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Manager Commentary

Concerns in Europe Foster Risk-Off Movement

By: Eric Fine, Portfolio Manager

We continue to expect the following five longer-term investment themes to drive our investing in 2013, and they happen to be generally (but not completely) supportive of EM debt risk. To summarize, they are:

- Capital flight from countries with central banks focused on enabling government finances
- The U.S. economy as the global growth leader among so-called developed economies
- Central banks limiting tail risks which either are, or appear to be, in their control
- Idiosyncratic asset-price behavior
- Geopolitical tensions in the Middle East/North Africa escalating and potentially expanding

Also, we continue to see the same near-term themes as we did last month, and they are generally consistent with weak performance in EM debt, even though these themes/risks have begun to be priced into the market. To summarize they are:

- Risk of a strong USD
- Unattractive credit spreads
- U.S. Treasury rallies or selloffs translating into risk-off for emerging markets debt
- Europe back as a risk

We believe that the likeliness of a risk-off moment has accelerated, due to increased concerns in Europe.

As we wrote last month: "this makes us less willing to look to Europe for investments, and makes us more focused on a potential risk-off event". Cyprus is the proximate focus for risk from "Europe". At this stage in the rolling global sovereign/financial crisis, the popular media finally does a passable job of explaining the situation, so we won't add much more.

Our bottom line on Cyprus is that we believe it is 50/50 whether it jumps the rails and contaminates Europe and eventually global risk markets, but this 50/50 is not priced into the market.

First, what is happening in Europe is fairly unprecedented, so the market reasonably extrapolates from European policy on small economies, such as Greece's, to the whole European Union (EU).

Second, the cat may be out of the bag on deposit insurance; it is hard to go back on any initial plan to seize guaranteed deposits. The fact that deposits are being seized anyway (only those under the guarantee limit are protected) now means that any future government asking for help from the "Troika" of the European Central Bank (ECB), European Union (EU) and International Monetary Fund (IMF) will risk inviting a bank run, and likely result in the demise of the inviting government.

Third, and perhaps most important, it is hard to see how the previous European priority of creating a banking union is not contradicted by Europe sanctioning a seizure of guaranteed deposits and by the capital controls that are making a Cypriot Euro not the same as any other Euro.

Fourth, what incentive do Cypriot politicians have to support current policy? The ECB has given support without many elements in place that require parliamentary votes, namely a budget. So, not unlike the U.S., where is the incentive to get the fiscal act together when the monetary authority has already trapped itself into lending to the country's banks? The swirl of stories about elites escaping capital controls will not help this dynamic.

Fifth, what are we doing still talking about Cyprus or Europe? This should be over by now, and the fact that it is not speaks to potentially growing cracks in the edifice. It is widely accepted that Europe's framework – one currency, but many fiscal and banking policies – is unsustainable. This is why banking union was a supposed priority policy focus. The simple fact that the market isn't reacting positively to the Cyprus deal means, in my opinion, that the market is potentially refocusing on the basic inconsistencies in Europe's framework.

Exposure Types and Significant Changes

The Fund's types of exposure changed significantly in the past month, consistent with our growing concerns of a risk-off moment related to Europe. In particular, we have:

Increased hard currency debt at the expense of local currency debt – hard currency now accounts for more than 30% of the portfolio (excluding cash), compared to under 10% last month.

Raised cash to above 10% – this is over half of the maximum allowable cash level, and reflects our overall uncertainty about the near-term outlook for Europe and its potential contagion. We are keen to maintain our exposure to EM debt, but do so in a more defensive manner. Some of our hard currency exposure, moreover, has upside in a risk-off scenario due to the U.S. treasury component of hard currency debt.

Reduced potential illiquids – we sold bond positions that, in our opinion, might become illiquid in a risk-off scenario, even though they are currently liquid.

Hedged the Euro (EUR) currency risk that exists in our local currency positions – we have hedged the Fund's currency exposures to Euro, by going long USD/EUR in a notional amount equal to 30% of AUM. This is designed to insulate the Fund from the risk of continued crisis in Europe, and essentially lets us worry less about the portion of every currency we invest in that depends on Europe for financing and/or trade.

Biggest Country- and Bond-Level Changes

Four of our top five country exposures are unchanged – Russia, Mexico, Nigeria, Uruguay – remain in the top four, with Philippines now entering the top five. Brazil is unchanged, but moves to number six due to Philippines entry into the top five.

We changed the composition of our Mexican exposure away from local currency debt to their hard currency debt. Of our exposure to Mexico, over 10% is hard currency debt now.

We reduced our exposure to South African local currency debt. We still like South African local currency debt, but less so in a potential risk-off environment.

We increased our allocation to Philippine hard currency debt. The Philippines has very strong and defensive fundamentals, yields that are high for Asia, and the potential to rally along with U.S. treasuries in the event of a risk-off environment.

