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Manager Commentary: Emerging Markets

Cautious Optimism Emerges After a Weak 2013

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the "Fund") gained 7.81% in the fourth quarter of 2013 (excluding sales charge), substantially outperforming its benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which increased 1.86% for the same period. To compare, the MSCI Emerging Markets Small Cap Index increased 1.28% for the same period.

Average Annual Total Returns (%) as of December 31, 2013

	4Q13[1]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	7.81	11.31	2.15	24.66	10.90
Class A: Maximum 5.75% load	1.58	4.91	0.15	23.18	10.24
MSCI EM Index	1.86	-2.27	-1.74	15.15	11.52
MSCI EM Small Cap Index	1.28	1.35	-3.18	19.91	12.27

[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.

In the 2013 calendar year, the Fund gained 11.31%, outperforming both the benchmark MSCI EM Index and the MSCI Emerging Markets Small Cap Index which returned -2.27% and 1.35%, respectively.

Fund Review

Effective stock selection continues to be the driver of the Fund's outperformance in challenging times. This continues the strong validation of our bottom up, active process. By sector, information technology (specifically internet), energy, materials and consumer discretionary led the way. By country, stock selection was notably successful in China, Hong Kong, and India. Our Mexican exposure was a detractor from performance, as we should have had a higher weighting to the country and the stocks that we hold did not participate much in the stronger market.

The stocks that particularly benefitted the Fund included a number of Chinese names. One of these was our long-time holding in Tencent (1.7% of Fund net assets), an internet-based company that continues its progression from a pc/gaming driven company to a more mobile-based story, with increasing avenues to monetize its huge user community. While the stock is certainly not cheap, we believe that its phenomenal opportunities for growth justify the premium rating. A "sleeper" stock that finally got recognized was Rexlot, a lottery operations company in China. The proximate catalyst was the listing of a competitor, but it is gratifying to finally see performance from this longer-term holding. Another favorite, Ezion Holdings (2.4% of Fund net assets), had a very strong quarter. It is an owner and operator of oil & gas service rigs, deployed mainly in Asia. It continued to announce positive contract wins, where the benefits will play out over the next several years.

The top two detractors from performance, by stock, were Emlak (0.7% of Fund net assets) - a Turkish property company - and Kasikorn Bank (1.1% of Fund net assets) in Thailand. We think that both companies have solid Fundamentals and were perhaps the victims of the political issues as described above. Two property stocks that the Fund holds in Brazil also detracted from performance. BR Malls (0.9% of Fund net assets) succumbed to concerns about weaker domestic demand at its malls, while BR Properties (0.5% of Fund net assets) lost ground due to concern about overcapacity in the São Paulo office market.

Market Review

The concern over the potential withdrawal of the unprecedented monetary accommodation that afflicted parts of emerging markets over the summer eased during the fall. Generally, there was more optimism that global growth was on a more solid footing, while there was also more considered reflection about the outlook for emerging markets in a "tighter" world. The hard hit emerging market currencies of the so-called "fragile five" stabilized for the most part. The commonality of these challenged countries tends to be a combination of the need for external financing and economic reform and poor fiscal accounts. To add to the mix, foreigners had been enthusiastic buyers of credit in certain countries, and losses came as an education for less seasoned investors. The reality of tapering has been a little kinder to emerging markets, but there is no question that challenges for the broad asset class remain.

China was particularly in focus this quarter, as the relatively new leadership met to discuss challenges and priorities for the next few years. Most China watchers interpreted the outcome as being positively biased to a reform framework. There was a clear appreciation of market-driven bias. There is a pressing need to curb and control the concerning increase in debt, while reforming the financial sector to promote better capital allocation. Environmental challenges are significant and policies are clearly slanted to favor cleaner energy and less pollution. Curtailing corruption also remains a pervasive theme. Ultimately, we find the impetus to reform refreshing. We would point out that we expect the growth rates of the Chinese economy to decline, but the growth to be of a higher quality.

