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Manager Commentary: Emerging Markets

Emerging market equities pick up speed in 3Q, particularly September

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the "Fund") gained 2.45% in the third quarter (excluding sales charge), underperforming its benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which gained 5.90% for the same period. To compare, the MSCI EM Small Cap Index gained 3.65% for the same period.

Year-to-date as of September 30, the Fund has gained 3.25%, outperforming both the MSCI EM and the MSCI EM Small Cap Index, which lost 4.05% and 0.07%, respectively.

Average Annual Total Returns (%) as of September 30, 2013

	3Q13[1]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	2.45	13.32	2.65	11.39	11.97
Class A: Maximum 5.75% load	-3.47	6.79	0.63	10.08	11.30
MSCI EM Index	5.90	1.33	0.00	7.56	13.16
MSCI EM Small Cap Index	3.65	5.19	-1.11	12.67	14.07

[1]Quarterly returns are not annualized.

Expenses: Class A: Gross 1.67%; Net 1.67%.
Expenses are capped contractually until 05/01/14 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.

Fund Review

Meaningful contributions to Fund performance during the quarter can be principally linked to effective stock selection in consumer discretionary stocks in China. Specifically, impressive gains were achieved in Chinese automobile stocks, which continue to benefit from strong demand in entry-level luxury and SUV categories. The Fund also benefitted from its participation in the initial public offering of the Abu Dhabi based Al Noor Hospitals Group (0.68% of Fund net assets*). In a short period of time, Al Noor's management has successfully executed on their growth plans through their aggressive hiring of doctors which allows for strong increases in patient volumes.

Participation in stocks from the Indian financial sector was the most prominent detractor to Fund performance, as the sector faced heavy pressure over the quarter. The Reserve Bank of India implemented liquidity tightening measures that aimed to moderate the pace of loan growth in the economy and also raised the cost of funding for banks. An additional factor that contributed to the Fund's relative underperformance was our underweighted position in the Russian energy sector relative to the MSCI EM Index, which posted strong gains over the quarter. While Russian oil and gas stocks currently trade at deep discounts to global peers, these stocks fell short of meeting the Fund's investment criteria primarily due to opaque corporate governance practices, bloated capital expenditure programs and uninspiring forecasted earnings growth.

The Fund maintains its overweight in China relative to the MSCI EM Index as we believe that there is clear evidence that the top policy makers have shifted recently toward a more balanced policy position to implement reforms as well as countercyclical policy adjustments. Specifically, China's new leaders have initiated multiple reform measures in various areas which aim to help cut administrative red tape, promote small and medium-sized enterprises (SMEs), and boost investment in railways, environment protection and energy conservation. Additional details regarding the full agenda for reforms are expected to be announced in November as the political elite in China hold their Third Plenary Session of the CPC Central Committee.

Market Review

Due primarily to a more supportive Fed policy and improving global industrial production data, emerging markets rebounded strongly in September off of their summer lows. The theme for the quarter, and for much of this year, has been to avoid countries with deteriorating current account deficits and fiscal deficits. In our view, the emerging market countries that stand out for having the most challenging stance regarding economic deficits would include Brazil, Indonesia, India, Turkey and South Africa. As such, it cannot come as much of a surprise that the equity markets of these aforementioned economies have been the biggest laggards year-to-date as investors have sold out of these markets to a greater degree than other emerging markets.

Compared to other emerging market regions, Asia has the benefit of being a current account surplus region, and has been the best performing region year-to-date within emerging markets. With China growth expectations stabilizing recently, the macro outlook for the region has somewhat improved compared to earlier this year. While skepticism regarding the growth trajectory of the Chinese economy remains, we would like to point out that Chinese equities, as represented by the MSCI China Index, are the only one of the eight largest markets represented in the MSCI EM to have outperformed the benchmark year-to-date, and for the one-year, two-year, five-year and ten-year periods ending September 30, 2013. The driver of China's outperformance has been the superior compounded annual growth rate of the earnings per share (in U.S. dollar terms). The rampant skepticism in the market regarding the health of the Chinese economy has been well flagged in the price-to-earnings multiple de-rating versus MSCI EM over the past five years, as only Russia has been more consistently de-rated over the same time period. We continue to believe that Chinese stocks have been discounted too heavily by international investors and we remain upbeat on both valuations and growth.

Fed tapering concerns hit Europe, the Middle East, and Africa (EMEA) currencies substantially over the quarter, with the South African rand and Turkish lira feeling the brunt of the pressure. As mentioned above, South Africa's current account deficit has been particularly pressured by deterioration in foreign trade. In our view, this is partly due to an ugly string of labor stoppages orchestrated by the country's largest labor unions and weak global demand for South Africa's commodity exports.

Latin American equity returns have been troubled all year by slowing economies and weakening currencies. As such, the region has been the largest underperformer relative to the MSCI EM benchmark on a year-to-date basis. Politics has played a large part in shaping investors preferences for Latin America's largest economies as the Brazilian government has been loudly criticized for their heavy intervention in the domestic economy as they try to engineer inflation lower. The impressive momentum experienced last year in the Mexican market has not been duplicated this year as the much anticipated energy and fiscal reforms have taken a longer and more challenging course toward finding consensus amongst political parties.

Finally, we believe it is important to point out the strong year-to-date performance of the MSCI Frontier Market Index, which returned 18.15% as of September 30, 2013. Frontier markets have outperformed the relatively more mature emerging markets since Mario Draghi's "whatever it takes" speech in July of 2012, and have mostly maintained the gains in spite of all the tapering talk over the summer. These markets have been supported by a strong pace of capital inflows over the past six months as more global emerging market funds increase exposure to Saudi Arabia, the UAE and Nigeria in particular.

Market Outlook

There are some recent signs that macro pressures may be easing in emerging markets. Fed tapering has been delayed and growth expectations have been stabilizing. As a result, emerging market equities have rebounded by more than 10% off of their summer lows and we believe there may be more upside to be realized as price-to-book and price-to-earnings ratios for emerging market equities remain below average both relative to history and to developed market equities.

Longer term, there are some important uncertainties that need to be addressed for emerging market economies. Despite these uncertainties, we believe emerging markets have improved their financial flexibility from periods of crisis witnessed in the past. Looking back upon our 20-plus years of managing investments in emerging markets, we continue to be encouraged by the decreasing levels of external debt relative to gross domestic product (GDP) as well as the increase in foreign reserves for these economies, which we believe should provide them the financial flexibility to manage their way through future bouts of challenging global scenarios.

With these challenges in mind, we remain confident that our proven process of investing with a particular focus on individual stock selection will continue to be a significant contributor. Our growth at a reasonable price (GARP) investment process has allowed the Fund to allocate capital to structural growth stocks which we believe will continue to achieve above average returns relative to our benchmark.

*All country and company weightings as of September 30, 2013.

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 covers over 2,700 securities in 21 markets that are currently classified as emerging market countries. The MSCI Emerging Markets Small Cap Index targets companies that are not in the standard emerging markets index. The MSCI China Indices consist of a range of country, composite and non-domestic indices for the Chinese market, intended for both international and domestic investors. The MSCI Frontier Markets Indices provide broad representation of the equity opportunity set across 32 countries while taking investability requirements into consideration within each market.

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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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