Manager Commentary

Local Currency Outperforms Hard in December

By: Eric Fine, Portfolio Manager

Market Summary

In December, the J.P. Morgan Emerging Markets Bond Global Diversified Index (EMBI), representing hard currency (HC) debt*, returned 0.68%. The J.P. Morgan Government Bond-Emerging Markets Global Diversified Index (GBI-EM), representing local currency (LC) debt*, returned 2.25%.

- Argentina was the big winner in hard currency, which generated over 11.0% returns and rallied on very light positioning amid concerns over technical default
- Belize and Venezuela also were strong in hard currency and gained 7.5% and 5.3%, respectively
- Venezuela's rally appears to have stemmed from continued deterioration in President Hugo Chavez's health
- The biggest hard currency loser was Egypt, which was down over 3.0% and declined on political uncertainty related to a constitutional crisis
- In local currency, top performers were South Africa, Brazil and Colombia, which gained 7.0%, 5.5% and 4.2%, respectively
- South Africa and Brazil benefited from light ownership within an overall market rally
- Brazil strengthened on hints from the government that the currency is no longer overvalued
- Malaysia was one of the few flops and lost 1.0%

Performance Review

The Unconstrained Emerging Markets Bond Fund (EMBAX) completed its sixth month, December, and gained 2.17%. The Fund's biggest contributor again was Venezuela, where our exposure is in hard currency debt. Nigeria and Russia, where exposure is in local currency debt, were the next best performers as in November. In our view, Venezuela's outperformance was due to President Chavez's deteriorating health, as we believe market participants historically have viewed any prospect of his leaving as a positive development. Nigeria's performance reflected three factors: 1) follow-on from inclusion in the GBI-EM index, 2) strong oil prices and 3) a central bank that has tolerated a stronger exchange rate. We believe these catalysts are the same for Russia; its local currency debt was boosted by strong oil prices, Euroclear status for its domestic market and its central bank tolerates currency appreciation due to a focus on rising inflation.

The Fund's losses mostly came from exposure to the Indian rupee (INR). The "SNAT" and "KR" descriptors in the graph on the next page are for a supranational issuer (the Inter-American Development Bank) in INR and a quasi-sovereign issuer (the Korean Export-Import Bank) in INR. Domestic developments in India drove negative performance, as investors continued to doubt the government's commitment to, and ability to implement, reform initiatives. We believe local importers may be buying hard currency in anticipation of higher rupee-denominated commodity prices.

Average Annual Total Returns (%) as of December 31, 2012

	1 Mo*	1 Yr	Life
Class A: NAV (Inception 7/9/12)	2.17	--	11.06
Class A: Maximum 5.75% load	-3.72	--	4.70

*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.

Current Views

Four themes continue to shape our portfolio strategy: 1) "push" out of developed economies and the "pull" into emerging economies is continuing, 2) U.S. appears to be the global growth leader among developed economies, 3) tensions in the MENA region (Middle East and North Africa) will escalate and 4) idiosyncratic performance will increase.

Accentuating the push/pull theme, it is our belief that Japan's recent election of Prime Minister Shinzo Abe–who ran on a platform of expansive fiscal policy and larger monetary balance sheet–means another major reserve currency's policy mix is following in the U.S. footsteps. The Japanese central bank's balance sheet has been relatively stable, although large, over the past decade, while the Federal Reserve Bank (the "Fed") and the European Central Bank (the "ECB") has expanded. In our opinion, the lack of any long-term solution to the U.S. fiscal quandary, and

*See definitions on last page. **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.**
[1]**Beta is a measure of sensitivity to market (benchmark) movement.**

the likelihood that the debt-ceiling confrontation is next, signals continued forbearance from the Fed.

In our opinion, the U.S. economy seems set as the global growth leader, led by a stabilizing housing sector. Even if the U.S. economy slips below expectations, we believe the Fed's now-formal unemployment target will justify further easing. This may translate into growth only in nominal (i.e., not real) terms. But the distinction may not matter to most U.S. market participants, who likely will view higher inflation as growth. At the least, in our opinion, this scenario is more navigable for investors than the alternatives (e.g., financial crisis, deep recession).

We believe idiosyncratic asset-price behavior is likely. Emerging market debt has seen substantial, near-record inflows, surpassing $80 billion this year. Hard currency credit spreads–the most apples-to-apples comparison for country risk–are low, in our opinion. We think some emerging markets may respond to current economic policies in the U.S., Japan and Europe by recalling their own experiences with such policies. This may be one reason why so many countries are increasing gold in their reserve mix. Talk of "currency wars" is legitimate, in our opinion, and we believe it will be advantageous to have exposure to countries that are open to currency appreciation and not to those that will vehemently fight it.

