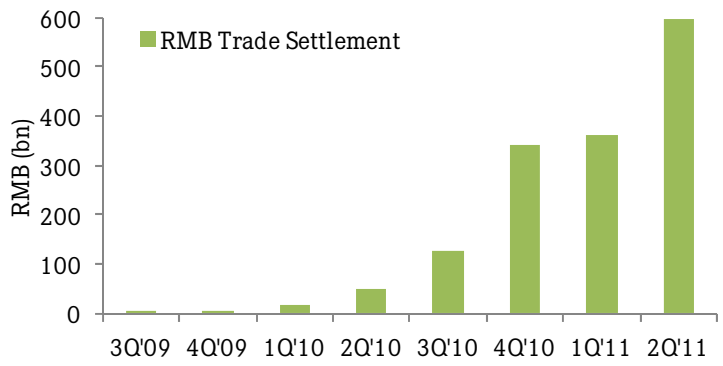
Charts above are for illustrative purposes only and are not indicative of the index or the fund's performance or of the future performance of the asset class.

# Rise of Dim Sum Bond Market

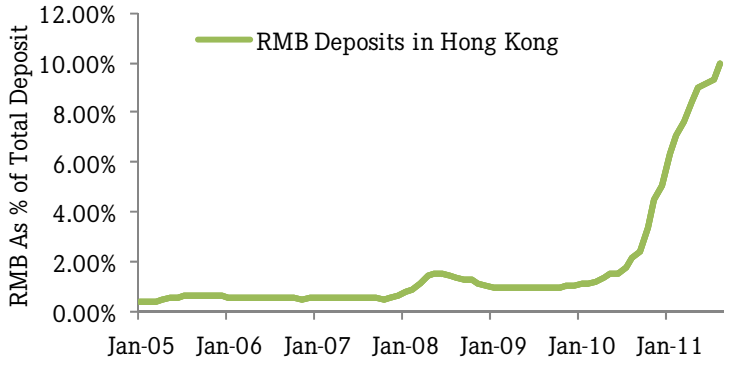


- Key step in the internationalization of RMB and integral to overall development of offshore RMB market is the development and growth of CNH bond market, or Dim Sum bond market.
- Overall size of Dim Sum bond market is linked directly to overall supply of currency in the market.
- 2011 YTD (as of 9/20/11), RMB 138.4bn of Dim Sum bonds have been issued (3x the volume in 2010)

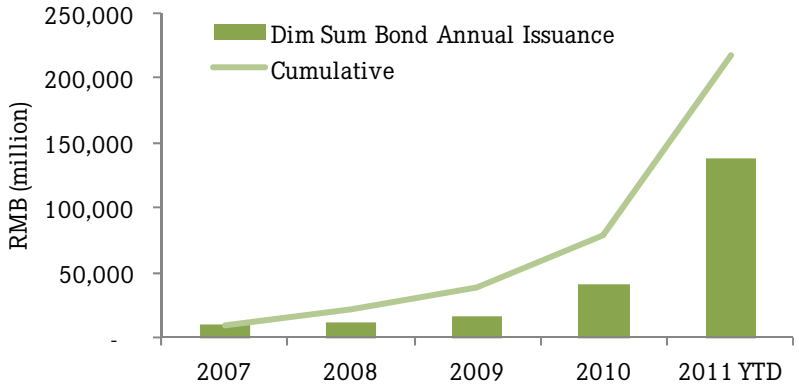
## Growth of RMB Trade Settlement in Hong Kong...[1]



