VanEck FUNDS

EM Debt Rebounds

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VanEck Unconstrained Emerging Markets Bond Fund

EMBAX / EMBCX / EMBUX / EMBYX

Market Review

Our positioning and views remain unchanged from the previous month. We see a global economy that looks more like the second quarter of this year (asynchronous growth) than the first quarter (synchronous growth) and, thus, worse for emerging markets local currencies ("EMFX") and spread duration. We also see a lot of adverse idiosyncrasy in countries that happen to be major index components, so the financial journalism around "emerging markets" seems likely to remain negative. Nonetheless, we see a lot of value and idiosyncrasy in U.S. dollar debt. Since we are, thankfully, not index-following, we can both avoid the big index components where we see unpriced risks, and also gain meaningful exposure to bonds where risks are excessively priced in. The net result is a portfolio with a carry of just under 9% and a duration of 4.5; roughly 90% of the Fund is invested in U.S. dollar bonds.

Is the world looking like first, or second, quarter? This is a relevant question because the first quarter ("1Q") saw only U.S. dollar-denominated emerging markets ("EM") bonds suffer, while EM local currency debt performed well. But in second quarter ("2Q"), the EM debt selloff that was originally based on the U.S. Federal Reserve's policy and transmitted only into U.S. dollar ("USD") yield curves skipped the rails and got the USD up significantly versus EMFX. In 2Q, all EM debt suffered significantly. In our view, the key driver of this difference is that in 1Q global growth was synchronous, and, in 2Q, the momentum in EM and Europe in particular weakened significantly. Why do we see a more 2Q-looking world? Mainly because, as a result of EMFX weakness, inflation is percolating in a number of key EM economies, prompting interest rate hikes that will be a growth headwind: India, Mexico, South Africa, Philippines, and Indonesia, among others.

Finally, we remain pretty constructive on U.S. growth, which remains a juggernaut. This causes many to discount 2Q global weakness as anomalous. Under this thinking the U.S. will drag the world back up. Our response to this would be twofold. First, trade war is a risk to this, for the simple and obvious reason that in a trade-constrained world, less U.S. demand will spill over to imports and thus the rest of the world. Second, it seems to us that too much of the "buy EMFX" view is based significantly on a mean-reversion concept – it has sold off "too much". Our response to this is that we see significant value in USD debt, which has similarly sold off, and a view on USD debt is less dependent on one's view on these global macro trends.

Many of the countries facing adverse idiosyncrasy happen to be big index components. One way to think of 2018 is that borrowers are faced with tougher conditions, so we believe those who react well will survive, and those who don't react well will not survive. Turkey is failing the test, in our view. The country has large external and domestic financing needs and is operating under a supposed floating exchange rate regime. The regime has allowed them to maintain low currency reserves. But, as capital flight pressures grow, the authorities will be increasingly under pressure to stop the currency from weakening (and thus further boosting inflation and domestic borrowing costs). If they are unwilling to stop currency weakness the "right" way (i.e., hike interest rates, adjust fiscal and structural policies, etc.), then the alternative is to put your hand on the scales and say that a kilo is actually 90 kilograms. At that point, the point at which the market sees or assumes controls, economic activity takes on a new form – the main positive activity becomes hoarding of assets, but normal investment and consumption decisions cease. Unfortunately for "emerging markets", Turkey is an important index component.

Mexico, too, is at risk of a major turnabout in policy and is also a major index component. As we see it, the country's new president is promising higher spending, financed through anti-corruption measures, salary cuts, and other means, and keeping the overall deficit neutral. Most think that the savings are a dream and cannot possibly finances his spending promises. At that point, President Lopez Obrador will need either to renege on his promises, allowing a higher fiscal deficit, or use other balance sheets (public banks and the state oil company) to achieve his political objectives. From our standpoint, this risks contradicting decades of policy that have gotten the country to a single-A rating. So it cannot be ignored. Most importantly, we see a lot more downside in Mexican debt if we are right, than upside if we are wrong.

Brazil, on the other hand, cannot even give a response to the question: "How will you respond to the tougher financing environment?" That is because the country is holding presidential elections this fall. We will not go into all the details of the election (voting intentions are still weak and the campaign hasn't started), but the country has a 7% fiscal deficit, so politics do not have much leeway to disappoint. Russia faces risks, but they are from another country. Our only view on Russia is that its economy and bond valuations look fantastic, but the risk of sanctions on its bond market create way too much downside risk relative to the upside.