Finally, we continue to believe that geopolitical concerns might have escalated under an Obama presidency that will be emboldened in Syria, keeping us less-than-otherwise comfortable with significant exposure to affected countries, such as Turkey and potentially Nigeria. In our opinion, a policy of toppling Syria's current regime is a proxy war with Iran, which could be more destabilizing than previous conflicts in the region.

Current Positioning

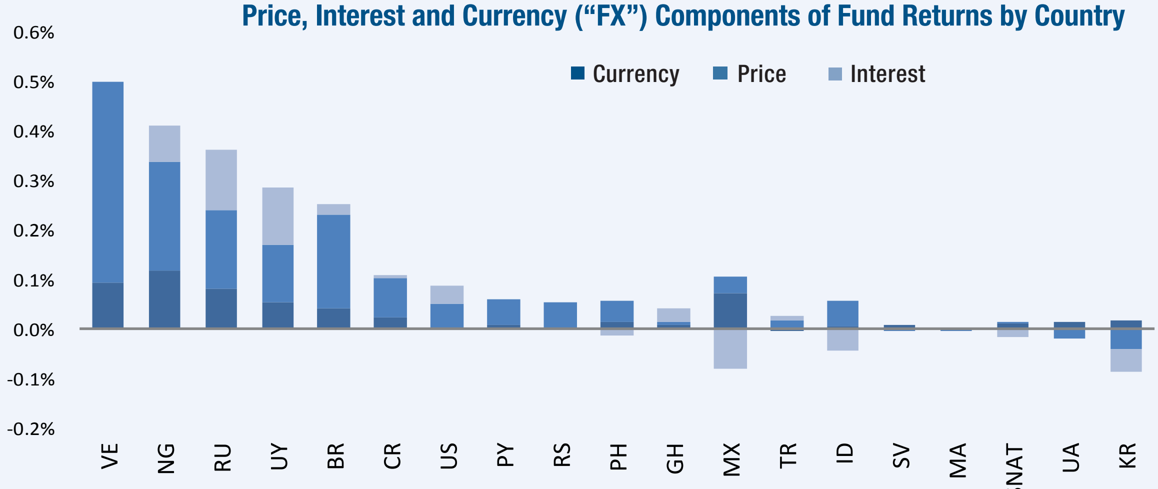
Moving into 2013, we want the flexibility to participate in new issues that are cheap according to our models and in countries where we have a positive or neutral view. Nigeria, Russia, Uruguay and Mexico remain our largest allocations in local currency debt. Although we are reluctant to generalize beyond any single country, we view these countries as having strong balance sheets and yields that are either consistent with inflation trends or supportive of stable currencies.

Our current portfolio is virtually identical to last month's with two big exceptions: 1) we closed our long-held and best-performing Venezuelan hard currency exposure and 2) we increased our Indonesian local currency exposure.

In Venezuela, although we continue to view the debt as cheap relative to economic fundamentals, we see political risks rising. We feel that the market has viewed President Chavez's health problems as a positive because the opposition is viewed as likely to manage the economy in a more orthodox manner. Over time, we tend to agree. However, we believe that Chavez's poor health and potential demise is already reflected in prices. Moreover, the transition to a post-Chavez era could get very bumpy for two reasons: 1) constitutional questions surrounding any transfer of power before a new president is inaugurated and 2) the potential for division within Chavez' party as the inevitable jockeying for power ensues.

In Indonesia, we have increased exposure to the local market, and it is now one of our top five holdings. The currency (rupiah) has sold off by approximately 14% from its strongest point vs. USD. We believe this stands in stark contrast to most other Asian currencies' strength. In our view, the country's external balances should begin to reflect the currency weakness and could benefit from any recovery in coal and palm oil prices. We believe Indonesia may also be a key beneficiary of ongoing inflows into EM debt. It is worth noting that the recent deterioration in the country's current account (which led to the rupiah's weakness) was the first one that did not precipitate significant economic volatility.

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



BR = Brazil
CR = Costa Rica
GH = Ghana
ID = Indonesia
KR = Korea
MA = Morocco
MX = Mexico
NG = Nigeria
PH = Philippines
PY = Paraguay
RS = Serbia
RU = Russia
SNAT = Supranational
SV = El Salvador
TR = Turkey
UA = Ukraine
US = United States
UY = Uruguay
VE = Venezuela

Source: Van Eck Global. Data as of December 31, 2012.

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.

All weightings as of December 31, 2012.

***Important Definitions:**

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.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE