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VanEck FUNDS

2018: Optimistic but Cautious

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VanEck Unconstrained Emerging Markets Bond Fund

EMBAX / EMBCX / EMBUX / EMBYX

Market Review

Our basic stance at the end of the year remains largely intact. We continue to have low duration and less than 50% of the Fund has local currency exposure, which has been the case since the summer. We introduce our positioning with those reference points, as they are the closest proxy for our "risk" profile. As a result, one could argue that we are slightly risk averse, having lower-than-benchmark credit spread duration, and lower-than-benchmark local currency exposure. We are sticking with this overall program.

The details of that overall program remain roughly the same. Our duration is just over 3 years. Our carry is approximately 7%. We have approximately 30% of our exposure in emerging markets local currency. We believe that we have a high degree of idiosyncrasy.

Drilling down a bit more, our local currency exposure is still led by Argentina – it pays high real interest rates, is very early in its economic cycle (unlike most of the world), and is implementing structural reforms. We did make three noteworthy changes in some of our other local currency allocations. We increased our exposure to South Africa. It had been paying high real interest rates, but we saw a binary asset price outcome from African National Congress (ANC) leadership voting (as outlined in our last monthly), so we awaited the outcome. The outcome turned out to be market friendly, in our opinion, and thus our caution abated. (More on South Africa below.) We also increased our exposure to Mexico local currency bonds (to roughly market weight) for different reasons. Here, the peso had sold off in December, and we concluded that having a significant underweight after such a selloff left the Fund vulnerable to underperformance if the peso mean-reverted. Conversely, we had exposure to Brazil local currency, but have reduced it. This is due to very high financing needs and the ongoing failure of the government to implement social security reform that would reduce this requirement (in the long term). We also saw ratings downgrade risks rising there. We have maintained our exposure to the (normally) more boring Polish zloty, due to the country's incredible growth momentum. We also had a big underweight in this name and sector (EMEA – Europe, the Middle East, and Africa), which was part of the rationale.

In hard currency we've made even fewer changes. We remain very diversified in a range of idiosyncratic countries that seem uncorrelated with "emerging markets" generally. Ecuador, Mongolia, Belarus, and Angola remain examples of this, but we have an array of even smaller exposures.

There are no new reasons for our continuing with our low emerging markets local currency and low duration stance. However, we should emphasize that one reason – U.S. front-end yields – is much stronger than it was. In particular, U.S. 2-year yields continued their relentless tear higher, and went from 1.6% at the beginning of November to almost 1.9% by the end of the year. This obviously provides strong support for the U.S. dollar, but also leads to strange questions like: "Would you rather own U.S. 10-year bonds with yields around 2.5% or European high yield bonds with yields around 2.5%?" We had been warning of the market's underappreciation of the chance for fiscal stimulus/tax reform in the U.S., and its materialization seems to be one of many factors driving U.S. yields higher. We had been citing quantitative easing's continuing (U.S. Federal Reserve) or prospective (European Central Bank) declines as a separate reason, and we shall just repeat that risk here.

We remain very cautious about some local currency markets that happen to be large index weights, a framing that is intentional given that the yield-chase that has characterized the post-crisis era has obviously meant index "love" so far, regardless of the fundamentals.

Turkey is worth highlighting. It has a high nominal policy rate of 12.25%, but inflation of 13%. It also has a large external financing requirement and a number of bad policies (ranging from state-directed bank lending to tensions with the U.S. and NATO). We are also concerned that domestic political risks mean that capital repatriation from locals, which has historically financed the country's external financing need in times of stress, is unlikely in the current domestic political environment. There is already evidence of this, with foreigners accounting for the largest share ever of the long-end of the local bond market. If global risk "love" turns, we see Turkey as extremely vulnerable.

One last point should be made on Argentina. We have had significant exposure there for five years. For most of that time our exposure was to hard currency. In the past year, though, we have added local currency, mainly because of the ending of capital controls, the central bank's maintenance of high real interest rates, and the government's efforts to reduce inflation. There are, though, risks to the government's anti-inflation commitment. As a result, we would not be surprised if we reduced our local currency exposure to the country. However, we would highlight that such an eventuality would say a lot about the currency (slightly negative) and inflation (also negative), and thus only impinge on nominal-rate local currency bonds, but not on Argentina in hard currency, nor Argentine inflation-linked local currency securities to which we also have exposure.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions are currently: Argentina, South Africa, Brazil, Ukraine, and Indonesia.

- We increased local sovereign exposure in South Africa. The results of the ANC leadership contest in December and the election of market friendly Cyril Ramaphosa as the ANC's next president signal a likely departure from the defective policy making of the past several years with its negative impact on growth, fiscal performance, and debt ratios. The expected improvement of South Africa's fundamental metrics – which leaves room for the central bank to cut the policy rate – makes the current valuations look even more attractive. In terms of our investment process, these developments translated into the improved policy/politics score for the country.