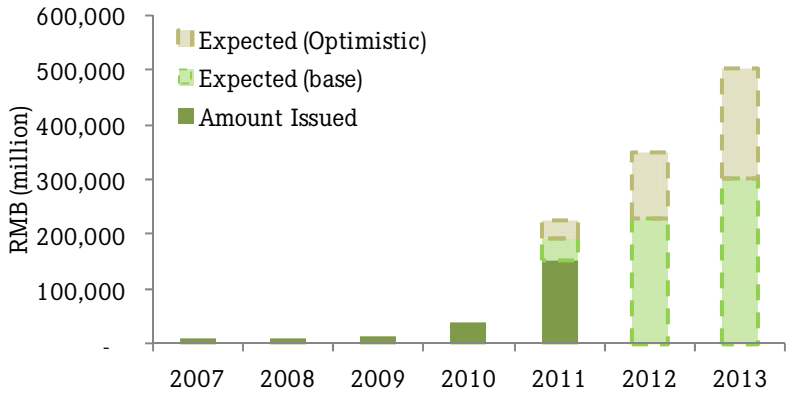

## ...Is Directly Related to the Growth of Offshore RMB Deposits [2]




## Dim Sum Bond Market is Developing Rapidly... [3]




## ...And is Expected to Become a Big Market in the Future [4]

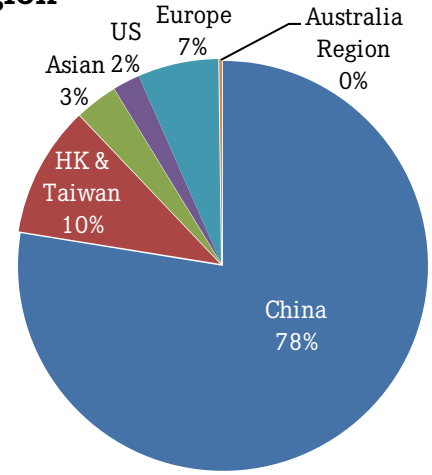



[1,2,3,4] "RMB Offshore Bonds." HSBC Research Report, by Becky Liu, Dilip Shahani. June 20, 2011
Charts above are for illustrative purposes only and are not indicative of the index or the fund's performance or of the future performance of the asset class.

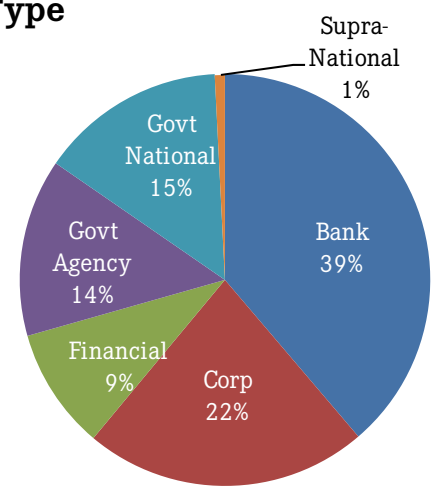
# Dim Sum Bond Market Characteristics

Over RMB 230bn of Dim Sum bonds have been issued since the market developed in 2007[1]

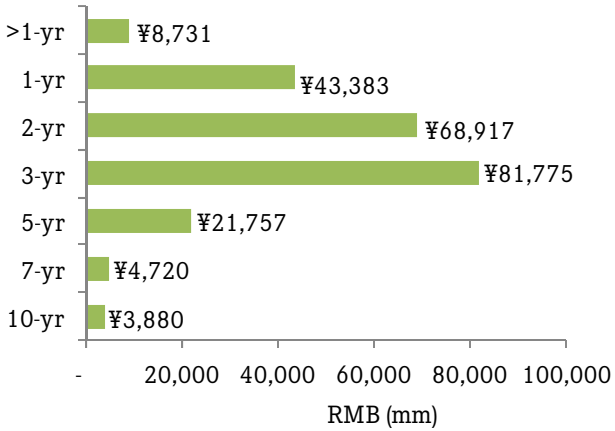
## Issuance by Region




## Issuance by Type

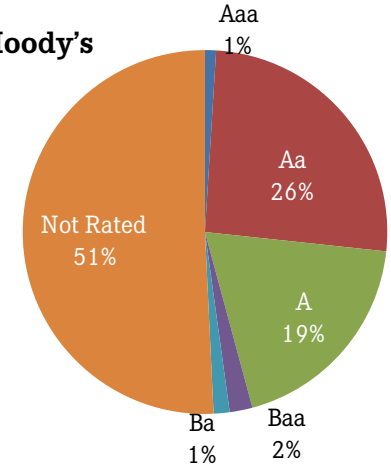



## Issuance by Tenor

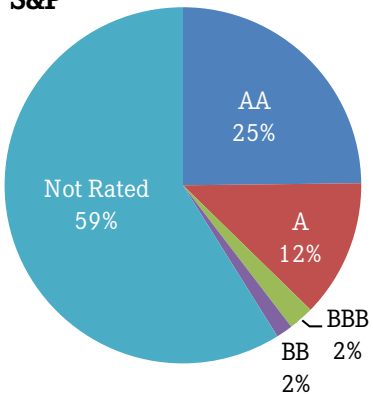



## Issuance by Rating

### Moody's




### S&P




[1] Bloomberg, as of September 28, 2011
Statistics are not representative of Fund or Index.

