

**MARKET VECTORS ETF TRUST**

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August 25, 2014

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**United States Securities and Exchange Commission**

Washington, D.C. 20549

**FORM N-1A**

**Registration Statement Under  
the Securities Act of 1933** S

Pre-Effective Amendment No. £

Post Effective Amendment No. S

1,612

and/or

**Registration Statement Under  
the Investment Company Act  
of 1940** S

Amendment No. 1,616 S

**MARKET VECTORS ETF TRUST**

(Exact Name of Registrant as Specified in its Charter)

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**New York, New York 10017**

(Address of Principal Executive Offices)

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Registrant's Telephone Number

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Approximate Date of Proposed Public Offering: **As soon as practicable after the effective date of this registration statement.**

**IT IS PROPOSED THAT THIS FILING WILL BECOME EFFECTIVE (CHECK APPROPRIATE BOX)**

Immediately upon filing pursuant to paragraph (b)  
On September 1, 2014 pursuant to paragraph (b)  
60 days after filing pursuant to paragraph (a)(1)  
On [date] pursuant to paragraph (a)(1)  
75 days after filing pursuant to paragraph (a)(2)  
On [date] pursuant to paragraph (a)(2) of rule 485

**MARKET VECTORS****CORPORATE BOND ETFs**

Fallen Angel High Yield Bond ETF	ANGL®
Investment Grade Floating Rate ETF	FLTR®
Treasury-Hedged High Yield Bond ETF	THHY®

**MARKET VECTORS****EQUITY INCOME ETFs**

BDC Income ETF	BIZD®
Mortgage REIT Income ETF	MORT®
Preferred Securities ex Financials ETF	PFXF®

**MARKET VECTORS****INTERNATIONAL BOND ETFs**

Emerging Markets Aggregate Bond ETF	EMAG™
Emerging Markets High Yield Bond ETF	HYEM®
Emerging Markets Local Currency Bond ETF	EMLC®
International High Yield Bond ETF	IHY®
Renminbi Bond ETF	CHLC®

Principal U.S. Listing Exchange for each Fund: NYSE Arca, Inc.

The U.S. Securities and Exchange Commission has not approved or disapproved these securities or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

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**TABLE OF CONTENTS**
**Summary Information**

<u>Market Vectors BDC Income ETF (BIZD)</u>	1
<u>Emerging Markets Aggregate Bond ETF (EMAG)</u>	5
<u>Market Vectors Emerging Markets High Yield Bond ETF (HYEM)</u>	10
<u>Market Vectors Emerging Markets Local Currency Bond ETF (EMLC)</u>	15
<u>Market Vectors Fallen Angel High Yield Bond ETF (ANGL)</u>	20
<u>Market Vectors International High Yield Bond ETF (IHY)</u>	25
<u>Market Vectors Investment Grade Floating Rate ETF (FLTR)</u>	30
<u>Market Vectors Mortgage REIT Income ETF (MORT)</u>	34
<u>Market Vectors Preferred Securities ex Financials ETF (PFXF)</u>	39
<u>Market Vectors Renminbi Bond ETF (CHLC)</u>	44
<u>Market Vectors Treasury-Hedged High Yield Bond ETF (THHY)</u>	50
<u>Summary Information About Purchases and Sales of Fund Shares and Taxes</u>	55
<u>Additional Information About the Funds Investment Strategies and Risks</u>	56
<u>Tax Advantaged Product Structure</u>	73
<u>Portfolio Holdings</u>	73
<u>Management of the Funds</u>	74
<u>Portfolio Managers</u>	75
<u>Shareholder Information</u>	75
<u>Index Providers</u>	79
<u>Market Vectors® US Business Development Companies Index</u>	80
<u>Market Vectors® EM Aggregate Bond Index</u>	81
<u>The BofA Merrill Lynch High Yield US Emerging Markets Liquid Corporate Plus Index</u>	82
<u>J.P. Morgan Government Bond Index Emerging Markets Global Core Index</u>	83
<u>The BofA Merrill Lynch US Fallen Angel High Yield Index</u>	84
<u>The BofA Merrill Lynch Global Ex-US Issuers High Yield Constrained Index</u>	85
<u>Market Vectors® US Investment Grade Floating Rate Index</u>	86
<u>Market Vectors® Global Mortgage REITs Index</u>	87
<u>Wells Fargo® Hybrid and Preferred Securities ex Financials Index</u>	88
<u>Market Vectors® Renminbi Bond Index</u>	89
<u>Market Vectors® US Treasury-Hedged High Yield Bond Index</u>	90
<u>License Agreements and Disclaimers</u>	91
<u>Financial Highlights</u>	95
<u>Premium/Discount Information</u>	102
<u>General Information</u>	102

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**MARKET VECTORS BDC INCOME ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors BDC Income ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® US Business Development Companies Index (the BDC Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.41 %
Acquired Fund Fees and Expenses <sup>(a)</sup>	8.77 %
Total Annual Fund Operating Expenses <sup>(b)</sup>	9.58 %
Fee Waivers and Expense Reimbursement <sup>(b)</sup>	(0.41)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(b)</sup>	9.17 %

<sup>(a)</sup> Acquired fund fees and expenses include fees and expenses incurred indirectly by the Fund as a result of investments in other investment companies, including business development companies (BDCs). Because acquired fund fees and expenses are not borne directly by the Fund, they will not be reflected in the expense information in the Fund's financial statements and the information presented in the table will differ from that presented in the Fund's financial highlights included in the Fund's reports to shareholders.

<sup>(b)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods.

The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 898
3	\$ 2,651
5	\$ 4,247
10	\$ 7,640

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 14% of the average value of its portfolio.

**MARKET VECTORS BDC INCOME ETF (continued)**

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**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The BDC Index is comprised of BDCs. To be eligible for the BDC Index and qualify as a BDC, a company must be organized under the laws of, and have its principal place of business in, the United States, be registered with the Securities and Exchange Commission (the "SEC") and have elected to be regulated as a BDC under the Investment Company Act of 1940, as amended (the "1940 Act"). BDCs are vehicles whose principal business is to invest in, lend capital to or provide services to privately-held companies or thinly traded U.S. public companies. Micro-, small- and medium- capitalization BDCs are eligible for inclusion in the BDC Index. As of June 30, 2014, the BDC Index included 28 securities of companies with a market capitalization range of between approximately \$99.2 million to \$5.3 billion and a weighted average market capitalization of \$2.0 billion. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The 1940 Act places limits on the percentage of the total outstanding stock of a BDC that may be owned by the Fund; however, exemptive relief from the SEC applicable to the Fund permits it to invest in BDCs in excess of this limitation if certain conditions are met (the "Exemptive Relief").

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the BDC Index by investing in a portfolio of securities that generally replicates the BDC Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the BDC Index will be 95% or better. A figure of 100% would indicate perfect correlation.

The Fund will concentrate its investments in a particular industry or group of industries to the extent that the BDC Index concentrates in an industry or group of industries. As of June 30, 2014, the BDC Index was concentrated in the financial services sector.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Risk of Investing in BDCs.** BDCs generally invest in less mature U.S. private companies or thinly traded U.S. public companies which involve greater risk than well-established publicly-traded companies. While the BDCs that comprise the BDC Index are expected to generate income in the form of dividends, certain BDCs during certain periods of time may not generate such income. The Fund will indirectly bear its proportionate share of any management fees and other operating expenses incurred by the BDCs and of any performance-based or incentive fees payable by the BDCs in which it invests, in addition to the expenses paid by the Fund. A BDC's incentive fee may be very high, vary from year to year and be payable even if the value of the BDC's portfolio declines in a given time period. Incentive fees may create an incentive for a BDC's manager to make investments that are risky or more speculative than would be the case in the absence of such compensation arrangements, and may also encourage the BDC's manager to use leverage to increase the return on the BDC's investments. The use of leverage by BDCs magnifies gains and losses on amounts invested and increases the risks associated with investing in BDCs. A BDC may make investments with a larger amount of risk of volatility and loss of principal than other investment options and may also be highly speculative and aggressive.

The 1940 Act imposes certain constraints upon the operations of a BDC. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and high quality debt investments that mature in one year or less. Generally, little public information exists for private and thinly traded companies in which a BDC may invest and there is a risk that investors may not be able to make a fully informed evaluation of a BDC and its portfolio of investments. With respect to investments in debt instruments, there is a risk that the issuers of such instruments may default on their payments or declare bankruptcy. Many debt investments in which a BDC may invest will not be rated by a credit rating agency and will be below investment grade quality. These investments are commonly referred to as junk bonds and have predominantly speculative characteristics with respect to an issuer's capacity to make payments of interest and principal. Although lower grade securities are potentially higher yielding, they are also characterized by high risk. In addition, the secondary market for lower grade securities may be less liquid than that of higher rated securities.

Certain BDCs may also be difficult to value since many of the assets of BDCs do not have readily ascertainable market values. Therefore, such assets are most often recorded at fair value, in good faith, in accordance with valuation procedures adopted by such companies, which may potentially result in material differences between a BDC's net asset value ( NAV ) per share and its market value.



Additionally, a BDC may only incur indebtedness in amounts such that the BDC's asset coverage ratio of total assets to total senior securities equals at least 200% after such incurrence. These limitations on asset mix and leverage may affect the way that the BDC raises capital. BDCs compete with other entities for the types of investments they make, and such entities are not necessarily subject to the same investment constraints as BDCs.

To comply with provisions of the 1940 Act and the Exemptive Relief, the Adviser may be required to vote BDC shares in the same general proportion as shares held by other shareholders of the BDC.

To qualify and remain eligible for the special tax treatment accorded to regulated investment companies and their shareholders under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), the BDCs in which the Fund invests must meet certain source-of-income, asset diversification and annual distribution requirements. If a BDC in which the Fund invests fails to qualify as a regulated investment company, such BDC would be liable for federal, and possibly state, corporate taxes on its taxable income and gains. Such failure by a BDC could substantially reduce the BDC's net assets and the amount of income available for distribution to the Fund, which would in turn decrease the total return of the Fund in respect of such investment.

**Risk of Investment Restrictions.** The Fund is subject to the conditions set forth in the Exemptive Relief and certain additional provisions of the 1940 Act that limit the amount that the Fund and its affiliates, in the aggregate, can invest in the outstanding voting securities of any one BDC. The Fund and its affiliates may not acquire control of a BDC, which is presumed once ownership of a BDC's outstanding voting securities exceeds 25%. This limitation could inhibit the Fund's ability to purchase one or more BDCs in the BDC Index in the proportions represented in the BDC Index. In these circumstances, the Fund would be required to use sampling techniques, which could increase the risk of tracking error.

**Risk of Investing in the Financial Services Sector.** To the extent that the BDC Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in Small- and Medium-Capitalization Companies.** Small- and medium-capitalization companies may be more volatile and more likely than large-capitalization companies to have narrower product lines, fewer financial resources, less management depth and experience and less competitive strength. Returns on investments in securities of small-capitalization and medium-capitalization companies could trail the returns on investments in securities of large-capitalization companies.

**Risk of Investing in Micro-Capitalization Companies.** Micro-capitalization companies are subject to substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable (and some companies may be experiencing significant losses), and their share prices tend to be more volatile and their markets less liquid than companies with larger market capitalizations. The shares of micro-capitalization companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these

securities and the future ability to sell these securities.

**Equity Securities Risk.** The value of the equity securities held by the Fund may fall due to general market and economic conditions, perceptions regarding the markets in which the issuers of securities held by the Fund participate, or factors relating to specific issuers in which the Fund invests. Equity securities are subordinated to preferred securities and debt in a company's capital structure with respect to priority in right to a share of corporate income, and therefore will be subject to greater dividend risk than preferred securities or debt instruments. In addition, while broad market measures of equity securities have historically generated higher average returns than fixed income securities, equity securities have generally also experienced significantly more volatility in those returns, although under certain market conditions fixed income securities may have comparable or greater price volatility.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in the securities market, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Index Tracking Risk.** The Fund's return may not match the return of the BDC Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the BDC Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the BDC Index. The

**MARKET VECTORS BDC INCOME ETF (continued)**

Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the BDC Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the BDC Index is based on securities closing prices (*i.e.*, the value of the BDC Index is not based on fair value prices), the Fund's ability to track the BDC Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any fund of equity securities traded on an exchange, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the BDC Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets will be concentrated in a particular sector or sectors or industry or group of industries to the extent the BDC Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the BDC Index as of June 30, 2014, the Fund's assets were concentrated in the financial services sector; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The Fund commenced operations on February 11, 2013 and therefore does not have a performance history for a full calendar year. The Fund's financial performance for the Fund's first fiscal period is included in the Financial Highlights section of the Prospectus. Visit [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com) for current performance figures.

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

**Portfolio Managers.** The following individuals are primarily and jointly responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Hao-Hung (Peter) Liao	Portfolio Manager	February 2013
George Cao	Portfolio Manager	February 2013

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary

Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS EMERGING MARKETS AGGREGATE BOND ETF\*****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Emerging Markets Aggregate Bond ETF\* (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of Market Vectors® EM Aggregate Bond Index (the EM Aggregate Bond Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.35 %
Other Expenses	0.99 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	1.34 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.84 )%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.50 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.49% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR EXPENSES

1	\$	51
3	\$	342
5	\$	654
10	\$	1,539

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 58% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The EM Aggregate Bond Index is comprised of sovereign bonds and corporate bonds denominated in U.S. dollars, Euros or local currencies of an emerging market country. As of June 30, 2014, emerging market countries represented in the EM Aggregate

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\* Prior to December 10, 2013, the Fund's name was Market Vectors LatAm Aggregate Bond ETF and its investment objective was to seek to replicate as closely as possible, before fees and expenses, the price and yield performance of The BofA Merrill Lynch Broad Latin America Bond Index.

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**MARKET VECTORS EMERGING MARKETS AGGREGATE BOND ETF (continued)**

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Bond Index include Angola, Argentina, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belize, Bolivia, Bosnia and Herzegovina, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Côte d'Ivoire, Croatia, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Gabon, Georgia, Ghana, Guatemala, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lebanon, Lithuania, Malawi, Malaysia, Mexico, Mongolia, Morocco, Namibia, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Senegal, Serbia, South Africa, Sri Lanka, Tanzania, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Uruguay, Venezuela, Vietnam and Zambia. The EM Aggregate Bond Index includes both investment grade and below investment grade rated securities. As of June 30, 2014, the EM Aggregate Bond Index included approximately 2,045 bonds of 705 issuers. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the EM Aggregate Bond Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the EM Aggregate Bond Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the EM Aggregate Bond Index, the Fund does not purchase all of the securities in the EM Aggregate Bond Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the EM Aggregate Bond Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the EM Aggregate Bond Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the EM Aggregate Bond Index concentrates in an industry or group of industries. As of June 30, 2014 the financial services and industrials sectors represented a significant portion of the EM Aggregate Bond Index.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Risk of Investing in Emerging Market Issuers.** The countries in which the Fund will generally invest are considered to be emerging markets. Investments in securities of emerging market issuers are exposed to a number of risks that may make these investments volatile in price or difficult to trade. Political risks may include unstable governments, nationalization, restrictions on foreign ownership, laws that prevent investors from getting their money out of a country and legal systems that do not protect property rights as well as the laws of the United States. Market risks may include economies that concentrate in only a few industries, securities issues that are held by only a few investors, liquidity issues and limited trading capacity in local exchanges and the possibility that markets or issues may be manipulated by foreign nationals who have inside information.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Sovereign Bond Risk.** Investments in sovereign bonds involve special risks not present in corporate bonds. The governmental authority that controls the repayment of the bonds may be unable or unwilling to make interest payments and/or repay the principal on its bonds or to otherwise honor its obligations. If an issuer of sovereign bonds defaults on payments of principal and/or interest, the Fund may have limited recourse against the issuer. During periods of economic uncertainty, the market prices of sovereign bonds, and the Fund's net asset value ( NAV ), may be more volatile than prices of corporate bonds, which may result in losses. In the past, certain governments of emerging market countries have declared themselves unable to meet their financial obligations on a timely basis, which has resulted in losses for holders of sovereign bonds.

**Foreign Currency Risk.** Because some or all the Fund's assets will be invested in debt denominated in foreign currencies, the income received by the Fund from these investments may be in foreign currencies. The Fund's exposure to foreign currencies



and changes in the value of foreign currencies versus the U.S. dollar may result in reduced returns for the Fund. Moreover, the Fund may incur costs in connection with conversions between U.S. dollars and foreign currencies. The value of an emerging market country's currency may be subject to a high degree of fluctuation. This fluctuation may be due to changes in interest rates, investors' expectations concerning inflation and interest rates, the emerging market country's debt levels and trade deficit, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The economies of certain emerging market countries can be significantly affected by currency devaluations. Certain emerging market countries may also have managed currencies which are maintained at artificial levels relative to the U.S. dollar rather than at levels determined by the market. This type of system could lead to sudden and large adjustments in the currency, which in turn, can have a negative effect on the Fund and its investments.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the EM Aggregate Bond Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's NAV.

**Risk of Investing in the Financial Services Sector.** To the extent that the financial services sector continues to represent a significant portion of the EM Aggregate Bond Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in the Industrials Sector.** To the extent that the industrials sector continues to represent a significant portion of the EM Aggregate Bond Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because certain foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**MARKET VECTORS EMERGING MARKETS AGGREGATE BOND ETF (continued)**

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**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the EM Aggregate Bond Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the EM Aggregate Bond Index. Conversely, a positive development relating to an issuer of securities in the EM Aggregate Bond Index that is not held by the Fund could cause the Fund to underperform the EM Aggregate Bond Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the EM Aggregate Bond Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the EM Aggregate Bond Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the EM Aggregate Bond Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the EM Aggregate Bond Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the EM Aggregate Bond Index as would be the case if the Fund purchased all of the securities in the EM Aggregate Bond Index in the proportions in which they are represented in the EM Aggregate Bond Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the EM Aggregate Bond Index is based on securities' closing prices on local foreign markets (*i.e.*, the value of the EM Aggregate Bond Index is not based on fair value prices), the Fund's ability to track the EM Aggregate Bond Index may be adversely affected.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the EM Aggregate Bond Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the EM Aggregate Bond Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the

Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## PERFORMANCE

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. Prior to December 10, 2013, the Fund sought to replicate as closely as possible, before fees and expenses, the price and yield performance of an index called The BofA Merrill Lynch Broad Latin America Bond Index (the "Prior Index"). Therefore index data prior to December 10, 2013, reflects that of the Prior Index. From December 10, 2013, the index data reflects that of the EM Aggregate Bond Index. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

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**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 6.64%.

Best Quarter: 7.04% 1Q 12

Worst Quarter: -6.98% 2Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (5/11/2011)
Market Vectors Emerging Markets Aggregate Bond ETF (return before taxes)	-4.49 %	2.39 %
Market Vectors Emerging Markets Aggregate Bond ETF (return after taxes on distributions)	-5.54 %	0.88 %
Market Vectors Emerging Markets Aggregate Bond ETF (return after taxes on distributions and sale of Fund Shares)	-2.51 %	1.30 %
Market Vectors EM Aggregate Bond Index* (reflects no deduction for fees, expenses or taxes)	-5.07 %	4.81 %

\* Prior to December 10, 2013, the Fund sought to replicate as closely as possible, before fees and expenses, the price and yield performance of an index called The BofA Merrill Lynch Broad Latin America Bond Index (the Prior Index ). Therefore index data prior to December 10, 2013, reflects that of the Prior Index. From December 10, 2013, the index data reflects that of the EM Aggregate Bond Index.

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	May 2011
Francis G. Rodilosso	Portfolio Manager	September 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS EMERGING MARKETS HIGH YIELD BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Emerging Markets High Yield Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of The BofA Merrill Lynch High Yield US Emerging Markets Liquid Corporate Plus Index (the Emerging Markets High Yield Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.13 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.53 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.13 )%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.40 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has contractually agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR EXPENSES

1	\$	41
3	\$	157
5	\$	283
10	\$	652

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 16% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Emerging Markets High Yield Index is comprised of U.S. dollar denominated bonds issued by non-sovereign emerging market issuers that are rated BB1 or lower (based on an average of ratings from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Rating Services (S&P) and Fitch International Rating Agency (Fitch)) and that are issued in the major domestic and Eurobond markets. In order to qualify for inclusion in the Emerging Markets High Yield Index, an issuer must have risk exposure to countries other than members of the FX Group of Ten, all Western European countries and territories of the United States and



Western European countries. The FX Group of Ten includes all Euro members, Australia, Canada, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. As of June 30, 2014, the Emerging Markets High Yield Index included 436 below investment grade bonds of 266 issuers and approximately 79% of the Emerging Markets High Yield Index was comprised of Rule 144A securities. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Emerging Markets High Yield Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Emerging Markets High Yield Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Emerging Markets High Yield Index, the Fund does not purchase all of the securities in the Emerging Markets High Yield Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Emerging Markets High Yield Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Emerging Markets High Yield Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Emerging Markets High Yield Index concentrates in an industry or group of industries. As of June 30, 2014, the Emerging Markets High Yield Index was concentrated in the industrials and financial services sectors.

#### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Emerging Markets High Yield Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value (NAV).

**Risk of Investing in Emerging Market Issuers.** The countries in which the Fund will generally invest are considered to be emerging markets. Investments in securities of emerging market issuers are exposed to a number of risks that may make these investments volatile in price or difficult to trade. Political risks may include unstable governments, nationalization, restrictions on foreign ownership, laws that prevent investors from getting their money out of a country and legal systems that do not protect property rights as well as the laws of the United States. Market risks may include economies that concentrate in only a few industries, securities issues that are held by only a few investors,

liquidity issues and limited trading capacity in local exchanges and the possibility that markets or issues may be manipulated by foreign nationals who have inside information.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has

**MARKET VECTORS EMERGING MARKETS HIGH YIELD BOND ETF (continued)**

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begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Restricted Securities Risk.** Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act of 1933, as amended (the Securities Act). They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist. A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

**Quasi-Sovereign Bond Risk.** Investments in quasi-sovereign bonds involve special risks not present in corporate bonds. The governmental authority that controls the repayment of the bonds may be unable or unwilling to make interest payments and/or repay the principal on its bonds or to otherwise honor its obligations. If an issuer of quasi-sovereign bonds defaults on payments of principal and/or interest, the Fund may have limited recourse against the issuer. During periods of economic uncertainty, the market prices of quasi-sovereign bonds, and the Fund's NAV, may be more volatile than prices of corporate bonds, which may result in losses. In the past, certain governments of emerging market countries have declared themselves unable to meet their financial obligations on a timely basis, which has resulted in losses to the holders of quasi-sovereign bonds.

**Risk of Investing in the Industrials Sector.** To the extent that the Emerging Markets High Yield Index continues to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Risk of Investing in the Financial Services Sector.** To the extent that the Emerging Markets High Yield Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Emerging Markets High Yield Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Emerging Markets High Yield Index. Conversely, a positive development relating to an issuer of securities in the Emerging Markets High Yield Index that is not held by the Fund could cause the Fund to underperform the Emerging Markets High Yield Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Index Tracking Risk.** The Fund's return may not match the return of the Emerging Markets High Yield Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Emerging Markets High Yield Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Emerging Markets High Yield Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Emerging Markets High Yield Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Emerging Markets High Yield Index as would be the case if the Fund purchased all of the securities in the Emerging Markets High Yield Index in the proportions in which they are represented in the Emerging Markets High Yield Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Emerging Markets High Yield Index is based on securities' closing prices on local foreign markets (*i.e.*, the value of the Emerging Markets High Yield Index is not based on fair value prices), the Fund's ability to track the Emerging Markets High Yield Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Emerging Markets High Yield Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in the obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Emerging Markets High Yield Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Emerging Markets High Yield Index as of June 30, 2014, the Fund's assets were concentrated in the industrials and financial services sectors; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on those sectors will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## **PERFORMANCE**

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The bar chart that follows shows how the Fund performed for the last calendar year. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**MARKET VECTORS EMERGING MARKETS HIGH YIELD BOND ETF (continued)****Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 7.64%.

Best Quarter: 1.89% 1Q 13

Worst Quarter: -4.98% 2Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (5/8/2012)
Market Vectors Emerging Markets High Yield Bond ETF (return before taxes)	0.32 %	6.55 %
Market Vectors Emerging Markets High Yield Bond ETF (return after taxes on distributions)	-2.21 %	4.12 %
Market Vectors Emerging Markets High Yield Bond ETF (return after taxes on distributions and sale of Fund Shares)	0.18 %	4.00 %
The BofA Merrill Lynch High Yield US Emerging Markets Liquid Corporate Plus Index (reflects no deduction for fees, expenses or taxes)	0.70 %	8.60 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	May 2012
Francis G. Rodilosso	Portfolio Manager	September 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS EMERGING MARKETS LOCAL CURRENCY BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Emerging Markets Local Currency Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the J.P. Morgan Government Bond Index - Emerging Markets Global Core (the Emerging Markets Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.35 %
Other Expenses	0.17 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.52 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.05)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.47 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense,

offering costs,  
trading  
expenses,  
taxes and  
extraordinary  
expenses)  
from  
exceeding  
0.47% of the  
Fund's average  
daily net assets  
per year until  
at least  
September 1,  
2015. During  
such time, the  
expense  
limitation is  
expected to  
continue until  
the Fund's  
Board of  
Trustees acts  
to discontinue  
all or a portion  
of such  
expense  
limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 48
3	\$ 162
5	\$ 286
10	\$ 648

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 16% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Emerging Markets Index is comprised of bonds issued by emerging market governments and denominated in the local currency of the issuer. As of June 30, 2014, the Emerging Markets Index included 194 bonds of 16 sovereign issuers. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days prior written notice to shareholders.