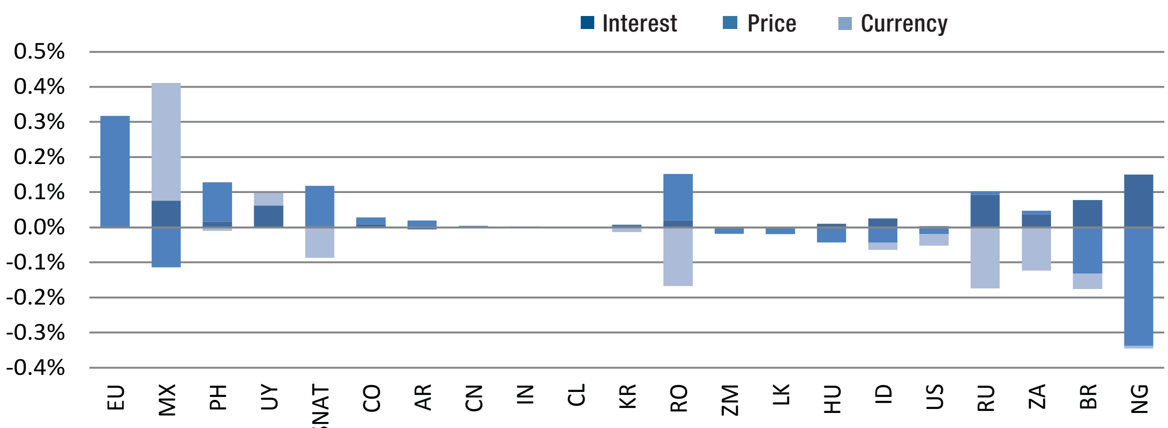
We established an allocation to Zambia and Sri Lanka hard currency debt. We did this for basically the same reasons as our other increases in hard currency debt. However, these credits are riskier than the Philippines' or Mexico's hard currency debt, which can less controversially be seen as U.S. treasury proxies.

Performance Contribution

The Fund's biggest winners in March were Mexico, and the Philippines, in local currency, and our hedge on Euro exposure from our local currency investments. The Fund's biggest losers were Nigeria, Brazil, and Russia, all in local currency.

The market's best performers of the past week were Ivory Coast, Senegal, and Namibia in hard currency, and Mexico, Philippines, and Thailand in local currency. The markets' worst performers of the past week were Egypt, Argentina, and Hungary in hard currency, and Brazil, Hungary, and Turkey in local currency.

Price, Interest and Currency ("FX") Components of Fund Returns by Country



AR = Argentina
BR = Brazil
CL = Chile
CN = China
CO = Colombia
EU = Euro
HU = Hungary
ID = Indonesia
IN = India
KR = Korea
LK = Sri Lanka
MX = Mexico
NG = Nigeria
PH = Philippines
RO = Romania
RU = Russia
SNAT = Supranational
US = United States
UY = Uruguay
ZA = South Africa
ZM = Zambia

Source: Van Eck Global. Data as of March 31, 2013.

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.

Fund Performance

In March, the Fund declined 0.30%, compared to a 0.52% decline in the local currency index (GBI-EM), and a 0.62% decline in the hard currency index (EMBI). Year-to-date, the Fund has been able to navigate a tough first quarter, gaining 2.89%, compared to a 0.12% decline in the local currency index and 2.26% decline in the hard currency index. This performance affirms the portfolio adjustments we have made, at least so far.

Inception-to-date, the Fund gained 14.27%, compared to a 5.99% gain in the local currency index and a 9.44% gain in the hard currency index.

Average Annual Total Returns (%) as of March 31, 2013

	1 Mo*	YTD	Life
Class A: NAV (Inception 7/9/12)	-0.30	2.89	14.27
Class A: Maximum 5.75% load	-6.07	-3.01	7.72
GBI-EM Index	-0.52	-0.12	--
EMBI Index	-0.62	-2.26	--

Data Source: Van Eck Research, Factset. All weightings as of March 31, 2013. *Monthly returns are not annualized.

Expenses: Class A: Gross 1.91%; Net 1.25%. Expenses are capped contractually until 05/01/14 at 1.25% for Class A. Caps exclude certain expenses, such as interest. 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 NAV.

Emerging Markets Hard Currency Bonds refers to bonds denominated in currencies that are generally widely accepted around the world (such as the US Dollar, Euro or Yen). **Emerging Markets Local Currency Bonds** are bonds denominated in the local currency of the issuer. **Emerging Markets Sovereign Bonds** are bonds issued by national governments of emerging countries in order to finance a country's growth. **Emerging Markets Quasi-Sovereign Bonds** are bonds issued by corporations domiciled in emerging countries that are either 100% government owned or whose debts are 100% government guaranteed. **Emerging Markets Corporate Bonds** are bonds issued by non-government owned corporations that are domiciled in emerging countries. A **Supranational** is an international organization, or union, whose members transcend national boundaries and share in the decision-making. Examples of supranationals are: World Bank, IMF, World Trade Organization.

Any 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. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made. The J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) tracks local currency bonds issued by Emerging Markets governments. The index spans over 15 countries. The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI) 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. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-Van Eck Global 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 Van Eck Securities Corporation ©2013 Van Eck Securities Corporation.

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.

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. An investor should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

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