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VanEck FUNDS

Emerging Markets on the Move

By David Semple, Portfolio Manager

VanEck Emerging Markets Fund

GBFAX / EMRCX / EMRIX / EMRYX

Performance Review

The VanEck Emerging Markets Fund (the "Fund") gained 12.25% during the first quarter of 2017, outperforming the Fund's market index benchmark, the Morgan Stanley Capital International Emerging Markets Investable Market Index (MSCI EM IMI), which gained 11.69% for the same period.

Average Annual Total Returns (%) as of March 31, 2017

	1Q17†	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	12.25	13.59	-1.08	2.91	1.71
Class A: Maximum 5.75% load	5.81	7.10	-3.01	1.69	1.11
MSCI EM IMI	11.69	17.25	1.59	1.41	3.26
MSCI EM Index	11.49	17.65	1.55	1.17	3.05

Market Review

At the end of last year, we commented that we were entering 2017 with a significant number of risks – both positive and negative. We came to the conclusion that on balance we viewed the global macro environment favorably, while identifying specific risks of a stronger U.S. dollar, higher rates and the further evolution of protectionist and nationalistic trade policies as some of the major negative risks to monitor. As we now reflect on the first quarter of 2017, most, if not all, of these presumed deleterious factors have receded. The U.S. dollar has declined. The Federal Reserve hiked its rates, but it was almost unanimously expected. The more febrile fears of fresh trade sanctions have faded for the time being. Meanwhile, the firm underpinning of improved global economic momentum, which is especially helpful to the emerging markets asset class, has continued.

The emerging markets equities asset class resumed its outperformance "spell" over global equity markets during the first quarter of 2017. This run of outperformance began a year ago, accelerating in the summer of 2016. However it was interrupted last November following the unexpected result of the U.S. presidential election.

It is interesting to note that 2017 so far looks to be demonstrating a style rotation. We wrote last quarter that we thought that we were close to the end of the brief but sharp period of outperformance of the heavily cyclical part of emerging markets. We thought then, and continue to believe, that the environment this year will be much more conducive to our philosophy of investing, which emphasizes high-quality growth over low-quality, large-cap cyclicals.

Expenses: Class A: Gross 1.53%; Net 1.53%. Expenses are capped contractually until 05/01/18 at 1.60% for Class A. Caps exclude 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.

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 advice.

With one quarter completed, the evidence appears to support our contention with a much more balanced pattern of performance within the asset class. Growth stocks (MSCI EM Growth) outperformed value stocks (MSCI EM Value) by 274 basis points, while small caps led large caps by 144 basis points. On a sector level, the energy sector, a top performer in 2016, paused during the first quarter of 2017, ending the quarter at the bottom of the list. The information technology, industrials, and consumer sectors, on the other hand, performed best. Argentina, the sole representative of Latin America in the top performing countries, led country performers, followed by Poland and India. China performed in line with the overall asset class, while Russia performed worst.

Fund Contribution

The Fund is driven by bottom-up stock selection. And this quarter, we find it particularly hard to make generalizations about country weightings. We are finding good opportunities in pretty much every country without any one geography standing out.

The Fund's strong stock selection in the consumer discretionary sector and its lack of exposure to the energy sector helped relative performance the most, while stock selection in the industrials and consumer staples sectors disappointed the most. On a country level, selection in China, Russia, and Brazil added most value on a relative basis during the quarter, helped by good performance from internet companies in China and Russia, and strong performance from most of our Brazilian stocks. Stock selection in Turkey, a highly politically charged place currently, and under allocation to Korean companies, disappointed on a relative basis.

Our biases by sector, driven by our philosophy, remain. We typically have very limited exposure to energy and materials, due to their cyclical characteristics. We tend to be "underweight" in telecoms and utilities due to unattractive growth rates. On the other hand, areas like consumption, healthcare, and specialized financials are natural places for us to find opportunities, if valuations make sense.

Our top performing companies came from China and India. As a group, our main investments in Chinese companies in the internet sector performed well. We have investments in Tencent Holdings Ltd. (4.38% of Fund net assets*), Alibaba Group Holding Ltd. (4.17% of Fund net assets*) and JD.com, Inc. (2.28% of Fund net assets*). All three reported strong operations and very visible growth. TAL Education Group (1.50% of Fund net assets*), which provides K-12 after school education programs in China, also did well, reporting strong numbers, leveraging the demand for educational achievement with innovative delivery models.

In India, our banking sector exposure, Yes Bank Limited (3.77% of Fund net assets*) and HDFC Bank Limited (1.30% of Fund net assets*), did well, in part as a result of a more realistic appraisal of the effects of the aforementioned "demonetization".

Our bottom performing list for the quarter include companies from a variety of countries. In Kenya, we own a stake in the dominant mobile telecoms operator, Safaricom Limited (1.39% of the Fund net asset*). In the quarter, there were some concerns expressed by local politicians about that dominance, with some advocating a split up of the company. We think this is unrealistic, but it caused the stock to struggle during the quarter.