**MARKET VECTORS EMERGING MARKETS LOCAL CURRENCY BOND ETF (continued)**

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The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Emerging Markets Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Emerging Markets Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Emerging Markets Index, the Fund does not purchase all of the securities in the Emerging Markets Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Emerging Markets Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Emerging Markets Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Emerging Markets Index concentrates in an industry or group of industries.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Risk of Investing in Emerging Market Issuers.** The countries in which the Fund will generally invest are considered to be emerging markets. Investments in securities of emerging market issuers are exposed to a number of risks that may make these investments volatile in price or difficult to trade. Political risks may include unstable governments, nationalization, restrictions on foreign ownership, laws that prevent investors from getting their money out of a country and legal systems that do not protect property rights as well as the laws of the United States. Market risks may include economies that concentrate in only a few industries, securities issues that are held by only a few investors, liquidity issues and limited trading capacity in local exchanges and the possibility that markets or issues may be manipulated by foreign nationals who have inside information.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or "junk bonds." Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Emerging Markets Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value (NAV).

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Sovereign Bond Risk.** Investments in sovereign bonds involves special risks not present in corporate bonds. The governmental authority that controls the repayment of the bonds may be unable or unwilling to make interest payments and/or repay the principal on its bonds or to otherwise honor its obligations. If an issuer of sovereign bonds defaults on payments of principal and/or interest, the Fund may have limited recourse against the issuer. During periods of economic uncertainty, the market prices of sovereign bonds, and the Fund's NAV, may be more volatile than prices of corporate bonds, which may result in losses. In the past, certain governments of emerging market countries have declared themselves unable to meet their financial obligations on a timely basis, which has resulted in losses to the holders of sovereign bonds.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Foreign Currency Risk.** Because the Fund's assets generally are invested in debt denominated in foreign currencies, the income received by the Fund from these investments will generally be in foreign currencies. The Fund's exposure to foreign currencies and changes in the value of foreign currencies versus the U.S. dollar may result in reduced returns for the Fund. Moreover, the Fund may incur costs in connection with conversions between U.S. dollars and foreign currencies. The value of an emerging market country's currency may be subject to a high degree of fluctuation. This fluctuation may be due to changes in interest rates, investors' expectations concerning inflation and interest rates, the emerging market country's debt levels and trade deficit, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The economies of certain emerging market countries can be significantly affected by currency devaluations. Certain emerging market countries may also have managed currencies which are maintained at artificial levels relative to the U.S. dollar rather than at levels determined by the market. This type of system could lead to sudden and large adjustments in the currency, which in turn, can have a negative effect on the Fund and its investments.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Emerging Markets Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Emerging Markets Index. Conversely, a positive development relating to an issuer of securities in the Emerging Markets Index that is not held by the Fund could cause the Fund to underperform the Emerging Markets Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Emerging Markets Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Emerging Markets Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Emerging Markets Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the Emerging Markets Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Emerging Markets Index as would be the case if the Fund purchased all of the securities in the Emerging Markets Index in the proportions in which they are represented in the Emerging Markets Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Emerging Markets Index is based on securities' closing prices on local foreign markets (*i.e.*, the value of the Emerging Markets Index is not based on fair value prices), the Fund's ability to track the Emerging Markets Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Emerging Markets Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**MARKET VECTORS EMERGING MARKETS LOCAL CURRENCY BOND ETF (continued)**

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act ). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in a single company. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Emerging Markets Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 6.22%.

Best Quarter: 8.68% 1Q 12

Worst Quarter: -8.92% 3Q 11

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (7/22/2010)
Market Vectors Emerging Markets Local Currency Bond ETF (return before taxes)	-8.90 %	2.78 %
Market Vectors Emerging Markets Local Currency Bond ETF (return after taxes on distributions)	-10.59 %	1.11 %



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Market Vectors Emerging Markets Local Currency Bond ETF (return after taxes on distributions and sale of Fund Shares)	-4.98 %	1.55 %
J.P. Morgan Government Bond Index Emerging Markets Global Core Index (reflects no deduction for fees, expenses or taxes)	-8.30 %	4.01 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

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18

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Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	July 2010
Francis G. Rodilosso	Portfolio Manager	September 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS FALLEN ANGEL HIGH YIELD BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Fallen Angel High Yield Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of The BofA Merrill Lynch US Fallen Angel High Yield Index (the Fallen Angel Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	1.07 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	1.47 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(1.07)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.40 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has contractually agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR EXPENSES

1	\$	41
3	\$	359
5	\$	701
10	\$	1,665

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 35% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund’s benchmark index. The Fallen Angel Index is comprised of below investment grade corporate bonds denominated in U.S. dollars that were rated investment grade at the time of issuance. Qualifying securities must be issued in the U.S. domestic market and have a below investment grade rating (based on an average of ratings from Moody’s Investors Service, Inc. ( Moody’s ), Standard & Poor’s Rating Services ( S&P ) and Fitch International Rating Agency ( Fitch )). Defaulted securities are excluded from the Fallen Angel Index. The Fallen Angel Index is comprised of bonds issued by both U.S. and non-U.S. issuers. The country of risk of qualifying issuers must be a member of the FX Group of Ten, a Western European nation, or a territory of the United States or a Western European nation.

The FX Group of Ten includes all Euro members, Australia, Canada, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. As of June 30, 2014, the Fallen Angel Index included 316 below investment grade bonds of 132 issuers and approximately 17% of the Fallen Angel Index was comprised of Rule 144A securities. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Fallen Angel Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Fallen Angel Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Fallen Angel Index, the Fund does not purchase all of the securities in the Fallen Angel Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Fallen Angel Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Fallen Angel Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Fallen Angel Index concentrates in an industry or group of industries. As of June 30, 2014, the Fallen Angel Index was concentrated in the industrials and financial services sectors.

#### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Fallen Angel Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value (NAV).

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the bond.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the

prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Restricted Securities Risk.** Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act of 1933, as amended (the "Securities Act"). They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist. A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

**MARKET VECTORS FALLEN ANGEL HIGH YIELD BOND ETF (continued)**

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**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Risk of Investing in the Industrials Sector.** To the extent that the Fallen Angel Index continues to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Risk of Investing in the Financial Services Sector.** To the extent that the Fallen Angel Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Fallen Angel Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Fallen Angel Index. Conversely, a positive development relating to an issuer of securities in the Fallen Angel Index that is not held by the Fund could cause the Fund to underperform the Fallen Angel Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Fallen Angel Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Fallen Angel Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Fallen Angel Index and raising cash to meet redemptions or deploying cash

in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Fallen Angel Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Fallen Angel Index as would be the case if the Fund purchased all of the securities in the Fallen Angel Index in the proportions in which they are represented in the Fallen Angel Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Fallen Angel Index is based on securities closing prices on local foreign markets (*i.e.*, the value of the Fallen Angel Index is not based on fair value prices), the Fund's ability to track the Fallen Angel Index may be adversely affected.

Replication Management Risk. An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Fallen Angel Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore,



the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in the obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Fallen Angel Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Fallen Angel Index as of June 30, 2014, the Fund's assets were concentrated in the industrials and financial services sectors; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on those sectors will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## PERFORMANCE

The bar chart that follows shows how the Fund performed for the last calendar year. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

### Annual Total Returns(%) Calendar Years

The year-to-date total return as of June 30, 2014 was 8.31%.

Best Quarter: 3.61% 1Q 13

Worst Quarter: -1.33% 2Q 13

### Average Annual Total Returns for the Periods Ended December 31, 2013

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual

retirement accounts.

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**MARKET VECTORS FALLEN ANGEL HIGH YIELD BOND ETF (continued)**

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	Past One Year	Since Inception (4/10/2012)
Market Vectors Fallen Angel High Yield Bond ETF (return before taxes)	7.13 %	10.67 %
Market Vectors Fallen Angel High Yield Bond ETF (return after taxes on distributions)	4.21 %	8.07 %
Market Vectors Fallen Angel High Yield Bond ETF (return after taxes on distributions and sale of Fund Shares)	3.98 %	7.07 %
The BofA Merrill Lynch US Fallen Angel High Yield Index (reflects no deduction for fees, expenses or taxes)	9.25 %	15.58 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	April 2012
Francis G. Rodillo	Portfolio Manager	April 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS INTERNATIONAL HIGH YIELD BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors International High Yield Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of The BofA Merrill Lynch Global Ex-US Issuers High Yield Constrained Index (the High Yield Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.18 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.58 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.18)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.40 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has contractually agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR EXPENSES

1	\$	41
3	\$	168
5	\$	306
10	\$	709

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 27% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The High Yield Index is comprised of below investment grade bonds issued by corporations located throughout the world (which may include emerging market countries) excluding the United States denominated in Euros, U.S. dollars, Canadian dollars or pound sterling issued in the major domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of ratings from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Rating Services (S&P) and Fitch

**MARKET VECTORS INTERNATIONAL HIGH YIELD BOND ETF (continued)**

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International Rating Agency ( Fitch ). As of June 30, 2014, the High Yield Index included 1,590 below investment grade securities of 798 issuers and approximately 39% of the High Yield Index was comprised of Rule 144A securities. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the High Yield Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the High Yield Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the High Yield Index, the Fund does not purchase all of the securities in the High Yield Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the High Yield Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the High Yield Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the High Yield Index concentrates in an industry or group of industries. As of June 30, 2014, the High Yield Index was concentrated in the industrials and financial services sectors.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the High Yield Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value ( NAV ).

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the bond.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the

prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Restricted Securities Risk.** Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act of 1933, as amended (the "Securities Act"). They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist. A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

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**Risk of Investing in the Industrials Sector.** To the extent that the High Yield Index continues to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Risk of Investing in the Financial Services Sector.** To the extent that the High Yield Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Foreign Currency Risk.** Because some or all the Fund's assets will be invested in bonds denominated in foreign currencies, the income received by the Fund from these investments will generally be in foreign currencies. The Fund's exposure to foreign currencies and changes in the value of foreign currencies versus the U.S. dollar may result in reduced returns for the Fund. Moreover, the Fund may incur costs in connection with conversions between U.S. dollars and foreign currencies. Several factors may affect the price of the Euro and British pound sterling, including the debt level and trade deficit of countries in the European Monetary Union ( EMU ) and the United Kingdom, inflation and interest rates of the EMU and the United Kingdom and investors' expectations concerning inflation and interest rates and global or regional political, economic or financial events and situations. The European financial markets have recently experienced volatility and adverse trends due to economic downturns or concerns about rising government debt levels of certain European countries, each of which may require external assistance to meet its obligations and run the risk of default on its debt, possible bail-out by the rest of the European Union ( EU ) or debt



restructuring. Assistance given to an EU member state may be dependent on a country's implementation of reforms, including austerity measures, in order to curb the risk of default on its debt, and a failure to implement these reforms or increase revenues could result in a deep economic downturn. These events have adversely affected the exchange rate of the Euro and may adversely affect the Fund and its investments. In addition, one or more countries may abandon the Euro and the impact of these actions, especially in a disorderly manner, may have significant and far-reaching consequences on the Euro.

**Risk of Investing in Emerging Market Issuers.** The countries in which the Fund will generally invest are considered to be emerging markets. Investments in securities of emerging market issuers are exposed to a number of risks that may make these investments volatile in price or difficult to trade. Political risks may include unstable governments, nationalization, restrictions on foreign ownership, laws that prevent investors from getting their money out of a country and legal systems that do not protect property rights as well as the laws of the United States. Market risks may include economies that concentrate in only a few industries, securities issues that are held by only a few investors, liquidity issues and limited trading capacity in local exchanges and the possibility that markets or issues may be manipulated by foreign nationals who have inside information.

**MARKET VECTORS INTERNATIONAL HIGH YIELD BOND ETF (continued)**

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**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the High Yield Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the High Yield Index. Conversely, a positive development relating to an issuer of securities in the High Yield Index that is not held by the Fund could cause the Fund to underperform the High Yield Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the High Yield Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the High Yield Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the High Yield Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the High Yield Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the High Yield Index as would be the case if the Fund purchased all of the securities in the High Yield Index in the proportions in which they are represented in the High Yield Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the High Yield Index is based on securities' closing prices on local foreign markets (*i.e.*, the value of the High Yield Index is not based on fair value prices), the Fund's ability to track the High Yield Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the High Yield Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in the obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the High Yield Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the High Yield Index as of June 30, 2014, the Fund's assets were concentrated in the industrials and financial services sectors; therefore, the Fund will be subject to the risk that economic, political

or other conditions that have a negative effect on those sectors will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## PERFORMANCE

The bar chart that follows shows how the Fund performed for the last calendar year. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 6.21%.

Best Quarter: 4.90% 3Q 13

Worst Quarter: -1.95% 2Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (4/2/2012)
Market Vectors International High Yield Bond ETF (return before taxes)	7.49 %	11.07 %
Market Vectors International High Yield Bond ETF (return after taxes on distributions)	4.53 %	8.52 %
Market Vectors International High Yield Bond ETF (return after taxes on distributions and sale of Fund Shares)	4.17 %	7.37 %
The BofA Merrill Lynch Global Ex-US Issuers High Yield Constrained Index (reflects no deduction for fees, expenses or taxes)	8.93 %	14.38 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	April 2012
Francis G. Rodillo	Portfolio Manager	April 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.



**MARKET VECTORS INVESTMENT GRADE FLOATING RATE ETF**

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**SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Investment Grade Floating Rate ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® US Investment Grade Floating Rate Index (the Floating Rate Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.35 %
Other Expenses	0.19 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.54 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.35)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.19 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs,

trading expenses, taxes and extraordinary expenses) from exceeding 0.19% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 19
3	\$ 138
5	\$ 267
10	\$ 643

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in

higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 13% of the average value of its portfolio.

#### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Floating Rate Index is comprised of U.S. dollar-denominated floating rate notes issued by corporate entities or similar commercial entities that are public reporting companies in the United States and rated investment grade by at least one of three rating services: Moody's Investors Service, Inc. (Moody's), Standard & Poor's Rating Services (S&P) or Fitch International Rating Agency (Fitch). Investment grade securities are those rated Baa3 or higher by Moody's or rated BBB- or higher by S&P or Fitch. The Fund will generally invest a significant portion of its assets in Rule 144A securities. As of June 30, 2014, the Floating Rate Index included 302 notes of 121 issuers and approximately 20% of the Floating Rate Index was comprised of Rule 144A securities. The



Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Floating Rate Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Floating Rate Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Floating Rate Index, the Fund does not purchase all of the securities in the Floating Rate Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Floating Rate Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Floating Rate Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Floating Rate Index concentrates in an industry or group of industries. As of June 30, 2014, the Floating Rate Index was concentrated in the financial services and industrials sectors.

### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Risk of Investing in the Financial Services Sector.** To the extent that the Floating Rate Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including

measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in the Industrials Sector.** To the extent that the Floating Rate Index continues to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Restricted Securities Risk.** Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act of 1933, as amended (the "Securities Act"). They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist.

**MARKET VECTORS INVESTMENT GRADE FLOATING RATE ETF (continued)**

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A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Floating Rate Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in net asset value (NAV) than would be the case if the Fund held all of the securities in the Floating Rate Index. Conversely, a positive development relating to an issuer of securities in the Floating Rate Index that is not held by the Fund could cause the Fund to underperform the Floating Rate Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Floating Rate Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Floating Rate Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Floating Rate Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the Floating Rate Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Floating Rate Index as would be the case if the Fund purchased all of the securities in the Floating Rate Index in the proportions in which they are represented in the Floating Rate Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Floating Rate Index is based on securities closing prices (*i.e.*, the value of the Floating Rate Index is not based on fair value prices), the Fund's ability to track the Floating Rate Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Floating Rate Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than mutual funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Risk of Cash Transactions.** Unlike other exchange-traded funds (ETFs), the Fund expects to effect its creations and redemptions partially for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act ). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Floating Rate Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Floating Rate Index as of June 30, 2014, the Fund's assets were concentrated in the financial services and industrials sectors; therefore the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on those sectors will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## **PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends

and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

### Annual Total Returns (%) Calendar Years

The year-to-date total return as of June 30, 2014 was 0.62%.

Best Quarter: 3.77% 1Q 12

Worst Quarter: -0.23% 2Q 13

### Average Annual Total Returns for the Periods Ended December 31, 2013

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (4/25/2011)
Market Vectors Investment Grade Floating Rate ETF (return before taxes)	1.65 %	1.04 %
Market Vectors Investment Grade Floating Rate ETF (return after taxes on distributions)	1.35 %	0.73 %
Market Vectors Investment Grade Floating Rate ETF (return after taxes on distributions and sale of Fund Shares)	0.93 %	0.68 %
Market Vectors® US Investment Grade Floating Rate Index (reflects no deduction for fees, expenses or taxes)	1.86 %	1.69 %

### PORTFOLIO MANAGEMENT

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	April 2011
Francis G. Rodilosso	Portfolio Manager	September 2012

### PURCHASE AND SALE OF FUND SHARES

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

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**MARKET VECTORS MORTGAGE REIT INCOME ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Mortgage REIT Income ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® Global Mortgage REITs Index (the Mortgage REITs Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.20 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.60 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.19 )%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.41 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR EXPENSES

1	\$	42
3	\$	173
5	\$	316
10	\$	732

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 26% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund’s benchmark index. While publicly traded U.S. and non-U.S. real estate investment trusts ( REITs ) that derive at least 50% of their revenues (or, where applicable, have at least 50% of their assets) from mortgage-related activity are eligible for inclusion in the Mortgage REITs Index, as of the date of this Prospectus, the Mortgage REITs Index is comprised of stocks of publicly traded U.S. REITs that derive at least 50% of their revenues (or, where applicable, have at least 50% of their assets) from mortgage-related activity. A mortgage REIT makes loans to developers and owners of properties and invests primarily in mortgages and similar real estate interests, and includes



companies or trusts that are primarily engaged in the purchasing or servicing of commercial or residential mortgage loans or mortgage-related securities, which may include mortgage-backed securities issued by private issuers and those issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored entities. The Mortgage REITs Index may include small-capitalization and medium-capitalization companies. As of June 30, 2014, the Mortgage REITs Index included 24 securities of companies with a market capitalization range of \$484.1 million and \$10.8 billion and a weighted average market capitalization of \$4.8 billion. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Mortgage REITs Index by investing in a portfolio of securities that generally replicates the Mortgage REITs Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Mortgage REITs Index will be 95% or better. A figure of 100% would indicate perfect correlation.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Mortgage REITs Index concentrates in an industry or group of industries. As of June 30, 2014, the Mortgage REITs Index was concentrated in the financial services sector and real estate industry.

### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Risk of Investing in Mortgage REITs.** Mortgage REITs are exposed to the risks specific to the real estate market as well as the risks that relate specifically to the way in which mortgage REITs are organized and operated. Mortgage REITs receive principal and interest payments from the owners of the mortgaged properties. Accordingly, mortgage REITs are subject to the credit risk of the borrowers. Credit risk refers to the possibility that the borrower will be unable and/or unwilling to make timely interest payments and/or repay the principal on the loan to a mortgage REIT when due. To the extent that a mortgage REIT invests in mortgage-backed securities offered by private issuers, such as commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, the mortgage REIT may be subject to additional risks. Timely payment of interest and principal of non-governmental issuers may be supported by various forms of private insurance or guarantees, including individual loan, title, pool and hazard insurance purchased by the issuer. However, there can be no assurance that the private insurers can or will meet their obligations under such policies. Unexpected high rates of default on the mortgages held by a mortgage pool may adversely affect the value of a mortgage-backed security and could result in losses to a mortgage REIT. The risk of such defaults is generally higher in the case of mortgage pools that include subprime mortgages. To the extent that a mortgage REIT's portfolio is exposed to lower-rated, unsecured or subordinated instruments, the risk of loss may increase, which may have a negative impact on the Fund. Mortgage REITs also are subject to the risk that the value of mortgaged properties may be less than the amounts owed on the properties. If a mortgage REIT is required to foreclose on a borrower, the amount recovered in connection with the foreclosure may be less than the amount owed to the mortgage REIT.

Mortgage REITs are subject to significant interest rate risk. Interest rate risk refers to fluctuations in the value of a mortgage REIT's investment in fixed rate obligations resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the value of a mortgage REIT's investment in fixed rate obligations goes down.

Mortgage REITs typically use leverage and many are highly leveraged, which exposes them to leverage risk and the risks generally associated with debt financing. Leverage risk refers to the risk that leverage created from borrowing may impair a mortgage REIT's liquidity, cause it to liquidate positions at an unfavorable time and increase the volatility of the values of securities issued by the mortgage REIT. The use of leverage may not be advantageous to a mortgage REIT. The success of using leverage is dependent on whether the return earned on the investments made using the proceeds of leverage exceed the cost of using leverage. To the extent that a mortgage REIT incurs significant leverage, it may incur substantial losses if its borrowing costs increase. Borrowing costs may increase for any of the following reasons: short-term interest rates increase; the market value of a mortgage REIT's assets decrease; interest rate volatility increases; or the availability of financing in the market decreases. During periods of adverse market conditions, downturns in the economy or deterioration in the conditions of the REIT's mortgage-related assets, the use of leverage may cause a mortgage REIT to lose more money than would have been the case if leverage was not used.

Mortgage REITs are subject to prepayment risk, which is the risk that borrowers may prepay their mortgage loans at faster than expected rates. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. These faster than expected payments may adversely affect a mortgage REIT's profitability because the mortgage REIT may be forced to

**MARKET VECTORS MORTGAGE REIT INCOME ETF (continued)**

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replace investments that have been redeemed or repaid early with other investments having a lower yield. Additionally, rising interest rates may cause the duration of a mortgage REIT's investments to be longer than anticipated and increase such investments' interest rate sensitivity.

REITs are subject to special U.S. federal tax requirements. A REIT's failure to comply with these requirements may negatively affect its performance.

Mortgage REITs may be dependent upon the management skills and may have limited financial resources. Mortgage REITs are generally not diversified and may be subject to heavy cash flow dependency, default by borrowers and self-liquidation. In addition, transactions between mortgage REITs and their affiliates may be subject to conflicts of interest which may adversely affect a mortgage REIT's shareholders.

**Equity Securities Risk.** The value of the equity securities held by the Fund may fall due to general market and economic conditions, perceptions regarding the markets in which the issuers of securities held by the Fund participate, or factors relating to specific issuers in which the Fund invests. Equity securities are subordinated to preferred securities and debt in a company's capital structure with respect to priority in right to a share of corporate income, and therefore will be subject to greater dividend risk than preferred securities or debt instruments. In addition, while broad market measures of equity securities have historically generated higher average returns than fixed income securities, equity securities have generally also experienced significantly more volatility in those returns, although under certain market conditions fixed income securities may have comparable or greater price volatility.

**Risk of Investing in the Financial Services Sector.** To the extent that the Mortgage REITs Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in the Real Estate Industry.** The Fund invests in companies that invest in real estate, such as mortgage REITs, which subjects the Fund to the risks of owning real estate directly. To the extent that the Mortgage REITs Index continues to be concentrated in the real estate industry, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the real estate industry. Real estate is highly sensitive to general and local economic conditions and developments, and characterized by intense competition and periodic overbuilding. Adverse economic, business or political developments affecting real estate could have a major effect on the value of the Fund's investments.

**Risk of Investing in Small- and Medium-Capitalization Companies.** Small- and medium-capitalization companies may be more volatile and more likely than large-capitalization companies to have narrower product lines, fewer financial resources, less management depth and experience and less competitive strength. Returns on investments in securities of small-capitalization and medium-capitalization companies could trail the returns on investments in securities of

large-capitalization companies.

