

VanEck Emerging Markets Fund Update
Q&A with Portfolio Manager David Semple
August 21, 2018

In response to recent market events, VanEck has put together an updated Q&A with Portfolio Manager David Semple to help with client conversations. This Q&A is approved for client use.

David, is it time to hit the panic button in emerging markets?

We don't believe so. One of the benefits of long, tenured experience in this asset class is the ability to not overreact to market "zeitgeist". We generally find that a substantial pick-up in headlines about emerging markets tends to coincide with the worst relative performance of the asset class. The asset class is wide and varied, and there are always concerns and worries about certain parts of it. But, let's not get too carried away. Turkey and Argentina are pretty small parts of our universe. What happens in China is so much more important. Sure, the protectionist tilt of the current U.S. administration is viewed as unhelpful, but the asset class is much more about domestic demand now. The nexus between the U.S. dollar and higher U.S. interest rates definitely has an impact, and tends to shine the spotlight on countries with significant financing needs (Turkey, Argentina, etc.), but I find it hard to believe in a scenario of significant, rapid U.S. dollar appreciation.

Overall, in macroeconomic terms, we believe many more countries are in better shape than they have been for years. When we look at the types of measures that presage dislocation in emerging markets (fiscal deficits, current account deficits, external borrowings, etc.), in aggregate, emerging markets look to be in pretty good shape. Then, when you look at the corporate-level landscape, things look even better. Companies are doing well. It's not a "beat and raise" scenario this year, more of a "meet and maintain" one. But valuations are pretty compelling, whether you look at historical metrics or versus other major asset classes. Most importantly, the secular growth stories in emerging markets are not going away.

What is the current situation in Turkey?

A recent escalation of tensions between Turkey and the U.S., coupled with repeated mismatches between what market participants had hoped to see and what Turkish government officials have delivered in terms of monetary and fiscal policy adjustments, has resulted in close to a 20% depreciation of the Turkish lira ("lira") since the beginning of August. This brings the total depreciation of the lira since the beginning of the year to close to 38%, driven by political and macro concerns related to the recent presidential elections, and the government's pro-growth policies, despite a growing current account deficit (2018 forecast of -6.4%) and rising inflation (2018 forecast of 13.3%).

This steep depreciation in the currency, along with the muted reaction by the Central Bank of Turkey and the absence of orthodox policy measures to curb inflation and stabilize the currency, has resulted in loss of confidence. It has also raised investors' concerns about Turkey's ability to avoid a hard landing, given the sizable structural current account deficit that has been predominantly funded by portfolio inflows in recent years. While Turkey's public debt level, at around 27% of GDP, is favorable relative to emerging markets (EM) peers and the fiscal deficit remains manageable (2018 forecast at 2.5%), the higher level of debt and short FX positions of the private sector in the current environment creates uncertainty about the health of some companies and raises concerns about the banking sector if a lack of policy actions prevails. A more orthodox and forceful tightening policy would help stabilize the

currency, and a credible medium-term economic plan—including structural reforms to address the high inflation and current account deficit, while also emphasizing fiscal discipline—would increase the likelihood of a soft landing.

What can you tell us about the Fund's performance so far this year?

After a banner year last year, 2018 has been a more challenging year for emerging markets and the VanEck Emerging Markets Fund (“the Fund”). As of July 31, 2018, the Fund had lost 8.19% versus -4.92% for the MSCI EM IMI year-to-date. However, for the five-year period, the Fund was up 5.59%, outperforming the MSCI EM IMI, which returned 5.15%.

Exposures in Argentina, Turkey, and Brazil were some of the top detractors from the Fund's performance year-to-date. In Argentina, we own one bank, which we think is one of the best banks, but we may have underestimated the impact of the country's macro issues. As for Turkey, the recent currency fallout impacted our exposure. We have been disappointed by the poor policy action in Turkey so far and continue to watch the unfortunate developments closely. We believe the current level of external imbalances and the low policy credibility are unique to Turkey at this stage, which, in our opinion, limits contagion risk. We currently have under 2% of the Fund's assets in Turkey. About half of that is operationally hedged at least partially versus a weaker lira. We believe current valuations already reflect a negative outlook and in some cases stand close to historical crisis-level valuations for high quality companies and therefore remain inclined to hold on to our higher conviction quality Turkish names.

What are the key considerations for our current holdings in Turkey?

