

Manager Commentary

Still Hard-Currency over Local-Currency

By: Eric Fine, Portfolio Manager

Executive Summary

- Inflation pressures are rising, but not in Eastern Europe
- Volatility is near record lows in most asset classes

Overview

There are no changes in our basic stance. We continue to prefer hard-currency denominated bonds over local-currency denominated bonds, and want no investments with Ukraine-related risk. The China 'de-levering/growing less' narrative also seems to be continuing. Inflation risks are rising in some countries, and volatility is extremely low. We'll spare you a long piece this month, as most of our points are repeats. Also, one could continue to describe our portfolio as a barbell of high-yielders and low-yielders. Some could describe it as high-risk and low-risk, but we are uncomfortable with this terminology because our investment in anything is based on our opinion that its risks are reflected in price.

Why hard-currency over local? First, real rates on local emerging markets (EM) bonds needed to be much higher when U.S. Treasury yields were higher. So, if U.S. rates "normalize", a greater real yield premium may be needed for EM local debt. If U.S. rates don't rise due to weak final demand, then EM is probably in even more trouble, as they may weaken their currencies to compensate. Second, EM policymakers' policy reactions are, at least in part, growth-negative, as they involve some combination of weaker currencies (could be growth-positive) and higher interest rates (could be growth-negative). This protects reserves and the ability to repay hard-currency debt, but involves losses in local-currency. Third, technicals are bad in local-currency bonds. Because of lower relative growth rates (which tend to drive investment flows), flows into EM local-currency bonds do not look set to change. Because there has already been a lot of issuance in hard-currency debt, we view coupons and principal payments on hard-currency sovereign debt as being equal to planned borrowing.

No Ukraine-related risk. Why? Depressingly, our analysis remains unchanged. First, this is not geopolitical analysis. We do not ask questions of U.S. or European or Russian policymakers, nor are we reading a lot of U.S. popular media...this is Ukraine analysis that we've been doing for a long time. Our analysis is that domestic Ukrainian politics are radicalizing and escalating. By now, this is probably obvious, but we'll repeat it nonetheless. Second, Ukraine is existential to Russia, economically and politically. One-third of Russia's gas exits through Ukraine. Politically, Russia has no institutions, in our view, so fear of the autocrat is the basis for

cohesion. From the Kremlin's perspective, allowing the coup in Ukraine to hold encourages similar coup attempts in other Commonwealth of Independent States (CIS) countries. Third, civil wars create refugees, increase cross-border weapons transfers, and can shut down economies. This means that such a scenario in Ukraine could impact neighbors – first of all Poland but also, potentially, Hungary and Romania who get significant amounts of gas via Ukraine, among these other less obvious problems. It should go without saying, as we noted in our last two monthly commentaries, that when/if this crisis escalates, Russian debt and FX are the asset prices that could see the most important selloffs. (At the end of the day, in our view, Ukraine doesn't matter to the market in and of itself.)

The "barbell" remains. Now, of course, we don't wake up in the morning and decide that a "barbell" makes sense. This is simply a term that might help explain the portfolio, which is the result of our bottom-up investment process. The high-yielding portion of the barbell is made up of Argentina, Venezuela, Brazilian corporates, Vietnam (all in hard-currency), and Nigeria in local-currency. These slices equal about 45% of our assets under management. (But again, we didn't start with that objective, it just ended up that way as a result of our process.) The other half of the portfolio is a very diversified portfolio of what we would describe as "safe and boring" credits, such as Peru, Saudi Arabia, United Arab Emirates and Israel (in local-currency). We also have a small allocation to Iraq which many could think of as high-risk. We believe that its credit quality is pretty solid.

There are some new risks, however, including inflation (particularly food, and particularly in Latin America and parts of Asia). Inflation pressures are rising. There are some indications of higher inflation momentum in EM. Note that rising food inflation has often triggered social unrest in the past. What is interesting, perhaps, is that Eastern European currencies are still characterized by benign inflation. We are reluctant to generalize, but rising inflation could lead to further central bank rate hikes in certain countries – especially if there is evidence of second-round effects. This may, in turn, challenge growth, and the decline in growth rates relative to the developed countries could be yet another headwind for local-currency bonds, generally. This could mean that our lack of exposure to both local currencies and to Eastern Europe is a risk to the portfolio...but one we feel we have to take, given the serious deterioration we have described and see in Ukraine.

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.