Wizz Air Holdings Plc (0.74% of the Fund net asset*), a leading low cost airline company in Eastern Europe, had a challenging quarter, despite good operational numbers. The impact of the flow-through of a higher jet fuel price, combined with fears of less demand due to the unknowns of Brexit, would appear to be one of the reasons.

In South Africa, Rhodes Food Group Holdings Ltd (0.54% of the Fund net asset*), a food manufacturer involved in canned fruit, juices, pies, and ready to eat meals, was challenged by the strength of the South African currency during the quarter. The company has more rand-related costs than revenues. This is a classic case where we like the company on its own merits, but the additional reason we have it in the portfolio relates to its function as a rand hedge. At the end of the quarter, the rand weakened substantially because of political issues. In that context, Rhodes Food could be expected to perform well.

Soulbrain Co., Ltd (0.80% of the Fund net asset*) is a Samsung supplier of specialty chemicals, which are part of the semiconductor production process. Market fears combined with lumpy revenue recognition have cause this stock to underperform this quarter after disappointing year-end results. We await further results to get a better picture of the company's health.

Beijing OriginWater Technology Co., Ltd (0.67% of the Fund net asset*) is a waste water treatment company. We feel confident that the company will report much better numbers as the year progresses, and saw the first quarter weakness as an opportunity to add exposure.

Outlook

Most importantly for the asset class, we are pleased to see vindication of our stance on improved earnings for emerging markets corporates. Over the last few years these have failed to deliver meaningful earnings growth, both in absolute terms and relative to expectations. From the interim reporting period last year, we had been "banging the drum" on signs of a substantively improved earnings outcome. As we move through the tail end of annual reporting, we are pleased to report that earnings have been satisfactory, and more than satisfactory as we look at the companies that fall into our structural growth philosophy. And it is not just a mark-to-market for cyclical, often commodity based, value stocks, but rather a more broad based, more efficient reflection of a firm underpinning of better economic growth.

The actionable agenda of the new Trump administration remains fairly uncertain. Thankfully the prospect of unilateral, harmful moves to increase trade barriers and tariffs seems to have receded recently. Whether this is due more to political realities or a more sober reflection on the cost, certainly can be debated, but it is to be welcomed.

A word on rates; rising short-term rates in the U.S. are typically an indicator of better growth and, in our view, should not be feared. As emerging markets are generally operationally leveraged, meaning that they have a higher capital stock to revenue ratio, a stronger nominal growth environment is generally positive compared to a disinflationary one. Listed emerging markets companies may be operationally geared, but are certainly not financially leveraged compared to their developed markets brethren. In fact, it is useful to note that as capex declines rapidly in many emerging markets, and revenue picks up, free cash flow is increasingly very positive, and that in the context of "arguably" under-geared balance sheets. The prospects of a more substantive return of capital to shareholders has rarely looked brighter.

Looking now at some country specifics, we will start with China. Here no news is good news. While we have never sought to downplay the challenges that exist in China as the economy evolves, we stick to our view, expressed frequently, that there was very little danger of some kind of imminent implosion in the financial system and/or the currency, as espoused by many "talking heads". The economy is actually doing very nicely. The variable timing of the Lunar New Year celebrations can complicate economic analysis, but as the dust settles, it is appears that growth is fine, and that capital outflow pressure is less. Nominal growth has substantially improved, leading to strong corporate profitability in the industrial sector. We tend to invest in areas of the corporate landscape which are loosely called the "New China" – healthcare, education, internet, and so forth. And in those areas growth simply remains strong.

For India, the fourth quarter of 2016 was challenging as investors came to grips with some significant government moves, including "demonetization". This is the process whereby certain local currency notes (1,000 rupees and 500 rupees) were invalidated overnight to be replaced with new notes. We said that we were taking advantage of the temporary dislocations to increase investment. We did so, and it bore fruit, as India was one of the better performing markets in the first quarter of 2017.

Mexican equities and the currency were clearly weighed down by that country's position as one of the main potential victims of a harsher trade environment. Again we took the view that market sentiment was overwrought, and our enhanced weighting in that country stood us in good stead in the first quarter, as it, too, has performed very well in 2017, particularly in U.S. dollar adjusted terms.

Turning to last year's strongest country performers, Brazil's outlook improved post-impeachment but we continue to believe that, in general, the equity market is fully discounting that improvement. However, there remains some very significant work to be done in terms of the social security and pension systems. In the meantime real activity indicators are sluggish, to say the least.

While Brazil performed more or less in line with the broader emerging market indices, another of last year's winners, Russia, had a difficult first quarter of 2017. As the so-called reflation trade has deflated and crude prices retreated, Russia has suffered. Economic management has been positive, but the country's stocks remain fairly strongly correlated to the price of commodities, with a significant overlay of geopolitical risk.

*All country and company weightings as of March 31, 2017.

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.

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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. Investing invovles risk, including possible loss of principal. 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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