Manager Commentary

Nigeria Local Currency is Notable Performer in February

By: Eric Fine, Portfolio Manager

We continue to expect the following longer-term investment themes to drive our investing in 2013, and they happen to be generally (but not completely) supportive of EM debt risk.

1. Capital flight from countries with central banks focused on enabling government finances. The "push" of money out of developed economies and the "pull" of money into emerging economies looks likely to continue. This is likely to benefit local currency over hard currency, in our opinion, as developed-world economic policies are close to policies of debasement.

2. The U.S. economy as the global growth leader among so-called developed economies. This encourages our greater exposure to Latin America, commodity producers and any Asian exporters that are cheap.

3. Central banks limiting tail risks which either are, or appear to be, in their control. We see local currency as the higher-beta to this theme, and some EM local currency debt duration as vulnerable in the event of a sell-off in U.S. Treasuries; high-yielding and distressed corporates should also benefit, in our view.

4. Idiosyncratic asset-price behavior. A lot of money has entered the asset class and it is very hard for us to find value in hard currency credit spreads. This has led us to be comfortable focusing on a few good positions, rather than a general long exposure to "the market".

5. Geopolitical tensions in the Middle East/North Africa could escalate and potentially expand. This has led us to avoid countries with direct exposure to the conflict, such as Egypt. The expansion of conflict into Mali means we may eventually have to broaden our definition of the afflicted areas.

We believe that a number of these longer-term themes have been reinforced recently. U.S. data continues to come in on the strong side, with the change in nonfarm payrolls being the most attention-grabbing, and rightly so, in our opinion. Coupled with a central bank whose history lesson (seemingly the only history lesson, other than that the lesson of the '70s was that inflation is easily tamed) is that fiscal tightening in 1937 re-started the Depression, this is a potentially goldilocks scenario – good growth and easy money.

In addition, our opinion that local currency is the right asset-price-type on which to concentrate, inflows have been concentrated in local currency funds and in blended (i.e., hard and local currency) funds, with outflows in hard currency funds so far this year. This is borne out by the negative performance of EM hard currency indices so far this year. Similarly, we also think that our opinion that idiosyncratic asset-price behavior will characterize this year, we have not only seen hard currency diverge from local currency, but the market saw the South African rand weaken on poor trade and other data, the Hungarian forint decline significantly on political developments, while the Mexican peso and Brazilian real strengthened. Moreover, these performances appear to be consistent with the theme of U.S.-led growth as mentioned.

1. A strong USD? We went through the rationale last month, the market has begun to take this theme on board and it could have legs. During February, the DXY (the U.S. dollar against a basket of the major currencies) rallied by over 4%. This is partially a result of the strong U.S. economy theme, which we view as a long-term positive (as described above), but can be a headwind to EM currencies in the shorter term. This scenario (continues to) give us a higher bar for our EM local currency allocations, namely higher rates and balance sheets that are more a function of commodities.

2. Credit no longer attractive? So far, only hard currency EM debt has suffered this year, in credit space. U.S. high yield and U.S. high grade are largely unchanged. Nonetheless, we are viewing that as confirmation of the near-term risks in EM hard currency debt, and not yet as a buying opportunity. This gives us a higher bar for EM risk generally and for EM hard currency especially, other than new issues and distressed.

3. U.S. Treasury rallies or selloffs mean risk-off for EM debt? This is another repeat from last month, because we believe it has been confirmed. The U.S. 10-year bond rallied by almost 20 basis points in February, and still EM hard currency debt sold off (hard currency debt has Treasury risk embedded, and all things being equal EM hard currency debt should rally). This gives us a higher bar for the yield on any debt we own, whether hard or local currency – it should be high enough (among other characteristics) to be idiosyncratic.

4. Is Europe back as a risk? We all read newspapers, so we won't comment more on this one. Consider it confirmed as a risk, and a potentially relentless one, in our opinion. The technocrats in Brussels have the tools to cut off tail risks…other than that of populations rejecting Europe. That's what happened. The popular media have finally met Mr. Beppe Grillo and his Five-Star Movement (which for those who get their information from the internet was not a surprise), so the story is by now well-known and we have nothing more to add. This makes us less willing to look to Europe for investments, and makes us more focused on a potential risk-off event.

Exposure Types

The Fund's types of exposure are relatively unchanged in the last month. The Fund still has 80-90% of its exposure in local currency debt. We find little value in hard currency debt, where our models find value further tests aren't passed, and local currency is what we believe should appreciate in the face of so-called developed world currency debasement. The Fund still has under 10% of its exposure in corporate debt. Given the risks we enumerate above, we are especially keen to keep to buying either cheap bonds at new issue, when some involved price discovery has occurred, or when a bond has cheapened dramatically due to what we believe is a market over-reaction.

Top Positions

The themes above, our valuation framework and the additional tests we apply, have resulted in the following top 5 positions. Nigerian local currency debt; Russian local currency debt; Mexican local currency debt (plus Mexican corporate in hard currency); Brazilian inflation-linked local currency debt and Romanian local currency debt. These are all long-standing positions, and ones we had last month, so we have no further comments to add to our earlier rationales. Brazil and Romania are new members of the top-five club, displacing Indonesia (good riddance) and Uruguay.

