VanEck FUNDS

Pressure Released

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VanEck Unconstrained Emerging Markets Bond Fund

EMBAX / EMBCX / EMBUX / EMBYX

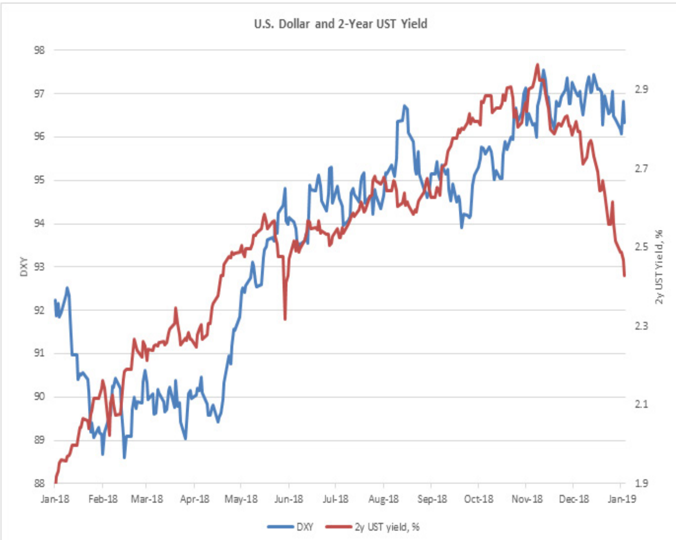
Market Review

What a month December was, following an eventful November … and an eventful October, for that matter! Let's just say it was a volatile month quarter year. Two key market drivers of 2018 – the U.S. Federal Reserve and "China" – continued to whip all asset classes back and forth in December. In addition, two key asset prices – those of U.S. stocks and U.S. Treasuries – dominated sentiment. To make things more complicated, EM debt didn't move in lock-step with U.S. and global equities, perhaps because it went through the wringer first (our hard assets colleagues would quip "No, it didn't!", rightly saying resource equities went through the wringer first), and because the U.S. Treasury market finally provided some cushion for fixed income generally. The fund had been positioned defensively (in the sense of low allocations to local currency relative to our 50/50 benchmark), and our performance bore that out during the quarter given a mixed November and a strong December. We'd also note that the fund became less defensive over the quarter as we steadily increased our local currency exposure. Anyway, where do we stand now?

We continue to reduce our defensive stance for three reasons – signals from the U.S. Treasury market (and the Fed), indications that "China" is not a key near-term risk, and a significant cheapening of a number of local currency markets. Let us start with the U.S. Treasury market and the Fed. The U.S. 10-year rate dropped roughly 30 bps in December (!) to its January 2018 low. More importantly to us, the U.S. 2-year rate dropped, but only to its May low. In our view, this points to further downside to 2-year rates if trends continue. This is more important to us because it indicates significant downside risks to the USD, in our opinion. (We typically do not use charts in these publications, but a 12-month chart of 2-year yields and the DXY would show that the U.S dollar has lagged the rally in 2-year rates, and the r2 of the relationship between the 2-year yield and DXY is 0.71 over the past 12 months). Moreover, speculative short positioning in 5- and 10-year Treasuries (according to the U.S. Commodity Futures Trading Commission) has only declined by roughly half, and in the 2-year has barely declined at all (!). This tells us that the "pain trade" is lower 2-year rates and a lower USD. Note that Treasury futures markets are already pricing in some rate cuts (approximately 8 bps) by the Fed next year. Given Fed reactions to the Treasury rally, ongoing economic malaise could easily be met with further Treasury rallies, and the Fed could conceivably be turned into a market tailwind (!).

China looks to be on hold as a risk factor, and could also be a tailwind, however temporary. U.S. President Donald Trump has promised good news and progress on "trade" negotiations. (Note: we put "trade" in quotation marks because we see the deeper tension as investment, intellectual property, and strategic competition; as a result, a resolution of "trade" tension is small beer and near-term in the grand scheme of things). Perhaps the U.S. executive branch, too, has become spooked by market weakness into doing whatever it takes to get U.S. stocks higher. China, moreover, is injecting fiscal stimulus into its economy, and we are waiting for the impact of 1.5% of GDP of lower taxes in 2018. In addition, it is doing so while keeping its currency stable (using capital and other controls, which we are neither endorsing as good policy, nor saying are durable, but they have been working for the past few years). In our view, this is crucial (while it lasts), as the risk of stimulus in more open economies is that it simply spills out of the country into USD.

Surprise weakness in CNY and/or CNH would clearly be negative for EM local currencies (EMFX), and we believe it does not look to be on the cards in coming months.