**Issuer-Specific Changes Risk.** The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers.

**Market Risk.** The prices of the securities in the Fund are subject to the risk associated with investing in the securities market, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Index Tracking Risk.** The Fund's return may not match the return of the Mortgage REITs Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Mortgage REITs Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Mortgage REITs Index. The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the Mortgage REITs Index. In addition, the Fund may not be able to invest in certain securities included in the Mortgage REITs Index, or invest in them in the exact proportions they represent of the Mortgage REITs Index, due to legal restrictions or limitations imposed by the governments of certain countries or a lack of

liquidity on stock exchanges in which such securities trade. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its net asset value ( NAV ) based on fair value prices and the value of the Mortgage REITs Index is based on securities closing prices (*i.e.*, the value of the Mortgage REITs Index is not based on fair value prices), the Fund's ability to track the Mortgage REITs Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any fund of equity securities traded on an exchange, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Mortgage REITs Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act ). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in a single company. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds. The Fund may be particularly vulnerable to this risk because the Mortgage REITs Index it seeks to replicate is comprised of securities of a very limited number of companies.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Mortgage REITs Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Mortgage REITs Index as of June 30, 2014, the Fund's assets were concentrated in the financial services sector and real estate industry; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## **PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

### **Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 25.10%.

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Best Quarter: 22.07% 1Q 13

Worst Quarter: -14.23% 2Q 13

**MARKET VECTORS MORTGAGE REIT INCOME ETF (continued)****Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (8/16/2011)
Market Vectors Mortgage REIT Income ETF (return before taxes)	-2.28 %	5.31 %
Market Vectors Mortgage REIT Income ETF (return after taxes on distributions)	-6.54 %	1.36 %
Market Vectors Mortgage REIT Income ETF (return after taxes on distributions and sale of Fund Shares)	-0.94 %	2.67 %
Market Vectors® Global Mortgage REITs Index (reflects no deduction for fees, expenses or taxes, except foreign withholding taxes)	-2.14 %	4.55 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Hao-Hung (Peter) Liao	Portfolio Manager	August 2011
George Cao	Portfolio Manager	August 2011

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

**MARKET VECTORS PREFERRED SECURITIES EX FINANCIALS ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Preferred Securities ex Financials ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Wells Fargo® Hybrid and Preferred Securities ex Financials Index (the Preferred Securities Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.13 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.53 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(0.13)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.40 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs,



trading expenses, taxes and extraordinary expenses) from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 41
3	\$ 157
5	\$ 283
10	\$ 652

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in

higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 19% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Preferred Securities Index is comprised of convertible or exchangeable and non-convertible preferred securities listed on U.S. exchanges, including securities that, in Wells Fargo & Company's (the Index Provider) judgment, are functionally equivalent to preferred securities including, but not limited to, convertible securities, depositary preferred securities and perpetual subordinated debt, excluding securities with a financial industry sector classification (collectively, Preferred Securities). Preferred Securities generally pay fixed or variable rate distributions to preferred shareholders and such shareholders have preference over common

**MARKET VECTORS PREFERRED SECURITIES EX FINANCIALS ETF (continued)**

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shareholders in the payment of distributions and in the event of a liquidation of the issuer's assets, but are junior to most other forms of debt, including senior and subordinated debt. Functionally equivalent securities to Preferred Securities are securities that are issued and trade in similar manner to traditional perpetual preferred securities. Such securities generally have a lower par amount, may allow the issuer to defer interest or dividend payments and are equal to preferred shareholders or the lowest level of subordinated debt in terms of claims to the issuer's assets in the event of liquidation. Preferred Securities issued by real estate investment trusts ( REITs ) are not considered to be securities with a financial industry sector classification as determined by the Bloomberg Professional® service, and therefore may be included in the Preferred Securities Index. Preferred Securities may be subject to redemption or call provisions and may include those issued by small- and medium-capitalization companies. As of June 30, 2014, the Preferred Securities Index included 86 U.S.-listed securities of 52 issuers. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Preferred Securities Index by investing in a portfolio of securities that generally replicates the Preferred Securities Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Preferred Securities Index will be 95% or better. A figure of 100% would indicate perfect correlation.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Preferred Securities Index concentrates in an industry or group of industries. As of the date of June 30, 2014, the Preferred Securities Index was concentrated in the real estate industry, and the utilities and telecommunications sectors represented a significant portion of the Preferred Securities Index.

The Preferred Securities Index is sponsored by Wells Fargo & Company, which is not affiliated with or sponsored by the Fund or the Adviser. The Index Provider determines the composition of the Preferred Securities Index and relative weightings of the securities in the Preferred Securities Index, and publishes information regarding the market value of the Preferred Securities Index.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Preferred Securities Risk.** Preferred Securities are essentially contractual obligations that entail rights to distributions declared by the issuer's board of directors but may permit the issuer to defer or suspend distributions for a certain period of time. If the Fund owns a Preferred Security whose issuer has deferred or suspended distributions, the Fund may be required to account for the distribution that has been deferred or suspended for tax purposes, even though it may not have received this income in cash. Further, Preferred Securities may lose substantial value if distributions are deferred, suspended or not declared. Preferred Securities may also permit the issuer to convert Preferred Securities into the issuer's common stock. Preferred Securities that are convertible to common stock may decline in value if the common stock into which Preferred Securities may be converted declines in value. Preferred Securities are subject to greater credit risk than traditional fixed income securities because the rights of holders of Preferred Securities are subordinated to the rights of the bond and debtholders of an issuer.

**Convertible Securities Risk.** Convertible securities are subject to risks associated with both fixed income securities and common stocks. Depending on the convertible security's conversion value, the price of a convertible security will be influenced by interest rates (*i.e.*, its price generally will increase when interest rates fall and decrease when interest

rates rise) or will tend to fluctuate directly with the price of the equity security into which the security can be converted.

**Credit Risk.** Preferred Securities are subject to certain risks associated with fixed income securities. Preferred Securities are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely distributions of dividends. Preferred Securities are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a Preferred Security may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Preferred Securities are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a Preferred Security resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of Preferred Securities may go down. When the general level of interest rates goes down, the prices of Preferred Securities may go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates.

**Risk of Subordinated Obligations.** Payments under some Preferred Securities may be structurally subordinated to all existing and future liabilities and obligations of subsidiaries and associated companies of an issuer of Preferred Securities. Claims of creditors of such subsidiaries and associated companies will have priority as to the assets of such subsidiaries and associated companies over the issuer and the Fund, who seek to enforce Preferred Securities. Certain Preferred Securities do not contain any restrictions on the ability of the subsidiaries of the issuers to incur additional unsecured indebtedness.

**Call Risk.** The Fund may invest in callable Preferred Securities. If interest rates fall, it is possible that issuers of callable Preferred Securities will call (or prepay) their securities before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called Preferred Security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in REITs.** REITs are exposed to the risks specific to the real estate market as well as the risks that relate specifically to the way in which REITs are organized and operated. REITs may be subject to credit risk, interest rate risk, leverage risk and prepayment risk. REITs are subject to special U.S. federal tax requirements. A REIT's failure to comply with these requirements may negatively affect its performance. REITs may be dependent upon management skills and may have limited financial resources.

**Risk of Investing in the Real Estate Industry.** Companies in the real estate industry include companies that invest in real estate, such as REITs and real estate management and development companies. To the extent that the Preferred Securities Index continues to be concentrated in the real estate industry, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the real estate industry. Real estate is highly sensitive to general and local economic conditions and developments, and characterized by intense competition and periodic overbuilding. Adverse economic, business or political developments affecting real estate could have an effect on the value of the Fund's investments.

**Risk of Investing in the Utilities Sector.** To the extent that the utilities sector continues to represent a significant portion of the Preferred Securities Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the utilities sector. Companies in the utilities sector may be adversely affected by changes in exchange rates, domestic and international competition, difficulty in raising adequate amounts of capital and governmental limitation on rates charged to customers.

**Risk of Investing in the Telecommunications Sector.** To the extent that the telecommunications sector continues to represent a significant portion of the Preferred Securities Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the telecommunications sector. Companies in the telecommunications sector may be affected by industry competition, substantial capital requirements, government regulations and obsolescence of telecommunications products and services due to technological advancement.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in the securities market, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Risk of Investing in Foreign Securities.** Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. Because the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund may be in foreign currency, changes in currency exchange rates may negatively impact the Fund's return. The

risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Risk of Investing in Small- and Medium-Capitalization Companies.** Small- and medium-capitalization companies may be more volatile and more likely than large-capitalization companies to have narrower product lines, fewer financial resources, less management depth and experience and less competitive strength. Returns on investments in securities of small-capitalization and medium-capitalization companies could trail the returns on investments in securities of large-capitalization companies.

**Index Tracking Risk.** The Fund's return may not match the return of the Preferred Securities Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Preferred Securities Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Preferred Securities Index. The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the Preferred Securities Index. In addition, the Fund may not be able to invest in certain securities included in the Preferred Securities Index, or invest in them in the exact proportions in which they are represented in the Preferred Securities Index, due to legal restrictions or limitations imposed by the governments of certain countries or a lack of liquidity on stock exchanges in which such securities trade. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its net asset value ( NAV ) based on fair value

**MARKET VECTORS PREFERRED SECURITIES EX FINANCIALS ETF (continued)**

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prices and the value of the Preferred Securities Index is based on securities closing prices on local foreign markets (*i.e.*, the value of the Preferred Securities Index is not based on fair value prices), the Fund's ability to track the Preferred Securities Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any fund of equity securities traded on an exchange, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Preferred Securities Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Preferred Securities Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Preferred Securities Index as of June 30, 2014, the Fund's assets were concentrated in the real estate industry; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The bar chart that follows shows how the Fund performed for the last calendar year. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 12.82%.

Best Quarter: 1.43% 1Q 13  
 Worst Quarter: -1.68% 3Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

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42

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	Past One Year	Since Inception (7/16/2012)
Market Vectors Preferred Securities ex Financials ETF (return before taxes)	-1.52 %	1.48 %
Market Vectors Preferred Securities ex Financials ETF (return after taxes on distributions)	-4.11 %	-0.79 %
Market Vectors Preferred Securities ex Financials ETF (return after taxes on distributions and sale of Fund Shares)	-0.83 %	0.20 %
Wells Fargo® Hybrid and Preferred Securities ex Financials Index (reflects no deduction for fees, expenses or taxes)	-1.56 %	2.02 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Hao-Hung (Peter) Liao	Portfolio Manager	July 2012
George Cao	Portfolio Manager	July 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

**MARKET VECTORS RENMINBI BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Renminbi Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® Renminbi Bond Index (the Renminbi Bond Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.35 %
Other Expenses	2.73 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	3.08 %
Fee Waivers and Expense Reimbursement <sup>(a)</sup>	(2.69)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(a)</sup>	0.39 %

<sup>(a)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading

expenses, taxes and extraordinary expenses) from exceeding 0.39% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 40
3	\$ 697
5	\$ 1,379
10	\$ 3,203

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund

operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 31% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Renminbi Bond Index is comprised of fixed-rate, offshore Chinese Renminbi ( RMB )-denominated bonds that are investable to market participants outside of mainland People's Republic of China ( China or the PRC ) issued by Chinese or non-Chinese corporate, governmental, quasi-governmental or supranational issuers ( RMB Bonds ). RMB Bonds included in the Renminbi Bond Index or the parent company of an RMB Bond issuer must have at least one investment grade rating by one of Moody's Investors Service, Inc. ( Moody's ), Standard & Poor's Rating Services ( S&P ) or Fitch International Rating Agency ( Fitch ) or a local rating agency and must not be rated below investment grade by any one of Moody's, S&P, Fitch or a local rating agency. To be eligible for inclusion in the Renminbi Bond Index, RMB Bonds must have an amount outstanding of greater than or equal to 750 million RMB

and a minimum of six months remaining to maturity. As of June 30, 2014, the Renminbi Bond Index was comprised of 142 bonds from 56 issuers. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Renminbi Bond Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Renminbi Bond Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Renminbi Bond Index, the Fund does not purchase all of the securities in the Renminbi Bond Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Renminbi Bond Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Renminbi Bond Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Renminbi Bond Index concentrates in an industry or group of industries. As of June 30, 2014, the Renminbi Bond Index was concentrated in the financial services sector, and the industrials sector represented a significant portion of the Renminbi Bond Index.

#### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Risk of Investing in China-Related Investments.** Investing in RMB Bonds involves additional risks, including, but not limited to: the economy of China differs, often unfavorably, from the U.S. economy in such respects as structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, interest rates, allocation of resources and capital reinvestment, among others; the central government has historically exercised substantial control over virtually every sector of the Chinese economy through administrative regulation and/or state ownership; actions of the Chinese central and local government authorities continue to have a substantial effect on economic conditions in China; the risk of nationalization or expropriation of assets; the risk that the Chinese government may decide not to continue to support economic reform programs; and the risk of increased trade tariffs, embargoes and other trade limitations. In addition, previously the Chinese government has from time to time taken actions that influence the prices at which certain goods may be sold, encourage companies to invest or concentrate in particular industries, induce mergers between companies in certain industries and induce private companies to publicly offer their securities to increase or continue the rate of economic growth, control the rate of inflation or otherwise regulate economic expansion. It may do so in the future as well, potentially having a significant adverse effect on economic conditions in China, the economic prospects for, and the market prices and liquidity of, the RMB Bonds. RMB Bonds only include bonds open to foreign ownership by U.S. investors. Accordingly, RMB Bonds do not include, and the Fund will not invest in, securities traded in mainland China. As a result, returns achieved by non-Chinese investors, such as the Fund, could differ from those available to domestic investors in mainland China. In addition, investment and trading restrictions make it difficult for non-Chinese investors to directly access securities issued by Chinese issuers. These restrictions may impact the availability, liquidity, and pricing of certain RMB-denominated securities, including RMB Bonds. Additionally, the Chinese government maintains strict currency controls and regularly intervenes in the currency market. The Chinese government's actions may not be transparent or predictable. As a result, the value of the RMB and the value of RMB Bonds may change quickly and arbitrarily. Mainland China's legal system is based on statutes enacted by various state bodies dealing with economic matters such as foreign investment, company organization and governance, taxation and trade. These laws are quite recent with

published court opinions based on these being limited and non-binding. This makes the interpretation and enforcement of these laws and regulations uncertain. With respect to laws pertaining to bankruptcy proceedings, such laws in mainland China are generally less developed than and different from such laws in the United States. Therefore, bankruptcy proceedings can take more time to resolve than similar proceedings in the United States and results can be unpredictable. These and other factors could have a negative impact on the Fund's performance and increase the volatility of an investment in the Fund.

Renminbi Currency Risk. Emerging markets such as China can experience high rates of inflation, deflation and currency devaluation. The value of the RMB may be subject to a high degree of fluctuation due to, among other things, changes in interest rates, the effects of monetary policies issued by the PRC, the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The Fund invests a significant portion of its assets in investments denominated in RMB and the income received by the Fund will principally be in RMB. The Fund's exposure to the RMB and changes in value of the RMB versus the U.S. dollar may result in reduced returns for the Fund. Moreover, the Fund may incur costs in connection with conversions between U.S. dollars and RMB. The RMB is currently not a freely convertible currency. The Chinese government places strict regulation on the RMB and sets the value of the

**MARKET VECTORS RENMINBI BOND ETF (continued)**

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RMB to levels dependent on the value of the U.S. dollar, but the Chinese government has been under pressure to manage the currency in a less restrictive fashion so that it is less correlated to the U.S. dollar. The Chinese government's imposition of restrictions on the repatriation of RMB out of mainland China may limit the depth of the offshore RMB market and reduce the liquidity of the Fund's investments. These restrictions may adversely affect the Fund and its investments. The international community has requested that China ease its restrictions on currency exchange, but it is unclear whether the Chinese government will change its policy.

**Risk of Limited Availability of RMB Bonds.** The quantity of RMB Bonds open to foreign ownership is relatively small resulting in a limited pool of investments for inclusion in the Renminbi Bond Index, and thus the Fund to invest in. In addition, there may be a limited number of bond dealers who trade RMB Bonds. As a result, RMB Bonds may have less liquidity and may have greater volatility than other fixed income securities. This may lead to the Fund being unable to dispose of such bonds promptly or at reasonable prices.

**Risk of Change in Regulatory Regime Governing RMB Bonds.** RMB Bond issuance in Hong Kong is subject to Hong Kong laws and regulations. The Chinese government currently views Hong Kong as one of the key offshore RMB Bond centers and has established a cooperative relationship with Hong Kong's government to develop the RMB Bond market. There can be no assurance that the Chinese government will continue to encourage issuance of RMB Bonds outside of mainland China and any change in the Chinese government's policy or the regulatory regime governing the issuance of RMB Bonds in Hong Kong may adversely affect the Fund.

**Hong Kong Tax Risk.** Interest payable on RMB Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried out in Hong Kong. Sums derived from the sale, disposal or redemption of the RMB Bonds by the Fund may be subject to Hong Kong profits tax where the Fund's dealing in the RMB Bonds is deemed to have carried on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. There is no assurance that the current tax regime will not be changed. Any change of the tax regime could adversely affect the dealings in the RMB Bonds and the value of the Fund's investments.

**Risk of Subordinated Obligations.** Payments under some RMB Bonds may be structurally subordinated to all existing and future liabilities and obligations of each of the respective subsidiaries and associated companies of an issuer of a RMB Bond. Claims of creditors of such subsidiaries and associated companies will have priority as to the assets of such subsidiaries and associated companies over the issuer and its creditors, including the Fund, who seek to enforce the RMB Bond. Certain RMB Bonds do not contain any restrictions on the ability of the subsidiaries of the issuers to incur additional unsecured indebtedness.

**Risk of Investing in the Financial Services Sector.** To the extent that the Renminbi Bond Index continues to be concentrated in the financial services sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in the Industrials Sector.** To the extent that the industrials sector continues to represent a significant portion of the Renminbi Bond Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Chinese Banking Industry Risk.** The Chinese banking industry is a highly regulated industry and is subject to laws and regulations touching all aspects of the banking business. The principal regulators include the China Banking Regulatory Commission ( CBRC ) and the People s Bank of China ( PBOC ). These regulators are given wide discretion in exercising their authority. The banking regulatory regime in China is currently undergoing significant changes, including changes in laws and regulations, as it moves toward a more transparent regulatory process. Some of these changes may have an adverse impact on the performance of Chinese banks that issued RMB Bonds and thus may adversely affect their capacity to honor their commitments under the RMB Bonds to the holders of such bonds, which may include the Fund.

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**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates, which may indirectly affect the value of RMB Bonds. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Sovereign Bond Risk.** Investments in sovereign bonds involves special risks not present in corporate bonds. The governmental authority that controls the repayment of the bonds may be unable or unwilling to make interest payments and/or repay the principal on its bond or to otherwise honor its obligations. If an issuer of sovereign bonds defaults on payments of principal and/or interest, the Fund may have limited recourse against the issuer. During periods of economic uncertainty, the market prices of sovereign bonds, and the Fund's net asset value ( NAV ), may be more volatile than prices of corporate bonds, which may result in losses.

**Risk of Investing in Foreign Securities.** RMB Bonds generally are issued by foreign issuers. Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries.

**Risk of Investing in Emerging Market Issuers.** The countries in which the Fund will generally invest are considered to be emerging markets. Investments in securities of emerging market issuers are exposed to a number of risks that may make these investments volatile in price or difficult to trade. Political risks may include unstable governments, nationalization, restrictions on foreign ownership, laws that prevent investors from getting their money out of a country and legal systems that do not protect property rights as well as the laws of the United States. Market risks may include economies that concentrate in only a few industries, securities issues that are held by only a few investors, liquidity issues and limited trading capacity in local exchanges and the possibility that markets or issues may be manipulated by foreign nationals who have inside information.

**Market Risk.** The prices of the securities in the Fund are subject to the risk associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Renminbi Bond Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Renminbi Bond Index. Conversely, a positive development relating to an issuer of securities in the Renminbi Bond Index that is not held by the Fund could cause the Fund to underperform the Renminbi Bond Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Risk of Cash Transactions.** Unlike other exchange-traded funds ( ETFs ), the Fund expects to effect its creations and redemptions principally for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Index Tracking Risk.** The Fund's return may not match the return of the Renminbi Bond Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Renminbi Bond Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Renminbi Bond Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of the Renminbi Bond Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Renminbi Bond Index as would be the case if the Fund purchased all of the securities in the Renminbi Bond Index in the proportions in which they are represented in the Renminbi Bond Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Renminbi

**MARKET VECTORS RENMINBI BOND ETF (continued)**

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Bond Index is based on securities closing prices on local foreign markets (*i.e.*, the value of the Renminbi Bond Index is not based on fair value prices), the Fund's ability to track the Renminbi Bond Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Renminbi Bond Index, the Fund generally would not sell a security because the security issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in a single company. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Renminbi Bond Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Renminbi Bond Index as of June 30, 2014, the Fund's assets were concentrated in the financial services sector; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was -0.77%.

Best Quarter: 2.09% 3Q 13

Worst Quarter: -0.27% 2Q 13

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**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (10/11/2011)
Market Vectors Renminbi Bond ETF (return before taxes)	5.30 %	5.12 %
Market Vectors Renminbi Bond ETF (return after taxes on distributions)	3.83 %	4.10 %
Market Vectors Renminbi Bond ETF (return after taxes on distributions and sale of Fund Shares)	2.98 %	3.50 %
Market Vectors® Renminbi Bond Index (reflects no deduction for fees, expenses or taxes)	6.09 %	5.61 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	October 2011
Francis G. Rodilosso	Portfolio Manager	September 2012

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 55 of this Prospectus.

**MARKET VECTORS TREASURY-HEDGED HIGH YIELD BOND ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Treasury-Hedged High Yield Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® US Treasury-Hedged High Yield Bond Index (the Treasury-Hedged High Yield Bond Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.45 %
Other Expenses	1.33 %
Interest on Securities Sold Short & Cost to Borrow <sup>(a)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(b)</sup>	1.78 %
Fee Waivers and Expense Reimbursement <sup>(b)</sup>	(1.28)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(b)</sup>	0.50 %

<sup>(a)</sup> The Interest on Securities Sold Short & Cost to Borrow line item has been restated to reflect current fees. The Fund enters into short positions on futures contracts on U.S. Treasury notes, rather than engaging in short sale transactions directly in the notes, in order to gain exposure to the Short Portfolio (defined below) of the Treasury-Hedged High Yield Bond Index.

<sup>(b)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.50% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these

assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 51
3	\$ 435
5	\$ 844
10	\$ 1,989

#### **PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 41% of the average value of its portfolio.

#### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Treasury-Hedged High Yield Bond Index was designed to provide exposure to below investment grade corporate bonds, denominated in U.S. dollars, and, through the use of U.S. Treasury notes, to hedge against rising interest rates. The Treasury-Hedged High Yield Bond Index seeks to hedge interest rate sensitivity by holding short positions on U.S. Treasury notes. The Long Portfolio of the

Treasury-Hedged High Yield Bond Index includes corporate bonds that must have a below investment grade rating (based on ratings from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Rating Services (S&P) and Fitch International Rating Agency (Fitch)). The Treasury-Hedged High Yield Bond Index includes bonds, including callable bonds, issued by issuers incorporated in the United States. The Short Portfolio of the Treasury-Hedged High Yield Bond Index includes a short position on the cheapest-to-deliver five-year U.S. Treasury note determined monthly as of the most recent Index rebalance date. The Fund gains exposure to short positions on U.S. Treasury notes by entering into short positions on futures contracts. A portion of the Fund's portfolio will be invested in high-quality money market and short-term securities, including but not limited to, U.S. Government securities, repurchase agreements, cash or cash equivalents. These investments will serve as collateral for the Fund's investments in futures contracts. The Short Portfolio and Long Portfolio of the Treasury-Hedged High Yield Bond Index are rebalanced on a monthly basis to where the dollar amount of the short exposure is equivalent to the dollar amount of the Long Portfolio's high yield bond positions. As of June 30, 2014, the Treasury-Hedged High Yield Bond Index included 789 below investment grade bonds of 414 issuers, and approximately 27% of the Treasury-Hedged High Yield Bond Index was comprised of Rule 144A securities. The Fund's 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Treasury-Hedged High Yield Bond Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Treasury-Hedged High Yield Bond Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index and selling short all of the short positions in Treasury notes in the Short Portfolio of the Treasury-Hedged High Yield Bond Index to the same extent as the Treasury-Hedged High Yield Bond Index, the Fund does not purchase all or otherwise transact in all of the securities in the Treasury-Hedged High Yield Bond Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds represented in the Long Portfolio of the Treasury-Hedged High Yield Bond Index or short futures contracts on Treasury notes that may or may not be represented in the Short Portfolio of the Treasury-Hedged High Yield Bond Index, which the Adviser believes will help the Fund track the Short Portfolio.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Treasury-Hedged High Yield Bond Index concentrates in an industry or group of industries. As of June 30, 2014, the Treasury-Hedged High Yield Bond Index was concentrated in the industrials sector, and the financial services sector represented a significant portion of the Treasury-Hedged High Yield Bond Index.

## **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to



seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Treasury-Hedged High Yield Bond Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value ( NAV ).

Credit Risk. Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**MARKET VECTORS TREASURY-HEDGED HIGH YIELD BOND ETF (continued)**

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**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Risk of Investing in Futures.** The Fund enters into short positions on futures contracts on U.S. Treasury notes to gain exposure to the Short Portfolio. Futures contracts generally provide for the future sale by one party and purchase by another party of a specified instrument, index or commodity at a specified future time and at a specified price. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. The prices of futures can be highly volatile, using futures can lower total return, can create investment leverage, and the potential loss from futures can exceed the Fund's initial investment in such contracts. Futures contracts involve the risk of mispricing or improper valuation and the risk that changes in the value of a futures contract may not correlate perfectly with the underlying indicator. Even a well-conceived futures transaction may be unsuccessful due to market events. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in the futures contract. A liquid secondary market may not always exist for the Fund's futures contract positions at any time.

**Short Sales Risk.** Short sales are transactions in which the Fund sells a security or instrument that it does not own. The Fund may incur a loss as a result of a short sale if the price of the security or instrument increases between the date of the short sale and the date on which the Fund replaces the security or instrument sold short. The Fund may also pay transaction costs and borrowing fees in connection with short sales.

**Hedging Risk.** The Treasury-Hedged High Yield Bond Index is designed to hedge against the price sensitivity of the below investment grade corporate bonds included in the Treasury-Hedged High Yield Bond Index to increases in interest rates. The Fund's Short Portfolio does not reduce credit risk. The Fund's Short Portfolio will not eliminate interest rate risk, and the value of the Fund's shares may decline if interest rates increase. The Fund's Short Portfolio will also result in foregone losses if interest rates decline. A risk of hedging is the imperfect correlation between price movement of securities or instruments sold short and the price movement of the Fund's investments. In addition, there may be significant differences between the below-investment grade corporate bond market and Treasury securities or futures markets that could result in the Fund's short positions performing ineffectively, exacerbating losses or causing greater tracking error. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for securities or instruments, including technical influences and differences between the bonds being hedged and the securities or instruments available for trading.

