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Manager Commentary: Emerging Markets

Fundamentals Return to Emerging Markets

By: David Semple, Portfolio Manager

Performance Review

The Van Eck Emerging Markets Fund (the "Fund") declined 1.61% in the first quarter of 2016 (excluding sales charge), underperforming its benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which returned 5.75% for the same period. To compare, the MSCI Emerging Markets IMI Index returned 5.07% for the same period.

Average Annual Total Returns (%) as of March 31, 2016

	1Q16[1]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-1.61	-15.27	-3.43	-1.47	2.80
Class A: Maximum 5.75% load	-7.29	-20.15	-5.32	-2.63	2.19
MSCI EM Index	5.75	-11.70	-4.15	-3.80	3.34
MSCI EM IMI Index	5.07	-11.34	-3.93	-3.60	3.65

[1]Quarterly returns are not annualized.
Expenses: Class A: Gross 1.54%; Net 1.54%.
Expenses are capped contractually until 05/01/16 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 net asset value (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.

This quarter has been one of more twists and turns in macro factors than we can, perhaps, remember. Commodities have gone from being some of the worst performing and underheld assets in January to the complete opposite in February and March. The Federal Reserve has "walked back" from its previous more hawkish interest rate projections and, as a result, the U.S. dollar has declined dramatically over the quarter. This has taken the pressure off some of the weaker emerging markets currencies, which have seen impressive rallies. It appears that many emerging markets investors have rushed to sell popular investments in India and China to return to more globally cyclical driven markets, companies that have benefited from the rebound in commodities, and higher beta currencies. This has caused significant performance idiosyncrasy between countries in the emerging markets complex this quarter.

Fund Review and Positioning

We believe long-term followers of our strategy will understand that panic followed by euphoria rarely provides a favorable backdrop for outperformance by our highly disciplined all-cap strategy as both size and growth characteristics tend to be penalized in short periods of panic. And poor quality and cyclical factors (which our strategy generally avoids) tend to outperform everything in the first innings of euphoria. It is important to point out that the cause of underperformance during these short periods is often due to what we do not own (i.e., some of the, we believe, very large, poor quality cyclical companies) as much as it is indicative of what we do own – think of it as partial giveback of previous outperformance.

During the first quarter of 2016, stock selection in financials and consumer staples aided performance relative to the MSCI EM benchmark, while selection in industrials and information technology detracted. Lack of an allocation to the energy and materials sectors also hurt the Fund's relative performance.

On a country level, China was the main detractor from performance followed by Russia and India. Peru, the Philippines and Colombia gave the Fund's relative performance a boost.

The size factor negatively impacted the portfolio most as mid- and small-caps stocks accounted for most of the Fund's relative underperformance during the first quarter of 2016.

The top five performing companies in the portfolio came from around the globe. BB Seguridade Participacoes SA (3.2% of Fund's net assets*), the insurance arm of Banco do Brasil, the largest Latin America-based bank, as a Brazilian real holding, was helped significantly by the rebound in the Brazilian market during the quarter. It's a structural growth story. The company continues to display strong execution, in line with our growth thesis. In addition to its improving asset quality, consistent performance, and asset growth, Peruvian financial holding company Credicorp (2.4% of Fund's net assets*) benefited from the turnaround in the Peruvian market. This followed a second half in 2015 when uncertainty as to whether the country would be reclassified by MSCI indexers weighed heavily on its stocks. Yes Bank (2.4% of Fund's net assets*), a high-quality, private sector Indian bank, benefited from both improving loan

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growth and widening lending spreads. These have resulted in significant results, as has the bank's focus on retail, as opposed to commercial, business opportunities. Stock in Robinsons Retail Holdings (2.2% of Fund's net assets*), the Philippines' second largest multi-format retailer, made up most of its decline from the last quarter after full-year 2015 results came in largely in line with consensus, backing up our growth thesis. Although a global leader and structural growth story in its own right, Taiwan Semiconductor Manufacturing Company (2.5% of Fund's net assets*), the undisputed global leader in integrated circuit (IC) manufacturing, also benefits from cyclical factors, as it did in this quarter. There were earnings upgrades driven by greater short-term visibility and asset utilization from improved traction with key customers. There was, in addition, a multiple lift as investors also favored businesses that benefited from global cyclical tailwinds.