Biggest Country- and Bond-Level Changes

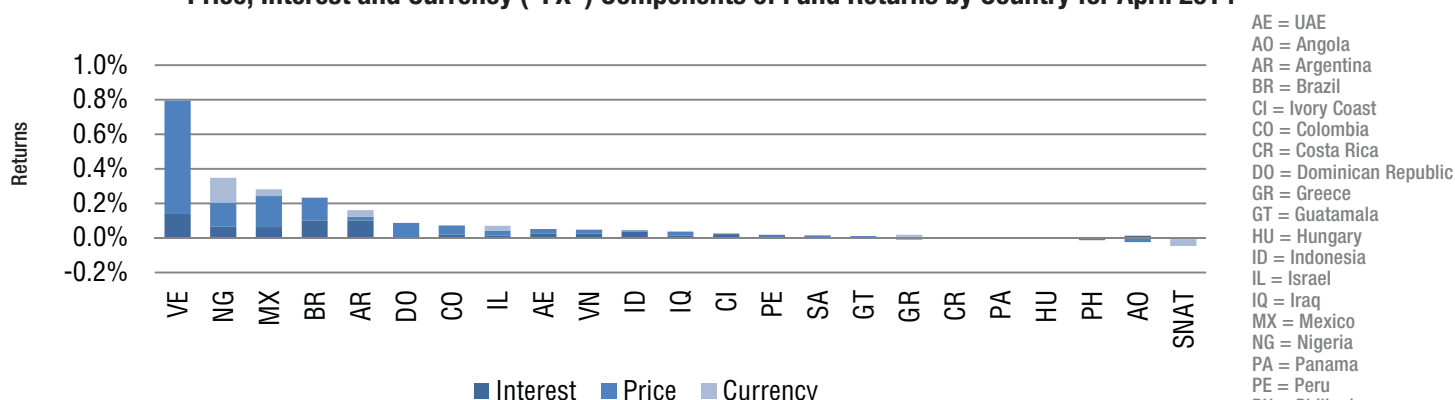
- We reduced Venezuela to 10.0% of risk from 12.9%. We think that the positive impact of the new FX auction system (basically an exchange to get dollars into the economy at market-related rates) is currently priced in, while we see no other major policy initiatives lined up for immediate implementation.
- We increased our exposure to Nigeria from 4.9% to 8.2%. Even though the political noise remains a fixture, the new central bank appears to be just as orthodox, while the government is not spending as much as was previously expected in the run up to the elections. So, we are watching the situation carefully, but are currently comfortable with our exposure there.
- We reduced Argentina from 15.2% to 7.9% as we believe the current potential of the recent structural changes is largely exhausted.
- We closed Ivory Coast (3.1% of risk) to take profits following a very good sovereign bond performance and in the anticipation of a Euro-bond issue later this quarter.

- We opened a 5% position in Greece following the issue of a new 5-year bond, as the country seems to be willing to implement additional reforms asked for by the Troika (albeit we are closely monitoring the country's potential exposure to the Russia/Ukraine conflict).
- We opened a 4.4% position in Dominican Republic to seek to benefit from positive economic momentum (especially in regards to a potential upside in GDP growth and tourist arrivals).
- We increased Indonesia from 5% to 8.5% of risk to seek to take advantage of attractive corporate opportunities there.

Fund Performance

For April the Fund's Class A shares (excluding sales charge) returned 2.52%, compared to 0.89% in the local-currency index (GBI-EM Index), and 1.24% in the hard-currency index (EMBI Index). The Fund's biggest winners in April were Venezuela, Nigeria and Mexico. The Fund's biggest losers were Angola and Philippines. Turning to the market's performance, the GBI-EM's biggest winners were Nigeria, Turkey, and Hungary. The biggest losers were Russia, Indonesia, and Chile.

Price, Interest and Currency ("FX") Components of Fund Returns by Country for April 2014



Source: Van Eck Global; Bloomberg. Data as of April 30, 2014.

This chart is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted.

Average Annual Total Returns (%) as of April 30, 2014

	1 Mo*	YTD	1 Yr	Life
Class A: NAV (Inception 7/9/12)	2.52	6.35	-3.36	6.82
Class A: Maximum 5.75% load	-3.35	0.35	-8.92	3.39
GBI-EM Index	0.89	2.81	-9.42	--
EMBI Index	1.24	5.02	-1.08	--

Average Annual Total Returns (%) as of March 31, 2014

	1 Mo*	YTD	1 Yr	Life
Class A: NAV (Inception 7/9/12)	2.57	3.84	-3.83	5.62
Class A: Maximum 5.75% load	-3.31	-2.12	-9.35	2.07
GBI-EM Index	2.81	1.90	-7.14	--
EMBI Index	1.37	3.73	0.56	--

Data Source: Van Eck Research, Factset. All portfolio weightings and statements herein as of April 30, 2014.

Expenses: Class A: Gross 1.42%; Net 1.25%. Expenses are capped contractually until 05/01/15 at 1.25% for Class A. Caps exclude certain expenses, such as interest. The tables above present 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. Investing involves risk, including loss of principal; please see disclaimers on next page.

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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. The Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index representing most U.S. traded investment grade bonds. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturity of the bonds in the index are over one year. The CBOE Volatility Index (VIX) uses options on S&P 500 Index stocks to gauge expected or implied volatility and is widely used as a measure of risk in the equity market.

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Investors 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. 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.

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