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Higher growth expectations driving emerging markets

By David Semple, Portfolio Manager

VanEck Emerging Markets Fund

GBFAX / EMRCX / EMRIX / EMRYX

Performance Review

The VanEck Emerging Markets Fund (the "Fund") gained 11.71% during the second 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 5.89% for the same period.

Average Annual Total Returns (%) as of June 30, 2017

	2Q17†	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	11.71	23.74	0.99	7.52	1.15
Class A: Maximum 5.75% load	5.31	16.66	-0.99	6.26	0.56
MSCI EM IMI	5.89	23.23	1.39	4.45	2.35
MSCI EM Index	6.38	24.17	1.44	4.33	2.25

Market Review

After a very creditable first quarter, emerging markets equities (as represented by the Fund's benchmark index) consolidated and built upon that period to achieve a gain of 18.27% for the first half of 2017. For the asset class as a whole, stronger performance can be traced to both the dissipation of a number of potentially negative factors and a solid underpinning of better earnings growth and significantly better free cash flow generation. We have witnessed a radical shift away from the outperformance of cyclicals which was so marked in 2016. To date, the 2016 winners and losers by country and sector have been turned on their head. In particular many large, cyclical, often commodity-based companies, having experienced a banner year in 2016, performed poorly again in 2017 – as they had done for a number of years prior to 2016. We maintain a disciplined focus on structural growth, largely eschewing cyclicality. This focus has clearly served us well in 2017.

Growth stocks continued to outperform value stocks in the second quarter of 2017 while small caps continued to lag large caps extending their underperformance "spell" to 18 months. Information technology sector led by the benchmark's top holdings performed best during the quarter followed by consumer related stocks. Energy, utilities, and materials sectors all registered negative returns. On a country level, stocks in Turkey, Hungary, and Poland performed well while stocks in Russia and Brazil did not, mainly driven by macro-economic and political factors.

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.

At the start of the year the possibility of U.S. dollar strength, unanticipated rate increases, China issues, and protectionism were all cited as significant reasons for antipathy towards emerging markets equities. In each case, the negative scenario failed to develop. The U.S. dollar actually weakened. This tends to be positive for emerging markets as long as the decline is not rapid. Short-term interest rates increased in the United States. This was well anticipated and, in our view, not something to be feared as it tends to evidence better economic growth in developed markets. Traditionally this has a positive impact on emerging markets. China exhibited stronger than expected growth in the first quarter and again was well able to control the potential negative implications of imbalances in its economy. We do expect economic growth in China to be weaker for the rest of the year, but to remain resilient. The worst fears of protectionist measures emanating from the new U.S. administration proved to be misguided. For whatever combination of reasons, wholesale tariffs as described in the stump speeches appear unlikely to be implemented.

On the positive side for the asset class, earnings expectations, which held up well at the end of 2016 (in stark contrast to the previous four years), have been positive in 2017. We believe that there continues to be an underappreciated and significant increase in free cash flow among emerging markets corporates. Stronger revenues allied to less capex spend means that, in contrast to prior years, many companies have significant "free cash". Balance sheets for listed emerging markets companies are already significantly stronger than their developed markets counterparts. This begs the question about the use of this excess cash. Whether capital investment activities pick up again, corporate M&A becomes more popular, or capital is returned to shareholders, most uses of cash should be positive for equity markets. There is significantly more pressure on corporates to avoid adding further cash to their balance sheets since it depresses their return on equity.

While fears have dissipated, we think that this firm underpinning of earnings and cash flow is what gives the emerging markets rally some "legs".

Fund Contribution

The strong performance of growth stocks in Q2 worked well for the Fund's relative performance, while the weakness in small-caps hurt. On a sector level, exposures to consumer discretionary and financials sectors helped the Fund's relative performance vis-à-vis its benchmark, whereas underexposure to utilities and an overweight position in the healthcare sector detracted. On a country level, China was the largest contributor to the Fund's relative performance. China's solid contribution is complemented by positive contributions from countries such as Brazil and Russia; Taiwan and Greece detracted from performance.