Finally, EM debt has cheapened significantly. EMBIG yields are around 7%, compared to around 5.5% in January, and GBIEM yields are around 6.7%, compared to around 6.5% in January, but EMFX weakness added to the downdraught (and thus upside potential from here), pushing it down roughly 6.5% for 2018 despite the carry. We go through some country details below. However, we should note that hard currency debt is characterized by heavy positioning, in our opinion. Many investors are "hiding" in this asset class, fearful of the risks that we see unwinding (as argued above). EM local currency debt, on the other hand, has seen significantly reduced positioning, in our opinion, as the flip side of this equation. We do remain selective and concentrated in local currency (plenty of Brazil, where we see a good story – see our recent piece, Brazil: Belle of the Ball – and Thailand, where we see great defensive characteristics, but no Turkey, where we see heterodox economic policy, and no Russia, where we fear the outsized asset-price impact from any more U.S. sanctions, etc.) Our point is that we are increasing risk in local currency, but remain selective and concentrated, and reducing risk in sovereigns and hard currency, where we see too much "hiding".

Exposure Types and Significant Changes

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

- We increased local currency and hard currency corporate exposure in Thailand. We believe the country's local debt valuations are among the best in emerging markets, while massive current account surpluses provide a steady support for the currency, translating into the improved economic and technical scores for the country. The central bank's decision to go for a pre-emptive policy rate hike in December strengthened Thailand's policy score. As regards our corporate exposure in Thailand, we participated in a new issue which came up as inexpensive per our process and versus comparable government bonds.

- We also increased our local currency exposures in Mexico and the Czech Republic. Mexico's valuations look compelling, whereas the market seems to have priced in most negative news. In terms of our investment process, this translates into the improved technical score for the country. We believe exposure to Czech local currency debt is a great way to get a European exposure. The central bank is at the end of its tightening cycle, the fundamentals look clean (no overheating or obvious inflation pressures), the currency is supported by the current account surpluses, while the government bond yields are still well above the previous lows. In terms of our investment process, this translates into strong technical and economic scores.

- We increased our hard currency sovereign exposure in Ukraine and local currency exposure in South Africa. In Ukraine, the IMF's deal boosted the country's policy score. In South Africa, the main drivers were global risk-on after the trade war truce between China and the U.S., good inflation dynamics, and pre-emptive tightening by the central bank. In terms of our investment process, this translated into the improved technical and policy scores for the country.

- We reduced hard currency quasi-sovereign exposure in South Korea and Mongolia, as well as hard currency sovereign exposure in Mongolia. South Korea's position was used as a funder for other risky assets in a situation when valuations are less attractive, lowering the technical score for the country. Mongolia's valuations no longer look compelling, translating into the lower technical score for the country.

- We reduced hard currency sovereign exposure in Costa Rica and Egypt. In Costa Rica, markets are normalizing after the approval of fiscal reform, with more emphasis on implementation, debt dynamics, and large financing requirements, which means a lower policy score for the country. In Egypt, valuations deteriorated significantly in the past weeks, worsening the technical score for the country.

- We also reduced hard currency corporate exposure in Colombia, where changes to a bond's covenants made it a weaker credit.

Fund Performance

The VanEck Unconstrained Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 0.36% in December compared to a gain of 1.33% 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 Brazil, Thailand, and China. The Fund's least contributors were South Africa, Indonesia, and Ukraine. Turning to the market's performance, the GBI-EM's biggest winners were Mexico, Thailand, and Hungary. The biggest losers were Chile, Russia, and South Africa. The EMBI's biggest winners were Uruguay, Lebanon, and Turkey. The biggest losers were Oman, Argentina, and Venezuela.

Average Annual Total Returns (%) as of December 31, 2018

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	0.36	-1.99	-6.39	-6.39	-0.49	0.49
Class A: Maximum 5.75% Load	-5.46	-7.64	-11.81	-11.81	-1.66	-0.42
50 GBI-EM GD / 50% EMBI GD	1.33	0.43	-5.15	-5.15	1.95	1.70

Average Annual Total Returns (%) as of September 30, 2018

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	1.51	1.66	-4.49	-4.72	0.29	0.84
Class A: Maximum 5.75% Load	-4.39	-4.19	-10.02	-10.21	-0.89	-0.11
50 GBI-EM GD / 50% EMBI GD	2.05	0.25	-5.55	-4.60	1.86	1.70

†Monthly returns are not annualized.

Expenses: Class A: Gross 1.71%; Net 1.26%. Expenses are capped contractually until 05/01/19 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses. 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. Certain indices may take into account withholding taxes. 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.

R-Squared is the percentage of a fund's movements that can be explained by movements in a benchmark index.
DXY is the U.S. Dollar Index that measures the value of the United States Dollar relative to a basket of foreign currencies.

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. The Blended 50/50 Emerging Markets Debt Index is an appropriate benchmark because it represents the various components of the emerging markets fixed income universe.

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. Certain indices may take into account withholding taxes. 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.

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 and portfolio managers of other investment strategies may take an opposite opinion than those stated herein. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

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 below investment grade securities, credit, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, sectors and sovereign bond risks. 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, and the risk that a position could not be closed when most advantageous. The Fund may also be subject to risks associated with non-investment grade securities.

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.