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Solid EM Micro Despite External Noise

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VanEck Emerging Markets Fund

GBFAX / EMRCX / EMRIX / EMRYX

Performance Review

The VanEck Emerging Markets Fund (the "Fund") lost 9.46% during the second quarter 2018, underperforming the Fund's market index benchmark, the Morgan Stanley Capital International Emerging Markets Investable Market Index (MSCI EM IMI), which lost 8.02% for the same period.

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

	2Q18†	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-9.46	9.68	4.57	5.52	3.37
Class A: Maximum 5.75% load	-14.66	3.40	2.52	4.27	2.76
MSCI EM IMI	-8.02	7.90	5.19	4.93	2.52
MSCI EM Index	-7.96	8.20	5.60	5.01	2.26

Market Review

It has certainly been a challenging quarter, leading to conflicting and bifurcated views on the emerging markets asset class and contrasting macro angst with solid bottom-up metrics. Despite a fairly robust global economic and profit growth backdrop and reasonable valuations, investor sentiment is negative.

Looking at the big picture issues first, the key areas of concern appear to be U.S. dollar liquidity and U.S. interest rates, the rise in the U.S. Dollar, and fear of an escalating tariff war.

Currency losses accounted for the majority of the MSCI EM index's weakness for both the quarter and year-to-date. In local currency terms, the MSCI EM Index was down 3.41% and 2.67% respectively. In general, Asian emerging economies fared better than non-Asian. Argentina, Brazil, and China A shares performed worst during the quarter, whereas China (ex A Shares) and India held up reasonably well. On a sector level, energy and healthcare lead; financials and telecommunication services lagged.

As you all know, we focus on stock specifics first, but this is a period where global risks are prominent, while emerging markets (EM) micro looks nicely benign. Global U.S. Dollar liquidity has tightened because the Fed has stopped expanding its balance sheet. Liquidity tightening has also been driven by pro-fiscal policies in the U.S. In addition, China until recently has been effectively tightening, although driven by the relatively good reason of reducing shadow banking exposure.

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.

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.

In general, U.S. interest rates moved up through the quarter due to fears over a heating economy and higher inflation, but have backed off from their mid-quarter highs. It is likely, in our view, that the long end of the yield curve has well seen its highest yields for this year. It is certainly worth noting that in emerging markets the real rate spreads (i.e, accounting for inflation) versus developing markets are exceptionally high. Essentially, inflation in aggregate is low for emerging markets (though it is picking up). Higher real rates should ultimately give emerging markets economies some buffer to help protect their currencies.

The U.S. dollar move upward so far this year has been negative for the asset class. In sum, we believe that this is more in the nature of a counter-trend rally, in part driven by higher economic growth and the impact of corporate remittances. However, we have seen the U.S. Dollar Index give up some of its gains in the last several days.

The other significant macro factor adding to emerging markets weakness has been protectionist moves emanating from the U.S., leading to retaliation from China in particular. The actual moves have very little impact on fundamentals, but the fear is based in an all too plausible scenario of increased escalation, until the pain forces a compromise. The moves appear to play well to a core part of President Trump's political base, and yet China is unwilling either to lose face by not responding or compromising on its Made in China 2025 goals. For China, part of the difficulty is actually determining the real U.S. policy and who speaks for the administration. In our view, it is not necessarily the case that foreign access to U.S. markets is more valuable than the other way around. The U.S. has three times more foreign direct investment in China. Also, it is worth noting that the direct revenue exposure of Chinese companies to the U.S. is in the single digits, and the interconnectivity of supply chains makes trade wars unproductive for all. But the threat of increased measures will likely not go away any time soon, and depending on how politics play out, it may even accelerate.

