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Manager Commentary: Hedge-Style Strategies

Hedge-style strategies declined modestly in 2Q, outpaced broad equity market

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Fund Review

The Fund's Class A shares declined 1.20% during the second quarter (excluding sales charge). During the same period, the HFRX Global Hedge Fund Index returned -1.86% and the S&P 500 Index returned -2.75%. While endpoint data is useful, it falls short of describing the roller coaster ride that investors experienced within the equity markets over the period. From April 2 to June 29, the S&P 500 Index experienced a peak-to-trough drawdown of -9.94%.

Average Annual Total Returns (%) as of June 30, 2012

	2Q12[1]	1 Yr	3 Yr	Life
Class A: NAV (Inception 06/05/09)	-1.20	0.89	1.78	1.44
Class A: Maximum 5.75% load	-6.89	-4.94	0.22	-0.49
HFRXGL Index	-1.86	-5.76	1.39	--
S&P® 500 Index	-2.75	5.45	16.40	--

[1]Quarterly 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.

Market Review

It is difficult to open the newspaper and not sink into a state of melancholy. Instead of reviewing the European debt issues that have dominated both the headlines and markets, let us focus on the fundamentals that are underpinning the domestic economy.

In our opinion, corporate earnings and balance sheets are in good condition. Earnings per share of S&P 500 listed companies have exceeded pre-crisis levels ($98.60 on 12/31/11 vs. $84.61 on 12/31/2007). Most importantly, domestic corporations are financing their assets with 50% less debt than at the previous market peak.* The current debt-to-equity ratio of the S&P 500 Index is 117.26% vs. 233.19% in October of 2007. The hangover from the debt crisis has certainly changed the willingness of corporations to over extend their balance sheets in the pursuit of profits and, as a result, companies continue to hoard cash. Cash and short-term securities as a percentage of current assets on companies included within the S&P 500 Index represent a 40% increase from 2007 levels.*

On the other hand, during the financial crises, 8.9 million private jobs were lost (we have since gained back 4.3 million). The unemployment rate in the U.S. remains at a disappointing 8.2% with wide disparity based on educational achievements. The unemployment rate of those with a college degree or greater is 3.9% and 13% for workers with less than a high school degree. Job creation will certainly be one of the hallmarks of this upcoming presidential election. It will be a challenge for either candidate to instill the confidence necessary in the private sector to increase capital spending. With regard to consumer balance sheets, we are encouraged that some of the lessons learned by corporations during the financial crisis have spilled over into American households. As of the end of June, domestic personal savings as a percentage of disposable income has increased to 3.90% vs. 2.50% in October of 2007.

With respect to the economic environment going forward, the developed nations are experiencing a global deleveraging that will take many years to unwind. This process will likely be resolved through tepid growth and haircuts in the form of artificially low interest rates. As the debt crises plays out, we are expecting alternating periods of euphoria and fear to dominate the markets, with, unfortunately, more of the latter. As allocators of capital,

*Source: Van Eck Global, Bloomberg, BLS, FactSet.

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.

we continue to navigate the tumultuous market environment by maintaining a diversified strategy mix and tactically adjusting our exposures at the margin. From an asset allocation perspective, our exposures remained mostly constant during the first half of the year. As of the end of the second quarter*, our allocations included long/short equity (25%), fixed income (15%), arbitrage (16%), global macro (16%), and event driven (15%). Tactically, we have maintained a defensive posture via our active market hedges.

Sub-Strategy Review

Arbitrage

Arbitrage strategies yielded mixed results during the second quarter. These strategies have been challenged in the current market environment due to continued risk-on/risk-off trading and its impact on spread-based investment disciplines. The AQR Diversified Arbitrage Fund (5.9% of Fund net assets)* returned -0.81% during the quarter. AQR typically allocates an equivalent amount of assets to each of its core investment disciplines: convertible arbitrage, merger arbitrage and event driven. While none of these sub-strategies are overly attractive at this point, AQR has sought the most value in convertible arbitrage, as spreads widened during the recent market sell-off. The environment for merger arbitrage continues to be lukewarm, as corporations demonstrate their preference for cash accumulation versus merger and acquisition activity. Interestingly, given the unimpressive global growth expectations and excess cash reserves of many large-capitalization companies, we believe that the environment for merger and acquisition activity has the potential to be significant.