- We also increased local currency sovereign exposure in Mexico and Chile. In Chile, Sebastián Piñera's victory in the presidential elections reduced the negative tail risks – specfically in regard to growth and the fiscal outlook. In terms of our investment process, this translates into the improved policy/politics scores for the country. Mexico's valuations improved following a big sell-off as markets realized that inflation pressures are likely to stay higher for longer. However, the central bank responded with a prompt interest rate hike – reaffirming its credibility and improving the country's vulnerability and policy scores in the process.

- We reduced local currency exposure in Brazil and hard currency sovereign, quasi-sovereign, and corporate exposure in Argentina. In Brazil, the reason was the government's inability to get enough votes for the approval of social security reform before the year end – with the vote on the bill pushed to February 2018. The outcome for fiscal adjustment now looks less certain and this lowered the policy/politics score for the country. In Argentina, authorities made a badly-timed decision to revise the inflation target. This might affect the results of the wage negotiations and the overall price trajectory for the next two years. In terms of our investment process, this lowered the country's policy/politics score.

- We reduced hard currency sovereign exposure in El Salvador and Belarus. In El Salvador, valuations started to look less compelling, while the approval of pension reform lowers the likelihood of an IMF program. In terms of our investment process, this worsens the country's policy/politics and correlation scores. In Belarus, we reduced our duration exposure – reflecting our concerns about the impact of the U.S. Federal Reserve's policy withdrawal on yields. In terms of our investment process, this worsened the country's correlation score.

- We also reduced hard currency corporate exposure in Indonesia and Israel. In Israel, we reduced exposure to a company with a low yield/spread ratio – a reflection of our concerns about the global policy accommodation withdrawal. In Indonesia, the reduction reflected the rebalancing of our Bumi position.

Fund Performance

The VanEck Unconstrained Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 1.16% in December compared to a gain

of 1.38% for the 50/50 J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) local currency and the J.P. Morgan Emerging Markets Bond Index (EMBI) hard-currency index.

The Fund's biggest winners were Indonesia, South Africa, and Belarus. The Fund's losers included Argentina, Mexico, and Venezuela. Turning to the market's performance, the GBI-EM's biggest winners were Malaysia, Poland and Mexico. The biggest losers were Turkey, Chile and Romania. The EMBI's biggest winners were Angola, Ecuador and Mozambique. The biggest losers were Venezuela, Belize and Jordan.

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

	1 Mo†	3 Mo†	YTD	1 Yr	3 Yr	Life
Class A: NAV (Inception 7/9/12)	1.16	-0.24	11.68	11.68	0.78	1.81
Class A: Maximum 5.75% Load	-4.71	-5.99	5.30	5.30	-1.20	0.71
50 GBI-EM GD / 50% EMBI GD	1.38	1.01	12.74	12.74	4.87	–

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

	1 Mo†	3 Mo†	YTD	1 Yr	3 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	1.55	4.30	11.95	10.35	-0.82	1.10	1.94
Class A: Maximum 5.75% Load	-4.34	-1.71	5.56	4.04	-2.75	-0.08	0.80
50 GBI-EM GD / 50% EMBI GD	-0.16	3.09	11.61	5.98	3.41	2.02	–

†Monthly returns are not annualized.

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.

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

Expenses: Class A: Gross 1.68%; Net 1.25%. Expenses are capped contractually until 05/01/18 at 1.25% for Class A. Caps exclude certain expenses, such as interest. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual 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 investors' 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). An index's performance is not illustrative of the Fund's performance. Index returns assume that dividends of the index constituents in the index have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

International Monetary Fund (IMF) is an international U.S.-based organization of 189 countries focused on international trade, financial stability, and economic growth.

The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available. The WGBI is a broad benchmark providing exposure to the global sovereign fixed income market.

Duration measures a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. This duration measure is appropriate for bonds with embedded options. Quantitative Easing by a central bank increases the money supply engaging in open market operations in an effort to promote increased lending and liquidity. Monetary Easing is an economic tool employed by a central bank to reduce interest rates and increase money supply in an effort to stimulate economic activity. Correlation is a statistical measure of how two variables move in relation to one other. Liquidity Illusion refers to the effect that an independent variable might have in the liquidity of a security as such variable fluctuates overtime. A Holdouts Issue in the fixed income asset class occurs when a bond issuing country or entity is in default or at the brink of default, and launches an exchange offer in an attempt to restructure its debt held by existing bond holding investors. Carry is the benefit or cost for owning an asset.

All indices are unmanaged 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 Fund's benchmark index (50% GBI-EM/50% EMBI) is a blended index consisting of 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). The J.P. Morgan GBI-EM Global Diversified tracks local currency bonds issued by Emerging Markets governments. The J.P. Morgan EMBI Global Diversified tracks returns for actively traded external debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S dollar emerging markets debt benchmark.

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 risks associated with its investments in emerging markets securities. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may also be subject to credit risk, interest rate risk, sovereign debt risk, tax risk, non-diversification risk and risks associated with non-investment grade securities. Please see the prospectus and summary prospectus for information on these and other risk considerations.

Investors should consider the Fund's investment objective, risks, charges, and expenses of the investment company carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing. 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.