Manager Commentary: On the Emerging Markets

Emerging market equities post solid gains in Q3

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the "Fund") gained 8.96% in the third quarter (excluding sales charge), while the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index returned 7.89% for the same period. To compare, the MSCI Emerging Markets Small Cap Index returned 8.60% for the same period.

Average Annual Total Returns (%) as of September 30, 2012

	3Q12[1]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	8.96	20.18	7.03	-4.45	15.29
Class A: Maximum 5.75% load	2.70	13.23	4.92	-5.57	14.61
MSCI EM Index	7.89	17.33	5.96	-0.98	17.37
MSCI EM Small Cap Index	8.60	15.87	6.84	-0.76	18.06

[1]Quarterly returns are not annualized.

Expenses: Class A: Gross 1.76%; Net 1.76%.
Expenses are capped contractually until 05/01/13 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

This clearly was a solid quarter for stock markets of emerging nations, although it has been a bumpy ride for 2012 year to date. Over the course of the quarter, market-driving news was mixed. It now appears that policy moves in developed markets have reduced the probability of some types of tail risks, at least in the short term. We remain concerned about the political palatability of the monetary policy medicine prescribed by central banks to avoid or moderate recessions around the world. However, we also have some sympathy for the view that unconventional (and unproven) monetary measures may buy the time required for substantial structural change.

Meanwhile, real economic results continue to disappoint around the world. Economic productivity is slowing and global trade is not far from stalling speed. Perhaps the best that can be said is that the pace of decline appears to be moderating. This offers hope for a potential stabilization of GDP growth rates in emerging markets in the last quarter of this year, possibly followed by a mild rebound in the first quarter of 2013. Contemplating lower growth rates around the world, we are mindful that the progress of sorely needed structural reforms in some emerging markets will dictate their relative economic performance over the next few years. We believe that it is likely that emerging economies will still grow more quickly than their developed counterparts due to the significant tailwinds of steady increases in population and household incomes, combined with lower rates of public and private debt. However, we believe that there is a small risk that the gap in GDP growth rates (between emerging and developed markets) will be significantly narrower than in the past. In that case, endogenous policy decisions will take on more importance in the absence of an environment where a rising economic tide lifts all boats. Divergence could increase between emerging markets that make sound policy choices and those that error or delay.

In the third quarter, the weak global economic environment was exposed as many corporations continued to announce disappointing earnings. In short, more emerging market companies missed expectations than beat them. For some time, we have thought that earnings growth this year would moderate to align with weaker economic growth, and analysts now are reducing estimates to match this expectation. This does not mean that we expect widespread corporate distress. After all, corporate balance sheets are in excellent shape in emerging markets, for the most part. However, we believe negative operating leverage soon will be very apparent, and there is a significant risk ahead of further margin squeeze. In our portfolio, we are constantly searching for companies that are making demonstrable progress in reducing costs, which generally has not been a focus in stronger economic times. The good news is that we continue to find many attractive, bottom-up investment opportunities. Also, a more volatile market could create opportunities to buy attractive companies at prices that make sense.

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.

During the third quarter, a prevailing trend in emerging markets has been the relative strength of some smaller economies. For example, the Asian countries of Indonesia, Thailand and the Philippines continue to stand out. In Latin America, Peru and Colombia have continued to perform fairly well.

India is one of the larger countries that have made tangible progress recently – especially in addressing the political gridlocks that had been weighing down the economy. In a fairly bold move (at least by Indian standards), the government announced a series of reform measures including a diesel fuel price hike and the opening of specific sectors to foreign direct investment. Needless to say, the Indian government still has much work to do. In China, the economy appears to be gliding down to a lower GDP altitude. Political transitions may be complicating matters, but we do expect progress on some structural issues, such as liberalizing interest rates and opening the banking sector, once the "New Guard" gets its collective feet on the ground.

Fund Review

The Fund performed well in the third quarter, with the best return concentrated in the later part of the period. We have been actively taking profits in positions where we felt the expected upside was no longer attractive. Stocks that performed well for us included Afren plc (1.8% of Fund net assets), an energy exploration/production company that reported strong results from its assets in Africa and the Kurdistan region of Iraq. Our China positions performed credibly. Hong Kong-based Techtronic Industries (1.9% of Fund net assets), a maker of power tools (Milwaukee, Ryobi, Homelite), benefitted from optimism for a recovery in the U.S. housing market. Our overweight in the consumer discretionary sector was positive for returns. Galaxy Entertainment Group (1.7% of Fund net assets), a Macau casino operator, and Brilliance China Automotive Holdings (1.7% of Fund net assets), BMW joint-venture manufacturer, led the way. We ended the quarter with two positions in Nigeria, a bank and a consumer company, both of which contributed positively.

Our underweight in India detracted from performance, as the market strengthened due partly to the government policy decisions described above. Our biggest single detractor was China Minsheng Banking Corporation (1.6% of Fund net assets), which had been one of the top performers in the previous quarter. Although we have reduced this position, we still see great value as the whole Chinese banking sector has suffered a huge de-rating. Another Chinese stock holding that detracted was Evergrande Real Estate Group (sold the position during the period), a property development company that we have now exited, partly on corporate governance grounds.

Market Outlook

In essence, we think 2013 will be fairly similar to 2012, with slow global growth and a focus on policy decisions, especially monetary. On balance, we expect a mild rebound in real growth in a very liquid environment. Clearly, the outcome of the U.S. elections will have a significant bearing on economies around the world, especially emerging markets that depend on a confident U.S. consumer for exports. While we are cognizant of the macro context, we will continue to focus mainly on bottom-up company stories that have the potential to generate growth and profitability in both strong and weak macro scenarios. Given the disparate nature of emerging markets, there are always company-specific opportunities to be found. We will take advantage of any market dislocations to identify attractive valuations and opportunistic entry prices.

All country and company weightings as of September 30, 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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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. The use of leverage magnifies losses. 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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