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Manager Commentary

South Africa, Turkey local currency perform well in April

By: Eric Fine, Portfolio Manager

Overview

The push of money out from developed economies with higher debts and deficits and expanding central bank balance sheets, and into emerging economies with lower debts and deficits and relatively tighter central bank balance sheets remains a key long-term trend, in our opinion. The Bank of Japan's recent asset-purchasing program is probably another phase of developed country policymakers turning increasingly to inflation as a "solution" to debt and structural problems. Its success in raising risk asset prices so far, combined with Prime Minister Abe's high popularity ratings are likely to be rewarded with electoral victories in July's upper house elections in Japan. This will likely reinforce and deepen already-announced measures.

Europe seems to pose a risk at two levels – concerns over break-up and the prospect of an easier central bank – both of which point to risk for the Euro and related markets. We've written previously about the more-discussed risks facing Europe, which range from the long-term (e.g., the inconsistency between the fiscal and monetary spheres) and the short-term (e.g., that a wider range of bank liabilities are central to European financing options for future "bailouts"). On the break-up risk, we would point out that some of the short-term risks have likely subsided, with Italy having formed a government, and Cyprus having approved its depositor-financed "bailout".

But, weak growth and the prospect of an easier central bank have recently been a more important driver of European and global risk, in our opinion. This means that the Euro could come under pressure from both break-up risk as well as easing risk. We would view such a development as very positive for duration, generally, as it would represent easing by what is viewed as a holdout among the major central banks. To summarize and emphasize, we see break-up risk in Europe as high in the long-run, with Euro easing risk as growing in the short-run.

Commodity prices are also a potential new risk factor. Commodity markets suffered a bout of pronounced weakness in April, with WTI crude oil dropping $10 per-barrell from the beginning of the month to the low on April 17, and some oil-exporters, notably Russia and Nigeria, saw their currencies come under related pressure. We remain comfortable with our exposure to these countries, primarily due to their strong balance sheets (they both have government debt of around 10% of GDP and 15% of GDP respectively), high reserves with which to prevent or address shortfalls, and inflation-focused central banks that will maintain high real interest rates and be sensitive to excessive currency weakness.

Moreover, we should note that the oil-price assumptions in their 2013 budgets imply a degree of cushioning. In particular, Nigeria's budget assumes a $75 oil price, and Russia's assumes a $97 oil price. However, we have reduced and are reducing our exposure to some commodity exporters, and have increased and are increasing our exposure to some commodity importers.

Our bottom-line is that we believe global central bank policy represents a reflationary tailwind for all categories of EM debt (i.e, hard- and local-currency). Set against this is deflation, which we believe is a headwind for some commodity producers, but a tailwind for commodity importers.

Exposure Types and Significant Changes

It appears that near-term risks from Europe have abated. We conditioned our European concerns on the lack of an Italian government and risks surrounding Cypriot support for its bailout package. Both of those risks have seemingly been eliminated for the time being, so our Europe-related adjustments are being eliminated as well. We are preparing to reduce our Euro hedges on the back of these developments. Other important changes include:

- We reduced cash slightly.
- We have maintained hard-currency debt at 25% of the portfolio (excluding cash).
- We reduced our exposure to commodity producers, and increased our exposure to commodity-importers.
- We reduced our local-currency exposure to commodity-exporter Russia, and increased our exposure to commodity-importers Turkey and less-commodity-sensitive Thailand.
- We increased our exposure to Venezuela hard-currency debt, due to its recent sell-off, the partial pricing-in of political turmoil, and the chance that the recently-elected and embattled President could moderate his policy stances.
- We closed our Argentina hard-currency debt exposure. This was envisioned as a short-term trade, and we simply took profits when the bond hit our price target. We are wary of any long-term exposure to Argentina, but are open to short-term trades if there are over-reactions to the downside.

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Biggest Country- and Bond-Level Changes

- We reduced our local-currency exposure to commodity-exporter Russia, and increased our exposure to commodity-importers Turkey and less-commodity-sensitive Thailand`.
- We increased our exposure to Venezuela hard-currency debt, due to its recent sell-off, the partial pricing-in of political turmoil, and the chance that the recently-elected and embattled President could moderate his policy stances.
- We closed our Argentina hard-currency debt exposure. This was always envisioned as a short-term trade, and we simply took profits when the bond hit our price target. We are wary of any long-term exposure to Argentina, but are open to short-term trades if there are over-reactions to the downside.
- Four of our top five country exposures are unchanged – Mexico, Nigeria, Uruguay, and Russia remain in the top four, with Turkey now entering the top five. Brazil exposure is bumped down to our sixth-largest exposure as a result.

