Manager Commentary: Hedge-Style Strategies

Hedge-style strategies up modestly in 1Q

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Fund Review

The Fund's class A shares returned 2.12% during the first quarter (excluding sales charge). While we are pleased with the results on an absolute basis, during periods of time exactly like this quarter, when the S&P 500 Index returned 12.59%, investors tend to become complacent with asset allocation and increase exposure to risky assets. As allocators of capital, we seek to understand the emotional factors that affect the psyche of investors and have sought to tailor our investment process around prudent risk management and the thoughtful deployment of resources. In doing this, we aim to minimize the behavior biases that plague investor returns.

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

	1Q12[1]	1 Yr	5 Yr	Life
Class A: NAV (Inception 06/05/09)	2.12	-2.11	--	2.00
Class A: Maximum 5.75% load	-3.78	-7.76	--	-0.11
HFRXGL Index	3.14	-6.38	-2.46	--
S&P® 500 Index	12.59	8.54	2.01	--

[1]Quarterly returns are not annualized.

Expenses: Class A: Gross 3.37%; Net 3.37%.
Expenses are capped contractually until 05/01/12 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.

Strategy and Market Review

As we evaluate the current investment climate, our focus remains on the great de-leveraging that is being experienced across the developed world, and the ramifications it is expected to have in every investable market. From our perspective, until domestic and foreign government debt levels are reduced to manageable levels, we will continue to experience prolonged periods of heightened volatility and sharp reversals within the capital markets. Additionally, we believe that over the long term, less intervention by the Federal Reserve, healthy government balance sheets and political stability set the stage for a market driven by fundamentals and valuations; otherwise known as a "stock-pickers market."

The market continues to hang on to every word spoken by Ben Bernanke, the Federal Reserve Chairman, in hopes of another round of quantitative easing to jump-start economic growth. While we are appreciative of accommodative actions that propel the market forward in the near-term, we are concerned about the unintended consequences that will occur as a result of artificially depressing interest rates for such an extended period. The economic indicators are now showing signs of weakness, which leaves us in a precarious situation where good news is good, but bad news is also good because it leaves the door open for more economic stimulus. From our perspective, we enjoy a strong market rally just as much as the next participant, but a rapid risk on/risk off market is not favorable for any investment strategy.

The first three months of 2012 resulted in the best quarterly return for the S&P 500 Index since 1998. An interesting but alarming factoid is that Apple Computer, up nearly 50% year-to-date, which now represents 4.42% of the S&P 500 Index, was responsible for almost 1/5th of the index's gain since the beginning of the year. Therefore, simple mathematics tells us that a 20% decline in Apple would result in a 100 points loss to the value of the S&P 500 Index, or approximately 7%. While we do not have a view on the direction of Apple, as investors in domestic-based equities, we are all exposed to this phenomenon.

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 manager and these opinions may change at any time and from time to time.

While the current market environment does pose many challenges to investors, it also creates many opportunities for those with the ability to take advantage of them. We view our flexibility to tactically allocate capital, both to mitigate risk and enhance returns, as a strategic advantage inherent to our investment strategy that leaves us well equipped to successfully navigate these tumultuous market environments.

Sub-Strategy Review

Arbitrage

The results of our arbitrage strategies were mixed for the quarter. The Emerald 2X volatility arbitrage strategy (5.06% of Fund net assets), which focuses on extracting value from the negative serial correlation between daily and weekly volatility, returned +0.34%. Emerald was challenged during the period as volatility fluctuated throughout the first two months of the quarter, but gradually declined over the course of March. The AQR Diversified Arbitrage Fund (6.09% of Fund net assets), which is heavily weighted towards convertible and equity merger arbitrage, was the best performing of our arbitrage strategies and delivered a return of +1.75%. The worst performing position was Acorn's volatility arbitrage strategy (4.86% of Fund net assets), with a total return of -6.63%. Acorn seeks to exploit pricing inefficiencies in S&P 500 Index options. The recent performance can be largely attributed to their call spread trade that negatively impacted performance as the S&P 500 Index continued to climb higher.

Long/Short

Given the impressive returns of global equities, long/short equity managers that were positioned net long were able to stand out from the pack. The more directionally-biased a particular money manager was positioned during the period, the better they were able to perform. By far the largest beneficiary of the most recent environment was Millrace's long/short equity strategy (8.24% of Fund net assets). During the period, Millrace returned +15.31% as a result of an average net long exposure of 51.5% and strong stock selection on the long side within the business services, technology and healthcare sectors. Primary's long/short equity strategy (5.32% of Fund net assets) also delivered solid results during the quarter with a cumulative return of +5%. While Primary does not typically make large directional market calls, the sub-advisor was able to generate significant returns through fundamental stock selection while maintaining an average net long exposure of 2.5%. The majority of the returns from Primary were due to net long exposure to stocks in the technology, consumer discretionary and financial sectors.

Within our fixed income allocations, Medley's long/short credit strategy (9.33% of Fund net assets) and the Loomis Sayles Bond Fund (5.53% of Fund net assets) returned +0.61% and +6.43%, respectively. Medley employs a deep fundamental credit analysis to identify long and short opportunities within relative value, event-driven and distressed investment opportunities. Medley has not participated to the upside due to their defensive positioning but we remain confident that they will perform when the markets take a more pessimistic tone. Dan Fuss, the legendary bond investor and lead portfolio manager of the Loomis Sayles Bond Fund, posted impressive total returns during the quarter.

Our long/short event-driven managers, Coe (9.37% of Fund net assets) and Tiburon (6.46% of Fund net assets), both provided reasonable absolute returns given their limited market exposure. Coe, a fundamental long/short manager with a catalyst-driven approach, generated +2.72% in the first quarter. Additionally, Tiburon, an event-driven strategy that invests across the market capitalization structure, returned +1.19% during the same period.

The emerging markets segment (4.49% of Fund net assets) continued to rally throughout the quarter with the MSCI Emerging Markets Index returning +14.14%. We currently maintain a dedicated weighting of approximately 5% to emerging market equities based on our favorable growth expectations for the developing world. During the period, the allocation to long/short emerging market equities delivered a return of +14.47%.

Global Macro

The Marketfield Fund (6.28% of Fund net assets) is a top-down, often at times contrarian, thematic investment approach led by the outspoken and often quoted Michael Aronstein. Marketfield returned +6.78% in the first three months of the year and benefited from their bullish sentiment on the U.S. economy and preference for cyclically-oriented business models. Mr. Aronstein was earlier than most in expressing his concerns on the developing markets and this view served as a detractor to performance as emerging markets continued their upward trajectory. In addition to Marketfield, another strong contributor to performance was the Statistical Value Fund (10.99% of Fund net assets), run by Aquila Capital, which returned +5.66%. Aquila Capital focuses on behavioral indicators to create a beta neutral portfolio using futures contracts on equities, energy commodities, bonds and short-term interest rates.

Tactical

The tactical segment (3.65% of Fund net assets) allows us to control portfolio risk and leverage our internal capabilities to add select investment opportunities where appropriate. We monitor risk at both the fund and sub-strategy level, and within the tactical sleeve we will often hedge positions to control the overall risk to a particular segment of the market. During the quarter we implemented an active hedge against our technology holdings to reduce exposure to the sector below 5%. While the hedge was initiated to reduce portfolio risk, it detracted from performance and led to a disappointing return of -13.20% for the tactical sleeve as the technology sector rallied.

All sub-adviser and underlying fund weightings as of December 31, 2011.

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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.

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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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