Our largest position, Tofas Turk Otomobil Fabrikasi (0.93% of the Fund's net assets), is an automotive manufacturer (Fiat's JV in Turkey) with more than 75% of its revenues coming from exports in foreign currency (euros) and mostly protected by take-or-pay contracts. The company benefits from a weaker Turkish lira as both revenues and margins expand, as we have observed in 1H18 results, when the company saw a 10% year-over-year increase in revenues and 26% EBITDA (earnings before interest, taxes, depreciation, and amortization) growth with EBITDA margins adding 1.5% year-over-year, thanks to the impact of FX and cost reduction measures.

Our second largest position, MLP Saglik Hizmetleri (0.69% of the Fund's net assets), is the largest private hospitals group in Turkey with 31 facilities. We believe MLP provides exposure to a defensive structural growth story given the growing demand for quality healthcare in Turkey and driven by favorable demographics with a growing population and a rising median age in a highly fragmented market. MLP is also best positioned to consolidate the market as smaller players struggle to survive. In addition, management is currently focusing on growing the medical tourism part of the business, which is still only 9% of total revenues but has been growing at an annualized rate of more than 60% for the past few quarters. This currently surpasses foreign currency costs of the group, which supports operating margins. While MLP has some foreign currency debt, the company continues to deleverage the business with an expected operating profits CAGR (compound annual growth rate) for the next three years of more than 20%. Management has also hedged its foreign currency cash flows at a relatively favorable rate until 2020, which reduces uncertainty. MLP is currently trading at a discount of more than 60% to emerging markets healthcare peers despite a more attractive growth profile and in spite of the current turmoil.

Our third largest position, Sok Marketler Ticaret (0.57% of the Fund's net assets), is a discount food retailer, which tends to be a more resilient business model. Sok currently has almost no debt, and we believe the company's sales stand to benefit from both the current inflationary environment and the expected trading down effect from other non-discount retailers as the economic environment gets tougher. It is also worth mentioning that more than 50% of Sok's stores are less than three years old. As the current store network ramps up and matures, we expect it to drive higher sales growth and profitability, with management still reiterating guidance of tripling sales and increasing the EBITDA fivefold within the next five years.

Tofas, MLP, and Sok represent the bulk of our exposure to Turkey. We also own two small positions in a pension and life insurance company and a furniture company. Avivasa Emeklilik ve Hayat (0.22% of the Fund's net assets) is the leading player in Turkey's growing pension sector with 20% market share. We believe this is a long-term structural growth story in a high priority sector as Turkey continues to focus on pension reform to encourage savings and address the high current account deficit. The company generates a high return on equity—above 30%—and is expected to grow earnings at a CAGR of 20% in the coming years. The low stock liquidity due to the limited free float doesn't help the stock at times of high volatility, but the company's operational and earnings outlook remains favorable.

Dogtas Kelebek Mobilya Sanayi ve Ticaret (0.10% of the Fund's net assets), our very small investment in the furniture sector, has been the weakest link. When we invested in the company last year, management was in the process of deleveraging the company and working on a debt restructuring plan to reduce the foreign debt. The market was strong and the company was increasing its market share and profitability at the expense of other competitors, which made us optimistic about its growth prospects. We had identified a sharp depreciation in the currency as a key risk at the time, but did not anticipate the magnitude and pace of the lira's depreciation. Unfortunately, while management has in fact reduced the level of euro debt year-to-date, the steeper than expected move in the lira this year pushed the leverage ratio higher to 4.5x net debt/EBITDA in 1H18 as debt levels in Turkish currency rose, and EBITDA came under pressure on the back of rising costs and a weaker consumer environment. We are in regular contact with management and believe the longer-term prospects of the Turkish furniture market are still promising. However, we have some near-term concerns about the company's balance sheet and are currently revisiting the investment case.

Why has Tencent been weak recently?

Tencent Holdings (6.45% of the Fund's net assets) has clearly been guiding down expectations for the second quarter, due to delays in monetization of a blockbuster game, "PlayerUnknown's Battlegrounds". It is Korean originated, and the regulator has been dragging its heels, probably in part because of political reasons, and partly because of organizational changes at the regulator. The company appears confident that the approval process will normalize soon, and with Tencent's track record, we are certainly inclined to give them the benefit of the doubt. In addition, in their Tenpay business, the financial regulator has mandated higher reserves (as they have done for Alipay as well). We believe the first issue for Tencent is temporary, and the second issue is in the nature of one-off impact. Underlying the noise, user numbers and engagement, not just for games but for mini apps and their long-form video service (think Netflix), remain impressive. Tencent is still a core holding.

