Manager Commentary: Hedge-Style Strategies

Alternative strategies post modest gains in 2013

By: Stephen Scott, Co-Portfolio Manager

Fund Review

The Fund's Class A shares gained 0.66% during the first quarter (excluding sales charge). During the same period, the HFRX Global Hedge Fund Index (HFRXGL) increased 3.13%. For the three year period ending March 31, 2013, the Fund gained 1.11%, versus 0.23% for the HFRXGL during the same period.

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

	1Q13[1]	YTD[1]	1 Yr	3 Yr	Life
Class A: NAV (Inception 06/05/09)	0.66	0.66	-0.06	1.11	1.46
Class A: Maximum 5.75% load	-5.09	-5.09	-5.82	-0.86	-0.10
HFRXGL Index	3.13	3.13	3.50	0.23	--
S&P® 500 Index	10.61	10.61	13.96	12.67	--

[1]Quarterly and YTD returns are not annualized.

Expenses: Class A: Gross 3.12%; Net 3.12%.
Expenses are capped contractually until 05/01/14 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.

Market Review

If the markets were to remain closed until January 1, 2014 then history would look back on 2013 as a success. On a year-to-date basis, as of March 31, the S&P 500 Index gained 10.61% and the Dow Jones Industrial Average (DJIA) gained 11.93%. However, the year has just begun, and we remain both respectful of the challenges and optimistic of the opportunities ahead. The S&P 500 Index and DJIA have now exceeded the all-time high levels that were reached in 2007. While the return hurdles of the leverage-induced bull market have been surpassed, it logically leads to the question – are we really better off now, or at least better than we thought we were, than in the summer of 2007?

In many regards, we believe the answer is yes, but systemic risk remains elevated due to debt burdens that have been transferred to the public sector. After the credit bubble burst, the federal government moved swiftly and powerfully to combat the deflationary pressures through both conventional and unconventional monetary and fiscal policies. Monetary intervention, in particular, has now become the lifeblood of the financial markets and it is not without costs. Figures 1 and 2, on the next page, show the balance sheet assets of the U.S. Federal Reserve (Fed) and the U.S. federal budget receipts versus outlays, which illustrate the unsustainability of prolonged accommodative intervention.

On February 21, the markets became jittery over the minutes released from the Fed's January policy meeting. Fed officials are showing concern that cheap money is inflating asset prices and encouraging risky behavior, as evidenced by the fixed income markets. This represents a change in position for the Fed that has typically focused on inflation as the ugly side effect of stimulating growth. Many on the committee are alarmed at the threat of a looming credit bubble. Richard Fisher, the Dallas Fed President, was quoted as saying "You don't sit on a hot stove twice." The market will continue to remain keenly focused on the liquidity lifeline that the Fed is providing the markets in the form of artificially low interest rates and any hint of a change in course could likely send the markets into panic mode.

Other headlines during the quarter were the budget sequester in Washington, the banking crisis in Cyprus, monetary policy in Japan and the threat of war with North Korea. At midnight on February 28, Congress enacted $85 billion in budget cuts that will take place throughout the course of the year. This budget sequester was placed into law in order to force Democrats and Republicans to directly address the budget issues prior to March 1 by imposing cuts that were so severe that they would be avoided at all costs. However, both sides were unable to come to terms on the issues and the budget cuts were put into place. We are now in the

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

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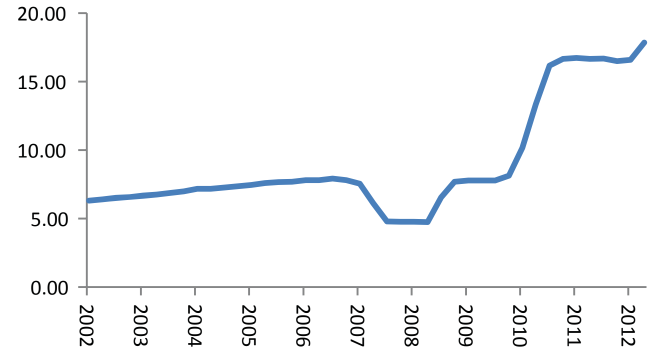
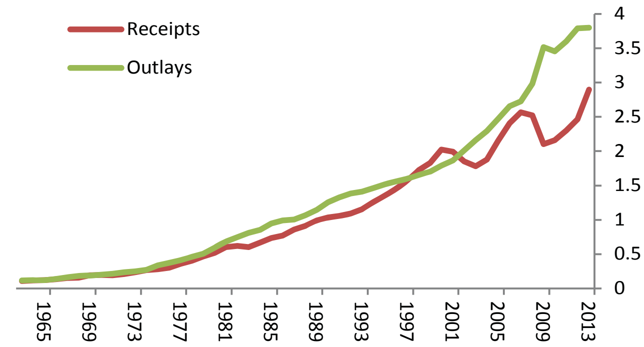
FIGURE 1: BALANCE SHEET OF U.S. FED (TRILLIONS USD)



