Manager Commentary: On the Commodity Markets

Energy led commodity rally in 4Q, precious metals lag

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Performance Review

The Fund's Class A shares rose 8.59% for the fourth quarter (excluding sales charge). To compare, the S&P® North American Natural Resources Sector Index (SPGINRTR) gained 14.25%. The S&P Goldman Sachs Commodity Index (S&P GSCI), which measures the commodity futures markets, gained 8.96% for the quarter.

Please see the "Fund Positioning" section on the next page for extended commentary on sector allocations.

Average Annual Total Returns (%) as of December 31, 2011

	QTD[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/1/94)	8.59	-16.63	5.19	15.96
Class A: Maximum 5.75% load	2.35	-21.42	3.95	15.28
SPGINRTR Index	14.25	-7.35	4.04	10.99
S&P GSCI Index	8.96	-1.18	-2.79	5.64
S&P 500 Index	11.82	2.11	-0.25	2.92

[1]Quarterly returns are not annualized.

Expenses: Class A: Gross 1.43%; Net 1.39%. Expenses are capped contractually until 05/01/12 at 1.38% for Class A. Caps exclude certain expenses, such as interest.

Please note that commodity prices may swing sharply in response to cyclical economic conditions. The performance shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. The investment return and principal value of an investment in the Fund will fluctuate as the prices of the individual securities in which it invests fluctuate, so that 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. 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.

Market Review

Hard asset commodities and their corresponding equity sectors rebounded solidly from a rough third quarter. The last months of 2011 brought better than anticipated U.S. economic data in the important labor, housing and manufacturing markets, which more than offset the impact of vacillating hope and then disappointment surrounding October and December meetings held by key players in an effort to find solutions to the European sovereign debt crisis. That said, performance among the major commodities sub-sectors was widely dispersed.

Energy was by far the best performing commodities sub-sector. Trailing at a significant distance was base metals, which generated positive, albeit modest, returns. The precious metals sub-sector was the weakest segment, generating negative returns.

The energy sub-sector saw petroleum prices boosted during the quarter by supportive underlying technicals, specifically strong demand growth, especially from developing countries, yet increasingly difficult to obtain supply. In October 2011, the WTI (West Texas Intermediate) crude oil curve moved into backwardation for the first time in more than three years, signaling tightness in the oil market. (Backwardation is a market condition in which a futures price is lower in the distant delivery months than in the near delivery months.) Crude oil prices soared 25.79% during the quarter to end December at $98.83 per barrel.

Heating oil prices were up 5.27%, and gasoline prices rose 3.20%. According to the AAA's Daily Fuel Gauge, the national average price of gasoline was $3.27 a gallon at the end of the year, or 19.8 cents a gallon more than any prior December 30. Natural gas prices, on the other hand, declined 18.92% to $2.989 per million British thermal units (BTUs), its lowest close since November 2009. Natural gas prices were pressured by ample supplies of the commodity in North America.

On the equity side, major oil companies advanced 19.12% and oil services stocks rose 13.69%. Despite the decline in the underlying commodity price, natural gas stocks gained 15.05%. Coal stocks advanced 5.80%.

The base metals sub-sector rebounded strongly from its double-digit decline in the third quarter to generate positive but muted gains in the fourth quarter on improved optimism about the economy. Copper prices gained 8.29%, as it appeared that China's economy would likely avoid a hard landing. Nickel and lead prices were up 6.30% and 2.52%, respectively. Still, the prices of aluminum, tin and zinc stayed weak, down 6.35%, 5.65% and 0.81%, respectively.

The agricultural sub-sector overall was generally flat for the quarter, as increased supply expectations pressured prices early in the quarter but then December proved to be a strong month. Within the sub-sector, there was wide dispersion among commodities. Corn prices rose most during the quarter, leading the way at 9.11%. Corn prices were supported by strong global demand and limited supply, in part because of ethanol production in the U.S. Wheat prices rose 7.14% for the quarter overall, while soybean prices advanced 1.65%. The soft agricultural commodities—sugar, cotton, coffee and cocoa—were weaker, each experiencing price declines.

The precious metals sub-sector was weakest, with both gold and silver prices down during the quarter. The extended bull market, profit taking, and strength in the U.S. dollar contributed to the pullback. In December, the U.S. Dollar Index (DXY) approached its highs for the year set back in January. Gold typically trades as a safe haven. However, late in the year, it performed more like a "risk asset" with greater correlation to equities and commodities than historically normal. Another major factor weighing on gold during the quarter was weak demand from India due to high local prices. December is normally a strong season for Indian demand. However, the Indian rupee declined significantly against the U.S. dollar beginning in August. This caused gold prices to post an all-time high in rupees on November 30.