**Restricted Securities Risk.** Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act of 1933, as amended (the Securities Act). They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist. A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

**Market Risk.** The prices of the securities or instruments in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Risk of Investing in the Industrials Sector.** To the extent that the Treasury-Hedged High Yield Bond Index continues to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates.

**Risk of Investing in the Financial Services Sector.** To the extent that the financial services sector continues to represent a significant portion of the Treasury-Hedged High Yield Bond Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge

and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates and by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding (or gaining exposure to short) a smaller number of securities or investments than are in (or sold short by) the Treasury-Hedged High Yield Bond Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index, or a greater increase in NAV than would be the case if the Fund gained exposure to all of the short positions in Treasury notes in the Short Portfolio of the Treasury-Hedged High Yield Bond Index. Conversely, a positive development relating to an issuer of securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index that is not held by the Fund could cause the Fund to underperform the Treasury-Hedged High Yield Bond Index, or outperform the Treasury-Hedged High Yield Bond Index in the case of a short position in the Short Portfolio of the Treasury-Hedged High Yield Bond Index that is not held by the Fund. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Treasury-Hedged High Yield Bond Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Treasury-Hedged High Yield Bond Index and incurs costs associated with buying and selling securities or other instruments, especially when rebalancing the Fund's holdings to reflect changes in the composition of the Treasury-Hedged High Yield Bond Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions or pay expenses. The Fund may also hold cash or cash equivalents to serve as collateral for the Fund's investments in futures contracts. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Treasury-Hedged High Yield Bond Index as would be the case if the Fund purchased all of the securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index in the proportions in which they are represented in the Treasury-Hedged High Yield Bond Index or gained exposure to all of the short positions in Treasury notes in the Short Portfolio of the Treasury-Hedged High Yield Bond Index to the same extent as the Treasury-Hedged High Yield Bond Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Treasury-Hedged High Yield Bond Index is based on securities' closing prices (*i.e.*, the value of the Treasury-Hedged High Yield Bond Index is not based on fair value prices), the Fund's ability to track the Treasury-Hedged High Yield Bond Index may be adversely affected. In addition, the Fund bears the costs and risks associated with buying, selling and entering into short positions on futures contracts on Treasury notes while such costs and risks are not factored into the return of the Treasury-Hedged High Yield Bond Index.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Treasury-Hedged High Yield Bond Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that

may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Risk of Cash Transactions.** Unlike other exchange-traded funds ( ETFs ), the Fund expects to effect its creations and redemptions partially for cash. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended ( 1940 Act ). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**MARKET VECTORS TREASURY-HEDGED HIGH YIELD BOND ETF (continued)**

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Concentration Risk. The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Treasury-Hedged High Yield Bond Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Treasury-Hedged High Yield Bond Index as of June 30, 2014, the Fund's assets were concentrated in the industrials sector; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The Fund commenced operations on March 21, 2013 and therefore does not have a performance history for a full calendar year. The Fund's financial performance for the Fund's first fiscal period is included in the Financial Highlights section of the Prospectus. Visit [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com) for current performance figures.

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are primarily and jointly responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	March 2013
Francis G. Rodilosso	Portfolio Manager	March 2013

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares And Taxes on page 55 of this Prospectus.

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**SUMMARY INFORMATION ABOUT PURCHASES AND SALES OF FUND SHARES AND TAXES**

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**PURCHASE AND SALE OF FUND SHARES**

The Funds issue and redeem Shares at NAV only in a large specified number of Shares, each called a Creation Unit, or multiples thereof. A Creation Unit consists of 50,000 Shares (with respect to Market Vectors BDC Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF), 100,000 Shares (with respect to Market Vectors Investment Grade Floating Rate ETF and Market Vectors Renminbi Bond ETF) or 200,000 Shares (for each other Fund).

Individual Shares of a Fund may only be purchased and sold in secondary market transactions through brokers. Shares of the Funds are listed on NYSE Arca, Inc. ( NYSE Arca ) and because Shares trade at market prices rather than NAV, Shares of the Funds may trade at a price greater than or less than NAV.

**TAX INFORMATION**

Each Fund's distributions are taxable and will generally be taxed as ordinary income or capital gains.

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**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**

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**PRINCIPAL INVESTMENT STRATEGIES**

Each Fund, except for Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF, uses a sampling approach in seeking to achieve its investment objective. Sampling means that the Adviser uses quantitative analysis to select a representative sample of securities that the Adviser believes collectively have an investment profile similar to the underlying Index. The Adviser seeks to select securities that will have, in the aggregate, investment characteristics (such as return variability, duration, maturity or credit ratings and yield) and liquidity measures similar to those of a Fund's Index. The quantity of holdings in a Fund will be based on a number of factors, including asset size of such Fund. The Adviser generally expects a Fund to hold (in the case of Market Vectors Treasury-Hedged High Yield Bond ETF, hold, sell or sell short) less than the total number of securities (or positions in the case of Market Vectors Treasury-Hedged High Yield Bond ETF) in its Index, but reserves the right to hold as many securities as it believes necessary to achieve the Fund's investment objective. In addition, from time to time, securities are added to or removed from the applicable Index. Each Fund may sell securities that are represented in its Index, or purchase securities that are not yet represented in its Index, in anticipation of their removal from or addition to such Index. Further, the Adviser may choose to underweight or overweight securities, purchase or sell securities not in an Index, or utilize various combinations of other available investment techniques, in seeking to track a Fund's Index.

The Adviser anticipates that, generally, Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF, will hold all of the securities that comprise each Fund's respective Index in proportion to their weightings in such Index. However, under various circumstances, it may not be possible or practicable to purchase all of those securities in those weightings. In these circumstances, Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF may purchase a sample of securities in its Index. There also may be instances in which the Adviser may choose to underweight or overweight a security in a Fund's Index, purchase securities not in the Fund's Index that the Adviser believes are appropriate to substitute for certain securities in such Index or utilize various combinations of other available investment techniques in seeking to replicate as closely as possible, before fees and expenses, the price and yield performance of the Fund's Index. Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF may sell securities that are represented in their Index in anticipation of their removal from the their respective Index or purchase securities not represented in their Index in anticipation of their addition to the their respective Index. Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF may also, in order to comply with the tax diversification requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), temporarily invest in securities not included in its Index that are expected to be highly correlated with the securities included in its Index.

**ADDITIONAL INVESTMENT STRATEGIES**

Each Fund may invest in securities not included in its respective Index, money market instruments, including repurchase agreements or other funds which invest exclusively in money market instruments, convertible securities, structured notes (notes on which the amount of principal repayment and interest payments are based on the movement of one or more specified factors, such as the movement of a particular stock or stock index and certain derivatives, which the Adviser believes will help a Fund track its Index. Convertible securities and depositary receipts not included in a Fund's Index may be used by a Fund in seeking performance that corresponds to its respective Index, and in managing cash flows, and may count towards compliance with the Fund's 80% policy. Each Fund may also invest, to the extent permitted by the 1940 Act, or, in the case of Market Vectors BDC Income ETF, the Exemptive Relief, in other affiliated and unaffiliated funds, such as open-end or closed-end management investment companies, including other ETFs. A Fund will not, however, invest in money market instruments as part of a temporary defensive strategy to protect against potential securities market declines.



An authorized participant (*i.e.*, a person eligible to place orders with the Distributor (defined below) to create or redeem Creation Units of a Fund) that is not a qualified institutional buyer, as such term is defined under Rule 144A of the Securities Act of 1933, as amended ( Securities Act ), will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

### **BORROWING MONEY**

Each Fund may borrow money from a bank up to a limit of one-third of the market value of its assets. To the extent that a Fund borrows money, it will be leveraged; at such times, the Fund will appreciate or depreciate in value more rapidly than its benchmark Index.

### **FUNDAMENTAL AND NON-FUNDAMENTAL POLICIES**

Each Fund's investment objective and each of its other investment policies are non-fundamental policies that may be changed by the Board of Trustees without shareholder approval, except as noted in this Prospectus or the Statement of Additional Information ( SAI ) under the section entitled Investment Policies and Restrictions Investment Restrictions.

## LENDING PORTFOLIO SECURITIES

Each Fund may lend its portfolio securities to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions and for other purposes. In connection with such loans, a Fund receives liquid collateral equal to at least 102% of the value of the portfolio securities being loaned. This collateral is marked-to-market on a daily basis. Although a Fund will receive collateral in connection with all loans of its securities holdings, the Fund would be exposed to a risk of loss should a borrower fail to return the borrowed securities (*e.g.*, the Fund would have to buy replacement securities and the loaned securities may have appreciated beyond the value of the collateral held by the Fund) or become insolvent. A Fund may pay fees to the party arranging the loan of securities. In addition, a Fund will bear the risk of loss of any cash collateral that it invests.

## RISKS OF INVESTING IN THE FUNDS

The following section provides additional information regarding the principal risks identified under Principal Risks of Investing in the Fund in each Fund's Summary Information section followed by additional risk information. The risks listed below are applicable to each Fund unless otherwise noted.

Investors in a Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in a Fund involves a substantial degree of risk. An investment in a Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in a Fund, each of which could significantly and adversely affect the value of an investment in a Fund.

**Credit Risk.** (All Funds except Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF.) Debt securities, such as bonds, and Preferred Securities are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Debt securities and Preferred Securities are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a debt security or a Preferred Security may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security.

**Interest Rate Risk.** (All Funds except Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF.) Debt securities, such as bonds, and Preferred Securities are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a security resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most debt securities and certain Preferred Securities go down. When the general level of interest rates goes down, the prices of most debt securities go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**High Yield Securities Risk.** (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF only.) Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are often issued by issuers that are restructuring, are smaller or less creditworthy, or are more highly indebted than other issuers. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an

economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, a Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of and a Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for a Fund to sell certain securities in connection with a rebalancing of its respective Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's NAV.

**Restricted Securities Risk.** (Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF and Market Vectors Treasury-Hedged High Yield Bond ETF only.) Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act. They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. A Fund may not be able to sell a restricted security promptly or at a reasonable time or price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop or whether it will continue to exist. A restricted security that was liquid at the

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
**(continued)**

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time of purchase may subsequently become illiquid and its value may decline as a result. Restricted securities that are deemed illiquid will count towards a Fund's 15% limitation on illiquid securities. In addition, transaction costs may be higher for restricted securities than for more liquid securities. A Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

**Risk of Investing in the Financial Services Sector.** (All Funds except Market Vectors Emerging Markets Local Currency Bond ETF and Market Vectors Preferred Securities ex Financials ETF.) To the extent that the financial services sector continues to represent at least a significant portion of each Fund's respective Index, a Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the financial services sector. Companies in the financial services sector may be subject to extensive government regulation that affects the scope of their activities, the prices they can charge and the amount of capital they must maintain. The profitability of companies in the financial services sector may be adversely affected by increases in interest rates, by loan losses, which usually increase in economic downturns, and by credit rating downgrades. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, some companies in the financial services sector perceived as benefitting from government intervention in the past may be subject to future government-imposed restrictions on their businesses or face increased government involvement in their operations. Increased government involvement in the financial services sector, including measures such as taking ownership positions in financial institutions, could result in a dilution of the Fund's investments in financial institutions. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

**Risk of Investing in the Industrials Sector.** (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF only.) To the extent that the industrials sector continues to represent at least a significant portion of each Fund's respective Index, a Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates. The stock prices of companies in the industrials sector are affected by supply and demand both for their specific product or service and for industrial sector products in general. The products of manufacturing companies may face product obsolescence due to rapid technological developments and frequent introduction of new products. In addition, the industrials sector may also be adversely affected by changes or trends in commodity prices, which may be influenced or characterized by unpredictable factors.

**Risk of Investing in Mortgage REITs.** (Market Vectors Mortgage REIT Income ETF only.) Mortgage REITs are exposed to the risks specific to the real estate market as well as the risks that relate specifically to the way in which mortgage REITs are organized and operated. Mortgage REITs receive principal and interest payments from the owners of the mortgaged properties. Accordingly, mortgage REITs are exposed to the credit risk of the borrowers. Credit risk refers to the possibility that the borrower will be unable and/or unwilling to make timely interest payments and/or repay the principal on the loan to the mortgage REIT when they are due. Mortgage REITs are also subject to risks of delinquency and foreclosure and risks of loss. In the event of any default of a mortgage loan, the mortgage REIT bears the risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the loan.

A mortgage REIT may invest in mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac or the Federal Home Loan Banks, which are not backed by the full faith and credit of the United States. Because these

securities are not backed by the full faith and credit of the United States, there is a risk that the U.S. Government will not provide financial support to these agencies if it is not obligated to do so. The maximum potential liability of such entities may greatly exceed their current resources, and it is possible that they will not be able to meet their obligations in the future. Concerns about Freddie Mac's and Fannie Mae's solvency during the volatility and disruption that impacted the capital and credit markets during late 2008 and into 2009 led to Freddie Mac and Fannie Mae being placed under the conservatorship of the Federal Housing Finance Agency ( FHFA ) and receiving a capital infusion from the U.S. Treasury. The value of the mortgage-backed securities issued or guaranteed by Freddie Mac or Fannie Mae held by a mortgage REIT may be affected by future actions taken by the FHFA, the U.S. Treasury or the U.S. Government with respect to these entities and market perceptions. In addition, the financial services sector is undergoing numerous changes, including continuing consolidations, development of new products and structures and changes to its regulatory framework. Furthermore, increased government involvement in the financial services sector, including measures such as mortgage loan modification and refinance programs, could affect the value of a mortgage REIT's investments. The Dodd Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) imposes significant regulatory restrictions on the origination of residential mortgage loans and will impact the formation of new issuances of mortgage-backed securities. While the full impact of the Dodd-Frank Act and the role of the Consumer Financial Protection Bureau cannot be assessed until all implementing regulations are released, the Dodd-Frank Act's extensive requirements may have a significant

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effect on the financial markets, and may affect the availability or terms of financing or terms of mortgage-backed securities, both of which may have an adverse effect on the value of a mortgage REIT's investments. Recent developments in the credit markets may cause companies operating in the financial services sector to incur large losses, experience declines in the value of their assets and even cease operations.

To the extent that a mortgage REIT invests in mortgage-backed securities offered by private issuers, such as commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, the mortgage REIT may be subject to additional risks. Timely payment of interest and principal of non-governmental issuers may be supported by various forms of private insurance or guarantees, including individual loan, title, pool and hazard insurance purchased by the issuer. However, there can be no assurance that the private insurers can or will meet their obligations under such policies. Unexpected high rates of default on the mortgages held by a mortgage pool may adversely affect the value of a mortgage-backed security and could result in losses to a mortgage REIT. The risk of such defaults is generally higher in the case of mortgage pools that include subprime mortgages. To the extent that a mortgage REIT's portfolio is exposed to lower-rated, unsecured or subordinated instruments, the risk of loss may increase, which may have a negative impact on the Fund. Mortgage REITs also are subject to the risk that the value of mortgaged properties may be less than the amounts owed on the properties. If a mortgage REIT is required to foreclose on a borrower, the amount recovered in connection with the foreclosure may be less than the amount owed to the mortgage REIT.

Mortgage REITs are subject to significant interest rate risk. Interest rate risk refers to fluctuations in the value of a mortgage REIT's investment in fixed rate obligations resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the value of a mortgage REIT's investment in fixed rate obligations goes down. In addition, rising interest rates generally reduce the demand for consumer credit, including mortgage loans, due to the higher cost of borrowing. This could cause the value of a mortgage REIT's investments to decline. A mortgage REIT's investment in adjustable rate obligations may react differently to interest rate changes than an investment in fixed rate obligations. As interest rates on adjustable rate mortgage loans are reset periodically, yields on a REIT's investment in such loans will gradually align themselves to reflect changes in market interest rates, causing the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations.

Mortgage REITs typically use leverage and many are highly leveraged, which exposes them to leverage risk and the risks generally associated with debt financing. Leverage risk refers to the risk that leverage created from borrowing may impair a mortgage REIT's liquidity, cause it to liquidate positions at an unfavorable time, reduce dividends paid by the mortgage REIT and increase the volatility of the values of securities issued by the mortgage REIT. The use of leverage may not be advantageous to a mortgage REIT. The success of using leverage is dependent on whether the return earned on the investments made using the proceeds of leverage exceed the cost of using leverage. To the extent that a mortgage REIT incurs significant leverage, it may incur substantial losses if its borrowing costs increase. Borrowing costs may increase for any of the following reasons: short-term interest rates increase; the market value of a mortgage REIT's assets decreases; interest rate volatility increases; or the availability of financing in the market decreases. During periods of adverse market conditions, downturns in the economy or deterioration in the conditions of the REIT's mortgage-related assets the use of leverage may cause a mortgage REIT to lose more money than would have been the case if leverage was not used. To the extent that a mortgage REIT uses significant leverage, it may incur substantial losses if its borrowing costs increase.

Mortgage REITs are subject to prepayment risk, which is the risk that borrowers may prepay their mortgage loans at faster than expected rates. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. These faster than expected payments may adversely affect a mortgage REIT's profitability. Prepayments can also occur when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property, or when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation. Prepayment rates may be affected by conditions in the housing and financial markets, increasing

defaults on residential mortgage loans, general economic conditions and the relative interest rates on loans.

REITs are subject to special U.S. federal tax requirements. Unlike corporations, REITs do not have to pay income taxes if they meet certain requirements set forth in the Internal Revenue Code of 1986, as amended (the Internal Revenue Code ). To qualify, a REIT must distribute at least 90% of its taxable income to its shareholders and receive at least 75% of that income from rents, mortgages and sales of property. A REIT's failure to comply with these requirements may subject it to U.S. federal income taxation. This may adversely affect the REIT's performance as well as the Fund's performance.

Mortgage REITs may be dependent upon the management skills of a few individuals and may have limited financial resources. The managers of mortgage REITs may employ hedging strategies designed to mitigate certain risks, including interest rate risk. Poorly designed strategies or improperly executed transactions could significantly increase the mortgage REIT's risk and lead to material losses. Mortgage REITs are generally not diversified and may be subject to heavy cash flow dependency, default by borrowers

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS  
(continued)**

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and self-liquidation. In addition, transactions between mortgage REITs and their affiliates may be subject to conflicts of interest which may adversely affect a mortgage REIT's shareholders.

**Risk of Investing in REITs.** (Market Vectors Preferred Securities ex Financials ETF only.) REITs are exposed to the risks specific to the real estate market as well as the risks that relate specifically to the way in which REITs are organized and operated. REITs may be subject to credit risk, interest rate risk, leverage risk and prepayment risk. REITs are subject to special U.S. federal tax requirements. A REIT's failure to comply with these requirements may negatively affect its performance. REITs may be dependent upon management skills and may have limited financial resources

**Risk of Investing in the Real Estate Industry.** (Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF only.) Companies in the real estate industry include companies that invest in real estate, such as REITs and real estate management and development companies. To the extent that the real estate industry continues to represent at least a significant portion of each Fund's respective Index, a Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the real estate industry. Companies that invest in real estate are subject to the risks of owning real estate directly as well as to risks that relate specifically to the way that such companies operate, including management risk (such companies are dependent upon the management skills of a few key individuals and may have limited financial resources). Adverse economic, business or political developments affecting real estate could have a major effect on the values of a Fund's investments. Investing in real estate is subject to such risks as decreases in real estate values, overbuilding, increased competition and other risks related to local or general economic conditions, increases in operating costs and property taxes, changes in zoning laws, casualty or condemnation losses, possible environmental liabilities, regulatory limitations on rent, possible lack of availability of mortgage financing, fluctuations in rental income and extended vacancies of properties. Certain real estate securities have a relatively small market capitalization, which may tend to increase the volatility of the market price of these securities. Real estate securities have limited diversification and are, therefore, subject to risks inherent in operating and financing a limited number of projects. Real estate securities are also subject to heavy cash flow dependency and defaults by borrowers.

**Risk of Investing in the Utilities Sector.** (Market Vectors Preferred Securities ex Financials ETF only.) To the extent that the utilities sector continues to represent a significant portion of the Preferred Securities Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the utilities sector. Issuers in the utilities sector are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction and improvement programs, difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets, and the effects of economic slowdowns and surplus capacity. Companies in the utilities sector are subject to extensive regulation, including governmental regulation of rates charged to customers, and may face difficulty in obtaining regulatory approval of new technologies. The effects of a U.S. national energy policy and lengthy delays and greatly increased costs and other problems associated with the design, construction, licensing, regulation and operation of nuclear facilities for electric generation, including, among other considerations, the problems associated with the use of radioactive materials and the disposal of radioactive wastes, may adversely affect companies in the utilities sector. Certain companies in the utilities sector may be inexperienced and may suffer potential losses resulting from a developing deregulatory environment. Technological innovations may render existing plants, equipment or products obsolete. Companies in the utilities sector may face increased competition from other providers of utility services. The potential impact of terrorist activities on companies in the utilities sector and its customers and the impact of natural or man-made disasters may adversely affect the utilities sector. Issuers in the utilities sector also may be subject to regulation by various governmental authorities and may be affected by the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards.



**Risk of Investing in the Telecommunications Sector.** (Market Vectors Preferred Securities ex Financials ETF only.) To the extent that the telecommunications sector continues to represent a significant portion of the Preferred Securities Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the telecommunications sector. Companies in the telecommunications sector may be affected by industry competition, substantial capital requirements, government regulations and obsolescence of telecommunications products and services due to technological advancement.

**Sampling Risk.** (All Funds except Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF and Market Vectors Treasury-Hedged High Yield Bond ETF.) A Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in its respective Index. As a result, an adverse development respecting an issuer of securities held by a Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in its Index. Conversely, a positive development relating to an issuer of securities in an Index that is not held by the Fund could cause the Fund to underperform its respective Index. To the extent the assets in a Fund are smaller, these risks will be greater.

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**Sampling Risk.** (Market Vectors Treasury-Hedged High Yield Bond ETF only). The Fund's use of a representative sampling approach will result in its holding (or selling short) a smaller number of securities or instruments than are in (or sold short by) the Treasury-Hedged High Yield Bond Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index, or a greater increase in NAV than would be the case if the Fund gained exposure to all of the short positions in Treasury notes in the Short Portfolio of the Treasury-Hedged High Yield Bond Index. Conversely, a positive development relating to an issuer of securities in the Long Portfolio of the Treasury-Hedged High Yield Bond Index that is not held by the Fund could cause the Fund to underperform the Treasury-Hedged High Yield Bond Index, or outperform the Treasury-Hedged High Yield Bond Index in the case of a short position in the Short Portfolio of the Treasury-Hedged High Yield Bond Index that is not held by the Fund. To the extent the assets in the Fund are smaller, these risks will be greater.

**Call Risk.** (All Funds except Market Vectors BDC Income ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Renminbi Bond ETF.) A Fund may invest in callable securities. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their securities before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, a Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease a Fund's net investment income.

**Market Risk.** The prices of securities in each Fund are subject to the risks associated with investing in securities markets including general economic conditions and sudden and unpredictable drops in value. Overall securities values could decline generally or could underperform other investments. An investment in a Fund may lose money.

**Risk of Investing in Foreign Securities.** (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Preferred Securities ex Financials ETF and Market Vectors Renminbi Bond ETF only.) Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional and custody costs, taxation by foreign governments, decreased market liquidity and political instability. Because many foreign securities markets may be limited in size, the activity of large traders may have an undue influence on the prices of securities that trade in such markets. Certain foreign markets that have historically been considered relatively stable may become volatile in response to changed conditions or new developments. Increased interconnectivity of world economies and financial markets increases the possibility that adverse developments and conditions in one country or region will affect the stability of economies and financial markets in other countries or regions. Because certain Funds may invest in securities denominated in foreign currencies and some of the income received by these Funds may be in foreign currency, changes in currency exchange rates may negatively impact the Fund's return. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Foreign issuers are often subject to less stringent requirements regarding accounting, auditing, financial reporting and record keeping than are U.S. issuers, and therefore, not all material information may be available or reliable. Securities exchanges or foreign governments may adopt rules or regulations that may negatively impact a Fund's ability to invest in foreign securities or may prevent the Fund from repatriating its investments.

Also, certain issuers located in foreign countries in which a Fund invests may operate in, or have dealings with, countries subject to sanctions and/or embargoes imposed by the U.S. Government and the United Nations and/or countries identified by the U.S. Government as state sponsors of terrorism. As a result, an issuer may sustain damage to its reputation if it is identified as an issuer which operates in, or has dealings with, such countries. Each Fund, as an investor in such issuers, will be indirectly subject to those risks.

Foreign Currency Risk. (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF and Market Vectors International High Yield Bond ETF only.) Because some or all of a Fund's assets will be invested in bonds denominated in foreign currencies, the income received by the Fund from these investments may be in foreign currencies. A Fund's exposure to foreign currencies and changes in the value of foreign currencies versus the U.S. dollar may result in reduced returns for the Fund. Moreover, a Fund may incur costs in connection with conversions between U.S. dollars and foreign currencies.