The best performing stocks for the quarter were quite an eclectic group. Our top performing stocks were dominated by four companies from China (including Hong Kong). The other company came from South Korea. Samsung Electronics Co., Ltd. (5.99% of Fund net assets†), our top performer, based in South Korea, manufactures a wide range of consumer electronics, information technology, and mobile communication products. Its semiconductor business manufactures a wide range of memory chips. Supply in that industry is becoming more concentrated, while the uses are becoming more broad-based, significantly reducing cyclicality. The company benefited from significant earnings upgrades, with expectations for 2017 earnings increasing by over 25% over the first six months of the year.

Two of the Chinese investments are involved in the Internet sector. Tencent Holdings Ltd. (5.43% of Fund net assets†) and Alibaba Group Holding Ltd. (5.27% of Fund net assets†) both reported strong operations, maintained very visible growth (despite their scale), and continued to offer exciting earnings growth prospects as their quasi-monopolistic positions broadened and deepened. The biggest detractors from performance during the period were from around the globe. Russia's dominant bank, Sberbank of Russia OJSC (1.72% of Fund net assets†), suffered from a correction in the Russian market driven potentially by a drop in crude oil prices.

The performance of Syngene International Limited (0.59% of Fund net assets†), a small, but fast growing pharmaceutical company in India, suffered from a fire at its facility in December. Strides Shasun (0.56% of Fund net assets†), an Indian pharmaceutical company, also had a difficult quarter due to disappointing results.

Outlook

Looking at the asset class as a whole, the macroeconomic vulnerability of emerging markets is currently at very low levels compared to what it has been in the past, and certainly compared to even just the "Taper Tantrum" in 2013. Nearly every country is in better shape, whether in terms of current account deficits, fiscal deficits, and short-term debt versus total external debt, or PMIs.

On the microeconomic or corporate level, we have over the last year seen better earnings results. For 12 consecutive months emerging

markets corporate earnings have been upgraded. We have seen this happen a handful of times in the last 20 years or so. And each time it has been positive for the market. However these upgrades have not related just to commodities, they have been broad based.

In addition, and importantly, operating cash flow is strong and increasing, and capex is declining, which is leading to not only increasing but also historically high free cash flow. Since there is low leverage in emerging markets, this ought to result in more cash being available for companies to pay out to shareholders either by way of dividends or through share buybacks.

Looking at individual countries, while China may have had a good first quarter in macro terms, our expectations for the rest of the year are that the economy will be slightly weaker. But we do not believe there is anything to worry about. There has been some prudential tightening in an attempt to try to clean up some of the balance sheet issues that exist. But these affect only certain aspects of the Chinese economy.

In India, while reforms may be progressing, the concern is that there is still a reasonably large bad debt issue in the banking sector which is not evenly recognized among the banks. We believe there has to be some recapitalization among banks, and probably some mergers and acquisitions. But, ab initio, everything needs to be done on a level basis. The central bank in India is enforcing normalization of bad debt recognition and some issues may arise in this respect. However, once banks have been recapitalized, then both a credit and capex cycle can be started. Each has been noticeably absent.

Mexico bounced back very strongly in the first quarter following concerns in the last quarter of 2016. We believe the economy is, effectively, normalizing. Although there are challenges going forward, the economy seems to be on a reasonably firm footing.

In Brazil, as the economics continue to be challenging and the tentacles of corruption spread further, the prospects for reform appear to recede. However, what the Fund owns in Brazil is not too economically sensitive, and the investment thesis are principally idiosyncratic.

In South Africa confidence remains depressed because of political uncertainty and an administration that appears to not be business friendly. However, we believe that corporate management in the country continues to be among the best in the emerging markets and we can still find companies that, while based in South Africa, derive a significant portion of their revenues and/or earnings overseas, thereby providing something of a hedge for rand weakness.

†All country and company weightings as of June 30, 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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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, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in derivatives, illiquid securities, 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. Investing involves 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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Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
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