Two additional transient factors created a bit of a selling frenzy for gold at year end. First, light year-end trading volume enabled short sellers to dominate the market. (Short sellers are traders who establish positions in stocks such that they profit if the stock goes down in price.) Large commodities index funds were expected to sell gold in December given its relative outperformance for the year. As central bankers closed their books for the December holidays, short sellers were probably little concerned about another large gold purchase in the near term. Second, one-month gold lease rates reached a low of -0.57% on December 6. According to the Financial Times, some European commercial banks had been exchanging gold for U.S. dollar funding since September. In other words, banks were so desperate for liquidity to finance their daily operations that they were willing to pay a negative interest rate to swap the gold they held for U.S. dollars. Here, gold was serving its essential function as a source of emergency funding, even though it had the near-term effect of damping its price.

Gold bullion prices fell 3.71% for the quarter, its first quarterly decline in three years. Gold bullion prices ended the quarter at $1,563.70 per ounce. Silver prices fell 6.97% to end December 2011 at $27.92 per troy ounce. Platinum prices were down 8.18%. The major exception in the sub-sector was palladium, whose prices were up 7.07% for the quarter. On the equity side, gold mining shares, as measured by the NYSE Arca Gold Miners Index (GDM), were down 6.42%. As was the case in the prior quarter, while gold mining companies benefited financially from higher gold bullion prices, few stocks were able to outpace the underlying precious metal during the fourth quarter in part because of rising production and capital costs in the mining industry.

Fund Positioning

In actively managing the Fund's portfolio as market conditions changed during the quarter, we made several adjustments to sub-sector allocations. Due in part to purchases and sales made and in part to equity appreciation or depreciation, the Fund's exposure to base metal companies, oil services companies and energy exploration and production companies increased during the quarter. The Fund's allocations to coal companies, integrated oil companies and gold mining companies decreased during the quarter.

Rio Tinto (2.3% of Fund net assets) was a new purchase for the Fund. Rio Tinto is an international mining company with interests in mining for aluminum, borax, coal, copper, gold, iron ore, lead, silver, tin, uranium, zinc, diamonds, talc and zircon. Shares of Rio Tinto advanced 10.98%, which was positive but still lagged the SPGINRTR. A more diversified miner than the other detractors mentioned below, Rio Tinto was additionally hurt by anticipated price softening in iron ore over the near term due in part to concerns regarding the pace of China's economic growth.

During the quarter, we sold the Fund's positions in U.K. diversified base metals miner Vedanta Resources, Brazilian integrated oil company Petroleo Brasileiro (Petrobras), U.S. construction and mining machinery manufacturer Terex and U.K. oil and gas exploration and production company Heritage Oil.

With these changes, the Fund was underweighted relative to the SPGINRTR in the energy sub-sector overall at the end of the fourth quarter, but was overweighted within the energy sub-sector to coal companies and oil services companies. The Fund was overweighted relative to the SPGINRTR in both the base metals and precious metals sub-sectors at the end of the fourth quarter. The Fund held approximately 8.76% of its total net assets in cash at the end of December, a reduction from its approximately 10% position held at the end of the third quarter.

Fund Attribution

Four of the Fund's best performers during the quarter were energy-related companies. Oil and gas exploration and production companies Brigham Exploration (0.00% of Fund net assets), Whiting Petroleum (2.7% of Fund net assets), Occidental Petroleum (3.3% of Fund net assets) and Anadarko Petroleum (4.6% of Fund net assets) each saw their shares advance—by 44.36%, 33.21%, 31.68% and 21.20%, respectively—given the strength of the sector broadly and of oil prices during the quarter.

Brigham Exploration additionally benefited from positive response to being acquired by Statoil, an international energy company headquartered in Norway with operations in 34 countries. Whiting Petroleum's shares were further supported by investors' favorable reaction to better than anticipated earnings, increased rigs, expenditures within cash flow generation and prospects for double-digit growth. Similarly, Occidental Petroleum beat estimates for its earnings during the quarter. Anadarko Petroleum's share price increase was boosted by reports of increased production potential in its Mozambique operations and of the discovery of more natural gas than expected at its Cheyenne project in the Gulf of Mexico.

The Fund also benefited from its position in copper miner First Quantum Minerals (2.2% of Fund net assets). Its shares rose 47.02% during the quarter as it benefited from copper's strong price gains. As indicated above, copper outperformed all other base metals during the quarter.

The Fund's biggest detractors during the quarter were gold mining companies. Each broadly suffered along with weakness in the underlying precious metals commodity and on higher operating and production costs. Shares of Agnico-Eagle Mines, Osisko Mining, Kinross Gold and Iamgold declined 38.74%, 25.85%, 22.87%, and 19.26%, respectively. Agnico-Eagle Mines' shares were additionally pressured by corporate earnings that missed expectations and reduced production output during the quarter.

