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VanEck FUNDS

Improved Sentiment is Good for Emerging Markets

By David Semple, Portfolio Manager

VanEck Emerging Markets Fund

GBFAX / EMRCX / EMRIX / EMRYX

Performance Review

The VanEck Emerging Markets Equity Fund (the "Fund") lost 8.41% during the fourth quarter of 2016, underperforming the Fund's market index benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI EM) Index, which lost 4.08% for the same period. However, the Fund maintained its long-term outperformance of its benchmark returning 4.57% for the five year period versus 1.64% for the MSCI EM Index.

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

	4Q16†	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-8.41	-0.43	-4.86	4.57	1.15
Class A: Maximum 5.75% load	-13.66	-6.18	-6.71	3.33	0.55
MSCI EM Index	-4.08	11.60	-2.19	1.64	2.17
MSCI EM IMI Index	-4.37	10.30	-2.04	1.90	2.40

†Quarterly returns are not annualized.

Market Review

2016 was a year of many twists and turns in macroeconomics and politics. We started the year with intense speculative pressure about the vulnerability of the Chinese economy and currency. Mid-year the British vote to exit the European Union (Brexit) was a shock to most, and combined with the unexpected U.S. election results, was evidence that we might be entering a new era of popular protest against the political elite.

While there were several quite important events in the last quarter of 2016 in India, Turkey, and South Africa, for example, none affected the fourth quarter's performance of global risk assets as the outcome of the U.S. election, with its significant reverberations in currency and rates. Since this event, U.S. Treasury yields, the U.S. stock market, and the U.S. dollar are all sharply higher. Most of this is unhelpful to emerging markets. Exporters of goods from emerging markets sold off hard (and then recovered somewhat). Emerging markets currencies also depreciated quite sharply against a stronger U.S. dollar, wiping out most of the emerging markets' outperformance over the U.S. and other developed markets pre-election. Ultimately, however, we invest in businesses that face and benefit from long-term structural trends. Share prices may be affected by short-term volatility and fund flows, but in the longer term, however, we have always believed that exceptional businesses that enjoy a strong competitive advantage and that are managed by smart, competent men and women will be winners.

Fund Contribution

Expenses: Class A: Gross 1.46%; Net 1.46%. Expenses are capped contractually until 05/01/17 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.

We have a distinct approach to emerging markets investing, which has generally served long-term investors well over a sustained period of time. Nevertheless, from time to time, there can be periods where large-cap (often state owned) cyclicals take the lead in emerging markets. We have just moved through such a period, and underperformance in this period is naturally inherent in our philosophy, style, and process. Large-cap value which, in many cases, crosses over with cyclical sectors (materials and energy) will always have periods of outperformance over growth. However, our sense is that we are far closer to the end of this transitional period than the beginning, and we have focused over the past year on positioning in companies that will benefit when regime change means investors once again favor high-quality growth over low-quality, large-cap cyclicals.

At a country level, stock selection in Peru, the Philippines, and Thailand helped relative performance. Conversely, exposures in Brazil, China, and Russia, hurt the Fund's relative performance most. In the case of Russia, we are typically underweight this very cyclical and generally poor quality equity market which rallied strongly post-U.S. election, and on the back of stronger commodity prices. China has been a poor relative performer all year, although the doomsday scenario forecast by many did not materialize. In fact, growth has turned out to be a little better, rather than worse than expectations, and many forward indicators are predicting at least a stable outlook. However, multiples remain depressed. China should, therefore, do better for the Fund in the 2017 financial year.

Sector-wise, our stock selection in consumer sectors in emerging markets aided the Fund despite the weak performance from those sectors driven by uncertainties regarding the future of global trade following the U.S. election. On the other hand, the Fund's exposure to financials in emerging markets, in addition to the Fund's structural underweight in energy and materials led to poor relative performance in terms of asset allocation, as both sectors (energy and materials) continued to do well. Touching a little on energy and materials, we would posit that much of the outperformance has probably taken place. We do see supply discipline in the shorter term but we continue to believe that in the medium and longer term, not being exposed to these sectors is advantageous. We are always careful to explain that there are times that, by the very nature of cyclicality, they will hurt our relative performance.