The European debt crises and the resulting sell-off led to a rapid increase in volatility, which peaked in May before subsiding with the equity relief rally in June. Acorn's volatility arbitrage strategy (4.8% of Fund net assets)* posted strong gains in both April and May, but their defensive positioning in June detracted from performance and led to a return of +0.91% for the quarter. Acorn's strategy seeks to profit from the spread between implied and realized volatility on S&P 500 Index options. Acorn seeks to accomplish this by selling near-term out-of-the-money calls and buying further out-of-the-money calls with the same expiration date. Their strategy is designed to profit during negative equity markets and Acorn seeks to implement a tactical overlay to protect the portfolio from losses during strong equity market rallies. The Emerald 2X volatility arbitrage strategy (4.9% of Fund net assets)* returned -1.35% as volatility continued to fluctuate during the quarter. In May, the increase in volatility proved challenging for Emerald 2X, but the strategy's gains in both April and June helped to offset these mid-quarter losses.

Long/Short

Most long/short investment disciplines rely heavily on security selection to extract value between overpriced and underpriced securities. This broad definition of long/short strategies requires company specific fundamentals to drive asset prices as opposed to external influences. The turmoil in Europe resulted in the reemergence of the fear trade which temporarily depressed asset values.

On a relative basis, our long/short strategies performed well versus their respective peer groups, but did not provide a positive contribution to overall performance. Our strategies that were most defensively positioned with low net exposure, Primary's long/short equity strategy (5.1% of Fund net assets)* and the TFS Market Neutral Fund (8.3% of Fund net assets)*, were able to manage the environment most favorably. While Primary posted a return of -1.13% for the quarter, their strategy returned an impressive 1.38% during sell-off in May and contributed to the downside protection and diversification of our strategy. The TFS Market Neutral Fund relies on a quantitative model with nine factor inputs to extract value across the market capitalization spectrum. TFS's consistent net exposure has proven beneficial as other managers have attempted to profit from actively managing their net exposure, which for many has proven to be costly. Millrace (7.6% of Fund net assets)*, our sub-adviser that focuses on small- and micro-capitalization bottom-up stock selection, suffered the most during the sell-off in May and generated a return of -5.37% for the quarter.

The results of our fixed income strategies were mixed. Medley's long/short equity strategy (9.2% of Fund net assets)* was successful in generating a return of +0.80% but all of the gains were achieved in the first month of the quarter. The sub-adviser struggled in June as the market rally was more favorable towards lower quality positions with a higher risk profile. Medley has continued to maintain a defensive posture through security selection that benefits the strategy during market downturns but leaves them vulnerable to upside surprises. The Loomis Sayles Bond Fund (5.4% of Fund net assets)* was flat for the quarter.

Our emerging markets segment (4.3% of Fund net assets)* outperformed the MSCI Emerging Markets Index by 8.41%. Emerging market equities faced significant downward pressure this quarter as a result of fear of a hard landing in China combined with concerns over slowing demand from the developed world. The MSCI Emerging Markets Index returned -8.77% in the second quarter while our long/short emerging market positioning declined 0.36%. Our dedicated emerging markets positioning reflects our favorable outlook on the long-term growth prospects of the developing world and the ability to generate alpha in the regions.

*All sub-adviser and underlying fund weightings as of June 30, 2012.

Performance from our event driven managers generated strong returns relative to the -2.67% return of the HFRX Long/Short Event Driven Index. Coe Capital (9.2% of Fund net assets)* returned +0.29% through their active trading strategy that utilizes fundamental research to create what they believe is an informational advantage prior to earnings announcements. The strategy maintains large cash positions to allocate opportunistically and this benefits the portfolio during large market sell-offs. Tiburon (6.3% of Fund net assets)* returned -0.04% during the quarter as credit specific deals negatively impact the portfolio in May but the strategy rebounded sharply in June. Tiburon continues to see opportunities on a deal specific basis, but remains cautious of the de-leveraging macro environment.

Global Macro

Performance of our global macro investments varied this quarter, with the Marketfield Fund (7.1% of Fund net assets)* returning 1.88% and the Statistical Value Fund (5.7% of Fund net assets)*, run by Aquila Capital, returning -1.77%.

We continue to appreciate the portfolio manager of the Marketfield Fund, Michael Aronstein, for his ability to not only protect on the downside but also to capture most of the upside as well. Mr. Aronstein is bearish on the emerging markets and has positioned his portfolio to benefit from cyclically-oriented business models within the U.S The Statistical Value Fund underperformed for the period as gains within their credit positioning were overwhelmed by short equity positions.

Tactical

Our tactical segment (2.9% of Fund net assets)* returned +1.38% for the quarter. Notable gains came from long positions in gold equities, which we added to after a dismal first quarter that followed a poor 2011. Additionally, we continued to hold a short equity overlay against our equity managers, and those hedges performed well with notable gains from our technology and financial shorts.

*All sector, sub-adviser and underlying fund weightings as of June 30, 2012.

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. 2The Morgan Stanley Capital International (MSCI) Emerging Markets Index, calculated with dividends reinvested, captures 60% of the publicly traded equities in each industry for approximately 25 emerging markets

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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