

Manager Commentary: Emerging Markets

Self-Help Compounding Investments

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the "Fund") declined 2.53% in the third quarter of 2014 (excluding sales charge), outperforming its benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which returned -3.36% for the same period. To compare, the MSCI Emerging Markets Small Cap Index declined 1.21% for the same period.

Average Annual Total Returns (%) as of September 30, 2014

	3Q14 ¹	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-2.53	10.14	14.47	8.88	10.91
Class A: Maximum 5.75% load	-8.15	3.77	12.22	7.59	10.26
MSCI EM Index	-3.36	4.66	7.56	11.03	11.03
MSCI EM Small Cap Index	-1.21	9.16	9.99	12.66	12.66

¹Quarterly returns are not annualized.

Expenses: Class A: Gross 1.63%; Net 1.60%.

Expenses are capped contractually until 05/01/15 at 1.60% 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.

Please refer to index descriptions on last page.
One cannot invest in an index.

Market Review

China, in which our Fund allocation remains significantly overweight, remains a focus of attention in the emerging markets. We are, increasingly, seeing the dynamic of quantity vs. quality in terms of growth coming to the fore: for example, the property market may be weak, but will there be any government stimulus? The government has indicated that it is prepared to show flexibility in the quantitative growth targets for the sake of higher quality growth. However, because of the nature of the market, this can, in the short term, be a little challenging. And, whilst we believe reforms are on the right path, some of these reforms, for example, the anti-corruption campaign and the shedding of excess capacity, have impacted growth. Going forward, one of the most exciting market developments will be the launch, on October 27, of the Shanghai-Hong Kong Stock Connect, or so-called "through train". This will, for the first time, allow Chinese investors to trade more than 250 Hong Kong-listed companies, whilst, at the same time, providing Hong Kong investors direct access to Shanghai-listed stocks or A-shares.

This year's busy election season across the emerging markets is finally drawing to a close. In India, following the decisive win for the Bharatiya Janata Party (BJP), we still believe that, with continuing optimism for acceleration in capital expenditure and better governance, the outlook for the country remains positive.

During the quarter Saudi Arabia announced that, in the first quarter of next year, foreign investors will, for the first time, be able to buy and sell shares in the stock market. The prospect of potential quality and value investments in the country is particularly exciting to us.

The last emerging markets country facing a major election this year is Brazil: the presidential election is on October 5¹. Following his death in a plane crash, key presidential candidate Eduardo Campos' running mate, Marina Silva – a former Minister of Ecology – is now in a leading position in the presidential polls. The race between Ms. Silva and incumbent, Dilma Rousseff, appears to be neck and neck and, at this time, too close to call. However, Ms. Silva's very presence in the race has, in the context of a sluggish economy, sparked hope of reforms. And, somewhat atypically for a Brazilian politician, she has produced some really quite detailed plans of what she hopes both to do and achieve.

¹Since no candidate in the presidential and gubernatorial elections received more than 50% of the vote on October 5, a second-round election will be held on October 26.

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Mutual Funds

Although a strengthening U.S. dollar has, traditionally, been bad for emerging markets, some of the reasons why it may be strengthening are, now, increasingly important, as the gearing of the emerging markets to the U.S. dollar has diminished. The negative correlation is still there, but the delta² is now less. A stronger U.S. dollar is less important to domestic emerging markets economies, posing, as it does, more of a risk to the more export- and commodity-based economies.

Fund Review

Many of the emerging markets themes that performed well in first half of the year started to reverse in the third quarter of 2014. Reforms and elections in emerging markets caused shares of companies such as Petrobras³ and China Mobile³ to rally this year. These companies do not fit in our structural growth philosophy, and we believe that the rally was mostly for tactical reasons. However, this trend reversed rather sharply in September. Health care in India and China, financials in Saudi Arabia and industrials and internet in China were among the top structural growth themes that contributed positively to the Fund's performance during the quarter. Also under-exposure to materials and specifically to stocks such as Petrobras also worked in the Fund's favor.

On the other hand, structural growth stocks in the consumer discretionary and the energy sectors, which performed well for us in the first half of the year, gave back some of those gains during the quarter. The gaming industry in Macau continued to perform poorly during the quarter, joined by companies in the communications sector in India (DEN Networks - 0.6% of Fund's net assets*) and airline industry in Panama (Copa Holdings - 1.3% of Fund's net assets*).

On a sector level, industrials, health care and our underweight to materials contributed most to performance; whereas consumer discretionary, consumer staples and energy detracted during the third quarter of 2014.

On a country level, stock selection in China, India and Saudi Arabia contributed to performance during the quarter, while stock selection in Brazil and South Korea detracted from performance. However, as a bottom-up investor, seeking potential opportunities across emerging markets, and being geographically-agnostic within the emerging markets, individual stock selection is of paramount importance to us. Indeed, our top five performers during the quarter came from several different countries: India, Saudi Arabia and China.

Glenmark Pharmaceuticals (1.6% of Fund's net assets*), one of the Fund's larger holdings, is an India-based manufacturer and marketer of generic and original pharmaceuticals, focusing on dermatology, respiratory and oncological therapies, with its main focus being on India, the U.S. and Latin America. Both its considerable potential and optionality can create substantial and fairly visible longer-term benefits.

Chinese company Wasion Group Holdings (1.4% of Fund's net assets*), one of our holdings that is an example of how we buy both down as well as up the market capitalization range, is setting the standards for "smart" electrical grid meters in the country. The more efficient use of power, resulting from the likes of smart meters, we believe is becoming an increasingly important theme in China (as it is elsewhere). With railways in China finally seeing, after quite a hiatus, a pick-up in spending, Zhuzhou CSR Times Electric Company (0.8% of Fund's net assets*), a manufacturer of mass transit electric drive control and converter systems has been in a good position to benefit. The Saudi British Bank (1.9% of Fund's net assets*) is one of the largest universal banking franchises in Saudi Arabia. It is 40% owned and managed by HSBC. In our view, we can continue to expect structural growth from improvement in the bank's core revenue metrics, strong demographics as well as positive leverage to rising U.S. interest rates. Finally, Baidu (2.3% of Fund's net assets*) continues to strengthen its position in the internet search space in China.

The five companies with the greatest negative performance for the quarter were spread across the globe: Brazil, Hong Kong, India, Panama and Russia.

Estacio Participacoes (2.1% of Fund's net assets*), a provider of post-secondary school education in Brazil, suffered from being somewhat more conservative than other education providers in the country and gave back some of its gains from earlier in the year. Also giving back some of its gains from the first six months of the year, Indian cable operator DEN Networks (0.6% of Fund's net assets*) took a hit when regulators decided to delay the next phase in the digitization of that industry. Copa Holdings (1.3% of Fund's net assets*), the Panama-based airline serving Latin America, has been facing difficulties around when, and at what rate, it can bring out from Venezuela the monies that it has been earning there. We still believe that it remains one of the most efficient airlines in the world and that the worst news is in the price of the stock already. Along with other participants, Galaxy Entertainment Group (0.7% of Fund's net assets*), continues to suffer from the apparent slowdown in the trajectory of growth for "Macau gaming". Galaxy has not been helped either by the aforementioned corruption campaign in China, and new visa regulations that further limit the time visitors can spend on the island. Finally, in Russia, although Mail.ru Group (0.7% of Fund's net assets*) saw a fall in display advertisement revenues hit its bottom line during the quarter, having agreed to buy out the 49% of VKontakte it didn't own and assume management control, the company is now, like Baidu in China, in a strong position as currently the number one networking company in a closed market.

²Delta is the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative.

³The Fund did not own these securities as of September 30, 2014.

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Mutual Funds

Market Outlook

The big question now is: What is going to happen when interest rates normalize (i.e. go up) in the U.S.? Whilst we've got the U.S. markets looking to rate normalization, at the margin, the European markets are weaker, with questions there about deflation and more quantitative easing. Even though we believe it may be "one step back", we still believe it's a case of "two steps forward" for that step back.

The growth outlook for emerging markets is stable to mildly better. But, we still need to focus on companies and countries that can do their own "self-help" and have their own dynamics, rather than playing emerging markets as some kind of "global beta".

The Fund continues to be an actively managed strategy, driven by stock selection. We will continue to attempt to construct a robust, diversified portfolio that represents long-term structural growth opportunities – "self-help compounding investments". We will also continue to resist the siren call of indices for "weightings" in inefficient companies that reduce tracking error, which we believe, could be a poor use of the Fund's capital.

We appreciate the flexibility that allows us to invest in well-priced structural growth opportunities across the market capitalizations. In addition, we also have the advantage of being able to avoid certain larger capitalization names that generally tend to be in cyclical industries and/or may be subject to increased government involvement. As we go forward, we will continue to pursue attractive investments that we believe can deliver the embedded growth that characterizes emerging market countries.

*All country and company weightings as of September 30, 2014.

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.

Diversification does not assure a profit or prevent against a loss.

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Investing involves risk, including loss of principal. 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 markets 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, or political, economic, or social instability. The Fund is subject to risks associated with investments in debt securities, derivatives, illiquid securities, asset-backed securities, CMOs and small or mid-cap companies. The Fund is also subject to inflation risk, market risk, non-diversification risk and leverage risk. Please see the prospectus and summary prospectus for information on these and 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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