

Manager Commentary: Hedge-Style Strategies

Alternative strategies posted mixed results in 2012

By: Stephen Scott, Portfolio Manager

Fund Review

The Fund's Class A shares lost 1.26% during the fourth quarter (excluding sales charge). During the same period, the HFRX Global Hedge Fund Index (HFRXGL) returned 0.80%. For the three year period ending December 31, 2012, the Fund returned 1.18%, outperforming the -0.26% return of the HFRXGL.

Average Annual Total Returns (%) as of December 31, 2012

	4Q12 ¹	YTD	1 Yr	3 Yr	Life
Class A: NAV (Inception 06/05/09)	-1.26	1.38	1.38	1.18	1.37
Class A: Maximum 5.75% load	-6.92	-4.47	-4.47	-0.80	-0.29
HFRXGL Index	0.80	3.51	3.51	-0.26	--
S&P® 500 Index	-0.38	16.00	16.00	10.87	--

¹Quarterly returns are not annualized.

Expenses: Class A: Gross 3.12%; Net 3.12%. Expenses are capped contractually until 05/01/13 at 2.40% for Class A. Cap excludes 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. 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.

Alternative Strategies: Year in Review

Alternative strategies posted mixed results for the year.

The HFRX Macro Index was a disappointing performer with a -1.00% return. Trend-following Commodity Trading Advisors ("CTAs"), or managed futures strategies, struggled due to a combination of a lack of sustainable market trends and low interest rates. Low interest rates have a negative impact on the income earned on cash collateral. Currency funds broadly produced unimpressive results as accommodative monetary policy globally has contributed to divergences between fundamentals and prices.

The HFRX Equity Hedged Index returned +4.81%. The long/short equity strategies that performed the best during the year benefited from net long exposure to equities. The HFRX Equity Hedge: Short Bias Index returned -20.88% for the year as further evidence that shorting stocks did not pay off in 2012. When comparing the broad equity indices, value outperformed growth, foreign outperformed domestic, and emerging markets outperformed developed markets.

The HFRX Event Driven Index returned +5.96%. Within event driven managers' that focus on special situations and credit arbitrage were amongst the top performers. Merger arbitrage strategies generally produced lackluster results due to limited deal flow and compressed spreads.

The HFRX Fixed Income Credit Index returned +7.65%. Long biased fixed income strategies continued to benefit from the unprecedented capital flows into the asset class. Low interest rates have led investors towards riskier debt issuances in search of higher yields and this continues to place upward pressure on fixed income asset prices.

Asset Allocation Overview

As of December 31, 2012, the Fund had assets allocated to eight sub-advisers. Overall, we reduced the Fund's allocations to mutual funds during the annual period and increased allocations to sub-advisers that offer greater transparency and more attractive fees for investors.

Beta is a measure of sensitivity to market movements. Standard deviation is a measure of portfolio risk.

Please note that the information herein represents the opinion of the portfolio managers and these opinions may change at any time and from time to time.

Market Outlook

Overall, we expect market volatility to rise in the months ahead, as the global deleveraging process continues. Politicians and central bankers continue to “kick the can” on economic issues, and we believe it is likely that market sell-offs and spikes in volatility will continue to be the major catalyst for any action they do undertake.

After several years of U.S. and developed equity markets performing best, we expect emerging markets equities to take the lead over the near term. In our view, emerging markets is where real growth is evolving and where equity markets are developing. In addition, demographics are substantially more attractive from an investment perspective than in the developed world, where older populations dominate, especially in Japan and Europe.

All indices listed are unmanaged indices and 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 HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe, and includes convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage strategies. The S&P® 500 Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors. HFRX Macro Index is a hedge fund benchmark on strategies that include long/short positions in equity, fixed income, currency and future markets based on a top down analysis on a broader view of the world economy. Commodity Trading Advisors (“CTAs”) is an asset manager or firm that advises on trades in futures contracts, commodity options and/or swaps. HFRX Equity Hedged Index is a hedge fund benchmark representative of the overall composition of the hedge fund universe. HFRX Equity Hedge: Short Bias Index is a hedge fund benchmark on strategies that are predominately net short over-valued companies. HRFX Event Driven Index is a hedge fund benchmark on strategies that trade in various corporate transactions that include mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. HFRX Fixed Income Credit Index is a hedge fund benchmark on strategies that utilizes a broad continuum of credit sub-strategies, including corporate, sovereign, distressed, convertible, asset backed, capital structure arbitrage and other relative value and event driven sub-strategies to realize the spreads of various related credit instruments.

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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 rather than a complete program. Because the Fund implements a fund-of-funds strategy, an investor in the Fund will bear the operating expenses of the “Underlying Funds” in which the Fund invests. The total expenses borne by an investor in the Fund will be higher than if the investor invested directly in the Underlying Funds, and the returns may therefore be lower. The Fund, the Sub-Advisers and the Underlying Funds may use aggressive investment strategies, including absolute return strategies, which are riskier than those used by typical mutual funds. If the Fund and Sub-Advisers are unsuccessful in applying these investment strategies, the Fund and you may lose more money than if you had invested in another fund that did not invest aggressively. The Fund is subject to risks associated with the Sub-Advisers making trading decisions independently, investing in other investment companies, using a particular style or set of styles, basing investment decisions on historical relationships and correlations, trading frequently, using leverage, making short sales, being non-diversified and investing in securities with low correlation to the market. The use of leverage may magnify losses. The Fund is also subject to risks associated with investments in foreign markets, emerging market securities, small cap companies, debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities and CMOs. **Please see the prospectus and summary prospectus for information on these as well as other risk considerations.**

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.

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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