# Dim Sum Bond Market Characteristics



## Notable Dim Sum Bond Issuers[1]

- Dim Sum bond market is open to both Chinese and non-Chinese issuers
- Why do non-Chinese companies issue in Dim Sum Market? [2]
  - Alternative funding source
  - Attractive funding cost
  - Natural currency hedge for operations in China

**RMB Bond Issuance in HK since Year 2010**

| Issuer | Pricing Date | Tranche Value (RMB100 MM) | Tenor (Years) | Coupon | Issuer Rating (S/M/F) |
|---|---|---|---|---|---|
| Hopewell Highway Infrastructure | 2010-7-7 | 13.8 | 2 | 2.98% | n.a. |
| McDonalds | 2010-8-19 | 2 | 3 | 3.00% | A/A2/A |
| Bank of China | 2010-9-30 | 22 | 2 | 2.65% | A-/A1/A |
| | | 28 | 3 | 2.90% | |
| China Development Bank | 2010-10-11 | 20 | 3 | 2.73%（3M Shibor+10bp） | AA-/Aa3/A+ |
| ADB | 2010-10-19 | 12 | 10 | 2.85% | AAA/Aaa/AAA |
| Sinotruk | 2010-10-22 | 27 | 2 | 2.95% | n.a. |
| China Development Bank | 2010-11-5 | 30 | 3 | 2.70% | AA-/Aa3/A+ |
| Export-Import Bank of China | 2010-11-9 | 10 | 2 | 1.95% | AA-/Aa3/A+ |
| | | 40 | 3 | 2.65% | |
| China Resources Power | 2010-11-9 | 10 | 3 | 2.90% | BBB/Baa2/n.a. |
| | | 10 | 5 | 3.75% | |
| UBS (HK) | 2010-11-6 | 2 | 2 | 2.50% | A+/Aa3/A+（Parent） |
| China Merchants Holdings (International) | 2010-11-17 | 7 | 3 | 2.90% | BBB/Baa2/n.a. |
| Caterpillar Financial Services | 2010-11-24 | 10 | 2 | 2.00% | A/A2/A |
| MOF | 2010-11-30 | 30 | 2 | 1.60% | AA-/Aa3/A+ |
| | | 20 | 3 | 1.00% | |
| | | 20 | 5 | 1.80% | |
| | | 10 | 10 | 2.48% | |
| Galaxy Entertainment Group | 2010-12-9 | 13.8 | 3 | 4.625% | n.a. |
| VTB | 2010-12-10 | 10 | 3 | 2.95% | BBB/Baa1/BBB |
| China Power International | 2010-12-14 | 8 | 5 | 3.20% | n.a./n.a./BB |
| ANZ Banking | 2010-12-17 | 2 | 2 | 1.45% | AA/Aa1/AA- |
| World Bank | 2011-1-4 | 5 | 2 | 0.95% | AAA/Aaa/AAA |
| RBS | 2011-1-5 | 1 | 3 | 1.80% | A/A1AA- |
| Sinochem HK | 2011-1-11 | 35 | 3 | 1.80% | BBB+ / Ba1 / BBB+ |
| **Total** | | **398.6** | | | |

Source: Dealogic, as of January 2011

[1] Bloomberg
[2] "Dim Sum Bonds – A Serving of CNH and Synthetics." JP Morgan Research Report, by Yang-Myung Hong, Daniel Fan. March 2011
The above table is not representative of bonds in the Index or the Fund

# Advantages and Risks of Dim Sum Bonds

## Advantages of Owning Dim Sum Bonds:

- **Exposure to a Fast Growing New Market**

  Dim Sum bond issuance volume is expected to grow by more than 270% by 2013[1]; it is also the only way for most foreign investors to obtain direct (non-derivative) exposure to RMB debt assets

- **Potential for Currency Appreciation**

  If China continues its economic ascension and opens up more of its domestic capital markets, the RMB may achieve more prominent international status and greater likelihood of appreciation.

