

Manager Commentary

Alternative strategies may benefit from rising interest rates in 2H 2013

By: Stephen Scott, Co-Portfolio Manager

Fund Review

The Fund’s Class A shares returned 3.03% during the third quarter (excluding sales charge). During the same period, the HFRX Global Hedge Fund Index (HFRXGL) increased 1.09%.

Average Annual Total Returns (%) as of September 30, 2013

	3Q13 ¹	YTD ¹	1 Yr	3 Yr	Life
Class A: NAV (Inception 06/05/09)	3.03	0.99	-0.28	0.59	1.36
Class A: Maximum 5.75% load	-2.86	-4.78	-6.00	-1.36	-0.01
HFRXGL Index	1.09	4.29	5.13	0.52	--
S&P® 500 Index	5.24	19.79	19.34	16.27	--

¹Quarterly and YTD returns are not annualized.

Expenses: Class A: Gross 3.60%; Net 3.60%.

Expenses are capped contractually until 05/01/14 at 2.40% for Class A. Caps exclude certain expenses such as acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses.

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.

The Fund experienced strong absolute and relative performance during the quarter with a return of 3.03% versus 1.09% for the HFRX Global Hedge Fund Index. The trailing 90-day standard deviation for the most recent period ended September 30, 2013 was an annualized 4.62%. At the sub-strategy levels, the Fund outperformed across the long/short equity, event-driven, global macro and fixed income segments of the portfolio.

Alpha is a measure of the difference between a portfolio’s actual and expected returns, given its level of risk as measured by beta. 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.

Portfolio changes during the quarter included the full liquidations of the TFS Market Neutral Fund and Marketfield Fund. These positions were sold based on our preference to access alternative strategies via sub-advised relationships due to the benefits of investing through a sub-adviser such as greater transparency and tailoring of strategy.

Market Review

The risk-on environment continued through the third quarter. While the equity markets continued to post impressive results, there were several notable events that led to periods of heightened volatility in the markets. The third quarter began with escalating tensions between the United States and the Syrian government over Syria’s use of chemical warfare against its own citizens in the Damascus suburbs. The United States withheld from using force against the Assad regime but the uncertainty of a potential military strike weighed on the markets during the period.

On September 18 the Federal Open Market Committee (FOMC) surprised the markets by voting to maintain the current pace of the \$85 billion monthly asset purchase program designed to suppress long-term interest rates and support the housing market. Wall Street had largely expected for the FOMC to begin to taper the scale of monthly purchases, but they instead elected to maintain the pace citing downside risks to the economy.

With the FOMC’s decision to taper the stimulus program off the table for the foreseeable future, the markets focused its attention to the Congressional budgetary decisions for the new fiscal year that begins on October 1. It is our hopes, and view, that a temporary resolution will be reached in order to avoid a technical default. Unfortunately the financial strain from decreased economic activity that will result from a government shutdown comes at an inopportune time for an economy that is struggling to achieve meaningful growth.

Strategy Review

The allocation to long/short equity returned 6.42% for the quarter versus 0.06% for the HFRX Equity Hedged Index. Our top performing long/short equity manager was Millrace (9.46% of Fund net assets)* with a return of 11.39%. Millrace largely benefited from long positions within technology services, health technology and the communications sectors. Our other top performing long/short equity manager was RiverPark Advisors (9.18% of Fund net assets)* with a return of 3.51%. RiverPark's performance was largely driven from long positions within consumer services, asset managers, and electronic technology. Lastly, the TFS Market Neutral Fund (position closed during period) performed as expected with a 1.68% return given the fund's relatively low net-long exposure. On September 24 we moved to liquidate the TFS Market Neutral Fund and expect to be introducing a new sub-advisor within the coming months.

The macro allocation returned 0.36% versus -2.28% for the HFRX Macro Index during the period. During the quarter our macro allocation was composed of two mutual funds, the Marketfield Fund (position closed during period) and the AQR Managed Futures Fund (10.18% of Fund net assets)*. The Marketfield Fund returned 6.64% and the AQR Managed Futures Fund returned -1.49%. The Marketfield Fund was liquidated on September 23 and we maintained our position in the AQR Managed Futures Fund. This segment of the portfolio is currently in a transitional period as we expect to be introducing two systematic macro sub-advisers that we expect will add meaningful diversification benefits.

The event-driven allocation returned 4.69% for the quarter versus 2.08% for the HFRX Event Driven Index. Our top performing event strategy was Tiburon (12.79% of Fund net assets)* with a return of 7.96%. Tiburon is a multi-asset, event-driven manager that most recently profited from long equity positions within oil and gas producers, and special situations within fixed income. In addition, Coe Capital (9.18% of Fund net assets*) returned 4.77% due primarily to stock selection within long positions in semiconductors and recreational products. Our largest detractor within event-driven was the Deutsche Bank EMERALD (Equity Mean Reversion Alpha Index) strategy (2.33% of Fund net assets)* with a return of -1.35%. The strategy is designed to capture returns through mean reversion in the volatility of the S&P 500 Index and tends to lose money when weekly volatility exceeds daily volatility.

The allocation to fixed income strategies returned 1.86% for the quarter versus 1.06% for the HFRX Fixed Income Credit Index. Our two sub-advisers within this category are Horizon Kinetics (10.62% of Fund net assets)* and SW Asset Management (13.00% of Fund net assets)*. The Horizon Kinetics investment strategy focuses on unique sources of total return with an emphasis on yielding assets by investing across asset classes and actively writing equity put options to generate income. Horizon Kinetics returned 2.23% and largely benefited from long equity positions within the media and industrial industries. Our other yield focused sub-adviser, SW Asset Management, who focuses on long and short opportunities within emerging market credit, returned 1.48%. Most of SW's performance came from long fixed income positions in an oil and gas company that operates in Kazakhstan, a Mexican telecommunications company, and a Chilean transportation services company.

The internally managed tactical allocation (13.88% of Fund net assets)* returned 2.15% for the period. The tactical allocation during the quarter was composed of long and short gold miners and emerging market equities, a short position on the Japanese yen, a long position on the Brazilian real, opportunistic closed-end bond funds trading at a discount to net asset value, and a volatility capture strategy implemented through short put options on the S&P 500 Index.

The largest contributors within the tactical allocation were hedged gold equities, short put options contracts on the S&P 500 Index, and a long position in the Brazilian real. The largest detractors within the tactical segment were hedged emerging market positions, closed-end bond funds, and price appreciation on a short Japanese yen position.

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***All weightings as of September 30, 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. HFRX 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. The HFRI Fund Weighted Composite (WC) Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of \$50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds. The Barclays Aggregate Bond Index is composed of the mortgage-backed and asset-backed securities and government/credit bonds.

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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. Bonds and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing.

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