Is Tencent ahead of itself?

No, we believe valuations are actually attractive at this point, as it is trading towards the bottom of its five-year range in terms of forward multiples. The company is clearly larger now, but has a much more broad-based range of potential growth opportunities.

Can you comment on the performance of small caps?

Smaller companies have struggled since 2016, after years of outperforming large caps. We think the underperformance is an anomaly in a historic context, in part because of the rise of some of the huge companies such as Tencent and Alibaba Group Holding (6.80% of the Fund’s net assets). Given the idiosyncratic nature of small caps, it is hard to comment in the general sense, but we continue to believe in the long-term merit of the group as they are the most tuned in to local demand growth in emerging markets. Smaller companies have unique stories and opportunities. Despite a higher stock-specific risk, when carefully combined with large caps, it can result in lower overall portfolio risk. After all, what does a car rental company in Brazil have to do with a dollar store in Taiwan or an internet giant in China?

Why the VanEck Emerging Markets Fund?

We believe the Fund is firmly aligned with the future of emerging markets by investing in structural growth companies in secular stories such as internet, healthcare, education, financial inclusion, e-commerce, and consumer. Over the years, guided by our disciplined investment approach and philosophy, we have been able to build portfolios with competitive revenue growth and return on equity and invested capital, as compared to the MSCI EM benchmark, and at a reasonable valuation as depicted by the Fund’s consistently lower PEG (price/earnings to growth) ratio. There are times when we might underperform due to markets drifting away from our investment approach; however, markets tend to return to our view in the medium to long term. We have seen this happen many times in the past 15 years. The Fund is led by a team with deep investment expertise in emerging markets. Each investment team member has either been raised or has lived and conducted business in one or more emerging markets.

Average Annual Total Returns (%) as of July 31, 2018					
	YTD [^]	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 12/20/93)*	-8.19	3.15	6.12	5.59	3.95
Class A: Maximum 5.75% load	-13.45	-2.77	4.04	4.35	3.34
MSCI EM IMI	-4.92	4.26	8.53	5.15	3.11

Average Annual Total Returns (%) as of June 30, 2018					
	YTD [^]	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 12/20/93)	-8.13	9.68	4.57	5.52	3.37
Class A: Maximum 5.75% load	-13.39	3.40	2.52	4.27	2.76
MSCI EM IMI	-6.86	7.90	5.19	4.93	2.52

*The Fund's inception date was December 20, 1993, but prior to December 18, 2002, it operated with a substantially different investment strategy. Specifically, it invested primarily in the common stocks and

other equity securities of global large-cap growth companies and could invest no more than 10% of its assets in emerging markets securities.

^Year-to-date (YTD) returns are not annualized.

Expenses: Class A: Gross 1.47%; Net 1.47%. Expenses are capped contractually until 05/01/19 at 1.60% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

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 the last page. One cannot invest in an index.

Source: VanEck, FactSet, Bloomberg. 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.

All country and company weightings as of July 31, 2018. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary. Please visit our web site for a full list of holdings as of July 31, 2018.

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. 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 Morgan Stanley Capital International (MSCI) Emerging Markets Index captures large- and mid-cap representation across 24 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 24 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 24 Emerging Markets (EM) countries. With 2,483 constituents, the index covers approximately 85% of the global investable equity opportunity set.

PEG ratio is the ratio of the forward price to earnings divided by growth in the following year. **Return on equities** is net income divided by total equity. **Return on invested capital** is the ratio of net income less dividend paid over the firm's total capital.

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

Please note that the information herein is not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results; current



data may differ from data quoted. Current market conditions may not continue. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck. ©2018 VanEck.

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 the risks associated with its investments in Chinese issuers, direct investments, emerging market securities which tends to be more volatile and less liquid than securities traded in developed countries, foreign currency transactions, foreign securities, other investment companies, Stock Connect, management, market, operational, sectors and small- and medium-capitalization companies risks. 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, or political, economic or social instability.

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. Investing involves risk, including possible loss of principal. An investor should consider the Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

Van Eck Securities Corporation, Distributor
666 Third Avenue, New York, NY 10017
www.vaneck.com | 800.826.2333