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Real Rates are Higher in Emerging Markets

By Eric Fine, Portfolio Manager

VanEck Unconstrained Emerging Markets Bond Fund

EMBAX / EMBCX / EMBUX / EMBYX

Market Review

Overall, more of the same: we continue to have low duration and have further reduced local currency exposure, as we have been doing roughly every month since the summer. Emerging markets local currency exposure and duration are the key top-down "lenses" on our "risk" profile. So, as a result, it would be fair to say that we have been in risk-reduction mode since the summer. In other words, November's weak performance, which essentially unwound our strong performance in October, was due mostly to our exposure to Venezuela and was not due to our overall positioning, i.e., our view on Venezuela was challenged by the market, but our view on overall positioning has not been. Thus, we are sticking with the overall program.

The details of that overall program remain roughly the same. Our duration is just under 3. Our carry is approximately 7.5%. Approximately 30% of our exposure is in emerging markets local currencies. We believe we have a high degree of idiosyncrasy.

Drilling down a bit more, our local currency exposure is still dominated by Argentina and Brazil – they pay high real interest rates but are also very early in their economic cycles (unlike most of the world) and are implementing structural reforms. Russia was in this group (it continues to pay high real interest rates), but we are now rejecting it because of the risk of further sanctions from the U.S. that we believe will catch the market off-guard. We have added 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 remain much more 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 also have an array of even smaller exposures.

While there are virtually no new reasons why we are continuing with our low emerging markets local currency and low duration stance, 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 rose from 1.6% at the beginning of November to almost 1.8% by the end of the month. 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 Treasury bonds with yields around 2.5% or European high yield bonds with yields around 2.5%?" We had been warning of the market's under-appreciation 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 ongoing (the U.S. Federal Reserve) or prospective (the 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.

South Africa is another large index weight that also faces serious risks. The country does, we should note, have high real interest rates and a very good central bank. But, that is about it, in our opinion, and it is not enough. Fiscal policy has worsened dramatically, for example, with the latest budget statement showing a significant deterioration. The country also has a significant external financing requirement, combined with weak growth, despite the supportive commodity price backdrop. Inflation pressures also persist. As a result, the central bank might not be able to be as supportive of growth or of capital inflows as it would like. As a result, we expect a downgrade every year for many years to come. This is important because when/if South Africa loses its complete investment grade status in the World Government Bond Index, there will be forced selling, and it will be another reminder of the price of index- and yield-chasing.

We should emphasize that the near-term trajectory of the rand should be driven by December's African National Congress (ANC) party congress that will pick its candidate for presidential elections (the ANC candidate should be viewed as the front-runner for these). The market-friendly Cyril Ramaphosa is getting boosted by various party elections going into the final conference. His victory would boost asset prices significantly, and maybe even delay rating downgrades. But, for now, we only see a rally followed by slower deterioration in this scenario, not a turnaround.

Exposure Types and Significant Changes

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

- We increased local sovereign exposure in Poland. A combination of solid growth and contained inflation pressures creates a very benign macroeconomic background. The government's fiscal stance remains very prudent, signaling a positive technical outlook for bond issuance in the coming months. The transition to a new prime minister was painless and the latest round of the political fight with the European Union seems to be over (with no negative material consequences for Poland). In terms of our investment process, this translated into the improved policy/politics score for the country.

- We increased hard currency sovereign exposure in Armenia and Belarus. In Belarus, the monetary and fiscal policy frameworks continue to improve. The crude oil supplies from Russia are flowing again – following the resolution of a dispute between the two countries – strengthening the growth prospects. In terms of our investment process, this translates into the improved vulnerability and policy/politics scores. Armenia's fiscal consolidation is also under way, with the government committed to pension and tax reforms. In terms of our investment process, this improved Armenia's policy/politics score.

- We also increased hard currency sovereign and corporate exposure in Israel and quasi-sovereign hard currency exposure in Malaysia. In Israel, we remain attracted to a combination of the country's solid fundamentals and its ability to act as a diversifier in a situation when there are risks to duration. In terms of our investment process, this improves the country's correlation score. Malaysia's policy and macro frameworks improved in the past year/year and a half. The growth momentum is stronger, the fiscal gap is smaller, the current account surplus is solid, and the international reserves are recovering – translating into the improved policy/politics and the vulnerability scores.

- We reduced local exposure in Russia and Colombia. In Russia, we still like the macro and policy frameworks, but we are getting increasingly concerned that markets underestimate the risk of new sanctions that might be introduced in early 2018. In terms of our investment process, this worsens Russia's policy/politics score. In Colombia, the risk of fiscal slippage and the relaxation of the fiscal rule look higher, worsening the country's policy/politics score.

- We reduced hard currency sovereign exposure in El Salvador, as well as hard currency sovereign and corporate exposure in Ecuador. Additional issuance is our main concern in Ecuador – with the ensuing deterioration of the country's policy/politics score. 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.

- We also reduced hard currency sovereign and local exposure in Argentina. The government is progressing with reforms at a satisfactory pace and the central bank's anti-inflation drive is still very much in place, but there are concerns that the currency strengthened too much on the back of portfolio inflows. There are

also more questions about the growth outlook and its impact on GDP warrants. In terms of our investment process, this translates into the worsening vulnerability scores.

Fund Performance

The VanEck Unconstrained Emerging Markets Bond Fund (Class A shares excluding sales charge) lost 1.76% in November compared to a gain of 0.87% 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 Angola, Ukraine and Ecuador. The Fund's losers included Venezuela, Russia and Brazil. 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 November 30, 2017

	1 Mo†	3 Mo†	YTD	1 Yr	3 Yr	Life
Class A: NAV (Inception 7/9/12)	-1.76	0.15	10.40	11.75	-1.16	1.62
Class A: Maximum 5.75% Load	-7.46	-5.67	4.10	5.32	-3.11	0.51
50 GBI-EM GD / 50% EMBI GD	0.87	-0.53	11.21	12.99	2.94	–

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. 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.