

Manager Commentary: On the Emerging Markets

Emerging market equities post solid gains in 4Q

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the “Fund”) gained 9.75% in the fourth quarter (excluding sales charge), while the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index returned 5.61% for the same period. To compare, the MSCI Emerging Markets Small Cap Index returned 5.12% for the same period.

Average Annual Total Returns (%) as of December 31, 2012

	4Q12 ¹	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	9.75	30.44	7.07	-2.92	16.03
Class A: Maximum 5.75% load	3.44	22.89	4.99	-4.07	15.34
MSCI EM Index	5.61	18.63	4.98	-0.61	16.88
MSCI EM Small Cap Index	5.12	22.60	4.51	0.50	17.57

¹Quarterly returns are not annualized.

Expenses: Class A: Gross 1.76%; Net 1.76%.

Expenses are capped contractually until 05/01/13 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.

Market Review

Another solid quarter for emerging markets resulted in strong performance overall in 2012. Given the focus on specific external events during the year, it certainly felt good to end the year discussing emerging market fundamentals. At various times over the course of 2012, we found ourselves trying to parse the nuances in sundry comments from eurocrats, sampling the latest presidential polls from the U.S., and wondering if Japan would still be the same old story.

However, as we ended the year, the outlook appeared a little brighter, with a few less “big issues” to fixate on. Global growth looks, at a minimum, to have stabilized. Euroland is quieter and the issues, while not exactly resolved, have become less pressing. For better or worse, we now know that the moving trucks are not going to the White House for the next four years. Japan is even showing signs of life as she appears to be joining the easy money party that has gripped central banks and policymakers elsewhere. So as we sloughed off these concerns, at least for the time being, the market mood improved, and emerging markets certainly played their part.

For some time now, we have been saying that eventually persistently easy money would accelerate the inflows into emerging markets. As we write, it certainly looks like a whiff of better global growth is getting the investor hordes excited. Indeed, inflows into all emerging market funds, including ETFs, actually hit an all-time record at the beginning of 2013, according to EPFR Global.

One particular accelerant has been that, yet again, the Chinese economy achieved a stabilization that confounded the doommongers and talking heads. We have no doubt that there will still be folks out there that point to issues and anomalies in the Chinese economic landscape, and in most cases, there is a kernel of truth. We are far from starry-eyed and certainly understand the lower growth trajectory.

But rather than engage in semantics, we spent our time scouring for strong secular growth stories, building up our position in Chinese-related stocks, whether listed in Hong Kong or elsewhere. It is our largest country weighting and the stocks that we picked were, in aggregate, major contributors strong performance during the quarter, as well as 2012 as a whole.

Fund Review

We are pleased to report that in the fourth quarter most of the Fund’s relative outperformance did indeed come from picking good stocks. We have a good amount of exposure to consumer sectors overall, but as the year progressed, our weighting in the consumer staples area declined in favor of a higher exposure in the consumer discretionary sector. This move was, in part, a function of a mildly better economic outlook, but it was also a reflection of the high valuations reached by consumer staples, due to their perception as quality defensives.

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.

Our view on staples is that while their business is indeed looking solid, in general terms, their valuations are full. In fact, we would posit that there is a significant risk that consumer staples, particularly the “sin stocks of alcohol and tobacco”, relatively underperform in any environment except a gloomy one.

While we did not have a large exposure to the telecommunications or energy sectors during the quarter, stock selection in those areas did materially contribute to overall performance. In energy, the standouts for the quarter were Kunlun Energy (2.2% of Fund net assets)*, a natural gas distributor in China and Transneft (1.6% of Fund net assets)*, a special situation stock in Russia. For telecoms, the winner was Tower Bersama (1.3% of Fund net assets)*, an investor in cell phone towers in Indonesia.

On the debit side of the ledger, two Korean stocks topped the list, Kia Motors (1.6% of Fund net assets)* and Hotel Shilla (1.0% of Fund net assets)*. In separate ways, they are both negatively affected by a depreciating Yen, which was a feature at the end of the quarter. While we have reduced exposure in Kia, we are inclined, as of the time of writing, to maintain current exposure due to our outlook that the Korean Won is likely to stop strengthening materially against the Yen, and the opinion that these stocks are now materially cheap.

Market Outlook

In some senses, we think 2013 will be fairly similar to 2012, with slow, albeit slightly less slow, global growth and a focus on policy decisions. On balance, we expect a mild rebound in real growth in a continuing liquid environment. We don't see a banner year, nor are we gloomy. We believe that valuations are making the general upside less attractive, absent significant earnings growth (which we do not rule out). We will continue to focus on bottom-up company stories that have the potential to generate growth and profitability in both strong and weak macro scenarios. Given the disparate nature of emerging markets, there are company-specific opportunities to be found and, as always, we will endeavor to take advantage of any market dislocations that may appear in the course of 2013 to exploit attractive entry points for solid businesses.

*All country and company weightings as of December 31, 2012.

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, captures 60% of the publicly traded equities in each industry for approximately 25 emerging markets. The MSCI Emerging Markets Small Cap Index, targets companies that are not in the standard emerging markets index. The MSCI EM Latin America Index is a subset of the MSCI Emerging Markets Index.

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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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