Several factors may affect the price of Euros and the British pound sterling, including the debt level and trade deficit of the EMU and the United Kingdom, inflation and interest rates of the EMU and the United Kingdom and investors' expectations concerning inflation and interest rates and global or regional political, economic or financial events and situations. The European financial markets have recently experienced volatility and adverse trends due to economic downturns or concerns about rising government debt levels of certain European countries, each of which may require external assistance to meet its obligations and run the risk of default on its debt, possible bail-out by the rest of the EU or debt restructuring. Assistance given to an EU member state may

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
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be dependent on a country's implementation of reforms, including austerity measures, in order to curb the risk of default on its debt, and a failure to implement these reforms or increase revenues could result in a deep economic downturn. These events have adversely affected the exchange rate of the Euro and may adversely affect a Fund and its investments. In addition, one or more countries may abandon the Euro and the impact of these actions, especially in a disorderly manner, may have significant and far-reaching consequences on the Euro.

The value of an emerging market country's currency may be subject to a high degree of fluctuation. This fluctuation may be due to changes in interest rates, investors' expectations concerning inflation and interest rates, the emerging market country's debt levels and trade deficit, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The economies of certain emerging market countries can be significantly affected by currency devaluations. Certain emerging market countries may also have managed currencies which are maintained at artificial levels relative to the U.S. dollar rather than at levels determined by the market. This type of system could lead to sudden and large adjustments in the currency, which in turn, can have a negative effect on a Fund and its investments.

**Sovereign and/or Quasi-Sovereign Bond Risk.** (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF and Market Vectors Renminbi Bond ETF only.) Investments in sovereign and/or quasi-sovereign bonds involves special risks not present in corporate bonds. The governmental authority that controls the repayment of the bond may be unable or unwilling to make interest payments and/or repay the principal on its debt or to otherwise honor its obligations. If an issuer of sovereign or quasi-sovereign bonds defaults on payments of principal and/or interest, the Fund may have limited recourse against the issuer. During periods of economic uncertainty, the market prices of sovereign and/or quasi-sovereign bonds, and the Fund's NAV, may be more volatile than prices of corporate bonds, which may result in losses. In the past, certain governments of emerging market countries have declared themselves unable to meet their financial obligations on a timely basis, which has resulted in losses for holders of sovereign and/or quasi-sovereign bonds.

**Risk of Investing in Emerging Market Issuers.** (Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Renminbi Bond ETF only.) A Fund may invest its assets in securities of emerging market issuers. Investment in securities of emerging market issuers involves risks not typically associated with investments in securities of issuers in more developed countries that may negatively affect the value of your investment in a Fund. Such heightened risks may include, among others, expropriation and/or nationalization of assets, restrictions on and government intervention in international trade, confiscatory taxation, political instability, including authoritarian and/or military involvement in governmental decision making, armed conflict, the impact on the economy as a result of civil war, crime (including drug violence) and social instability as a result of religious, ethnic and/or socioeconomic unrest. Issuers in certain emerging market countries are subject to less stringent requirements regarding accounting, auditing, financial reporting and record keeping than are issuers in more developed markets, and therefore, all material information may not be available or reliable. Additionally, each of the factors described below could have a negative impact on a Fund's performance and increase the volatility of the Fund.

**Securities Markets.** Securities markets in emerging market countries are underdeveloped and are often considered to be less correlated to global economic cycles than those markets located in more developed countries. Securities markets in emerging market countries are subject to greater risks associated with market volatility, lower market capitalization, lower trading volume, illiquidity, inflation, greater price fluctuations, uncertainty regarding the existence of trading markets, governmental control and heavy regulation of labor and industry. These factors, coupled with restrictions on foreign investment and other factors, may limit the supply of securities available for investment by

a Fund. This will affect the rate at which a Fund is able to invest in emerging market countries, the purchase and sale prices for such securities and the timing of purchases and sales. Emerging markets can experience high rates of inflation, deflation and currency devaluation. The prices of certain securities listed on securities markets in emerging market countries have been subject to sharp fluctuations and sudden declines, and no assurance can be given as to the future performance of listed securities in general. Volatility of prices may be greater than in more developed securities markets. Moreover, securities markets in emerging market countries may be closed for extended periods of time or trading on securities markets may be suspended altogether. Market volatility may also be heightened by the actions of a small number of investors. Brokerage firms in emerging market countries may be fewer in number and less established than brokerage firms in more developed markets. Since a Fund may need to effect securities transactions through these brokerage firms, the Fund is subject to the risk that these brokerage firms will not be able to fulfill their obligations to the Fund. This risk is magnified to the extent a Fund effects securities transactions through a single brokerage firm or a small number of brokerage firms. In addition, the infrastructure for the safe custody of securities and for purchasing and selling securities, settling trades, collecting dividends, initiating corporate actions, and following corporate activity is not as well developed in emerging market countries as is the case in certain more developed markets.

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**Political and Economic Risk.** Certain emerging market countries have historically been subject to political instability and their prospects are tied to the continuation of economic and political liberalization in the region. Instability may result from factors such as government or military intervention in decision making, terrorism, civil unrest, extremism or hostilities between neighboring countries. Any of these factors, including an outbreak of hostilities could negatively impact a Fund's returns. Limited political and democratic freedoms in emerging market countries might cause significant social unrest. These factors may have a significant adverse effect on an emerging market country's economy.

Many emerging market countries may be heavily dependent upon international trade and, consequently, may continue to be negatively affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which it trades. They also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.

In addition, commodities (such as oil, gas and minerals) represent a significant percentage of certain emerging market countries' exports and these economies are particularly sensitive to fluctuations in commodity prices. Adverse economic events in one country may have a significant adverse effect on other countries of this region. In addition, most emerging market countries have experienced, at one time or another, severe and persistent levels of inflation, including, in some cases, hyperinflation. This has, in turn, led to high interest rates, extreme measures by governments to keep inflation in check, and a generally debilitating effect on economic growth. Although inflation in many countries has lessened, there is no guarantee it will remain at lower levels. The political history of certain emerging market countries has been characterized by political uncertainty, intervention by the military in civilian and economic spheres, and political corruption. Such events could reverse favorable trends toward market and economic reform, privatization, and removal of trade barriers, and result in significant disruption in securities markets in the region.

Also, from time to time, certain issuers located in emerging market countries in which a Fund invests may operate in, or have dealings with, countries subject to sanctions and/or embargoes imposed by the U.S. Government and the United Nations and/or countries identified by the U.S. Government as state sponsors of terrorism. As a result, an issuer may sustain damage to its reputation if it is identified as an issuer which operates in, or has dealings with, such countries. Each Fund, as an investor in such issuers, will be indirectly subject to those risks.

A portion of a Fund's investments may be in Russian securities and instruments. As a result of recent events involving Ukraine and the Russian Federation, the United States and the European Union, as well as certain other nations, have imposed sanctions on certain Russian individuals and companies. The United States and other nations or international organizations may impose additional economic sanctions or take other actions that may adversely affect Russian-related issuers, including companies in various sectors of the Russian economy, including, but not limited to, the financial services, energy, metals and mining, engineering, and defense and defense-related materials sectors. These sanctions, any future sanctions or other actions, or even the threat of further sanctions or other actions, may negatively affect the value and liquidity of a Fund's portfolio. For example, a Fund may be prohibited from investing in securities issued by companies subject to such sanctions. In addition, the sanctions may require a Fund to freeze its existing investments in Russian companies, prohibiting a Fund from buying, selling or otherwise transacting in these investments. Russia has undertaken certain countermeasures and/or retaliatory actions that may further impair the value and liquidity of a Fund's portfolio and potentially disrupt its operations. Such events or any potential future events may have an adverse impact on the economies and debts of other emerging markets as well.

**Investment and Repatriation Restrictions.** The government in an emerging market country may restrict or control to varying degrees the ability of foreign investors to invest in securities of issuers located or operating in such emerging market countries. These restrictions and/or controls may at times limit or prevent foreign investment in securities of issuers located or operating in emerging market countries and may inhibit a Fund's ability to track its Index. In addition, a Fund may not be able to buy or sell securities or receive full value for such securities. Moreover, certain emerging market countries may require governmental approval or special licenses prior to investments by foreign

investors and may limit the amount of investments by foreign investors in a particular industry and/or issuer; may limit such foreign investment to a certain class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of such emerging market countries; and/or may impose additional taxes on foreign investors. A delay in obtaining a required government approval or a license would delay investments in those emerging market countries, and, as a result, a Fund may not be able to invest in certain securities while approval is pending. The government of certain emerging market countries may also withdraw or decline to renew a license that enables a Fund to invest in such country. These factors make investing in issuers located or operating in emerging market countries significantly riskier than investing in issuers located or operating in more developed countries, and any one of them could cause a decline in the value of a Fund's Shares.

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**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
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Additionally, investments in issuers located in certain emerging market countries may be subject to a greater degree of risk associated with governmental approval in connection with the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. Moreover, there is the risk that if the balance of payments in an emerging market country declines, the government of such country may impose temporary restrictions on foreign capital remittances. Consequently, a Fund could be adversely affected by delays in, or a refusal to grant, required governmental approval for repatriation of capital, as well as by the application to the Fund of any restrictions on investments. Furthermore, investments in emerging market countries may require a Fund to adopt special procedures, seek local government approvals or take other actions, each of which may involve additional costs to the Fund.

**Available Disclosure About Emerging Market Issuers.** Issuers located or operating in emerging market countries are not subject to the same rules and regulations as issuers located or operating in more developed countries. Therefore, there may be less financial and other information publicly available with regard to issuers located or operating in emerging market countries and such issuers are not subject to the uniform accounting, auditing and financial reporting standards applicable to issuers located or operating in more developed countries.

**Foreign Currency Considerations.** A Fund's assets that are invested in fixed income securities of issuers in emerging market countries may be denominated in foreign currencies, and the income received by the Fund from these investments may be in foreign currencies. The value of an emerging market country's currency may be subject to a high degree of fluctuation. This fluctuation may be due to changes in interest rates, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The economies of certain emerging market countries can be significantly affected by currency devaluations. Certain emerging market countries may also have managed currencies which are maintained at artificial levels relative to the U.S. dollar rather than at levels determined by the market. This type of system can lead to sudden and large adjustments in the currency which, in turn, can have a disruptive and negative effect on foreign investors.

A Fund's exposure to an emerging market country's currency and changes in value of such foreign currencies versus the U.S. dollar may reduce the Fund's investment performance and the value of your investment in the Fund. Meanwhile, a Fund will compute and expects to distribute its income in U.S. dollars, and the computation of income will be made on the date that the income is earned by the Fund at the foreign exchange rate in effect on that date. Therefore, if the value of the respective emerging market country's currency falls relative to the U.S. dollar between the earning of the income and the time at which a Fund converts the relevant emerging market country's currency to U.S. dollars, the Fund may be required to liquidate certain positions in order to make distributions if the Fund has insufficient cash in U.S. dollars to meet distribution requirements under the Internal Revenue Code. The liquidation of investments, if required, could be at disadvantageous prices or otherwise have an adverse impact on a Fund's performance.

Certain emerging market countries also restrict the free conversion of their currency into foreign currencies, including the U.S. dollar. There is no significant foreign exchange market for many such currencies and it would, as a result, be difficult for a Fund to engage in foreign currency transactions designed to protect the value of the Fund's interests in securities denominated in such currencies. Furthermore, if permitted, a Fund may incur costs in connection with conversions between U.S. dollars and an emerging market country's currency. Foreign exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell a foreign currency to a Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. A Fund will conduct its foreign currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market, or through entering into forward, futures or options contracts to purchase or sell foreign currencies.



Operational and Settlement Risk. In addition to having less developed securities markets, emerging market countries have less developed custody and settlement practices than certain developed countries. Rules adopted under the 1940 Act permit a Fund to maintain its foreign securities and cash in the custody of certain eligible non-U.S. banks and securities depositories. Banks in emerging market countries that are eligible foreign sub-custodians may be recently organized or otherwise lack extensive operating experience. In addition, in certain emerging market countries there may be legal restrictions or limitations on the ability of a Fund to recover assets held in custody by a foreign sub-custodian in the event of the bankruptcy of the sub-custodian. Because settlement systems in emerging market countries may be less organized than in other developed markets, there may be a risk that settlement may be delayed and that cash or securities of a Fund may be in jeopardy because of failures of or defects in the systems. Under the laws in many emerging market countries, a Fund may be required to release local shares before receiving cash payment or may be required to make cash payment prior to receiving local shares, creating a risk that the Fund may surrender cash or securities without ever receiving securities or cash from the other party. Settlement systems in emerging market countries also have a higher risk of failed trades and back to back settlements may not be possible.

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A Fund may not be able to convert a foreign currency to U.S. dollars in time for the settlement of redemption requests. In the event of a redemption request from an authorized participant, a Fund will be required to deliver U.S. dollars to the authorized participant on the settlement date. In the event that a Fund is not able to convert the foreign currency to U.S. dollars in time for settlement, which may occur as a result of the delays described above, the Fund may be required to liquidate certain investments and/or borrow money in order to fund such redemption. The liquidation of investments, if required, could be at disadvantageous prices or otherwise have an adverse impact on a Fund's performance (e.g., by causing the Fund to overweight foreign currency denominated holdings and underweight other holdings which were sold to fund redemptions). In addition, a Fund will incur interest expense on any borrowings and the borrowings will cause the Fund to be leveraged, which may magnify gains and losses on its investments.

Certain issuers in emerging market countries may utilize share blocking schemes. Share blocking refers to a practice, in certain foreign markets, where voting rights related to an issuer's securities are predicated on these securities being blocked from trading at the custodian or sub-custodian level for a period of time around a shareholder meeting. These restrictions have the effect of barring the purchase and sale of certain voting securities within a specified number of days before and, in certain instances, after a shareholder meeting where a vote of shareholders will be taken. Share blocking may prevent a Fund from buying or selling securities for a period of time. During the time that shares are blocked, trades in such securities will not settle. The blocking period can last up to several weeks. The process for having a blocking restriction lifted can be quite onerous with the particular requirements varying widely by country. In addition, in certain countries, the block cannot be removed. As a result of the ramifications of voting ballots in markets that allow share blocking, the Adviser, on behalf of a Fund, reserves the right to abstain from voting proxies in those markets.

Corporate and Securities Laws. Securities laws in emerging market countries are relatively new and unsettled and, consequently, there is a risk of rapid and unpredictable change in laws regarding foreign investment, securities regulation, title to securities and rights of bondholders. Accordingly, foreign investors may be adversely affected by new or amended laws and regulations. In addition, the systems of corporate governance to which emerging market issuers are subject may be less advanced than those systems to which issuers located in more developed countries are subject, and therefore, bondholders of issuers located in emerging market countries may not receive many of the protections available to bondholders of issuers located in more developed countries. In circumstances where adequate laws and bondholder rights exist, it may not be possible to obtain swift and equitable enforcement of the law. In addition, the enforcement of systems of taxation at federal, regional and local levels in emerging market countries may be inconsistent and subject to sudden change.

Risk of Investing in China-Related Investments. (Market Vectors Renminbi Bond ETF only.) Investments in China-related investments such as RMB Bonds involve certain risks and special considerations, including the following:

Political and Economic Risk. The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources. Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a high level of management autonomy. The economy of China has experienced significant growth in the past 30 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 30 years, the PRC government has carried out economic reforms to achieve decentralization and utilization of market forces to develop the economy of the PRC. These reforms have resulted in significant economic

growth and social progress. There can, however, be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the underlying securities of the Renminbi Bond Index. Further, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may also have an adverse impact on the capital growth and performance of the Fund.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalization of some or all of the property held by the underlying issuers of the bonds in the Renminbi Bond Index.

Since 1949, the PRC has been a socialist state controlled by the Communist party. China has only recently opened up to foreign investment and has only begun to permit private economic activity. There is no guarantee that the Chinese government will not revert from its current open-market economy to the economic policy of central planning that it implemented prior to 1978.

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
**(continued)**

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The laws, regulations, government policies and political and economic climate in China may change with little or no advance notice. Any such change could adversely affect market conditions and the performance of the Chinese economy and, thus, the value of the Fund's investments.

The Chinese government continues to be an active participant in many economic sectors through ownership positions and regulation. The allocation of resources in China is subject to a high level of government control. The Chinese government strictly regulates the payment of foreign currency denominated obligations and sets monetary policy. Through its policies, the government may provide preferential treatment to particular industries or companies. The policies set by the government could have a substantial adverse effect on the Chinese economy and the Fund's investments.

The Chinese economy is export-driven and highly reliant on trade, and much of China's growth in recent years has been the result of focused investments in economic sectors intended to produce goods and services for export purposes. The performance of the Chinese economy may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan and South Korea, would adversely impact the Chinese economy and the Fund's investments. International trade tensions involving China and its trading counterparties may arise from time to time which can result in trade tariffs, embargoes, trade limitations, trade wars and other negative consequences. Such actions and consequences may ultimately result in a significant reduction in international trade, an oversupply of certain manufactured goods, devaluations of existing inventories and potentially the failure of individual companies and/or large segments of China's export industry with a potentially severe negative impact to the Fund.

China has been transitioning to a market economy since the late 1970s, reaffirming its economic policy reforms through five-year programs, the latest of which (for 2011 through 2015) was approved in March 2011. Under the economic reforms implemented by the Chinese government, the Chinese economy has experienced tremendous growth, developing into one of the largest economies in the world. There is no assurance, however, that such growth will be sustained in the future.

Moreover, the current slowdown or any future recessions in other significant economies of the world, such as the United States, the European Union and certain Asian countries, may adversely affect economic growth in China. An economic downturn in China would adversely impact the Fund's investments.

Mainland China's legal system is based on statutes enacted by various state bodies dealing with economic matters such as foreign investment, company organization and governance, taxation and trade. These laws are quite recent with published court opinions based on these being limited and non-binding. This makes the interpretation and enforcement of these laws and regulations uncertain. With respect to laws pertaining to bankruptcy proceedings, such laws in mainland China are generally less developed than and different from such laws in the United States. Therefore, bankruptcy proceedings can take more time to resolve than similar proceedings in the United States and results can be unpredictable.

**Inflation.** Economic growth in China has also historically been accompanied by periods of high inflation. Beginning in 2004, the Chinese government commenced the implementation of various measures to control inflation, which included the tightening of the money supply, the raising of interest rates and more stringent control over certain industries. If these measures are not successful, and if inflation were to steadily increase, the performance of the Chinese economy and the Fund's investments could be negatively impacted.

**Tax Changes.** The Chinese system of taxation is not as well settled as that of the United States. In addition, changes in the Chinese tax system may have retroactive effects.

**Nationalization and Expropriation.** After the formation of the Chinese socialist state in 1949, the Chinese government renounced various debt obligations and nationalized private assets without providing any form of compensation. There can be no assurance that the Chinese government will not take similar actions in the future. Accordingly, an investment in the Fund involves a risk of a total loss.

**U.S. Sanctions.** From time to time, certain of the companies in which the Fund expects to invest may operate in, or have dealings with, countries subject to sanctions or embargoes imposed by the U.S. Government and the United Nations and/or countries identified by the U.S. Government as state sponsors of terrorism. A company may suffer damage to its reputation if it is identified as a company which operates in, or has dealings with, countries subject to sanctions or embargoes imposed by the U.S. Government and the United Nations and/or countries identified by the U.S. Government as state sponsors of terrorism. As an investor in such companies, the Fund will be indirectly subject to those risks.

**Hong Kong Policy.** As part of Hong Kong's transition from British to Chinese sovereignty in 1997, China agreed to allow Hong Kong to maintain a high degree of autonomy with regard to its political, legal and economic systems for a period of at least 50 years. China controls matters that relate to defense and foreign affairs. Under the agreement, China does not tax Hong Kong, does not limit the exchange of the Hong Kong dollar for foreign currencies and does not place restrictions

on free trade in Hong Kong. However, there is no guarantee that China will continue to honor the agreement, and China may change its policies regarding Hong Kong at any time. Any such change could adversely affect market conditions and the performance of the Chinese economy and, thus, the value of the Fund's investments.

**Available Disclosure About Chinese Companies.** Disclosure and regulatory standards in emerging market countries, such as China, are in many respects less stringent than U.S. standards. There is substantially less publicly available information about Chinese issuers than there is about U.S. issuers. Therefore, disclosure of certain material information may not be made, and less information may be available to the Fund and other investors than would be the case if the Fund's investments were restricted to securities of U.S. issuers. Chinese issuers are subject to accounting, auditing and financial standards and requirements that differ, in some cases significantly, from those applicable to U.S. issuers. In particular, the assets and profits appearing on the financial statements of a Chinese issuer may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. Generally Accepted Accounting Principles.

**Foreign Exchange Control.** The RMB is currently not a freely convertible currency. The Chinese government maintains strict currency controls and regularly intervenes in the currency market. The Chinese government's actions may not be transparent or predictable. As a result, the value of the RMB and the value of RMB Bonds may change quickly and arbitrarily. These and other factors could have a negative impact on the Fund's performance and increase the volatility of an investment in the Fund. The Chinese government places strict regulation on the RMB and manages the RMB so that it has historically traded in a tight range relative to the U.S. dollar, but the Chinese government has been under pressure to manage the currency in a less restrictive fashion so that it is less correlated to the U.S. dollar. Further, the Chinese government's imposition of restrictions on the repatriation of RMB out of mainland China may limit the depth of the offshore RMB market and reduce the liquidity of the Fund's investments. These restrictions may adversely affect the Fund and its investments. The international community has requested that China ease its restrictions on currency exchange, but it is unclear whether the Chinese government will change its policy.

**Renminbi Currency Risk.** (Market Vectors Renminbi Bond ETF only.) Emerging markets such as China can experience high rates of inflation, deflation and currency devaluation. The value of the RMB may be subject to a high degree of fluctuation due to, among other things, changes in interest rates, the effects of monetary policies issued by the PRC, the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The Fund invests a significant portion of its assets in investments denominated in RMB and the income received by the Fund will principally be in RMB. The value of the RMB may be subject to a high degree of fluctuation due to changes in interest rates, the effects of monetary policies issued by the PRC, the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. The Fund's exposure to the RMB and changes in value of the RMB versus the U.S. dollar may result in reduced returns for the Fund. Moreover, the Fund may incur costs in connection with conversions between U.S. dollars and RMB. Foreign exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund will conduct its foreign currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market, or through entering into forward, futures or options contracts to purchase or sell foreign currencies. The Fund does not expect to hedge its currency risk.

**Risk of Limited Availability of RMB Bonds.** (Market Vectors Renminbi Bond ETF only.) The quantity of RMB Bonds open to foreign ownership is relatively small resulting in a limited pool of investments for inclusion in the Renminbi Bond Index, and thus the Fund to invest in. In addition, there may be a limited number of bond dealers who trade RMB Bonds. This may result in wider bid-ask spreads and thus higher trading costs. RMB Bonds may also have less liquidity and may have greater volatility than other fixed income securities. As a result, the Fund might be unable to dispose of such bonds promptly or at reasonable prices.

**Risk of Change in Regulatory Regime Governing RMB Bonds.** (Market Vectors Renminbi Bond ETF only.) RMB Bond issuance in Hong Kong is subject to Hong Kong laws and regulations. The Chinese government currently views Hong Kong as one of the key offshore RMB Bond centers and has established a cooperative relationship with Hong Kong's government to develop the RMB Bond market. There can be no assurance that the Chinese government will continue to encourage issuance of RMB Bonds outside of mainland China and any change in the Chinese government's policy or the regulatory regime governing the issuance of RMB Bonds in Hong Kong may adversely affect the Fund.

**Hong Kong Tax Risk.** (Market Vectors Renminbi Bond ETF only.) Interest payable on RMB Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried out in Hong Kong. Sums derived from the sale, disposal or redemption of the RMB Bonds by the Fund may be subject to Hong Kong profits tax where the Fund's dealing in the RMB Bonds is deemed to have carried on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
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There is no assurance that the current tax regime will not be changed. Any change of the tax regime could adversely affect the dealings in the RMB Bonds and the value of the Fund's investments.

**Chinese Banking Industry Risk.** (Market Vectors Renminbi Bond ETF only.) The Chinese banking industry is a highly regulated industry and is subject to laws and regulations touching all aspects of the banking business. The principal regulators include the CBRC and the PBOC. These regulators are given wide discretion in exercising their authority. The banking regulatory regime in China is currently undergoing significant changes, including changes in laws and regulations, as it moves toward a more transparent regulatory process. Some of these changes may have an adverse impact on the performance of Chinese banks that issued RMB Bonds and thus may adversely affect their capacity to honor their commitments under the RMB Bonds to the holders of such bonds, which may include the Fund.

**Risk of Subordinated Obligations.** (Market Vectors Preferred Securities ex Financials ETF and Market Vectors Renminbi Bond ETF only.) Payments under some RMB Bonds or Preferred Securities may be structurally subordinated to all existing and future liabilities and obligations of each of the respective subsidiaries and associated companies of an issuer of a Preferred Security or RMB Bond. Claims of creditors of such subsidiaries and associated companies will have priority as to the assets of such subsidiaries and associated companies over the issuer and its creditors, including Market Vectors Preferred Securities ex Financials ETF and Market Vectors Renminbi Bond ETF, who seek to enforce the Preferred Security or RMB Bond, as applicable. Certain RMB Bonds or Preferred Securities do not contain any restrictions on the ability of the subsidiaries of the issuers to incur additional unsecured indebtedness.