Source: U.S. Federal Reserve. Data as of March 31, 2013

FIGURE 2: U.S. FEDERAL BUDGET (TRILLIONS USD)



Source: U.S. Federal Reserve. Data as of March 31, 2013

unfortunate position of depending on Democrats and Republicans to come to an agreement in a timely manner as the harsh spending cuts have a decaying effect on GDP growth.

Tensions in the Eurozone were elevated as the banking system in Cyprus was required to restructure debt in order to remain in the euro and eligible for financial support. Cypriot banking institutions garnered a disproportionate amount of assets relative to the size of their economy ($68 billion in deposits versus GDP of $24.69 billion) due to the country's status as an offshore financial center. The large banks in Cyprus were severely weakened by loans to Greece and the decline of their domestic real estate market. In a move to ensure an orderly stabilization of Cypriot financial institutions, and ultimately their status within the euro, the government placed severe limitations on financial transactions and imposed haircuts on deposits above 100,000 euros. We believe that these events were significant because it offers a real world case study on how the Eurozone may handle future debt restructuring on more significant economies that participate in the shared currency.

The Bank of Japan Governor Haruhiko Kuroda has increased the size of government bond purchases from ¥3.8 trillion to ¥7.5 trillion per month. To put the scale of this decision in perspective, 7.5 trillion yen is roughly equivalent to 75 billion U.S. dollars. In comparison, the U.S. Federal Reserve is currently purchasing $85 billion per month of Treasuries. The GDP of Japan is $5.87 trillion versus $15 trillion for the United States. Therefore, the Bank of Japan's stimulus program is approximately the same magnitude as that of the United States with an economy that is just larger than one-third of its size.

Looking forward into the second quarter, the markets will soon focus its attention on earnings and this offers a potential catalyst to drive the markets higher assuming that the macro risks remain subdued. In the near term, the liquidity provided by the Fed should, in our opinion, continue to provide a safety net for risk assets.

While we do not view the current path of inflationary monetary policies as sustainable over the long term, any withdrawal at this point in the recovery would be a cause for concern.

Strategy Review

The Fund experienced underperformance in three out of the four core investment strategies, which are: long/short equity, event driven, global macro and yield focused. Although periods of underperformance among fundamentally driven investment strategies are common, they are certainly not pleasant and are often indicative of when turmoil is lurking in the markets. We are of the firm belief that investment acumen is a skill not easily diminished and time proven investment processes are by design consistent. Therefore, while we are not happy with the recent performance, we remain committed to our sub-advisers who have been carefully selected based on their ability to perform throughout the course of the market cycle.

Investment Results by Sub-Strategy

Long/short equity strategies of the portfolio increased 2.4% versus 5.1% for the HFRX Equity Hedged Index. Our internally managed gold allocation (4.9% of Fund net assets*) was the largest detractor of the Fund and declined 3.7%. Gold equity and bullion sold off during the period as economic optimism has continued to weaken demand for the metal. KeyPoint Capital Management "Keypoint", our long/short REIT manager (7.4% of Fund net assets*), increased a disappointing 0.5%. A significant amount of their losses came from short positions. KeyPoint also has significant long exposure to upper-middle class new home sales in Texas, Florida and California. Several of the homebuilders sold off as Toll Brothers missed earnings (earned $0.03 per share versus an average estimate of $0.10 per share) and dragged down the sector.

Other detractors to performance included our sub-adviser RiverPark Advisors "RiverPark" (7.2% of Fund net assets*). RiverPark is a growth-oriented manager that lagged the index with a 1.7%

gain for the quarter. The largest detractors for RiverPark were short positions. Mitch Rubin is the CIO of RiverPark and remains committed to the secular declines of both businesses. However, he is respectful of the risks to shorting broken growth companies because the slightest bit of optimism can send the stock prices of these companies soaring.