Fund Performance

The Fund's biggest winners in April were Mexico, in hard and local currency, and South Africa and Turkey, in local currency. The Fund's biggest losers were our hedge on Euro exposure from our local currency investments, and Indonesia, and Zambia, in local currency. The market's best performers of the past month were Pakistan, Argentina, and Hungary in hard-currency, and Hungary, Poland, and South Africa in local-currency. The markets' worst performers of the past month were Ukraine, Iraq, and Lebanon in hard-currency, and Nigeria, Peru, and Philippines in local-currency.

For April, the Fund returned 2.03%, compared to 2.92% in the local-currency index (GBI-EM Index), and 3.43% in the hard-currency index (EMBI Index). So far, the Fund has been able to navigate a tough four months, generating a 4.98% year-to-date return, compared to 0.59% for the hard-currency debt index and 3.31% for the local-currency debt index. Inception-to-date, the Fund returned 16.59%, compared to 13.18% in the local-currency index and 9.14% in the hard-currency index.

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

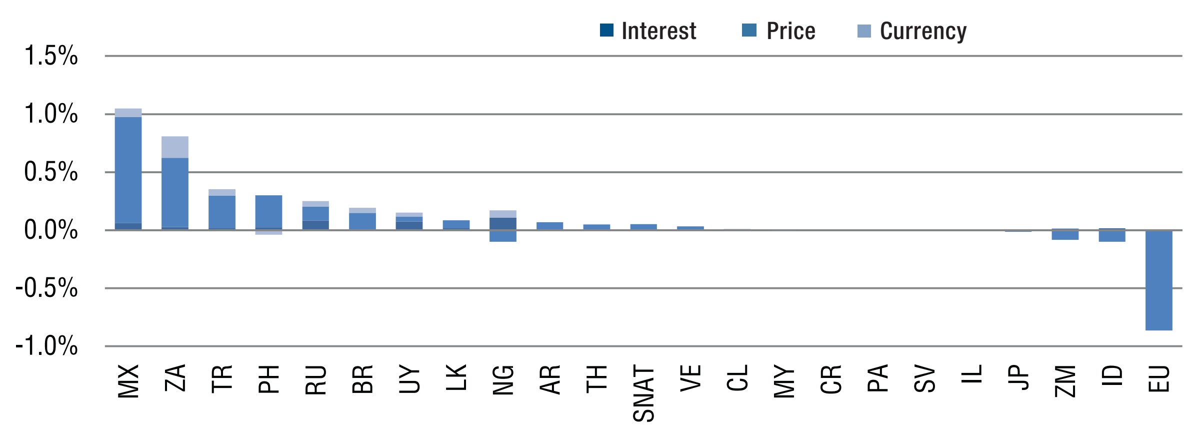
	1 Mo*	YTD	Life
Class A: NAV (Inception 7/9/12)	2.03	4.98	16.59
Class A: Maximum 5.75% load	-3.83	-1.04	9.91
GBI-EM Index	3.43	3.31	--
EMBI Index	2.92	0.59	--

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

	1 Mo*	YTD	Life
Class A: NAV (Inception 7/9/12)	-0.30	2.89	14.27
Class A: Maximum 5.75% load	-6.07	-3.01	7.72
GBI-EM Index	-0.52	-0.12	5.99
EMBI Index	-0.62	-2.26	9.44

Expenses: Class A: Gross 1.91%; Net 1.25%. Expenses are capped contractually until 05/01/14 at 1.25% for Class A. Caps exclude certain expenses, such as interest. The tables 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.

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



AR = Argentina
BR = Brazil
CL = Chile
CR = Costa Rica
EU = Euro
ID = Indonesia
IL = Israel
JP = Japan
LK = Sri Lanka
MX = Mexico
MY = Myanmar
NG = Nigeria
PH = Philippines
PA = Panama
RU = Russia
SNAT = Supranational
SV = El Salvador
TH = Thailand
TR = Turkey
UY = Uruguay
VE = Venezuela
ZA = South Africa
ZM = Zambia

Source: Van Eck Global. Data as of April 30, 2013.

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.

Data Source: Van Eck Research, Factset. All weightings as of April 30, 2013.

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.

You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in emerging markets securities. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may also be subject to credit risk, interest rate risk, sovereign debt risk, tax risk, non-diversification risk and risks associated with non-investment grade securities. Please see the prospectus and summary prospectus for information on these and other risk considerations.

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. 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.

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