With Chinese stocks suffering during the quarter, it is perhaps not surprising that four out of the five biggest detractors from performance were Chinese. Following a slight change in its business model, Chinese company Boer Power Holdings (0.6% of Fund's net assets*), which provides electrical distribution solutions, is facing, in our opinion, increased business risk. The company's leverage increased as it took on higher levels of accounts receivable. We continue to believe, however, that the company will continue to be a beneficiary of the development of a smarter grid in China. Luxoft Holding (1.6% of Fund's net assets*), is a high-end information technology services provider, in particular to the financial services industry, with its programmers largely situated in the ex-Soviet Union countries, referred to as Commonwealth of Independent States (CIS). During the quarter, the company reported lower than expected numbers, largely related to the pulling of a key contract by a client. Chinese company Wasion Group Holdings (0.7% of Fund's net assets*), like Boer Power Holdings, is in the business of improving the efficiency of power use, an area of activity we still believe displays convincing fundamentals. The company is setting the standard for "smart" electrical grid meters in the country. During the quarter, however, it suffered from the fallout created by the adjustment and lengthening of payment timelines on certain government contracts. Along with a number of others, JD.com (3.1% of Fund's net assets*), one of the Fund's internet holdings, suffered from the widespread exit from the Chinese market during the quarter, giving back some of its outperformance of the previous year. The company continues to reflect in our opinion, however, the considerable strength of the growth opportunities in the e-commerce sector in China. CAR Inc (1.5% of Fund's net assets*), is the largest auto rental company in China and provides vehicles to U-Car, a partner providing ("Uber-like") chauffeured car services in China. The issues around this company, and its recent poor performance, center on uncertainty surrounding the regulatory environment that has led U-Car to scale back its investment and, thus, use fewer CAR Inc vehicles. We are monitoring this situation closely.

As we always strive to emphasize, we are fundamentally a bottom-up strategy, first and foremost. However, we do like to give a sense of where the portfolio is positioned in terms of country and sector. Please bear in mind that a higher weighting in a country may not necessarily mean extra exposure to that country's risk, as certain holdings may be negatively correlated to the local currency or positively correlated to local rates.

Since we don't respond to shorter-term macro events like oil and Brazilian politics, our weightings tend not to move as materially as those of many of our peers. We simply don't speculate on short-term movements or cyclical factors – we invest in well-researched, long-term structural growth businesses at attractive valuations. As we discuss in this note and, in general, as much as we can, this process and philosophy have returned and, we hope, should continue to return, pleasing long-term performance. However, this long-term performance can be punctuated by short periods when there may be underperformance of the asset class for mostly technical reasons.

We continue to be overweight in China, India and Brazil, while still significantly underweight in South Korea. Taiwan still has a relatively light weighting, although it is home to a couple of our larger positions. South Africa is still also underweight, but less so than in prior years, as weakness in the rand has encouraged us to make further investment in domestically-oriented companies, whilst outperformance of Naspers (3.4% of Fund's net assets*), has also increased our weighting in the country.

By sector, the persistent biases that you can expect from our philosophy of structural growth at a reasonable price, are maintained. Energy and materials are very difficult places to find good, persistent growth, whilst much of the telecommunication and utility sectors are not showing much growth at all. Consumer staples, a sector which is a natural area to look for structural growth, has tended to be too expensive for our taste in the last few years, and this remains the case.

We remain overweight in healthcare, clearly a long run structural growth industry as consumers in emerging markets dedicate a higher percentage of their increasing disposable income to healthcare spending. Financials remain a large weighting for the Fund, but the investments we choose in this sector are very specific, usually by country, and focus on persistent structural trends such as microfinance, "banking the unbanked" and specialty insurance.