We are very excited about the value and idiosyncrasy we see in USD debt, and we are not starved of opportunities: we just do not like the look of the fare on the main buffet table. We have not changed our view on Argentina this year, nor really for the past six years we have owned it. We have written about Argentina in detail, so we will only note the following: a) the authorities responded to a tougher financing environment in a very orthodox manner; b) they are not borrowing USD from the market, having cheaper financing from the International Monetary Fund ("IMF") instead: this, by definition, de-links Argentina from global financial risks; and c) the bonds have stabilized, giving credence to our view that the selling was largely technical. (Note that Turkey has not found stability in any of its asset prices.)

After Argentina, we have a diverse range of USD exposures. China property is a sector that has sold off significantly and we have accumulated a position of approximately 5% in that sector. We had avoided China for years, but we see the current selloff as an excellent buying opportunity. Ecuador is another allocation for us, based significantly on its idiosyncrasy. It is slowly moving towards financing plans with official lenders, also reducing its dependence on the market and signaling a big improvement in policy. We have also written about this one in the past. Our point is not so much the details of these countries, as much as it is that we are able to find value in EM debt currently, just not in many of the popular index components for the moment.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions are currently: Argentina, China, Poland, Nigeria, and Brazil.

- We increased hard currency sovereign exposure in Nigeria, Egypt, and Ecuador. Nigeria's bonds continue to look attractive relative to the underlying fundamentals, with these last (including reserves) still looking solid. In terms of our investment process, this translates into the improved economic score for the country. Egypt continues to implement reforms and structural changes required by the IMF (the latest installment included a sizable increase in fuel prices – part of the subsidy-reduction program), which translates into the improved policy score for the country. In Ecuador, the government started to discuss a possible deal with the IMF, which had a positive impact on the country's policy score.

- We increased hard currency sovereign exposure in Costa Rica and El Salvador. In El Salvador, political noise is likely to remain elevated in the run up to the presidential elections. Still, the country's 2018 financing needs seem to be covered and there are stronger signs of reaching an agreement between major political parties about financing the 2019-2024 maturities. In terms of our investment process, this improves the country's economic and policy scores. In Costa Rica, President Carlos Alvarado Quesada is putting more pressure on unions as part of the fiscal consolidation effort. We think this should continue to improve the policy score for the country.

- We also increased hard currency corporate exposure in China (properties) and local sovereign exposure in Argentina. The Argentine economy started the process of normalization and the presence of a large-scale IMF program reduces external risks and improved the vulnerability score. Chinese property companies have consistently appeared as inexpensive in our valuation framework. However, concerns over government interference in the real estate market had kept us at bay with regard to these investments. We began to increase our exposure when yields approached a level that more than compensated for such actions/ possibilities. We "hedged" this exposure by adding companies that we believed had sufficient liquidity on their balance sheets to handle any transitory attempts by the government to cool the market. We added further to that exposure later in the July when China's State Council gave clear(er) indications that the government was interested in boosting domestic demand.

- We reduced hard currency sovereign exposure in Armenia and quasi-sovereign hard currency exposure in South Korea. Even though Armenia's fundamentals continued to look fine, the credit no longer looks as attractive from the valuation point of view as when we bought it. In terms of our investment process, this worsened the technical score for the country. We used lower-yielding South Korea bonds as funders for more attractive assets

- We reduced local currency exposure in Poland. The country-specific fundamentals continue to look very strong. However, we are concerned about systemic risks in Europe which might have implications for Poland as the regional proxy in EM.

- We also reduced hard currency corporate exposure in Chile. The company in question was a new issue that looked very cheap relative to the fundamental fair value implied by our model. It appreciated very rapidly after the issue, hitting our initial target, and we opted to use it as a funder for other (cheaper) securities because the technical score for the country started to look weaker.

Fund Performance

The VanEck Unconstrained Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 3.34% in July compared to a gain of 2.22% 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 Argentina, Nigeria, and Poland. The Fund's least contributors were Mexico, Georgia and Cambodia. Turning to the market's performance, the GBI-EM's biggest winners were South Africa, Mexico and Uruguay. The biggest losers were Thailand and Turkey. The EMBI's biggest winners were Ecuador, Pakistan and Egypt. The biggest loser was Turkey.

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

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	3.34	-3.47	-2.91	-0.15	0.66	1.14
Class A: Maximum 5.75% Load	-2.60	-9.00	-8.53	-5.86	-0.54	0.16
50 GBI-EM GD / 50% EMBI GD	2.22	-2.81	-3.69	-1.15	2.28	–

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

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	-2.78	-8.48	-6.05	-2.25	0.39	0.60
Class A: Maximum 5.75% Load	-8.33	-13.72	-11.49	-7.88	-0.79	-0.39
50 GBI-EM GD / 50% EMBI GD	-2.02	-7.02	-5.78	-1.89	1.89	–

†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.

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. 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 indicies may take into account witholding 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.