China Lodging Group (1.62% of Fund net assets*), the third largest hotel operator in China, performed well in the fourth quarter as reported numbers supported our thesis that the product upgrades will lead to better EBITDA margins. Samsung Electronics (4.71% of Fund net assets*), in which we increased our position earlier in the year, is doing well as depressed valuations start to mean revert, and the fiasco of exploding phones is left behind. Credicorp (2.1% of Fund net assets*), one of our best performing positions for the year, reported another strong quarter which helped propel the share price higher. A small, but fast growing, pharmaceutical research company in India that came out of due diligence and into the portfolio earlier in the year, Syngene International (0.84% of Fund net assets*), also had a strong quarter. Finally, Luxoft Holding (1.33% of Fund net assets*), the contract technology business, made up some of its underperformance from earlier in the year to make it into the top five stocks for the quarter. We met with Luxoft management on a recent Eastern European field trip and were heartened with what it had to say about the company's prospects. Although some of the company's major clients, such as Deutsche Bank, are suffering significant cost pressure, Luxoft's progress in other verticals, such as auto, has been impressive.

China Resources Phoenix Healthcare Holdings (1.59% of Fund net assets*), an operator of Chinese hospitals, gave up some of its strong performance from earlier in the year as the news-flow slowed down after a string of acquisitions closed. As the largest private operator of hospitals in China, there is a significant opportunity for the company. We do expect some indigestion as it incorporates the new hospitals, and fine tunes the revenue model. China Maple Leaf Educational Systems (0.72% of Fund net assets*), a private provider of (primarily) secondary education in China, also performed poorly, hurt by some regulatory headlines that caused immediate investor concern. The company subsequently reported strong numbers, which has helped stabilize the share price. In Mexico, UNIFIN Financiera (1.50% of Fund net assets*) and Fideicomiso PLA Administradora Industrial (1.12% of Fund net assets*) both fell prey to post-U.S. election selling of Mexican equities and the peso. International Personal Finance (0.47% of Fund net assets*), a provider of small unsecured loans in Central Europe, was hit by further regulatory headwinds in its core Polish business.

Outlook

Entering 2017, emerging markets face a significant degree of uncertainty, with some clearly identifiable risks, both positive and negative. The complicated, and uncertain, interplay of reflationary policies, rates, and the U.S. dollar, is difficult to predict. Likewise, the policy actions of the new U.S. administration, although potentially very different from campaign rhetoric, will influence outcomes for emerging markets. Reflation, stagflation, and the return of deflation are all plausible. We are tending to view the global macro environment favorably. We see a distinct improvement in

global growth, with better sentiment indicators and improving analyst earnings revisions. We need to carefully monitor further U.S. dollar strength, which is generally a negative for emerging markets investors. Disruptive trade and tax policies also have the potential to be significant headwinds.

Turning to some country specifics: in India the market struggled in the fourth quarter 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, and replaced with new notes. One of the intentions behind this move was a push to formalize more of the economy. This ought to have a long-term positive impact for the economy, but it has certainly created some temporary dislocations. We have used this period of investor disfavor to reposition and optimize the portfolio for where we believe the opportunities will be in the future, rather than where short-term sentiment is currently.

The outsized performance of value (which has become the momentum trade in emerging markets), has meant that the valuations of our consistent growers have become relatively more attractive. In addition, as they steadily compound earnings, their absolute valuations are clearly improving as well. We are finding tremendous value in currently out of favor markets such as Indonesia, the Philippines, and China and will continue to allocate capital to structural growth businesses that are most attractively priced.

We expect 2017 yet again to be a year where the outsized predictions of "perma-bears" in China prove to be wrong. This does not mean that there are not significant challenges, but we are confident that there are also significantly mispriced opportunities in specific sectors. We are not in the camp of a disorderly depreciation of the Chinese currency.

Brazil's outlook improved post-impeachment. However, we believe that, in general, Brazil's equity market is fully discounting that improvement while there remains some very significant work to be done in terms of the social security and pension systems. Meanwhile, real activity indicators are sluggish, to say the least.

Vulnerability in certain emerging markets countries has been reflected in some very weak currencies. Mexico certainly bore the brunt of that in 2016, being particularly impacted by the shifting political winds in the U.S. The fear is, of course, that foreign direct investment is significantly impacted. In Turkey, the lira has also been very weak. In this case, it also reflects concern about domestic and regional politics. Turkey has vulnerability to a weaker currency through heightened inflation and elevated foreign currency debt. Our stock selection in Turkey reflects our medium-term anticipation of further currency weakness.

*All country and company weightings as of December 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.

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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. 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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