Market Outlook

Looking forward to 2012, we remain particularly excited about the Fund's energy positions. The themes and names we look to exploit in the months ahead are focused in several of the same core areas about which we have been optimistic for some time now—unconventional North American exploration and production companies, international exploration and production companies, niche refining companies and large-cap oil services companies. In the unconventional North American exploration and production area, we believe a true stock picking market with clear differentiation between winners and losers will prevail. We believe our deep fundamental understanding of each individual basin and play enables us to choose which names have the highest returning assets within the portfolio. Combining quality assets with prudent execution within the means of the balance sheets should inevitably, we believe, equate to the delivery of superior returns and consequent production growth.

The international exploration and production area was largely de-rated as investors fled risk in 2011, but we feel this is positioned to change at least for a few of the names in the Fund's portfolio. We expect a repeat of the strong performance seen in niche refining names in 2011 in 2012. Our large-cap oil services focus continues to be dominated by those names we consider significantly undervalued. From a macro perspective, we expect continued pressure on natural gas prices, as natural gas supply is anticipated to significantly outpace demand. We expect oil prices, on the other hand, to stay resilient, as supplies remain constrained and at risk, despite facing faltering demand from Europe.

While gold has had a long and spectacular run, we believe that, despite the quarter's pullback, the gold bull market is closer to its middle than to its end. First, easy monetary policies that have contributed to higher gold prices continue. Second, one of the potential key drivers of a secular gold bull market is negative real interest rates, and indeed the real yield across the U.S. Treasury duration curve had turned negative by the end of the annual period, destroying wealth for many savers, institutions and sovereigns who invest in such interest-bearing vehicles. The third reason we believe in the longer-term continuation of the gold bull market is that once the European financial system is set on a sounder course, attention will probably move to no less dire conditions in Japan and the U.S. Gold may benefit as a sound currency alternative or inflation hedge.

Within the agricultural sub-sector, we believe the fundamental tightness experienced in 2011 may repeat in 2012, though with a likely moderate loosening of the corn balance sheet. As we look forward, assuming that farming economics stay positive, it seems that the U.S. should plant at least 92 million acres of corn. Indeed, recent consultant estimates have been in the 90 to 95 million acre range. With a trend yield of about 158 to 159 bushels per acre, there should be corn production of more than 13.5 billion bushels in the new year.

Further, with corn exports of 1.6 billion bushels, well below peak levels of 2.4 billion bushels, and ethanol usage beyond just the discretionary blend, we expect a stocks-to-use ratio of about 10% in 2012. (The stocks-to-use ratio is a measure of supply and demand interrelationships of commodities. The ratio indicates the level of carryover stock for any given commodity as a percentage of the total use of the commodity.) December 2012 corn was priced at the end of 2011 at around $5.50 per bushel; we feel that corn below $5.00 per bushel may represent good value. Obviously, there are many other variables that could impact prospects for the commodity, but in our view, a significant number of end-users of corn should be profitable in the months ahead. Importantly, the Chinese have been opportunistic buyers of corn on dips and at some point, we believe, will re-enter the market.

As for the base metals sub-sector, although macroeconomic risks remain high, we believe serious and escalating supply constraints and a recovery in Chinese demand will keep the commodity market tight. Thus, in the near term, we favor commodities, such as copper, lead and zinc, more than related equities. On the one hand, base and industrial metal mining equities are vulnerable to ongoing concerns regarding Europe, worries about the global economy and broad investor risk aversion.

But, on the positive side, base and industrial metal mining equities were, at the end of 2011, trading near the bottom of their historical price/earnings (P/E) and enterprise value/earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) multiple ranges. Although these depressed multiples reflect elevated macroeconomic and company-specific risk, we do believe there is scope for a re-rating in 2012. We intend to focus going forward on the higher quality larger diversified mining companies that have quantifiable shareholder-friendly capital management policies.

All company weightings as of December 31, 2011.

All indices listed are unmanaged indices and include the reinvestment of 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 S&P® North American Natural Resources Sector Index (SPGINRTR) includes mining, energy, paper and forest products, and plantation-owning companies. The S&P® 500 Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors. The NYSE Arca Gold Miners Index (GDM) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in mining for gold. The S&P® Goldman Sachs Commodity Index (S&P GSCI) is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures. U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies.

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 concentrating its investments in hard assets and the hard assets sector, including real estate, precious metals and natural resources, and can be significantly affected by events relating to these industries, including international political and economic developments, inflation, and other factors. The Fund's portfolio securities may experience substantial price fluctuations as a result of these factors, and may move independently of the trends of industrialized companies. 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, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities and CMOs. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk, leverage risk, credit risk and counterparty risk. 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. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing.

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