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Manager Commentary: Emerging Markets

An Eventful Quarter for Emerging Markets

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Performance Review

The Van Eck Emerging Markets Fund (the "Fund") declined 2.80% in the fourth quarter of 2014 (excluding sales charge), outperforming its benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which declined 4.44% for the same period. To compare, the MSCI Emerging Markets Small Cap Index declined 5.98% for the same period.

Average Annual Total Returns (%) as of December 31, 2014

	4Q14[1]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-2.80	-0.70	12.97	6.29	8.84
Class A: Maximum 5.75% load	-8.37	-6.38	10.75	5.05	8.19
MSCI EM Index	-4.44	-1.82	4.41	2.11	8.78
MSCI EM Small Cap Index	-5.98	1.34	7.98	3.23	9.93

[1]Quarterly 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.

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. Information herein should not be construed as investment advise.

Market Review

The signs remained positive for India in the fourth quarter following the decisive win for the Bharatiya Janata Party (BJP) in May. The issue now is that the country is very consensus overweight. Both foreigners and locals are enamored with the prospects for the place and, consequently, in the near term, valuations look challenging, particularly relative to the rest of the emerging markets universe. However, as inflation declines in India, we can see potential for interest rates coming down and can also see a credit cycle taking off. This could lead to better earnings and we would be able to justify better valuations for those earnings.

While, in Indonesia, it still remains to be seen just how successfully newly-elected President Joko Widodo is able to navigate the treacherous, and ever-shifting, shoals of the country's parliamentary party politics, in Brazil, subsequent to Dilma Rousseff's somewhat less than decisive re-election as president, the outlook domestically for the country's economy is somewhat pessimistic. The expectations locally are for 2015 to be a flat year – at best. We believe, however, that this could result in Brazilian companies being more serious about self-help and re-engineering themselves to face a more challenging growth environment.

China, in which our Fund allocation was significantly overweight during the quarter, remained a focus of attention in the emerging markets. After somewhat of a delay, the Shanghai-Hong Kong Stock Connect, or so-called "through train" was finally launched on November 18. While it got off to a rather slow start, this now, for the first time, allows Chinese investors to trade more than 250 Hong Kong-listed companies, and, at the same time, provides Hong Kong investors direct access to Shanghai-listed stocks or A-shares. We believe that it will be signal in helping internationalize the Chinese market with, ultimately, China A-shares forming part of the MSCI EM index. While reforms in China continued, the economy remained sluggish. It appears likely that, going forward, there will be some more government help in the form of increased liquidity, probably including a reserve rate requirement cut, in early 2015.

While Saudi Arabia has, of course, been hit by falling oil prices and is, in the long run, at risk, it has, over a number of years, accumulated sufficient surpluses to enable it to fund its budget, under current oil market conditions, without making significant changes. It remains to be seen what will happen, in the first quarter of 2015, when foreign investors are, for the first time, able to buy and sell shares in the stock market there. The prospect of potential quality and value investments in the country remains particularly exciting to us.

Fund Review

The reverse in the fortunes of many emerging markets themes that started in the third quarter continued throughout the fourth quarter. Health care across the emerging markets, financials in India and Mexico, and industrials and internet in China were among the top structural growth themes that contributed positively to the Fund's performance during the quarter. Continued under-exposure during the quarter to both materials and energy 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, continued to give back some of those gains during the quarter. As the gaming industry in Macau continued to perform poorly during the quarter, and, notwithstanding additional capacity, the prospects became less favorable, we exited the sector totally.

On a sector level, financials and technology contributed most to performance; whereas materials and energy detracted most during the fourth quarter of 2014.

On a country level, stock selection in India, China, South Africa and Taiwan contributed to performance during the quarter, while stock selection in Brazil, Russia and Singapore 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, South Africa and China.

Axis Bank (2.2% of the Fund's average net assets during the quarter*) and Yes Bank (1.4% of the Fund's average net assets during the quarter*) are both non-state owned Indian banks. Each has benefited from both improving loan growth and widening lending spreads that have resulted in gradually improving returns on investment. Strides Arcolab (1.2% of the Fund's average net assets during the quarter*) is an Indian pharmaceutical company that, during the quarter, completed the sale of one of its businesses. This should result in a return of capital to shareholders – payment of which is currently pending.

Naspers (2.4% of the Fund's average net assets during the quarter*) is a South African holding company for various global internet assets, primarily Tencent Holdings in China. While the company was previously trading at a very deep discount to asset value, this narrowed during the fourth quarter.

Finally, Great Wall Motor Company (1.1% of the Fund's average net assets during the quarter*) benefited from having overcome the technical issues that had held up a much-anticipated SUV model launch. In addition, it reported improved sales numbers during the quarter.

The five companies with the greatest negative performance for the quarter were spread across the globe: Brazil, China, Singapore (but pan-Asian), Malaysia and Russia.

Pan-Asian (but Singapore listed) oil services company Ezion Holdings (1.6% of the Fund's average net assets during the quarter*) and Malaysian integrated oil and gas company Sapurakencana Petroleum (1.0% of Fund's average net assets during the quarter*) both suffered from the continuing weakness in the global energy environment.

Magnit (2.1% of Fund's average net assets during the quarter*), Russia's largest retailer, suffered from being "a good house, but in a bad neighborhood" as sentiment toward the country's economy continued to sour.

We were, frankly, surprised by the underperformance of Chinese integrated electrical distribution system manufacturer Boer Power Holdings (1.3% of the Fund's average net assets during the quarter*) during the quarter. Both product roll-out and execution still look to be in line with our original thesis for the company.

Finally, Estacio Participacoes (2.3% of the Fund's average net assets during the quarter*), a provider of post-secondary school education in Brazil, having previously been over-held, also faced certain regulatory issues during the quarter that remain to be clarified.

Market Outlook

The big question remains: What is going to happen when interest rates normalize (i.e. go up) in the U.S.? The prospects of inflation do appear to be diminishing somewhat. We believe that, in turn, this may improve the prospect of emerging markets countries reducing rates in the forthcoming year, notwithstanding rates potentially moving up in the U.S. While this may well narrow interest rate differentials between emerging markets countries and the U.S., and have significant implications for emerging markets currencies – typically the U.S. dollar would go up and the other countries' currencies would go down – reduced rates could increase aggregate demand from emerging markets countries and may create better conditions for growth.

We believe that the growth outlook for emerging markets remains mildly better, but, rather than playing emerging markets as some kind of "global beta". We still need to focus on companies and countries that have the potential to do their own "self-help" and have their own dynamics. 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". And, in addition, we will never feel obliged to buy a company just because it has a large index weighting.

We appreciate the flexibility that allows us to invest in what we consider to be 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 markets countries.

*All country and company weightings as of December 31, 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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