Market Review and Outlook

Experience informs us that this kind of environment rarely persists for more than a quarter or two before rational fundamentals reassert themselves and investments in quality companies with genuinely sustainable operating profitability and attractive valuations reassert their leadership. In a more "normal" environment, our fund has, historically, tended to do quite well.

We are watching Brazil with great interest. The political situation there remains extremely fluid. The incumbent socialist administration looks increasingly likely to be replaced by a more market friendly, reformist coalition. This expectation has resulted in a sharp recovery in current share prices and the country's currency. We steadily increased positions throughout last year because valuations became more and more attractive and have been somewhat rewarded for this – only somewhat, because the rebound has been led, so far, by large-cap commodity names like Petrobras and Vale which do not align with our structural growth at a reasonable price (SGARP) philosophy and process.

China began the year with very negative headlines centering on a likely sharp depreciation of its currency and fears of an imminent debt-fueled crisis. We, on the other hand, continue to expect lower but better growth, together with monetary and fiscal easing alongside a gradually weakening renminbi, but no crisis. Our base case is for modest cyclical recovery in China's economy in the first half of 2016 that could allow more room for further significant structural reforms, with more emphasis on the supply-side of the economy, rather than attempts simply to "juice up"

demand. We do believe, however, that more credit "issues" are likely as the tidying up of highly indebted, state owned entities continues. As we regularly remind emerging markets investors, our strategy has very little exposure to the old, smokestack/state-owned enterprise (SOE) complex, and we continue to favor long-term, structural growth opportunities in environmental services, internet, healthcare, tourism and insurance.

India was the other market where we experienced some negative performance over the quarter. Again, we would make the case that this was partly for technical reasons related to positioning. We remain optimistic about the Indian companies in which the Fund is currently invested, despite the country falling out of favor in relative terms.

After several months facing a challenging scenario with lower commodity prices, the outlook for Peru started to improve. Growth in the country has been accelerating, driven by the mining and infrastructure sector. There is uncertainty regarding the outcome of the presidential election and it seems that the most likely scenario is that Fujimori will win in the second round. Finally, there seems to be a consensus view that Peru has a big chance of avoiding MSCI reclassification to Frontier market which could act as an additional driver to Peruvian equities.

Colombia continues to be negatively affected by the low level of oil prices, the uncertain fiscal adjustment, and the expectations for the peace process. In our view, the government needs to approve a fiscal reform in order to address some important topics that will allow the country to achieve its fiscal target amid lower prices and low level of reserves. The government is waiting for the completion of the peace process to have the necessary political capital to work ahead with an honest fiscal reform (This will be decisive to preserve the sovereign rating). There will likely be some slowdown in activity in 2016 with GDP growth expectations of around 2.7% versus 3.1% in 2015. There are some factors like the beginning of the 4G mobile technology infrastructure program and the positive reaction of some tradeable sectors to a higher exchange rate that should partially offset the tough scenario for the economy given current low oil prices.

In general, we see valuations for our focus list companies, after the recent rally, as fair, without being materially cheap. As we noted at the end of 2015, we are now seeing, as expected, some better economic numbers out of China, which is a notable bright spot. In addition, we would also point out that the growth of our portfolio is structural in nature and, therefore, quite reliable, and, as such, should compound over the course of time, with little cyclical risk associated with the world and market volatility we live with today.

*All country and company weightings as of March 31, 2016.

A **State-Owned Enterprise** (SOE) is a legal entity created by a government with the purpose to partake in commercial activities on the government's behalf.

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 large and mid cap representation across 23 Emerging Markets (EM) countries. With 836 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **The MSCI Emerging Markets Investable Market Index (IMI)** captures large, mid and small cap representation across 23 Emerging Markets (EM) countries. With 2,628 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country. **MSCI All Country World Index (ACWI)** captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. With 2,483 constituents, the index covers approximately 85% of the global investable equity opportunity set.

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

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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Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017