Turning to emerging markets-specific issues, in a situation of generally tighter liquidity, those countries with persistent capital demands and/or missteps in macro policy are inevitably hurt the hardest. There have been some specific political issues in some of the areas with the highest financing needs, but these are hardly core to the emerging markets equity story. Argentina led the pack with backtracking on fiscal rectitude combined with stubborn inflation. The currency took it on the chin. In Turkey, concerns about complicated and overly loose monetary policy allied to increase the possibility of further financial pressure post an Erdogan election win. In South Africa, the gloss of the Cyril Ramaphosa presidential election win has been dulled by weak real economic indicators led by high inflation and a weak twin deficit. In Brazil, the truckers strike had a real economic impact

On a micro level, corporates in emerging markets are faring generally pretty well and among the stocks that we have on our focus list, there has been very minimal erosion of the prospects for this year. Return on equity is continuing to turn around, and capital discipline has led to higher free cashflow. Not to minimize the impact of these global issues, but the sum of the parts does not seem to us to add up to the whole.

Valuations are now cheap, and positioning is not aggressive. In fact, outflows in the past two months have resulted in net outflows year-to-date for the asset class, making it one of the largest periods of "capitulation" in terms of yearly rolling flows. The echo chamber of angst creates great opportunities in the asset class, in our view. The key, as always, is not to get carried away with sentiment. Secular themes like quality Chinese consumption are not going away anytime soon.

Fund Contribution

Turning to the Fund, growth stocks continued to outperform value stocks during the second quarter and aided relative performance. Conversely, the continued underperformance of small caps as opposed to their large cap counterparts detracted. The Fund's exposures to companies in the consumer discretionary and real estate sectors worked well for the Fund, while its exposures to companies in the financials and healthcare sectors contributed negatively to its relative performance. On a country level, China, combined with underweight positions in South Africa and Brazil, had a positive impact, whereas exposures and overweight positions in both Argentina and Turkey detracted.

The top performers during the quarter included two companies from China and one from India. China Maple Leaf Educational (1.90% of the Fund Net Assets*) Systems performed best during the quarter as educational companies in China continued to do well. The company delivered solid and slightly better than expected results and was rewarded as investors continued to appreciate its business model. Huazhu Group (1.61% of the Fund Net Assets*) (the renamed China Lodging) also delivered good results. Investors appreciated the company's solid execution and its asset-light expansion plans in addition to good operating leverage. HDFC Bank (4.23% of the Fund Net Assets*) continued to execute well and gain market share.

The bottom performers include Grupo Supervielle (0.49% of the Fund Net Assets*), an Argentinean bank. The company's weak performance had nothing to do with the bank but was, rather, driven entirely by macro. The fact that rates have been raised substantially and that inflation has been higher does dull the investment story somewhat. Samsung Electronics (5.77% of the Fund Net Assets*) was also among the bottom performers as the tussle between those who think the semiconductor industry is peaking out and those who don't continued. At the margin, earnings have been a little disappointing this quarter for a variety of reasons, but the stock looks cheap at current levels. Srisawad Corporation (0.68% of the Fund Net Assets*) also detracted as its lending business disappointed in terms of margins. The disclosure of one large non-performing loan, albeit well collateralized, took the market by surprise.

Outlook

We believe the outlook remains bright for emerging markets. We continue to emphasize the underlying health of the asset class. Moving through macro angst will allow these good corporate fundamentals to shine through. Given this outlook, cheap valuations, and light positioning, this period may ultimately prove to have been an attractive time to maintain or increase exposure to the asset class.

In terms of fears going forward, our concern lies much more with the shape of the yield curve and what that may presage about economic difficulties in the future. It is something to watch rather than a real, vibrant concern right now. It is our view that we are more likely to see a weakened U.S. dollar for multiple reasons, including a twin deficit, policy that favors a "competitive currency", a possible top in yields with a further advanced interest rate cycle, and slackening corporate remittances. We will continue to stick to disciplined, stock-by-stock investing, while remaining aware of the influence these macro factors can have.

†Quarterly returns are not annualized.

‡All country and company weightings as of June 30, 2018. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary.

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.

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

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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.

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