

Manager Commentary

Hard Currency over Local Currency Debt in March

By: Eric Fine, Portfolio Manager

Executive Summary

- Emerging markets policymakers' policy reactions are growth-negative
- Technicals are bad in local-currency
- Domestic Ukrainian politics continue to radicalize and escalate

Overview

There are no changes in our basic stance – we continue to prefer hard-currency over local-currency, and want no investments with Ukraine-related risk... Oh yes, and the China “dis-levering/ growing less” narrative seems to be continuing as well. There have, therefore, been few changes in our portfolio. We'll also spare you a long piece this month, as most of our points are repeats. The only new spin worth noting, perhaps, is that one could describe our portfolio as a barbell of high-yielders and low-yielders. Some would describe it as high-risk and low-risk, but we are uncomfortable with this terminology, because anything in which we invest is based on our opinion that its risks are more than reflected in its price. Anyway, enough with the framing and polemics.

Why hard-currency over local? First, real rates on local emerging markets (EM) bonds needed to be much higher when U.S. Treasury yields were higher. So, if U.S. rates “normalize”, a greater real yield premium may be needed for EM local debt. If U.S. rates don't rise due to weak final demand, then EM are probably in even more trouble, as they may weaken their currencies to compensate. Second, EM policymakers' policy reactions tend to be growth-negative, and typically involve some combination of weaker currencies and higher interest rates. This may protect reserves and the ability to repay hard-currency debt, but involve losses in local-currency. Third, technicals are bad in local-currency. Because of lower relative growth rates (which tend to drive investment flows), flows into EM local-currency do not look set to change. Because there has already been a lot of issuance in hard-currency debt, coupons and principal payments on hard-currency sovereign debt are equal to planned borrowing.

No Ukraine-related risk. Why? First, this is not geopolitical analysis... We do not ask questions of U.S., or European, or Russian policymakers. Nor are we reading a lot of U.S. popular media... This is Ukraine analysis that we've been doing for two decades (not that that makes us any better, but we have been doing it for a long time)... And the analysis is that domestic Ukrainian politics are radicalizing and escalating.

For example, the Russian-speaker in Donetsk wants the country to remain whole, but when he sees radical pro-Western officials in important security positions, moving closer to Russia becomes more attractive, and even existential. Second, Ukraine is existential to Russia, economically and politically. One-third of Russia's gas exits through Ukraine. Politically, Russia has no institutions, in our view, so fear of the autocrat is the basis for cohesion. From the Kremlin's perspective, allowing the coup in Ukraine to hold encourages similar coup attempts in other Commonwealth of Independent States (CIS) countries. Third, civil wars create refugees, increase cross-border weapons transfers, and can shut down economies. This means that such a scenario in Ukraine could impact neighbors such as Romania, Hungary, and Poland, who get significant amounts of gas via Ukraine, among these other less obvious problems. It should go without saying, as we noted in our last monthly, that when/if this crisis escalates, Russian debt and FX are the asset prices that could see the most important selloffs. (At the end of the day, Ukraine doesn't matter to the market in and of itself.)

Let me tell you about the “barbell”. Now, of course, we don't wake up in the morning and decide that a “barbell” makes sense. This is simply a term that might help explain the portfolio, which is the result of our bottom-up investment process. Anyway, the high-yielding portion of the barbell is made up of Argentina, Venezuela, Brazilian corporates, Vietnam (all in hard-currency), and a new allocation to Nigeria in local-currency. These slices equal about half of our assets under management. (But, again, we didn't start with that objective, it just ended up that way as a result of our process.) The other half of the portfolio is a very diversified portfolio of what we would describe as “boring” credits, such as Peru, Saudi Arabia, United Arab Emirates, Israel (in local-currency), and Guatemala. Fine, we also have allocations to Iraq and Ivory Coast, which many would think of as high-risk... Our point there is that their credit quality is pretty high, regardless of what the Washington Post tells you to think of these places.

Exposure Types and Significant Changes

As an ongoing reaction to the above, we continued to do three things in the portfolio – diversify, increase exposure to hard-currency debt (and, thus, reduce exposure to local-currency debt), and avoid Eastern Europe. Our top five positions are almost unchanged from last month, as we've been rebalancing the portfolio for several months already. They are currently Argentina, Brazil, Mexico, Indonesia, and Venezuela.

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.