**Equity Securities Risk.** (Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF only.) The value of the equity securities held by a Fund may fall due to general market and economic conditions, perceptions regarding the markets in which the issuers of securities held by the Fund participate, or factors relating to specific issuers in which the Fund invests. For example, an adverse event, such as an unfavorable earnings report, may result in a decline in the value of equity securities of an issuer held by the Fund; the price of the equity securities of an issuer may be particularly sensitive to general movements in the securities markets; or a drop in the securities markets may depress the price of most or all of the equities securities held by the Fund. In addition, the equity securities of an issuer in a Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments. Equity securities are subordinated to preferred securities and debt in a company's capital structure with respect to priority in right to a share of corporate income, and therefore will be subject to greater dividend risk than preferred securities or debt instruments. In addition, while broad market measures of equity securities have historically generated higher average returns than fixed income securities, equity securities have generally also experienced significantly more volatility in those returns, although under certain market conditions fixed income securities may have comparable or greater price volatility.

**Risk of Investing in Small- and Medium-Capitalization Companies.** (Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF only.) Small- and medium-capitalization companies may be more volatile and more likely than large-capitalization companies to have narrower product lines, fewer financial resources, less management depth and experience and less competitive strength. Returns on investments in securities of small-capitalization and medium-capitalization companies could trail the returns on investments in securities of large-capitalization companies.

**Risk of Investing in Micro-Capitalization Companies.** (Market Vectors BDC Income ETF only.) Micro-capitalization companies are subject to substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable (and some companies may be experiencing significant losses), and their share prices tend to be more volatile and their markets less liquid than companies with larger market capitalizations. The shares of



micro-capitalization companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the future ability to sell these securities.

**Issuer-Specific Changes Risk.** (Market Vectors Mortgage REIT Income ETF only.) The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. A change in the financial condition, market perception or the credit rating of an issuer of securities included in the Mortgage REITs Index may cause the value of its securities to decline.

**Risk of Investing in BDCs.** (Market Vectors BDC Income ETF only.) BDCs generally invest in less mature U.S. private companies or thinly traded U.S. public companies which involve greater risk than well-established publicly-traded companies. While the BDCs that comprise the BDC Index are expected to generate income in the form of dividends, certain BDCs during certain periods of time may not generate such income. The Fund will indirectly bear its proportionate share of any management fees and other operating expenses incurred by the BDCs and of any performance-based or incentive fees payable by the BDCs in which it invests, in addition to the expenses paid by the Fund. A BDC's incentive fee may be very high, vary from year to year and be payable even if the value of the BDC's portfolio declines in a given time period. Incentive fees may create an incentive for a

BDC's manager to make investments that are risky or more speculative than would be the case in the absence of such compensation arrangements, and may also encourage the BDC's manager to use leverage to increase the return on the BDC's investments. Any incentive fee payable by a BDC that relates to its net investment income may be computed and paid on income that may include interest that has been accrued but not yet received. If a portfolio company defaults on a loan that is structured to provide accrued interest income, it is possible that accrued interest income previously included in the calculation of the incentive fee will become uncollectible. A BDC's manager may not be obligated to reimburse the BDC's shareholder for any part of the incentive fee it received that was based on accrued interest income that was never received as a result of a subsequent default, and such circumstances would result in the BDC's shareholders (including the Fund) paying an incentive fee on income that was never received by the BDC. Such incentive fees may also create an incentive for a BDC's manager to make investments in securities with deferred interest features. The use of leverage by BDCs magnifies gains and losses on amounts invested and increases the risks associated with investing in BDCs. A BDC may make investments with a larger amount of risk of volatility and loss of principal than other investment options and may also be highly speculative and aggressive.

The 1940 Act imposes certain constraints upon the operations of a BDC. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and high quality debt investments that mature in one year or less. Generally, little public information exists for private and thinly traded companies and there is a risk that investors and the Index Provider (as defined herein) may not be able to make a fully informed evaluation of a BDC and its portfolio of investments. With respect to investments in debt instruments, there is a risk that the issuers of such instruments may default on their payments or declare bankruptcy. Additionally, a BDC may only incur indebtedness in amounts such that the BDC's asset coverage ratio of total assets to total senior securities equals at least 200% after such incurrence. These limitations on asset mix and leverage may affect the way that the BDC raises capital. BDCs compete with other entities for the types of investments they make, and such entities are not necessarily subject to the same investment constraints as BDCs.

Investments made by BDCs are generally subject to legal and other restrictions on resale and are otherwise less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult to sell such investments if the need arises, and if there is a need for a BDC in which the Fund invests to liquidate its portfolio quickly, it may realize a loss on its investments. BDCs may have relatively concentrated investment portfolios, consisting of a relatively small number of holdings. A consequence of this limited number of investments is that the aggregate returns realized may be disproportionately impacted by the poor performance of a small number of investments, or even a single investment, particularly if a company experiences the need to write down the value of an investment. Since BDCs rely on access to short-term money markets, longer-term capital markets and the bank markets as significant sources of liquidity, if BDCs are not able to access capital at competitive rates, their ability to implement certain financial strategies will be negatively impacted. Market disruptions, including a downturn in capital markets in general or a downgrade of the credit rating of a BDC held by the Fund, may increase the cost of borrowing to that BDC and adversely impact its returns. Credit downgrades may also result in requirements on a BDC to provide additional support in the form of letters of credit or cash or other collateral to various counterparties.

Certain BDCs may be difficult to value. Since many of the assets of BDCs do not have readily ascertainable market values, such assets are most often recorded at fair value, in good faith, in accordance with valuation procedures adopted by such companies. A fair value determination requires that judgment be applied to the specific facts and circumstances. Due to the absence of a readily ascertainable market value, and because of the inherent uncertainty of fair valuation, the fair value assigned to a BDC's investments may differ significantly from the values that would be reflected if the assets were traded in an established market, potentially resulting in material differences between a BDC's NAV per share and its market value.

Many BDCs invest in mezzanine and other debt securities of privately held companies, including senior secured loans. Mezzanine investments typically are structured as subordinated loans (with or without warrants) that carry a fixed rate

of interest. Many debt investments in which a BDC may invest will not be rated by a credit rating agency and will be below investment grade quality. These investments are commonly referred to as junk bonds and have predominantly speculative characteristics with respect to an issuer's capacity to make payments of interest and principal. Although lower grade securities are potentially higher yielding, they are also characterized by high risk. In addition, the secondary market for lower grade securities may be less liquid than that of higher rated securities. Issuers of lower rated securities have a currently identifiable vulnerability to default or may currently be in default. Lower-rated securities may react more strongly to real or perceived adverse economic and competitive industry conditions than higher grade securities. If the issuer of lower-rated securities defaults, a BDC may incur additional expenses to seek recovery.

**Risk of Investment Restrictions.** (Market Vectors BDC Income ETF only.) The Fund is subject to the conditions set forth in the Exemptive Relief and certain additional provisions of the 1940 Act that limit the amount that the Fund and its affiliates, in the aggregate, can invest in the outstanding voting securities of any one BDC. The Fund and its affiliates may not acquire control of a BDC, which is presumed once ownership of a BDC's outstanding voting securities exceeds 25%. This limitation could inhibit

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
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the Fund's ability to purchase one or more BDCs in the BDC Index in the proportions represented in the BDC Index. In these circumstances, the Fund would be required to use sampling techniques, which could increase the risk of tracking error.

**Preferred Securities Risk.** (Market Vectors Preferred Securities ex Financials ETF only.) Preferred Securities are essentially contractual obligations that entail rights to distributions declared by the issuer's board of directors but may permit the issuer to defer or suspend distributions for a certain period of time. Preferred Securities, which generally pay fixed or adjustable rate dividends or interest to investors, have preference over common stock in the payment of dividends or interest and the liquidation of a company's assets, which means that a company typically must pay dividends or interest on its Preferred Securities before paying any dividends on its common stock. On the other hand, preferred securities are junior to the company's debt, including both senior and subordinated debt. Because of their subordinated position in the capital structure of an issuer, the ability to defer dividend or interest payments for extended periods of time without triggering an event of default for the issuer, and certain other features, Preferred Securities are often treated as equity-like instruments by both issuers and investors, as their quality and value are heavily dependent on the profitability and cash flows of the issuer rather than on any legal claims to specific assets.

If the Fund owns a Preferred Security whose issuer has deferred or suspended distributions, the Fund may be required to account for the distribution that has been deferred or suspended for tax purposes, even though it may not have received this income in cash. Further, Preferred Securities may lose substantial value if distributions are deferred, suspended or not declared. Preferred Securities may also permit the issuer to convert Preferred Securities into the issuer's common stock. Preferred Securities that are convertible into common stock may decline in value if the common stock to which Preferred Securities may be converted declines in value. Preferred Securities may be less liquid than such securities as common stocks and do not convey the same rights as common stock to the holder of Preferred Securities, such as voting rights (except in certain situations relating to distributions of preferred dividends). Preferred Securities are subject to greater credit risk than traditional fixed income securities because the rights of holders of Preferred Securities are subordinated to the rights of the bond and debtholders of an issuer. If an issuer of Preferred Securities encounters financial difficulties, the issuer's board of directors may not declare a distribution and the value of Preferred Securities may decline as a result. The board of directors of an issuer of Preferred Securities may not declare distributions even if such payments have come due.

**Convertible Securities Risk.** (Market Vectors Preferred Securities ex Financials ETF only.) Convertible securities are subject to risks associated with both fixed income securities and common stocks. Depending on the convertible security's conversion value, the price of a convertible security will be influenced by interest rates (*i.e.*, its price generally will increase when interest rates fall and decrease when interest rates rise) or will tend to fluctuate directly with the price of the equity security into which the security can be converted.

**Risk of Investing in Futures.** (Market Vectors Treasury-Hedged High Yield Bond ETF only.) Futures contracts generally provide for the future sale by one party and purchase by another party of a specified instrument, index or commodity at a specified future time and at a specified price. The Fund's use of derivatives such as futures involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. The prices of futures can be highly volatile, using futures can lower total return, create investment leverage, and the potential loss from futures can exceed the Fund's initial investment in such contracts. Even a well-conceived futures transaction may be unsuccessful due to market events. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in the futures contract.

Futures are subject to a number of risks, such as potential changes in value in response to market developments and the risk that a futures transaction may not have the effect the Adviser anticipated. Futures contracts also involve the risk of mispricing or improper valuation and the risk that changes in the value of a futures contract may not correlate perfectly with the underlying indicator. The use of futures may increase the amount and affect the timing and character of taxes payable by shareholders of the Fund. A liquid secondary market may not always exist for the Fund's futures contract positions at any time.

**Short Sales Risk.** (Market Vectors Treasury-Hedged High Yield Bond ETF only.) Short sales are transactions in which the Fund sells a security or instrument that it does not own. The Fund may incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the security or instrument sold short. The Fund may also pay transaction costs and borrowing fees in connection with short sales, and is required to pay the lender of the Treasury notes any interest payments received thereon during the pendency of the short sale. Until the Fund replaces a borrowed security, it is required to maintain collateral in the form of cash or liquid assets with its prime broker to cover the Fund's short position. The Fund will also be required to deposit similar assets to meet collateral requirements with its custodian in a segregated account for the benefit of the prime broker. If the Fund's prime broker fails to make or take delivery of a security as part of a short sale transaction, to make a cash settlement payment or to otherwise honor the terms of its contractual arrangements with the Fund, the settlement of the short sale transaction may be delayed and the Fund may lose money. This may also impair the Fund's ability to track the Treasury-Hedged High Yield Bond Index or meet redemption requests.

Cash held as collateral in the segregated account earns interest based on current market practices. Generally, assets held in a segregated account cannot be sold unless they are replaced with other liquid assets. The Fund's ability to access the pledged collateral may also be impaired in the event the broker becomes bankrupt or otherwise fails to comply with the terms of the contract. In such instances the Fund may not be able to substitute or sell the pledged collateral and may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in these circumstances. Additionally, the Fund must maintain sufficient liquid assets (less any additional collateral pledged to a broker), marked-to-market daily, to cover the short sale obligations. This may limit the Fund's ability to track the Treasury-Hedged High Yield Bond Index, as well as its ability to meet redemption requests or other current obligations. Short sales are subject to special tax rules that will impact the character of gains and losses realized and affect the timing of income recognition.

**Hedging Risk.** (Market Vectors Treasury-Hedged High Yield Bond ETF only.) The Treasury-Hedged High Yield Bond Index is designed to hedge against the price sensitivity of the below investment grade corporate bonds included in the Long Portfolio of the Treasury-Hedged High Yield Bond Index to increases in interest rates. The Fund's Short Portfolio does not reduce credit risk. The Fund's Short Portfolio will not eliminate interest rate risk, and the value of the Fund's shares may decline if interest rates increase. The Fund's Short Portfolio will also result in foregone losses if interest rates decline. A risk of hedging is the imperfect correlation between price movement of the securities or instruments sold short and the price movement of the Fund's investments. In addition, there may be significant differences between the below-investment grade corporate bond market and Treasury securities or futures markets that could result in the Fund's short positions performing ineffectively, exacerbating losses or causing greater tracking error. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for securities or instruments, including technical influences and differences between the bonds being hedged and the securities or instruments available for trading.

**Index Tracking Risk.** Each Fund's return may not match the return of its Index for a number of reasons. For example, a Fund incurs a number of operating expenses not applicable to its Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of its Index and (to the extent creations and redemptions are effected in cash) raising cash to meet redemptions or deploying cash in connection with newly created Creation Units. A Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of its Index. In addition, each Fund's (except for Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF) use of a representative sampling approach may cause the Fund's returns to not be as well correlated with the return of its Index as would be the case if the Fund purchased all of the securities in its Index or, in the case of Market Vectors Treasury-Hedged High Yield Bond ETF, established or gained exposure to all of the short positions represented in its Index, in the proportions represented in such Index and can be expected to result in greater tracking error than if the Fund used a replication indexing strategy. Each Fund may not be fully invested at times either as a result of cash flows into the Fund (to the extent creations and redemptions are effected in cash) or reserves of cash held by the Fund to pay expenses and (to the extent creations and redemptions are effected in cash) meet redemptions. Market Vectors Treasury-Hedged High Yield Bond ETF may also hold cash or cash equivalents to serve as collateral for the Fund's investments in futures contracts. In addition, a Fund may not be able to invest in certain securities included in its Index, or invest in them in the exact proportions in which they are represented in its Index, due to legal restrictions or limitations imposed by the governments of certain countries or a lack of liquidity on stock exchanges in which such securities trade. Market Vectors Treasury-Hedged High Yield Bond ETF may be unable to establish or maintain one or more long or short positions represented in its Index as a result of having to post collateral with its prime broker and maintaining sufficient liquid assets to cover its short term obligations. Moreover, a Fund may be delayed in purchasing or selling securities included in its Index. Certain Funds may encounter issues with regard to currency convertibility (including the cost of borrowing funds, if any) or repatriation, which may also increase index tracking error.

Certain Funds may fair value certain of the foreign securities a Fund holds. To the extent a Fund calculates its NAV based on fair value prices and the value of its Index is based on securities closing prices (*i.e.*, the value of its Index is not based on fair value prices) or if the Fund otherwise calculates its NAV based on prices that differ from those used in calculating its Index, the Fund's ability to track its Index may be adversely affected. The need to comply with the tax diversification and other requirements of the Internal Revenue Code may also impact the Fund's ability to replicate the performance of its Index. In addition, if a Fund utilizes depositary receipts not included in its respective Index and other derivative instruments, its return may not correlate as well with the return of its Index as would be the case if the Fund purchased all the securities in its Index directly.

Risk of Cash Transactions. Unlike other ETFs, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF effect all or a portion of their creations and redemptions for cash, rather than in-kind securities. As a result, an investment in such Fund may be less tax-efficient than

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
**(continued)**

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an investment in a more conventional ETF. Other ETFs generally are able to make in-kind redemptions and avoid realizing gains in connection with transactions designed to raise cash to meet redemption requests. Because these Funds effect all or a portion of their redemptions for cash, rather than in-kind distributions, they may be required to sell portfolio securities in order to obtain the cash needed to distribute redemption proceeds, which involves transaction costs. If a Fund recognizes gain on these sales, this generally will cause the Fund to recognize gain it might not otherwise have recognized if it were to distribute portfolio securities in-kind, or to recognize such gain sooner than would otherwise be required. These Funds generally intend to distribute these gains to shareholders to avoid being taxed on these gains at the Fund level and otherwise comply with the special tax rules that apply to them. This strategy may cause shareholders to be subject to tax on gains they would not otherwise be subject to, or at an earlier date than, if they had made an investment in a different ETF.

**Replication Management Risk.** Unlike many investment companies, the Funds are not actively managed. Therefore, unless a specific security is removed from its Index, a Fund generally would not sell a security because the security's issuer is in financial trouble. If a specific security is removed from a Fund's Index, the Fund may be forced to sell such security at an inopportune time or for prices other than at current market values. An investment in a Fund involves risks similar to those of investing in any fund that invests in equities or bonds, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. Each Fund's Index may not contain the appropriate or a diversified mix of securities for any particular economic cycle. The timing of changes in the securities of a Fund's portfolio in seeking to replicate its Index could have a negative effect on the Fund. Unlike with an actively managed fund, the Adviser does not use techniques or defensive strategies designed to lessen the effects of market volatility or to reduce the impact of periods of market decline. This means that, based on market and economic conditions, a Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. The NAV of the Shares will fluctuate with changes in the market value of a Fund's securities holdings. The market prices of Shares will fluctuate in accordance with changes in NAV and supply and demand on NYSE Arca. The Adviser cannot predict whether Shares will trade below, at or above their NAV. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for Shares will be closely related to, but not identical to, the same forces influencing the prices of the securities of a Fund's Index trading individually or in the aggregate at any point in time. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** Each Fund is a separate investment portfolio of the Trust, which is an open-end investment company registered under the 1940 Act. Each Fund, except for Market Vectors BDC Income ETF, is classified as a non-diversified investment company under the 1940 Act. As a result, each of these Funds is subject to the risk that it will be more volatile than a diversified fund because the Fund may invest its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on each such Fund's NAV and may make the Fund more volatile than more diversified funds. Market Vectors Mortgage REIT Income ETF may be particularly vulnerable to this risk because the Mortgage REITs Index it seeks to replicate is comprised of securities of a very limited number of companies.

**Concentration Risk.** A Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent that its respective Index concentrates in a particular sector or sectors or industry or group of industries. The securities of many or all of the companies in the same sector or industry may decline in value due to



developments adversely affecting such sector or industry. By concentrating its assets in a particular sector or sectors or industry or group of industries, a Fund is subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

#### **ADDITIONAL RISKS**

**Risk of Investing in Derivatives.** Derivatives are financial instruments whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate, or index. A Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if a Fund invested directly in the underlying securities.

Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or, in the case of over-the-counter derivatives, as a result of the counterparty's credit quality and the risk that a derivative transaction may not have the effect the Adviser anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can

create investment leverage, may be highly volatile, and a Fund could lose more than the amount it invests. The use of derivatives may increase the amount and affect the timing and character of taxes payable by shareholders of a Fund.

Many derivative transactions are entered into over-the-counter (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of a Fund's counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, a Fund's contractual remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the Fund's rights as a creditor (*e.g.*, the Fund may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for a Fund's derivative positions at any time.

**Zero-Coupon and Payment-in-Kind Securities Risk.** (Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF only.) Zero-coupon securities are securities that are sold at a discount to par value and on which interest payments are not made during the life of the security. Upon maturity, the holder is entitled to receive the par value of the security. Payment-in-kind securities are securities that have interest payable by delivery of additional securities. Upon maturity, the holder is entitled to receive the aggregate par value of the securities. A Fund accrues income with respect to zero-coupon and payment-in-kind securities prior to the receipt of cash payments. Even though periodic interest payments are not made on such securities, tax rules require the Fund to distribute accrued income, which may require the Fund to liquidate securities at unfavorable prices or borrow money in order to make these distributions.

**Leverage Risk.** To the extent that a Fund borrows money or utilizes certain derivatives, it will be leveraged. Leveraging generally exaggerates the effect on NAV of any increase or decrease in the market value of the Fund's portfolio securities.

**Short History of an Active Market/No Guarantee of Active Trading Market.** Certain Funds are recently organized series of an investment company. While Shares are listed on NYSE Arca, there can be no assurance that active trading markets for the Shares will be maintained, especially for recently organized Funds. Van Eck Securities Corporation, the distributor of each Fund's Shares (the Distributor), does not maintain a secondary market in the Shares.

**Trading Issues.** Trading in Shares on NYSE Arca may be halted due to market conditions or for reasons that, in the view of NYSE Arca, make trading in Shares inadvisable. In addition, trading in Shares on NYSE Arca is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Arca's circuit breaker rules. There can be no assurance that the requirements of NYSE Arca necessary to maintain the listing of a Fund will continue to be met or will remain unchanged.

## **TAX ADVANTAGED PRODUCT STRUCTURE**

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Unlike many conventional mutual funds which are only bought and sold at closing NAVs, the Shares of certain Funds have been designed to be tradable in a secondary market on an intra-day basis and to be created and redeemed in-kind, except for Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF whose Shares are created and redeemed partially or principally for cash, in Creation Units at each day's market close. These in-kind arrangements are designed to mitigate the adverse effects on a Fund's portfolio that could arise from frequent cash purchase and redemption transactions that affect the NAV of the Fund. Moreover, in contrast to conventional mutual funds, where frequent redemptions can have an adverse tax impact on taxable shareholders because of the need to sell portfolio securities which, in turn, may generate taxable gain, the in-kind redemption mechanism of certain Funds, to

the extent used, generally is not expected to lead to a tax event for shareholders whose shares are not being redeemed.

**PORTFOLIO HOLDINGS**

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A description of each Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's SAI.

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## MANAGEMENT OF THE FUNDS

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Board of Trustees. The Board of Trustees of the Trust has responsibility for the general oversight of the management of the Funds, including general supervision of the Adviser and other service providers, but is not involved in the day-to-day management of the Trust. A list of the Trustees and the Trust officers, and their present positions and principal occupations, is provided in the Funds' SAI.

Investment Adviser. Under the terms of an investment management agreement between the Trust and Van Eck Associates Corporation with respect to the Funds (the Investment Management Agreement), Van Eck Associates Corporation serves as the adviser to each Fund and, subject to the supervision of the Board of Trustees, is responsible for the day-to-day investment management of each Fund. As of June 30, 2014, the Adviser managed approximately \$34.45 billion in assets. The Adviser has been an investment adviser since 1955 and also acts as adviser or sub-adviser to other mutual funds, ETFs, other pooled investment vehicles and separate accounts. The Adviser's principal business address is 335 Madison Avenue, 19th Floor, New York, New York 10017. A discussion regarding the Board of Trustees' approval of the Investment Management Agreement is available in the Trust's semi-annual report for the period ended October 31, 2013.

For the services provided to each Fund under the Investment Management Agreement, each Fund pays the Adviser monthly fees based on a percentage of each Fund's average daily net assets at the annual rate of 0.35% (with respect to Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Investment Grade Floating Rate ETF and Market Vectors Renminbi Bond ETF), 0.40% (with respect to Market Vectors BDC Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF) and 0.45% (with respect to Market Vectors Treasury-Hedged High Yield Bond ETF). From time to time, the Adviser may waive all or a portion of its fee. Until at least September 1, 2015, the Adviser has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of each Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.19% (with respect to Market Vectors Investment Grade Floating Rate ETF), 0.39% (with respect to Market Vectors Renminbi Bond ETF), 0.40% (with respect to Market Vectors BDC Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF), 0.47% (with respect to Market Vectors Emerging Markets Local Currency Bond ETF), 0.49% (with respect to Market Vectors Emerging Markets Aggregate Bond ETF) and 0.50% (with respect to Market Vectors Treasury-Hedged High Yield Bond ETF) of its average daily net assets per year. Offering costs excluded from the expense caps are: (a) legal fees pertaining to a Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Fund to be listed on an exchange.

Each Fund is responsible for all of its expenses, including the investment advisory fees, costs of transfer agency, custody, legal, audit and other services, interest, taxes, any distribution fees or expenses, offering fees or expenses and extraordinary expenses.

Manager of Managers Structure. With respect to Market Vectors BDC Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF, the Adviser and the Trust may rely on an exemptive order (the Order) from the SEC that permits the Adviser to enter into investment sub-advisory agreements with unaffiliated sub-advisers without obtaining shareholder approval. The Adviser, subject to the review and approval of the Board of Trustees, may select one or more sub-advisers for Market Vectors BDC Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF and supervise, monitor and evaluate the

performance of each sub-adviser.

The Order also permits the Adviser, subject to the approval of the Board of Trustees, to replace sub-advisers and amend investment sub-advisory agreements, including applicable fee arrangements, without shareholder approval whenever the Adviser and the Board of Trustees believe such action will benefit Market Vectors BDC Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF and their respective shareholders. The Adviser thus would have the responsibility (subject to the oversight of the Board of Trustees) to recommend the hiring and replacement of sub-advisers as well as the discretion to terminate any sub-adviser and reallocate Market Vectors BDC Income ETF s, Market Vectors Emerging Markets High Yield Bond ETF s, Market Vectors Fallen Angel High Yield Bond ETF s, Market Vectors International High Yield Bond ETF s, Market Vectors Renminbi Bond ETF s or Market Vectors Treasury-Hedged High Yield Bond ETF s assets for management among any other sub-adviser(s) and itself. This means that the Adviser would be able to reduce the sub-advisory fees and retain a larger portion of the management fee, or increase the sub-advisory fees and retain a smaller portion of the management fee. The Adviser would compensate each sub-adviser out of its management fee.