During the quarter, politics became a significant issue in two countries in particular. In both cases, an uneasy compromise (at best) would seem to be the most likely outcome. In Turkey, tensions between Prime Minister Recep Tayyip Erdogan and the "Gulen movement" came to a head towards the end of the quarter, with a corruption probe. Mr. Erdogan's forthright response, including the removal from office of a number of senior policemen and prosecutors, does not engender hope of a positive compromise. We find companies in Turkey to be amongst the better managed emerging market companies, but this is one case where macro concerns, both political and economic, mean that we construct our Turkish portfolio holdings conservatively, with approximately half the weighting geared to Turkish currency weakness. In Thailand too, politics have become increasingly messy. Thai politics are usually somewhat challenging, but compromise between the Shinawatra family, its red-shirted supporters, and the opposition, which is centered in Bangkok, looks problematic. We are underweight there, with concern about the impact on domestic demand and tourism.

Politically, Russia is at least stable. Cynically, political gestures such as the release of critics such as Khodorkovsy appear timed to coincide with the Olympics, but there are some positive areas of reform. For instance, the continuing cleanup of the banking sector is positive.

Nevertheless, the Russian economy disappointed in the fourth quarter and, of course, remains highly geared to the extractive industries. The South African Rand appears to have stabilized, but the impacts of an ugly string of labor stoppages orchestrated by the country's largest labor unions, and weak global demand for South Africa's commodity exports, persist. Weak domestic demand will restrain the performance of many of the domestic facing stocks, while the commodity sector at least gets some relief from a weaker currency.

In Mexico, the passage of the energy reform bill is a major positive, allowing much more private sector involvement in the sector. The market remains favored by most international investors, especially compared to Brazil, which remains challenged by the Brazilian government which continues to be criticized for its heavy intervention in the domestic economy as it tries to engineer a lower inflation.

Finally, Frontier Markets continued their strong performance. In particular, Middle Eastern markets have been well supported ahead of the graduation of Qatar and the United Arab Emirates from Frontier to Emerging Markets. The Fund continues to hold frontier exposure in Nigeria, Georgia, Kazakhstan, and off-index exposure to Saudi Arabia.

Market Outlook

While the global economy appears to be stronger, it is clear that the marginally better economic news continues to be developed market centric. We have seen the start of tapering and we believe that there will be much more to come as the monetary environment (hopefully) normalizes. While we have sympathy for the argument that better global growth will ultimately better benefit emerging markets, we do think that the beta that they have to such growth is diminishing. For instance, a tech supply chain that is historically geared to hardware suffers as cloud computing gains. The exploitation of unconventional energy resources is also a significant positive for the United States. So, the impetus for performance has, at the margin, fallen more heavily on the domestic environment in Emerging Markets. In the shorter term, politics has been a discrete issue in certain countries, while the higher cost of capital will hinder capital hungry nations.

On the other hand, it is rare to see such a consensus of negativity on the asset class. In many quarters, Emerging Markets are seen as pariahs with little hope of redemption. This makes us very positive for the medium term. Valuations are another strong support, but earnings are not yet a catalyst as they continue to be sluggish.

However, these remarks are really in the context of emerging markets as a block. We are bottom-up stock pickers and we find plenty to be excited about. China continues to be a misunderstood market, and as such continually seems to throw up investment opportunities that we try to take advantage of. In particular, we are excited about healthcare, clean energy and mobile internet.

We are closely watching the erstwhile Emerging Market darlings of South East Asia. We appreciate and understand the investment landscape there, but feel that for the time being, relatively higher (though reduced) valuations are a hindrance. We continue to scour the more developed markets of Korea and Taiwan for investment opportunities. The Fund's Russian investments have remained stable although we are vigilantly watching for signs of the economic weakness being translated into a poorer outcome at the corporate level. In Latin America, we realize that the potential of Brazil is exciting in the medium term, but currently see limited opportunities in terms of reasonable trade-off between valuations and growth.

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 structural growth at a reasonable price (S-GARP) investment process allows the Fund to allocate capital to persistent growth stocks which we believe will continue to achieve above average returns relative to our benchmark.

*All country and company weightings as of December 31, 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.

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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