- **Potentially A Better Way to Track the Spot Market**

  Using an ETF holding actual Dim Sum bonds may allow investors to track to the RMB spot more closely than an approach using NDFs

- **Diversify Portfolio by Asset Class, Market and Currency**

  RMB-denominated assets have historically had low correlations[2] to many asset classes, such as domestic stocks, bonds, and money market instruments

## Risks of Owning Dim Sum Bonds:

- **Secondary Market May Offer Limited Liquidity**

  As a relatively new market, the Dim Sum bond secondary market may offer limited liquidity, which can affect investors ability to move in and out of the asset class in a timely fashion

- **Tracks CNH Instead of CNY**

  While closely related to CNY market, Dim Sum bonds are traded in the CNH market, which has been more volatile and has experienced periodic divergences from CNY market

- **Credit and Duration Risk**

  Dim Sum bonds have credit and duration risks, which may affect their correlation to the CNH spot market and result in losses to investors holding such bonds

- **Potential Integration With Global Markets**

  As the Dim Sum bond market becomes more mature, and more non-Chinese issuers participate in the market, it may eventually see increasing correlations with other markets



[1] "RMB Offshore Bonds." HSBC Research Report, by Becky Liu, Dilip Shahani. June 20, 2011
[2] Bloomberg, Sept. 28, 2011
Please refer to slide 2 and 3 for disclaimer about risks of investing in China-related investments

# Investment Risks



**China-Related Investment Risk**
The Chinese economy differs from the U.S. economy in terms of structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, allocation of resources, and capital reinvestment, among others, and these differences may pose risk for investors

**Currency Risk**
A decline in the value of the RMB versus the USD will result in reduced returns, or a loss for the Fund. There are also conversion costs and repatriation restrictions associated with investments in RMB-denominated assets

**Concentration Risk**
As a result of the Index's concentration, a significant portion of the Fund's assets will be invested in financial services industry and sovereign debt and as such is subject to the risks associated with these sectors

**Fixed Income Risk**
Fixed income securities are subject to credit risk and interest rate risks. Issuers of a security may be unable or unwilling to make timely interest payments and/or repay principle on its debt

**Risk of Investing in Foreign Securities**
Bonds in the Fund might be issued by non-U.S. issuers. Investments in the securities of non-U.S. issuers involve risks such as greater market volatility, the availability of financial information, higher transactional and custody costs, taxation by foreign governments, among others

**Liquidity Risk**
RMB Bonds may also have less liquidity and may have greater volatility than other fixed income securities. As a result, the Fund might be unable to dispose of such bonds promptly or at reasonable prices

# Index Methodology



**Market Vectors Renminbi Bond Index** is designed to track the performance of the Chinese renminbi (RMB)-denominated bonds, issued by Chinese and non-Chinese corporate, government, quasi-government or supranational issuers, that are available to market participants outside of mainland China.

| **Constituents**: |
| --- |
| The Index includes fixed-rate offshore RMB-denominated government bonds, quasi-government bonds, supranational bonds and corporate bonds |

| **Quality:** |
| --- |
| Government bonds, quasi-government bond, supranational bonds and corporate bonds are included if the bonds or the parent company of the issuer has at least one investment grade rating by one of Moody's, S&P, Fitch or a local rating agency; and must not be rated "below investment grade" by any one of Moody's, S&P, Fitch or a local rating agency |

| **Maturity:** |
| --- |
| Securities included in the Index must have a minimum of 6 months remaining to maturity |

| **Size:** |
| --- |
| Minimum par value of the bond is greater than or equal to 750 million RMB outstanding |

| **Weighting:** |
| --- |
| The Index uses a modified market cap weighting methodology. Weightings per issuer are capped at 22.5% and the excess weight is redistributed proportionally across all other index constituents |

| **Rebalancing**: |
| --- |
| The Index is rebalanced monthly as of the close of business on the final trading day of each month |

Source: Publically available rulebook http://www.4asset-management.net/en/Research/MV/MV/MVCHLC_assets/MarketVectorsIndexGuideB.pdf