Biggest Country- and Bond-Level Changes

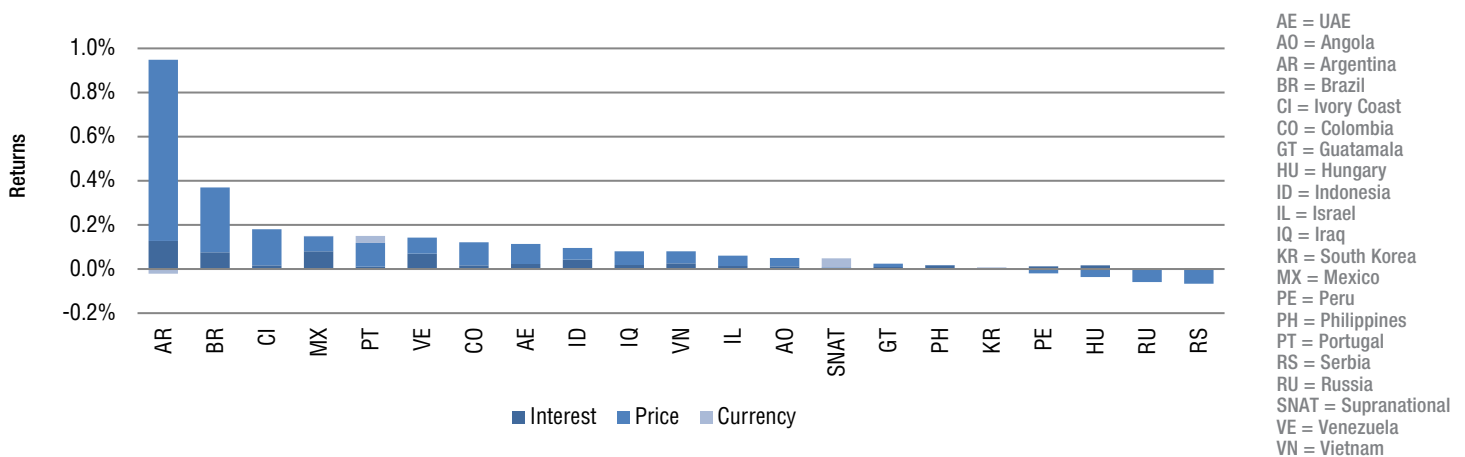
- We increased Venezuela to 13% of risk from 4%. We said we would increase Venezuela a lot if they implemented their new devaluation plus FX auction system (basically an exchange to get dollars into the economy at market-related rates). They did. Also, in our opinion, the social unrest was always exaggerated by the U.S. media. And the opposition is currently divided and mired.
- We are back in Nigeria! It always scored well on our basic framework, but, commencing several months ago, started failing our tests on political instability (the central bank governor was leaving in an election year). After the central bank noise, though, the risk got priced in and, in fact, the new central bank appears to be just as orthodox. So, good on them, and it was time to take some risk there. We might do more.

- We reduced Indonesia, due to poor election results, and might do more. We closed our last scrap of Eastern European risk, taking a Hungarian position to 0% from 3%.

Fund Performance

For March the Fund's Class A shares (excluding sales charge) returned 2.57%, compared to 2.81% in the local-currency index (GBI-EM Index), and 1.37% in the hard-currency index (EMBI Index). The Fund's biggest winners in March were Argentina, Brazil, and Ivory Coast, all in hard-currency. The Fund's biggest losers were small positions in Serbia, Russia, and Hungary that we hadn't fully purged. Turning to the market's performance, the GBI-EM's biggest winners were Brazil, Turkey, and Indonesia... Essentially high-beta names where the market had reduced positioning substantially. The biggest losers were Philippines, Nigeria, and China.

Price, Interest and Currency ("FX") Components of Fund Returns by Country for March 2014



Source: Van Eck Global; Bloomberg. Data of March 31, 2014.

This chart is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted.

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

	1 Mo*	YTD	1 Yr	Life
Class A: NAV (Inception 7/9/12)	2.57	3.84	-3.83	5.62
Class A: Maximum 5.75% load	-3.31	-2.12	-9.35	2.07
GBI-EM Index	2.81	1.90	-7.14	--
EMBI Index	1.37	3.73	0.56	--

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

	1 Mo*	YTD	1 Yr	Life
Class A: NAV (Inception 7/9/12)	0.54	-4.70	-4.70	3.91
Class A: Maximum 5.75% load	-5.22	-10.16	-10.16	-0.15
GBI-EM Index	-0.55	-8.98	-8.98	--
EMBI Index	0.51	-5.25	-5.25	--

Data Source: Van Eck Research, Factset. All portfolio weightings and statements herein as of March 31, 2014.

Expenses: Class A: Gross 1.67%; Net 1.25%. Expenses are capped contractually until 05/01/14 at 1.25% for Class A. Caps exclude certain expenses, such as interest. The tables above present 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. Investing involves risk, including loss of principal; please see disclaimers on next page.

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Mutual Funds



Emerging Markets Hard Currency Bonds refers to bonds denominated in currencies that are generally widely accepted around the world (such as the US Dollar, Euro or Yen). **Emerging Markets Local Currency Bonds** are bonds denominated in the local currency of the issuer. **Emerging Markets Sovereign Bonds** are bonds issued by national governments of emerging countries in order to finance a country's growth. **Emerging Markets Quasi-Sovereign Bonds** are bonds issued by corporations domiciled in emerging countries that are either 100% government owned or whose debts are 100% government guaranteed. **Emerging Markets Corporate Bonds** are bonds issued by non-government owned corporations that are domiciled in emerging countries. A **Supranational** is an international organization, or union, whose members transcend national boundaries and share in the decision-making. Examples of supranationals are: World Bank, IMF, World Trade Organization.

Any 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 J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) tracks local currency bonds issued by Emerging Markets governments. The index spans over 15 countries. The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI) tracks returns for actively traded external debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S-dollar emerging markets debt benchmark. The Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index representing most U.S. traded investment grade bonds. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturity of the bonds in the index are over one year. The CBOE Volatility Index (VIX) uses options on S&P 500 Index stocks to gauge expected or implied volatility and is widely used as a measure of risk in the equity market.

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 and portfolio managers of other investment strategies may take an opposite opinion than those stated herein. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-Van Eck Global proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Securities Corporation ©2014 Van Eck Securities Corporation.

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 risks associated with its investments in emerging markets securities. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may also be subject to credit risk, interest rate risk, sovereign debt risk, tax risk, non-diversification risk and risks associated with non-investment grade securities. Please see the prospectus and summary prospectus for information on these and other risk considerations.

Investors should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing. 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.

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