Biggest Changes

We increased exposure to Romania, with an allocation that now stands at almost 11% of AUM. We initiated the position before the countries recently announced eligibility for, and inclusion in, the GBI-EM index. The country had recent elections, paving the way for a period of reduced political risk, constructive work with the IMF, and the potential to benefit from any absence of crisis in Europe.

We increased our exposure to Brazilian inflation-linked local currency debt. We believe that the Brazilian central bank and Brazilian authorities in general, have lost the plot on policy. In particular, the currency is too weak or too strong, and merits intervention (according to the authorities) to keep it wherever it is "supposed" to be. Meanwhile, growth is declining, the current account deficit is a small worry, and inflation is beginning to be a problem. The central bank is now expected to hike interest rates, but we are concerned that this could hit growth and do little against inflation, which could be more structural. As a result, we see a range-bound currency with inflation-linked yields generating attractive carry.

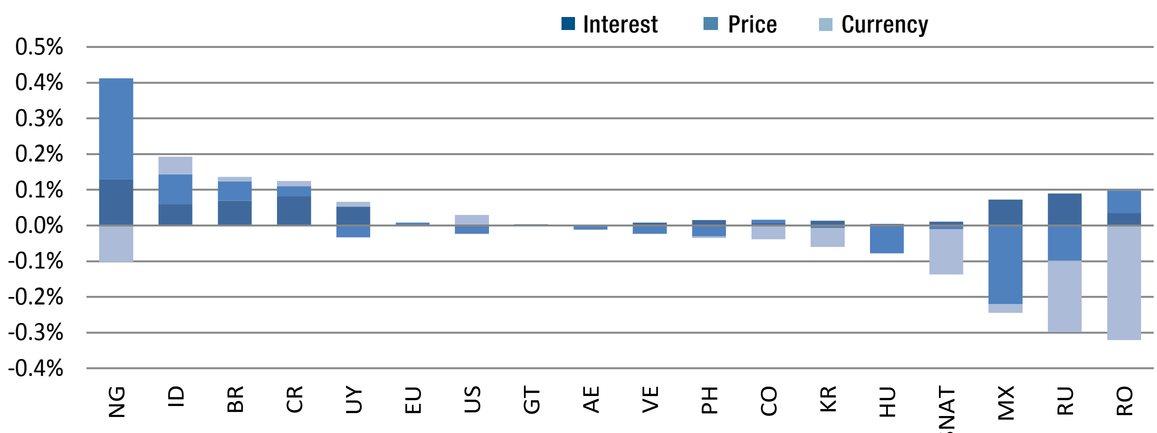
We closed our Costa Rica local markets position and initiated a position in Hungarian hard currency bonds. Moreover, we have closed our short-lived Venezuelan hard currency debt exposure. In our last monthly we said we'd either grow this position or close it. We closed it for the precise reason telegraphed, namely that the market, in our opinion, over-reacted positively to President Chavez's death and is not sufficiently discounting the risks of a transition. We expect the Chavista candidate to win upcoming elections on April 14, but Chavismo without Chavez could be problematic, given his charisma, the candidate's lack of it, and the need for tough new policies without a charismatic apologist.

Performance/Milestones

In February, the Fund returned -0.10%, compared to -0.32% in the local currency index (GBI-EM), and -0.31% in the hard currency index (EMBI). Year-to-date, the Fund returned 2.83%, compared to 0.39% in the local currency index and -1.64% in the hard currency index (see full performance table on next page).

The Fund's biggest winners were Nigeria, Indonesia and Brazil. In Nigeria, local bonds rallied due to inflation printing lower than expected. Indonesia performed well due to a rally in the Rupiah as well as from a small corporate bond allocation we received as a

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



AE = Un. Arab Emir.
BR = Brazil
CO = Colombia
CR = Costa Rica
EU = Euro
GT = Guatemala
HU = Hungary
ID = Indonesia
KR = Korea
MX = Mexico
NG = Nigeria
PH = Philippines
RO = Romania
RU = Russia
SNAT = Supranational
US = United States
UY = Uruguay
VE = Venezuela

Source: Van Eck Global. Data as of February 28, 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.

new issuance. The Fund's biggest losers were Romania, Russia and Mexico. Romania's local currency (RON) sold off due to weakness in the Euro which we were late to hedge. Russia losses were a result of increased supply in Ruble quasi-sovereign space pressuring bond prices and Ruble weakness as Brent oil sold-off.

Broadly, the EM debt market's biggest winners in local currency were Indonesia, Nigeria and Brazil, while the biggest losers were Hungary, Poland and Russia. The EM debt market's biggest winners in hard currency were Belize, Venezuela and Ukraine, while the biggest losers were Argentina, Iraq and Ivory Coast.

Average Annual Total Returns (%) as of February 28, 2013

	1 Mo*	YTD	Life
Class A: NAV (Inception 7/9/12)	-0.10	2.83	14.20
Class A: Maximum 5.75% load	-5.86	-3.06	7.66
GB-IEM	-0.32	0.39	--
EMBI	-0.31	-1.64	--

Data Source: Van Eck Research, Factset. All weightings as of February 28, 2013. *Monthly returns are not annualized.

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 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.

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. The Consumer Price Index (CPI) measures changes in the price level of consumer goods and services purchased by households.

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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