Our top performing long/short equity allocation was the internally managed long/short emerging markets allocation (7.4% of Fund net assets*), which increased 6.2%.

Event driven strategies of the portfolio increased 3.3% versus 5.3% for the HFRX Event Driven Index. Our top performing sub-adviser within event driven was Coe Capital "Coe" (7.5% of Fund net assets*). Coe focuses on event-driven opportunities within the equity markets and increased 5.2% for the quarter. Another sub-adviser, Tiburon Capital Management "Tiburon" (9.8% of Fund net assets*), who runs a multi-asset class event-oriented strategy, lagged the category 1.8% gain. Peter Lupoff is the CEO of Tiburon and has positioned the strategy defensively. Tiburon is currently maintaining a significant short position on the S&P 500 Index to hedge non-event driven market beta and this proved costly during the period.

Global macro strategies in the portfolio gained 0.0% versus 0.0% for the HFRX Global Macro Index. The top performing position was the Marketfield Fund (2.6% of Fund net assets*) with a 5.2% gain. Marketfield continues to benefit from the recovery as the fund is positioned long domestic cyclically oriented businesses.

The AQR Diversified Arbitrage Fund "AQR" (9.7% of Fund net assets*) declined 0.4%. The AQR position was initiated on February 12 and increased on March 15. Within our Fund, this was the first meaningful allocation to a trend-following strategy. We have avoided investment disciplines that focus on trend factors based on the current market environment and our contrarian skepticism in regards to the tremendous assets that flowed into these strategies since the financial crisis. Since we entered the AQR position, the strategy has struggled due to trend reversals in the euro and Norwegian krone. AQR is long the euro and krone, long equities and fixed income, and is short the metals and energy sectors. In addition to AQR, the Aquila Risk Parity UCITS "Aquila" (4.8% of Fund net assets*) declined 0.4% despite strong performance within three out of the four asset classes they invest in. Aquila benefited from gains in equities, fixed income and interest rates, but the correction in commodity prices neutralized most of the returns.

Fixed income strategies of the portfolio increased 0.5% versus 3.0% for the HFRX Fixed Income Credit Index. This segment of our portfolio is currently composed of two sub-advisers, SW Asset Management "SW" (9.7% of Fund net assets*) and Horizon Asset Management "Horizon" (6.1% of Fund net assets*). SW focuses on long and short opportunities within the emerging markets and lagged the market due to a position in a Venezuelan steelmaker that was nationalized by President Hugo Chavez in 2010. SW is actively involved in the process and believes that bondholders will receive their principal and interest payments on this investment.

Horizon is a relatively new sub-adviser that manages an opportunistic total return mandate with the flexibility to invest across the capital structure and implement options strategies. Murray Stahl, CIO of Horizon, is a valuation focused investor and is holding a large cash position as he selectively finds opportunities in the market. The cash position has placed a drag on performance of Horizon and they increased 0.7% during the period.

The Fund's tactical overlay allocation (1.4%) increased 1.3% during the quarter. The current tactical holdings include a bearish bet on the Japanese Yen (-0.5% of Fund net assets), a currency-hedged long Japanese equity position (0.6 of Fund net assets) and a short on long-term U.S. Treasuries (-3.2% of Fund net assets). The short Japanese yen position is based on the efforts of the Bank of Japan to stimulate inflation via an aggressive currency debasement agenda that we expect to be successful in not only weakening the currency but inflating financial assets. In addition to the Japan position, the Fund has also initiated a short on long-term U.S. Treasuries. The Treasury short was implemented based on our long-term view that interest rates will eventually rise as the domestic recovery strengthens. We are carefully monitoring this positioning due to the unfolding issues in Japan. A continued decline in the Japanese yen may cause a flight to quality from Japanese Government Bonds and into U.S. Treasuries.

Another tactical position worth noting was within the technology sector. The Fund implemented a long position in Google (position was sold during period) that increased 15.0% and was sold during the quarter. Google was purchased based on valuation opportunities in November as the market indiscriminately punished technology stocks on concerns that Apple is facing profit margin compression and stalling growth.

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***All company weightings as of March 31, 2013.**

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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