Administrator, Custodian and Transfer Agent. Van Eck Associates Corporation is the administrator for the Funds (the Administrator ), and The Bank of New York Mellon is the custodian of each Fund s assets and provides transfer agency and fund accounting services to the Funds. The Administrator is responsible for certain clerical, recordkeeping and/or bookkeeping services which are provided pursuant to the Investment Management Agreement.

Distributor. Van Eck Securities Corporation is the distributor of the Shares. The Distributor will not distribute Shares in less than Creation Units, and does not maintain a secondary market in the Shares. The Shares are traded in the secondary market.

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## PORTFOLIO MANAGERS

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The portfolio managers who currently share joint responsibility for the day-to-day management of each of Market Vectors Emerging Markets Aggregate Bond ETFs, Market Vectors Emerging Markets High Yield Bond ETFs, Market Vectors Emerging Markets Local Currency Bond ETFs, Market Vectors Fallen Angel High Yield Bond ETFs, Market Vectors International High Yield Bond ETFs, Market Vectors Investment Grade Floating Rate ETFs, Market Vectors Renminbi Bond ETFs and Market Vectors Treasury-Hedged High Yield Bond ETFs portfolios are Michael F. Mazier and Francis G. Rodilosso. The portfolio managers who currently share joint responsibility for the day-to-day management of each of Market Vectors BDC Income ETFs, Market Vectors Mortgage REIT Income ETFs and Market Vectors Preferred Securities ex Financials ETFs portfolios are Hao Hung (Peter) Liao and George Cao.

Mr. Mazier has been employed by the Adviser since August 2007 as a senior fixed income strategist and portfolio manager. Prior to joining the Adviser, Mr. Mazier served as a bond analyst in the Fixed Income Research Department of Morgan Stanley. He was also Vice President at Merrill Lynch Global Research Department, where he covered closed-end funds. Mr. Mazier graduated from Syracuse University in 1983 with a Bachelor of Science majoring in Electrical Engineering; graduated from Villanova University in 1986 with a Master of Science in Computer Engineering; and graduated from Columbia Business School in 1990 with a Master of Business Administration. Mr. Rodilosso has been employed by the Adviser as a portfolio manager since March 2012. Mr. Rodilosso graduated from Princeton University in 1990 with a Bachelor of Arts and from the Wharton School of Business in 1993 with a Masters of Business Administration. Prior to joining the Adviser, Mr. Rodilosso was Managing Director, Global Emerging Markets at The Seaport Group (January 2010 to March 2012), Founding Partner of Soundbrook Capital, LLC (June 2008 to December 2009) and Managing Director, Portfolio Manager and Head of Risk Management at Greylock Capital Management (2001 to 2008). Mr. Liao has been employed by the Adviser since the summer of 2004 as an Analyst. Mr. Cao has been employed by the Adviser since December 2007 as a Senior Analyst. Prior to joining the Adviser, he served as Controller of Operations Administrations Division and Corporate Safety (September 2006 – December 2007) and a Senior Finance Associate (August 2004 – August 2006) for United Airlines. Each of Messrs. Cao, Liao and Mazier serve as a portfolio manager of other funds of the Trust. Each of Messrs. Liao and Mazier also serve as a portfolio manager for certain other investment companies advised by the Adviser. See the Funds' SAI for additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and their respective ownership of Shares.

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## SHAREHOLDER INFORMATION

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### DETERMINATION OF NAV

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of each Fund's portfolio securities are based on the securities' closing prices on their local principal markets, where available. Due to the time difference between the United States and certain countries in which certain Funds invest, securities on these exchanges may not trade at times when Shares of a Fund will trade. In the absence of a last

reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Short positions may be valued based on ask prices obtained from such sources in the absence of a last reported sales price for the shorted security. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a

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**SHAREHOLDER INFORMATION (continued)**

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computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time a Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust's valuation policies and procedures approved by the Board of Trustees. Each Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund's portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. In addition each Fund currently expects that it will fair value certain of the foreign securities held by the Fund each day the Fund calculates its NAV, except those securities principally traded on exchanges that close at the same time the Fund calculates its NAV. Accordingly, a Fund's NAV is expected to reflect certain portfolio securities' fair values rather than their market prices at the time the exchanges on which they principally trade close. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate a Fund's NAV and the prices used by the Fund's respective Index. This may adversely affect a Fund's ability to track its respective Index. With respect to securities that are traded in foreign markets, the value of a Fund's portfolio securities may change on days when you will not be able to purchase or sell your Shares.

**BUYING AND SELLING EXCHANGE-TRADED SHARES**

The Shares of the Funds are listed on NYSE Arca. If you buy or sell Shares in the secondary market, you will incur customary brokerage commissions and charges and may pay some or all of the spread between the bid and the offered price in the secondary market on each leg of a round trip (purchase and sale) transaction. In times of severe market disruption or low trading volume in a Fund's Shares, this spread can increase significantly. It is anticipated that the Shares will trade in the secondary market at prices that may differ to varying degrees from the NAV of the Shares. During periods of disruptions to creations and redemptions or the existence of extreme market volatility, the market prices of Shares are more likely to differ significantly from the Shares' NAV.

The Depository Trust Company ( DTC ) serves as securities depository for the Shares. (The Shares may be held only in book-entry form; stock certificates will not be issued.) DTC, or its nominee, is the record or registered owner of all outstanding Shares. Beneficial ownership of Shares will be shown on the records of DTC or its participants (described below). Beneficial owners of Shares are not entitled to have Shares registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and are not considered the registered holder thereof. Accordingly, to exercise any rights of a holder of Shares, each beneficial owner must rely on the procedures of: (i) DTC; (ii) DTC Participants, *i.e.*, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC; and (iii) Indirect Participants, *i.e.*, brokers, dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, through which such beneficial owner holds its interests. The Trust understands that under existing industry practice, in the event the Trust requests any action of holders of Shares, or a beneficial owner desires to take any action that DTC, as the record owner of all outstanding Shares, is entitled to take, DTC would authorize the DTC Participants to take such action and that the DTC Participants would authorize the Indirect Participants and beneficial owners acting through such DTC Participants to take such action and would otherwise act upon the instructions of beneficial owners owning through them. As described above, the Trust recognizes DTC or its nominee as the owner of all Shares for all purposes. For more information, see the section entitled "Book Entry Only System" in the Funds' SAI.

The NYSE Arca is open for trading Monday through Friday and is closed on weekends and the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor



Day, Thanksgiving Day and Christmas Day. Because non-U.S. exchanges may be open on days when a Fund does not price its Shares, the value of the securities in the Fund's portfolio may change on days when shareholders will not be able to purchase or sell the Fund's Shares.

Market Timing and Related Matters. The Funds impose no restrictions on the frequency of purchases and redemptions. The Board of Trustees considered the nature of each Fund (*i.e.*, a fund whose shares are expected to trade intra-day), that the Adviser monitors the trading activity of authorized participants for patterns of abusive trading, that the Funds reserve the right to reject orders that may be disruptive to the management of or otherwise not in the Funds' best interests, and that each Fund fair values certain of its securities. Given this structure, the Board of Trustees determined that it is not necessary to impose restrictions on the frequency of purchases and redemptions for the Funds at the present time.

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## DISTRIBUTIONS

Net Investment Income and Capital Gains. As a Fund shareholder, you are entitled to your share of such Fund's distributions of net investment income and net realized capital gains on its investments. Each Fund pays out substantially all of its net earnings to its shareholders as distributions.

Each Fund typically earns income from dividends from stocks and/or interest from debt securities. These amounts, net of expenses, are typically passed along to Fund shareholders as dividends from net investment income. Each Fund generally realizes capital gains or losses whenever it sells securities. Net capital gains are distributed to shareholders as capital gain distributions. Distributions from a Fund's net investment income, including any net short-term capital gains, if any, are taxable to you as ordinary income. Any long-term capital gains distributions you receive from a Fund are taxable as long-term capital gains.

Net investment income, if any, is typically distributed to shareholders monthly by each Fund (quarterly with respect to Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF) while capital gains, if any, are typically distributed to shareholders at least annually. Dividends may be declared and paid more frequently to improve index tracking or to comply with the distribution requirements of the Internal Revenue Code. In addition, the Funds may determine to distribute at least annually amounts representing the full dividend yield net of expenses on the underlying investment securities, as if the Funds owned the underlying investment securities for the entire dividend period in which case some portion of each distribution may result in a return of capital, which, for tax purposes, is treated as a return of your investment in Shares.

Distributions in cash may be reinvested automatically in additional Shares of your Fund only if the broker through which you purchased Shares makes such option available.

## TAX INFORMATION

As with any investment, you should consider how your Fund investment will be taxed. The tax information in this Prospectus is provided as general information. You should consult your own tax professional about the tax consequences of an investment in the Funds, including the possible application of foreign, state and local taxes. Unless your investment in a Fund is through a tax-exempt entity or tax-deferred retirement account, such as a 401(k) plan, you need to be aware of the possible tax consequences when: (i) a Fund makes distributions; (ii) you sell Shares in the secondary market or (iii) you create or redeem Creation Units.

Taxes on Distributions. As noted above, each Fund expects to distribute net investment income monthly (quarterly with respect to Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF), and any net realized long-term or short-term capital gains, if any, annually. Each Fund may also pay a special distribution at any time to comply with U.S. federal tax requirements.

Distributions from a Fund's net investment income, including any net short-term gains, if any, are taxable to you as ordinary income. In general, your distributions are subject to U.S. federal income tax when they are paid, whether you take them in cash or reinvest them in a Fund. Distributions of net investment income are generally taxable as ordinary income. Whether distributions of capital gains represent long-term or short-term capital gains is determined by how long a Fund owned the investments that generated them, rather than how long you have owned your Shares. Distributions of net short-term capital gains in excess of net long-term capital losses, if any, are generally taxable as ordinary income. Distributions of net long-term capital gains in excess of net short-term capital losses, if any, that are properly reported as capital gain dividends are generally taxable as long-term capital gains. After 2012, long-term capital gains of a non-corporate shareholder are generally taxable at a maximum rate of 15% or 20%, depending on whether the shareholder's income exceeds certain threshold amounts (but the 25% capital gain tax rate will remain applicable to 25% rate gain distributions received by Market Vectors Mortgage REIT Income ETF).

The Funds, except for Market Vectors BDC Income ETF and Market Vectors Preferred Securities ex Financials ETF, do not expect that any of their distributions will be qualified dividends eligible for lower tax rates or for the corporate dividends received deduction. In the event that Market Vectors BDC Income ETF and Market Vectors Preferred Securities ex Financials ETF receive such a dividend and designate the distribution of such dividend as a qualified dividend, the dividend may be taxed at maximum capital gains rates of 15% or 20%, provided holding period and other requirements are met at both the shareholder and the Fund level. It is not expected that any significant portion of the Market Vectors BDC Income ETF's or Market Vectors Preferred Securities ex Financials ETF's distributions will be eligible for qualified dividend treatment.

Distributions in excess of a Fund's current and accumulated earnings and profits are treated as a tax-free return of your investment to the extent of your basis in the Shares, and generally as capital gain thereafter. A return of capital, which for tax purposes is treated as a return of your investment, reduces your basis in Shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition of Shares. A distribution will reduce a Fund's NAV per Share and may be taxable to you as ordinary income or capital gain even though, from an economic standpoint, the distribution may constitute a return of capital.

**SHAREHOLDER INFORMATION (continued)**

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Dividends, interest and gains from non-U.S. investments of the Funds may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the United States may, in some cases, reduce or eliminate such taxes.

If more than 50% of a Fund's total assets at the end of its taxable year consist of foreign securities, the Fund may elect to pass through to its investors certain foreign income taxes paid by the Fund, with the result that each investor will (i) include in gross income, as an additional dividend, even though not actually received, the investor's pro rata share of the Fund's foreign income taxes, and (ii) either deduct (in calculating U.S. taxable income) or credit (in calculating U.S. federal income), subject to certain limitations, the investor's pro rata share of the Fund's foreign income taxes. It is expected that more than 50% of each Fund's assets will consist of foreign securities, except for Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Preferred Securities ex Financials ETF and Market Vectors Treasury-Hedged High Yield Bond ETF.

**Backup Withholding.** A Fund may be required to withhold a percentage of your distributions and proceeds if you have not provided a taxpayer identification number or social security number or otherwise established a basis for exemption from backup withholding. The backup withholding rate for individuals is currently 28%. This is not an additional tax and may be refunded, or credited against your U.S. federal income tax liability, provided certain required information is furnished to the Internal Revenue Service.

**Taxes on the Sale or Cash Redemption of Exchange Listed Shares.** Currently, any capital gain or loss realized upon a sale of Shares is generally treated as long term capital gain or loss if the Shares have been held for more than one year and as a short term capital gain or loss if held for one year or less. However, any capital loss on a sale of Shares held for six months or less is treated as long-term capital loss to the extent that capital gain dividends were paid with respect to such Shares. The ability to deduct capital losses may be limited. To the extent that a shareholder's Shares are redeemed for cash, this is normally treated as a sale for tax purposes.

**Taxes on Creations and Redemptions of Creation Units.** A person who exchanges securities for Creation Units generally will recognize a gain or loss. The gain or loss will be equal to the difference between the market value of the Creation Units at the time of exchange and the sum of the exchanger's aggregate basis in the securities surrendered and the amount of any cash paid for such Creation Units. A person who exchanges Creation Units for securities will generally recognize a gain or loss equal to the difference between the exchanger's basis in the Creation Units and the sum of the aggregate market value of the securities received. The Internal Revenue Service, however, may assert that a loss realized upon an exchange of primarily securities for Creation Units cannot be deducted currently under the rules governing wash sales, or on the basis that there has been no significant change in economic position. Persons exchanging securities for Creation Units or redeeming Creation Units should consult their own tax adviser with respect to whether wash sale rules apply and when a loss might be deductible and the tax treatment of any creation or redemption transaction.

Under current U.S. federal income tax laws, any capital gain or loss realized upon a redemption (or creation) of Creation Units is generally treated as long-term capital gain or loss if the Shares (or securities surrendered) have been held for more than one year and as a short-term capital gain or loss if the Shares (or securities surrendered) have been held for one year or less.

If you create or redeem Creation Units, you will be sent a confirmation statement showing how many Shares you created or sold and at what price.

**Medicare Tax.** An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable

dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person's modified adjusted gross income (in the case of an individual) or adjusted gross income (in the case of an estate or trust) exceeds certain threshold amounts.

**Non-U.S. Shareholders.** If you are not a citizen or resident alien of the United States or if you are a non-U.S. entity, a Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies or unless such income is effectively connected with a U.S. trade or business.

As part of the Foreign Account Tax Compliance Act, ( FATCA ), a Fund may be required to impose a 30% withholding tax on certain types of U.S. sourced income (e.g., dividends, interest, and other types of passive income) paid effective July 1, 2014, and proceeds from the sale or other disposition of property producing U.S. sourced income paid effective January 1, 2017 to (i) foreign financial institutions ( FFI s ), including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service ( IRS ) information regarding their direct and indirect U.S. account holders and (ii) certain nonfinancial foreign entities ( NFFE s ), unless they certify certain information regarding their direct and indirect U.S. owners. To avoid possible withholding, FFI s will need to enter into agreements with the IRS which state that they will provide the IRS information, including the names, account numbers and balances, addresses and taxpayer identification numbers of U.S. account holders and comply with due diligence procedures with respect to the identification of U.S. accounts as well as agree to withhold tax on

certain types of withholdable payments made to non-compliant foreign financial institutions or to applicable foreign account holders who fail to provide the required information to the IRS, or similar account information and required documentation to a local revenue authority, should an applicable intergovernmental agreement be implemented. NFFE s will need to provide certain information regarding each substantial U.S. owner or certifications of no substantial U.S. ownership, unless certain exceptions apply, or agree to provide certain information to the IRS.

While final FATCA rules have not been finalized, a Fund may be subject to the FATCA withholding obligation, and also will be required to perform due diligence reviews to classify foreign entity investors for FATCA purposes. Investors are required to agree to provide information necessary to allow a Fund to comply with the FATCA rules. If a Fund is required to withhold amounts from payments pursuant to FATCA, investors will receive distributions that are reduced by such withholding amounts.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Funds, including the possible applicability of the U.S. estate tax.

The foregoing discussion summarizes some of the consequences under current U.S. federal income tax law of an investment in a Fund. It is not a substitute for personal tax advice. Consult your own tax advisor about the potential tax consequences of an investment in a Fund under all applicable tax laws.

## **INDEX PROVIDERS**

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The Emerging Markets Index is published by JPMorgan Securities Inc. ( J.P. Morgan ). The BDC Index, EM Aggregate Bond Index, Floating Rate Index, Mortgage REITs Index, Renminbi Bond Index and Treasury-Hedged High Yield Bond Index are published by Market Vectors Index Solutions GmbH ( MVIS ), which is a wholly owned subsidiary of the Adviser. The Emerging Markets High Yield Index, Fallen Angel Index and High Yield Index are published by BofA Merrill Lynch ( Merrill Lynch ). The Preferred Securities Index is published by Wells Fargo & Company ( Wells Fargo ). J.P. Morgan, MVIS, Merrill Lynch and Wells Fargo are referred to herein as the Index Providers. The Index Providers do not sponsor, endorse, or promote the Funds and bear no liability with respect to the Funds or any security.

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**MARKET VECTORS® US BUSINESS DEVELOPMENT COMPANIES INDEX**

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The BDC Index is a rules based, modified capitalization weighted, float adjusted index intended to give investors a means of tracking the overall performance of BDCs. To be eligible for the BDC Index and qualify as a BDC, a company must be organized under the laws of, and have its principal place of business in, the United States, be registered with the SEC and have elected to be regulated as a BDC under the 1940 Act.

Non-constituent stocks must have a market capitalization of greater than \$150 million as of the end of the month prior to the month in which a rebalancing date occurs to be eligible for the BDC Index. Current components whose market capitalizations fall below \$75 million as of the end of the month prior to the month in which a rebalancing date occurs will no longer be eligible for the BDC Index. Stocks must have a three-month average daily trading volume value of at least \$1 million to be eligible for the BDC Index and issuers of such stocks must have traded at least 250,000 shares each month over the last six months. Only shares that trade on a recognized U.S. exchange may qualify (*e.g.*, stocks must be reported securities under Rule 11Aa3-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act )).

As of June 30, 2014, the BDC Index included 28 securities of companies with a market capitalization range of between approximately \$99.2 million to \$5.3 billion and a weighted average market capitalization of \$2.0 billion. These amounts are subject to change.

The BDC Index is calculated and maintained by Solactive AG (formerly known as Structured Solutions AG) on behalf of the Index Provider. Index values are calculated daily and are disseminated every 15 seconds between the hours of approximately 7:00 p.m. and 4:40 p.m. (Eastern time).

The BDC Index is calculated using a capitalization weighting methodology, adjusted for float, which is modified so as to facilitate compliance with the diversification requirements of Subchapter M of the Internal Revenue Code. The BDC Index is reconstituted quarterly, at the close of business on the third Friday in March, June, September and December, and companies are added and/or deleted based upon the BDC Index eligibility criteria. Companies with recent stock exchange listings (*i.e.*, recent initial public offerings) may be added to the BDC Index on a quarterly basis, provided the companies meet all eligibility criteria and have been trading since at least the last trading day of the month prior to the review snapshot dates (*i.e.*, the last trading day in February, May, August or November). The share weights of the BDC Index components are adjusted on a quarterly basis (every third Friday in a quarter-end month).

Rebalancing data, including constituent weights and related information, is announced on the second Friday of the calendar quarter.

**MARKET VECTORS® EM AGGREGATE BOND INDEX**

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The EM Aggregate Bond Index is comprised of sovereign bonds and corporate bonds denominated in U.S. dollars, Euros or local emerging market currencies. As of June 30, 2014, emerging markets countries represented in the EM Aggregate Bond Index include Angola, Argentina, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belize, Bolivia, Bosnia and Herzegovina, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Côte d'Ivoire, Croatia, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Gabon, Georgia, Ghana, Guatemala, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lebanon, Lithuania, Malawi, Malaysia, Mexico, Mongolia, Morocco, Namibia, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Senegal, Serbia, South Africa, Sri Lanka, Tanzania, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Uruguay, Venezuela, Vietnam and Zambia. The EM Aggregate Bond Index includes both investment grade and below investment grade rated securities. Rule 144A securities, both those with and without registration rights, are included in the EM Aggregate Bond Index. As of June 30, 2014, 22.84% of the EM Aggregate Bond Index consisted of below investment grade securities. As of June 30, 2014, the EM Aggregate Bond Index included approximately 2,045 bonds of 705 issuers and the weighted average maturity of the EM Aggregate Bond Index was 8.3 years.

Qualifying corporate and quasi-sovereign debt securities denominated in U.S. dollars, Euros or local currencies must have an amount outstanding equivalent to at least \$300 million in U.S. dollars. Qualifying sovereign debt securities denominated in U.S. dollars or Euros must have an amount outstanding equivalent to at least \$500 million in U.S. dollars. Qualifying local currency sovereign debt securities must have an amount outstanding equivalent to at least \$1 billion in U.S. dollars (*i.e.*, after imposing constituent level filters on amount outstanding, remaining term to maturity, etc.).

The EM Aggregate Bond Index uses a modified market cap weighting methodology, which involves categorizing each bond in the EM Aggregate Bond Index into one of the following categories: (1) U.S. dollar or Euro-denominated corporate and quasi-sovereign bonds; (2) local currency-denominated corporate and quasi-sovereign bonds; (3) U.S. dollar or Euro-denominated sovereign bonds; and (4) local-currency-denominated sovereign bonds (each, a Currency Category).

1. Weightings are capped at 3.00% per issuer (based on amount outstanding) of corporate bonds and quasi-sovereign debt and the excess weight shall be re-distributed to the other corporate and quasi-sovereign bond Currency Category.
2. Weightings per country (of risk) are capped at 10.00% within each Currency Category and the excess weight shall be re-distributed proportionally across all other uncapped countries in the same Currency Category.
3. Weightings are capped at 50.00% per Currency Category and the excess weight shall be re-distributed proportionally across all other uncapped Currency Categories.

The steps 1-3 are repeated until final weightings are capped at 3.00% maximum per issuer of corporate bonds and quasi-sovereign debt, 10.00% maximum per country (of risk) within each category and 50.00% maximum per country.

The EM Aggregate Bond Index is rebalanced monthly as of the close of business on the final trading day of each month.

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**THE BOFA MERRILL LYNCH HIGH YIELD US EMERGING MARKETS LIQUID CORPORATE PLUS INDEX**

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The Emerging Markets High Yield Index is comprised of U.S. dollar denominated bonds issued by non-sovereign emerging market issuers that are rated BB1 or lower (based on an average of ratings from Moody's, S&P and Fitch) and that are issued in the major domestic and Eurobond markets. If only two of these agencies rate a bond, then the average rating is based on the average of the two ratings. If only one agency rates a bond, that rating is used for considering Emerging Markets High Yield Index eligibility. In order to qualify for inclusion in the Emerging Markets High Yield Index, an issuer must have risk exposure to countries other than members of the FX Group of Ten, all Western European countries and territories of the United States and Western European countries. The FX Group of Ten includes all Euro members, Australia, Canada, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. In addition, bonds must have at least 18 months to final maturity at the time of issuance, at least one year remaining to final maturity, a fixed coupon and at least \$300 million in outstanding face value to be included in the Emerging Markets High Yield Index. The Emerging Markets High Yield Index includes corporate and quasi-government bonds of qualifying countries, but excludes sovereign and supranational bonds. Original issue zero coupon bonds, global securities (i.e., bonds issued simultaneously in the eurobond and U.S. domestic bond markets), Rule 144A securities, both with and without registration rights, and payment-in-kind securities, including toggle notes, qualify for inclusion in the Emerging Markets High Yield Index. Payment in-kind securities pay distributions or interest in the form of additional securities. Toggle notes are a type of payment-in-kind bond where the issuer has the option to make coupon payments in cash or with additional bonds. Callable perpetual securities qualify provided they are at least one year from the first call date. A callable perpetual security is a type of bond that has no maturity date but may be redeemed by the issuer at certain times. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities are included in the Emerging Markets High Yield Index provided they do not have an automatic common equity conversion feature; those securities with triggers activated by a regulatory authority, including conversions into equity, qualify for inclusion. Also qualifying for inclusion are contingent capital securities with principal write-down triggers. Hybrid capital securities qualify for the Emerging Markets High Yield Index, including those potentially converting into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms. Defaulted securities, equity-linked securities and securities issued or marketed primarily to retail investors are excluded from the Emerging Markets High Yield Index.

The Emerging Markets High Yield Index is a subset of The BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index. The BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index constituents are capitalization-weighted subject to a 10% country cap and a 2% issuer cap. Countries and issuers that exceed the caps are reduced to 10% and 2%, respectively, and the face value of each of their bonds is adjusted on a pro-rata basis. In the event the BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index has fewer than 10 countries, or fewer than 50 issuers, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. As a subset of a larger index, the Emerging Markets High Yield Index constituents are set to the weights as calculated for the BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index and reweighted proportionally.

Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during each month are retained in the Emerging Markets High Yield Index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the Emerging Markets High Yield Index.

The Emerging Markets High Yield Index is rebalanced on the last calendar day of each month, based on information available up to and including the third business day before the last business day of the month. No changes are made to constituent holdings other than on month end rebalancing dates.

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As of the date of June 30, 2014, the Emerging Markets High Yield Index included approximately 436 bonds of 266 issuers from the following countries: Argentina, Azerbaijan, Bahrain, Bangladesh, Barbados, Brazil, Chile, China, Colombia, Costa Rica, Croatia, Dominican Republic, Egypt, El Salvador, Georgia, Guatemala, Hong Kong, Hungary, India, Indonesia, Israel, Jamaica, Kazakhstan, Macau, Mexico, Mongolia, Morocco, Nigeria, Oman, Paraguay, Peru, the Philippines, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Sri Lanka, Turkey, Ukraine, Uruguay, United Arab Emirates and Venezuela.

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**J.P. MORGAN GOVERNMENT BOND INDEX EMERGING MARKETS GLOBAL CORE INDEX**

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The Emerging Markets Index is designed to track the performance of bonds issued by emerging market governments and denominated in the local currency of the issuer. The Emerging Markets Index is designed to be investible and includes only those countries that are accessible by most of the international investor base. The Index Provider selects bonds from each of the emerging market countries set forth below that are fixed-rate, domestic currency government bonds with greater than 13 months to maturity. As of June 30, 2014, the Emerging Markets Index included 194 bonds of issuers from the following countries: Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand and Turkey.

Countries eligible for inclusion in the Emerging Markets Index are countries whose gross national income ( GNI ) per capita is below the Index Income Ceiling ( IIC ) for three consecutive years. IIC is defined as GNI per capita level that is adjusted every year by the growth rate of the World GNI per capita. Current IIC level is U.S.\$19,713 as of July 2014 (Previous level was U.S.\$18,690 in 2013). A country is eligible for exclusion from the Emerging Markets Index if its GNI per capita is above the IIC for three consecutive years and its sovereign credit rating is A-/A3/A- or above for three consecutive years. Changes in country eligibility may warrant the re-categorization of countries into and out of the Emerging Markets Index. The Emerging Markets Index excludes countries with explicit capital controls, but does not factor in regulatory/tax hurdles in assessing eligibility.

The maximum weight to a country in the Emerging Markets Index is capped at 10%, the minimum is 3%. The cap is applied monthly on each rebalance day. The excess is redistributed in proportion to the market capitalizations of the other countries in the Emerging Markets Index with weightings of less than 10%, which preserves the relative weightings of the other markets in the Emerging Markets Index.

The Emerging Markets Index rebalances on the first weekday of each month. The Emerging Markets Index is weighted by the component countries' aggregate normalized market capitalization (dirty price times par outstanding), subject to the aforementioned 10% country cap. The weights change monthly on each rebalance day, and those weights remain unchanged until the following month. Accrued interest is assigned to the bonds in the Emerging Markets Index according to the specific convention of each country's market, and this interest is settlement adjusted.

The Emerging Markets Index is calculated daily. Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupon received or accrued, expressed as a percentage of beginning market value, adjusted for currency movements.

The following types of bonds are excluded from the Emerging Markets Index: floating rate bonds, inflation-linked bonds, capitalization/amortizing bonds, callable bonds, convertible bonds and puttable bonds.

PricingDirect Inc., a market-based professional valuation service and a wholly owned subsidiary of J.P. Morgan Chase & Co, is utilized as the primary source for instrument level pricing ensuring transparency around pricing sourcing and consistency/accuracy of index constituent valuations. FX spot and forward levels are sourced from 4PM London closing marks from WM/Reuters.

## THE BOFA MERRILL LYNCH US FALLEN ANGEL HIGH YIELD INDEX

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The Fallen Angel Index is comprised of below investment grade corporate bonds denominated in U.S. dollars that were rated investment grade at the time of issuance. Qualifying securities must be issued in the U.S. domestic market and have a below investment grade rating (based on an average of ratings from Moody's, S&P and Fitch). If only two of these agencies rate a bond, then the average rating is based on the average of the two ratings. If only one agency rates a bond, that rating is used for considering Fallen Angel Index eligibility. The Fallen Angel Index includes bonds issued by both U.S. and non-U.S. issuers. The country of risk of qualifying issuers must be a member of the FX Group of Ten, a western European nation, or a territory of the US or a Western European nation. The FX Group of Ten includes all Euro members, Australia, Canada, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.

Qualifying securities must have at least 18 months to final maturity at time of issuance, at least one year remaining to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$100 million. Original issue zero coupon bonds, Rule 144A securities, both with and without registration rights, and payment-in-kind securities, including toggle notes, qualify for inclusion in the Fallen Angel Index. Payment-in-kind securities pay distributions or interest in the form of additional securities. Toggle notes are a type of payment-in-kind bond where the issuer has the option to make coupon payments in cash or with additional bonds. Callable perpetual securities qualify provided they are at least one year from the first call date. A callable perpetual security is a type of bond that has no maturity date but may be redeemed by the issuer at certain times. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities, including those with automatic principal write-down provisions, are included in the Fallen Angel Index provided they do not have an automatic common equity conversion, unless the conversion is activated by a regulatory authority in which case they are included. Other hybrid capital securities, such as those that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the Fallen Angel Index. Securities issued primarily to retail investors, equity-linked securities, hybrid securitized corporates, Eurodollar bonds (USD bonds not issued in the U.S. domestic market), taxable and tax-exempt U.S. municipal, warrant-bearing, dividends-received deduction (DRD)-eligible and defaulted securities are excluded from the Fallen Angel Index. DRD-eligible securities are securities whose distributions may be eligible for the dividends-received deduction.

Fallen Angel Index constituents are capitalization-weighted based on their current amount outstanding. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during each month are retained in the Fallen Angel Index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the Fallen Angel Index.

The Fallen Angel Index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of each month. Issues that meet the qualifying criteria are included in the Fallen Angel Index for the following month. No changes are made to constituent holdings other than on month-end rebalancing dates.

As of June 30, 2014, the Fallen Angel Index included 316 below investment grade bonds of 132 issuers from the following countries: Australia, Canada, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, the United Kingdom and the United States.

**THE BOFA MERRILL LYNCH GLOBAL EX-US ISSUERS HIGH YIELD CONSTRAINED INDEX**

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The High Yield Index tracks the performance of below investment grade debt issued by corporations located throughout the world (which may include emerging market countries) excluding the United States denominated in Euros, U.S. dollars, Canadian dollars or pound sterling issued in the major domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of ratings from Moody's, S&P and Fitch). If only two of these agencies rate a bond, then the average rating is based on the average of the two ratings. If only one agency rates a bond, that rating is used for considering High Yield Index eligibility. Qualifying securities must have at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$100 million, €100 million, £50 million or C\$100 million. Eurodollar bonds (U.S. dollar bonds not issued in the U.S. domestic market) and Rule 144A securities, both with and without registration rights, qualify for inclusion in the High Yield Index. Original issue zero coupon bonds and payment-in-kind securities, including toggle notes, also qualify for inclusion. Payment-in-kind securities pay distributions or interest in the form of additional securities. Toggle notes are a type of payment-in-kind bond where the issuer has the option to make coupon payments in cash or with additional bonds. Callable perpetual securities qualify provided they are at least one year from the first call date. A callable perpetual security is a type of bond that has no maturity date but may be redeemed by the issuer at certain times. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities are included High Yield Index provided they do not have an automatic common equity conversion feature; those securities with triggers activated by a regulatory authority, including conversions into equity, qualify for inclusion. Also qualifying for inclusion are contingent capital securities with principal write-down triggers. Hybrid capital securities qualify for the High Yield Index, including those potentially converting into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms. Taxable and tax-exempt U.S. municipal, DRD-eligible, equity-linked and defaulted securities are excluded from the High Yield Index. DRD-eligible securities are securities whose distributions may be eligible for the dividends-received deduction. Securities issued or marketed primarily to retail investors are also excluded from the High Yield Index.

High Yield Index constituents are capitalization-weighted, based on their current amount outstanding multiplied by the market price plus accrued interest, provided the total allocation to an individual issuer does not exceed 3%. Issuers that exceed the limit are reduced to 3% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 3% cap are increased on a pro-rata basis. In the event there are fewer than 34 issuers in the High Yield Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis.

Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during each month are retained in the High Yield Index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the High Yield Index. The High Yield Index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of each month. No changes are made to constituent holdings other than on month end rebalancing dates.

As of June 30, 2014, the High Yield Index included 1,590 below investment grade securities of 798 issuers from the following countries: Argentina, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belgium, Bermuda, Brazil, Bulgaria, Canada, Cayman Islands, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Egypt, El Salvador, Finland, France, Georgia, Germany, Greece, Guatemala, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jersey C.I., Kazakhstan, Luxembourg, Macau, Malaysia, Mexico, Mongolia, Morocco, the Netherlands, Nigeria, Norway, Oman, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Venezuela and Vietnam.



## MARKET VECTORS® US INVESTMENT GRADE FLOATING RATE INDEX

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The Floating Rate Index is designed to track the performance of U.S. investment grade floating rate notes with outstanding issue sizes of greater than or equal to \$500 million. The Floating Rate Index is comprised of U.S. dollar-denominated floating rate notes issued by corporate entities or similar commercial entities that are public reporting companies in the United States with at least one investment grade rating by one of Moody's, S&P, Fitch or a local rating agency and must not be rated below investment grade by any one of Moody's, S&P, Fitch or a local rating agency. As of June 30, 2014, the Floating Rate Index consisted of 302 notes of 121 issuers and approximately 20% of the Floating Rate Index consisted of Rule 144A securities.

To be eligible for inclusion in the Floating Rate Index, investment grade floating rate notes must be issued by issuers that are formed as corporations, limited liability companies and similar types of entities that are engaged in a financial or commercial enterprise. Notes issued by governments, sovereigns, quasi-sovereigns, not-for-profit entities and government backed entities are not eligible.

For purposes of selecting securities, the Floating Rate Index does not distinguish between affiliated and non-affiliated holders. Accordingly, securities would be deemed to be outstanding even if held entirely by affiliates of the issuer. Securities included in the Floating Rate Index may not be reportable via FINRA's Trade Reporting and Compliance Engine® (TRACE®). Eligible notes may, but are not required to be, listed on a U.S. securities exchange.

To be eligible for inclusion in the Floating Rate Index, securities must provide for payment in the regular course of business of interest or dividends although interest or dividends must be paid at floating rates. Instruments that provide for the ability to defer payment of dividends or coupons are eligible for inclusion in the Floating Rate Index, even if the deferral right is pre-established.

Floating Rate Index securities must be U.S. dollar-denominated. Issuers may be either U.S. based or foreign. Issuers or their guarantors must be publicly reporting companies under Sections 13 or 15(d) of the Securities Exchange Act of 1934.

Floating Rate Index securities may be publicly registered, exempt from registration under Section 3(a)(2) of the Securities Act, distributed to persons who are qualified institutional buyers under Rule 144A of the Securities Act or issued only on a private placement basis.

Floating Rate Index securities must be rated investment grade or above by Moody's, S&P or Fitch. Investment grade means a rating of Baa3 or above by Moody's or a rating of BBB- or above by S&P and Fitch. To be eligible for inclusion in the Floating Rate Index, securities may not be rated below investment grade by one of the three of Moody's, S&P and Fitch. For this purpose below investment grade means Ba1 or below by Moody's or BB+ or below by S&P or Fitch.

Repackaged securities linked to a security, a basket of securities or an index, swaps, ETFs, preferred securities, convertible securities, notes with options or warrants attached, bearer bonds, Sukuk bonds, fixed to floating rate bonds, dual currency bonds and asset-backed or other structured securities are not eligible for inclusion in the Floating Rate Index.

Securities included in the Floating Rate Index must have a minimum of 0.5 years remaining to maturity.

The Floating Rate Index is calculated by Interactive Data Pricing and Reference Data, LLC (IDC) and maintained by IDC with Wells Fargo Securities, LLC on behalf of the Index Provider. The Floating Rate Index values are calculated and disseminated at the end of each day on which the US bond markets are open for trading and excludes any day that is a recommended holiday for such markets, as published by the Securities Industry Financial Markets Association.

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The Floating Rate Index uses a modified market cap weighting methodology that groups securities into three maturity buckets: longest one-third, middle one-third and shortest one-third by maturity, where a larger allocation is assigned to longer-maturity floating rate notes. The weight of any single constituent is capped at 2.00%. The Floating Rate Index is rebalanced monthly.

The Floating Rate Index is rebalanced monthly as of the close of business on the final trading day of each month. Adjustments to constituents will be announced four business days prior to the first business day of the next month after close of trading. The review will be based on closing data from five business days to the first business day of each month.



**MARKET VECTORS® GLOBAL MORTGAGE REITS INDEX**

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The Mortgage REITs Index is a rules based, modified capitalization weighted, float adjusted index intended to give investors a means of tracking the overall performance of publicly traded U.S. and non-U.S. REITs that derive at least 50% of their revenues (or, where applicable, have at least 50% of their assets) from mortgage-related activity. As of the date of this Prospectus, the Mortgage REITs Index is comprised of stocks of publicly traded U.S. REITs that derive at least 50% of their revenues (or, where applicable, have at least 50% of their assets) from mortgage-related activity. This includes companies or trusts that are primarily engaged in the purchase or service of commercial or residential mortgage loans or mortgage related securities, which may include mortgage-backed securities issued by private issuers and those issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored entities.

Non-constituent stocks must have a market capitalization of greater than \$150 million as of the end of the month prior to the month in which a rebalancing date occurs to be eligible for the Mortgage REITs Index. Current components whose market capitalizations fall below \$75 million as of the end of the month prior to the month in which a rebalancing date occurs will no longer be eligible for the Mortgage REITs Index. Stocks must have a three month average daily trading volume value of at least \$1 million to be eligible for the Mortgage REITs Index and issuers of such stocks must have traded at least 250,000 shares each month over the last six months. Only shares that trade on a recognized domestic or international stock exchange may qualify (e.g., National Stock Market stocks must be reported securities under Rule 11Aa3-1 of the Exchange Act. Similar criteria and standards apply to stocks with foreign listings).

As of June 30, 2014, the Mortgage REITs Index included 24 securities of companies with a market capitalization range of between approximately \$484.1 million to \$10.8 billion and a weighted average market capitalization of \$4.8 billion. These amounts are subject to change.

The Mortgage REITs Index is calculated and maintained by Solactive AG (formerly known as Structured Solutions AG) on behalf of the Index Provider. Mortgage REITs Index values are calculated daily and are disseminated every 15 seconds between the hours of approximately 7:00 p.m. and 4:40 p.m. (Eastern time).

The Mortgage REITs Index is calculated using a capitalization weighting methodology, adjusted for float, which is modified so as to facilitate compliance with the diversification requirements of Subchapter M of the Internal Revenue Code. The Mortgage REITs Index is rebalanced quarterly, at the close of business on the third Friday in March, June, September and December, and companies are added and/or deleted based upon the Mortgage REITs Index eligibility criteria. Companies with recent stock exchange listings (i.e., recent initial public offerings) may be added to the Mortgage REITs Index on a quarterly basis, provided the companies meet all eligibility criteria and have been trading since at least the last trading day of the month prior to the review snapshot dates (i.e., the last trading day in February, May, August or November). The share weights of the Mortgage REITs Index components are adjusted on a quarterly basis (every third Friday in a quarter-end month).

Rebalancing data, including constituent weights and related information, is announced on the second Friday of the calendar quarter.

**WELLS FARGO® HYBRID AND PREFERRED SECURITIES EX FINANCIALS INDEX**

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The Preferred Securities Index is designed to track the performance of convertible or exchangeable and non-convertible preferred securities listed on U.S. exchanges. The Preferred Securities Index is comprised of preferred securities listed on U.S. exchanges, including securities that, in the Index Provider's judgment, are functionally equivalent to preferred securities including, but not limited to, convertible securities, depositary preferred securities and perpetual subordinated debt, excluding securities with a financial industry sector classification per the Bloomberg Professional® service (collectively, Preferred Securities). Functionally equivalent securities to Preferred Securities are securities that are issued and trade in similar manner to traditional perpetual preferred securities. Preferred Securities may be subject to redemption or call provisions and may include those issued by small- and medium-capitalization companies. Preferred Securities issued by real estate investment trusts (REITs) are not considered to be securities with a financial industry sector classification, and therefore may be included in the Preferred Securities Index.

Preferred Securities (or, in the case of convertible or exchangeable Preferred Securities, the securities into which they are convertible or exchangeable) must be listed on the NYSE, the NYSE Arca or NASDAQ. Preferred Securities must maintain a minimum par value of \$250 million or minimum of 10 million shares outstanding. For purposes of selecting securities, the Index Provider's Index Review Committee (IRC) does not distinguish between affiliated and non-affiliated holders. Accordingly, securities would be deemed to be outstanding even if they are held entirely by affiliates of the issuer. Preferred Securities may have fixed or floating dividends or coupons, although dividends or coupons may be subject to deferral. Preferred Securities must be denominated in U.S. dollars. Issuers may be either U.S.-based or foreign-based. Preferred Securities must be publicly registered or exempt from registration under Section 3(a)(2) of the Securities Act. Unregistered, privately placed securities are not eligible for inclusion unless they are exchangeable for registered shares, assuming eligibility criteria are otherwise met. Preferred Securities do not include auction rate preferred securities, securities subject to sinking fund provisions, shares in closed-end funds, municipal securities, or repackaged securities linked to a security, a basket of securities or an index.

Preferred Securities are reviewed and qualified for Preferred Securities Index inclusion and removal by the IRC in accordance with the Preferred Securities Index rules and methodology. The IRC is responsible for oversight and review for rebalancing changes to the Preferred Securities Index. The IRC is also responsible for ensuring that the Preferred Securities Index complies with the Preferred Securities Index rules and methodology.

As of June 30, 2014, the Preferred Securities Index included 86 U.S.-listed securities of 52 issuers. The amounts are subject to change.

The Preferred Securities Index is reconstituted and rebalanced monthly as of the close of business on the final NYSE Arca trading day of each month (the Monthly Rebalance Date). Preferred Securities that have become ineligible since the previous rebalancing generally will be removed only at the next Monthly Rebalance Date except in the case of certain corporate actions or if the Preferred Security is delisted.

Adjustments to constituent Preferred Securities will be provided to the NYSE Arca no later than five business days prior to a Monthly Rebalancing Date. NYSE Arca will make this information publicly available on its website, via broadcast email and/or press release.

**MARKET VECTORS® RENMINBI BOND INDEX**

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The Renminbi Bond Index is designed to track the performance of fixed-rate, offshore Chinese Renminbi ( RMB )-denominated bonds that are investable to market participants outside of mainland China and issued by Chinese or non-Chinese corporate, governmental, quasi-governmental or supranational issuers ( RMB Bonds ). RMB Bonds included in the Renminbi Bond Index or the parent company of the RMB Bond issuer must have at least one investment grade rating by one of Moody's, S&P, Fitch or a local rating agency and must not be rated below investment grade by any one of Moody's, S&P, Fitch or a local rating agency. To be eligible for inclusion in the Renminbi Bond Index, RMB Bonds must have an amount outstanding of greater than or equal to 750 million RMB and a minimum of six months remaining to maturity. As of June 30, 2014, the Renminbi Bond Index consisted of 142 bonds from 56 issuers.

The Renminbi Bond Index uses a modified market capitalization weighting methodology. Issuer weightings are capped at 22.5% of the Renminbi Bond Index and the excess weight is re-distributed proportionally across all other Renminbi Bond Index constituents.

The Renminbi Bond Index is calculated and maintained by Solactive AG (formerly known as Structured Solutions AG) on behalf of the Index Provider. Pricing for currencies and bonds is as of 4:00 pm EST, the bond prices will be mid-prices. The Renminbi Bond Index values are calculated and disseminated at the end of each day when either the US bond market is open for trading or at least one of the index components of the Renminbi Bond Index is available for trading.

The Renminbi Bond Index is rebalanced monthly as of the close of business on the final trading day of the month. Adjustments to constituents will be announced four business days prior to the first business day of the next month after close of trading. The review will be based on closing data from five business days to the first business day of the next month.

**MARKET VECTORS® US TREASURY-HEDGED HIGH YIELD BOND INDEX**

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The Treasury-Hedged High Yield Bond Index was designed to provide exposure to below investment grade corporate bonds, denominated in U.S. dollars, and, through the use of U.S. Treasury notes, to hedge against rising interest rates.

The Treasury-Hedged High Yield Bond Index is comprised of a Long Portfolio and a Short Portfolio. The Long Portfolio of the Treasury-Hedged High Yield Bond Index includes qualifying corporate bonds that must have a below investment grade (IG) rating (based on ratings from Moody's, S&P and Fitch); a bond is eligible if it has either 2 or 3 high-yield (HY) ratings, 1 HY and 1 IG rating or 1 HY and no IG rating. The Treasury-Hedged High Yield Bond Index includes bonds, including callable bonds, issued by issuers incorporated in the United States. As of the date of June 30, 2014, approximately 27% of the Treasury-Hedged High Yield Bond Index is comprised of Rule 144A securities. As of June 30, 2014, the Treasury-Hedged High Yield Bond Index consisted of approximately 789 below investment grade bonds of 414 issuers.

Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$500 million. Original issue zero coupon bonds, Rule 144A securities, both with and without registration rights, and payment-in-kind securities, including toggle notes, qualify for inclusion in the Treasury-Hedged High Yield Bond Index. Payment-in-kind securities pay distributions or interest in the form of additional securities. Toggle notes are a type of payment-in-kind bond where the issuer has the option to defer an interest payment by agreeing to pay an increased coupon in the future. Callable perpetual securities qualify provided they are at least one year from the first call date. A callable perpetual security is a type of bond that has no maturity date but may be redeemed by the issuer at certain times. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Excluded from the Treasury-Hedged High Yield Bond Index are Eurodollar bonds (U.S. dollar-denominated bonds not issued in the U.S. domestic market), taxable and tax-exempt U.S. municipal, warrant-bearing and defaulted securities.

Long Portfolio Index constituents are modified market capitalization-weighted and issuers are capped at 3% and the excess weight shall be redistributed proportionately across the other Long Portfolio constituents.

The Short Portfolio of the Treasury-Hedged High Yield Bond Index includes a short position on the cheapest-to-deliver five-year U.S. Treasury note determined monthly as of the most recent rebalance date.

The Treasury-Hedged High Yield Bond Index is calculated and maintained by Interactive Data Pricing and Reference Data, LLC on behalf of the Index Provider. The Treasury-Hedged High Yield Bond Index values are calculated and disseminated at the end of each day when either the US bond market is open for trading or at least one of the components of the Treasury-Hedged High Yield Bond Index is available for trading.

The Long Portfolio and Short Portfolio of the Treasury-Hedged High Yield Bond Index are rebalanced as of the close of business on the last trading day of each month to where the absolute dollar amount of the short exposure is equivalent to the dollar amount of the Long Portfolio's high-yield bond positions, based on information available up to and including the fifth business day before the last business day of the month. Issues that meet the qualifying criteria are included in the Treasury-Hedged High Yield Bond Index for the following month. Issues that no longer meet the criteria during the course of the month remain in the Treasury-Hedged High Yield Bond Index until the next month-end rebalancing at which point they are removed from the Treasury-Hedged High Yield Bond Index. The Short Portfolio of the Treasury-Hedged High Yield Bond Index includes a short position on the cheapest-to-deliver five-year Treasury note (*i.e.*, the Index position is expected to increase in value if the value of the Treasury note decreases, such as may occur when interest rates rise with respect to such Treasury note).

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**FINANCIAL HIGHLIGHTS**

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The financial highlights table is intended to help you understand the Funds' financial performance since each Fund's inception. Certain information reflects financial results for a single Fund Share. The total returns in the table represent that rate that an investor would have earned (or lost) on an investment in a Fund (assuming reinvestment of all dividends and distributions). This information has been audited by Ernst & Young LLP, the Trust's independent registered public accounting firm, whose report, along with the Funds' financial statements, are included in the Funds Annual Report, which is available upon request.

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**FINANCIAL HIGHLIGHTS (continued)**

For a share outstanding throughout each period:

	<b>BDC Income ETF</b>	
	<b>For the Year Ended April 30, 2014</b>	<b>For the Period February 11, 2013(a) through April 30, 2013</b>
Net asset value, beginning of period	\$ 20.72	\$ 19.98
Income from investment operations:		
Net investment income	1.37	0.21
Net realized and unrealized gain (loss) on investments	(0.97 )	0.74
Total from investment operations	0.40	0.95
Less:		
Dividends from net investment income	(1.28 )	(0.21 )
Net asset value, end of period	\$ 19.84	\$ 20.72
Total return (b)	1.94 %	4.79 %(c)
<b>Ratios/Supplemental Data</b>		
Net assets, end of period (000 s)	\$ 33,728	\$ 11,398
Ratio of gross expenses to average net assets	0.81 %	4.82 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	7.38 %	6.67 %(d)
Portfolio turnover rate	14 %	0 %(c)

**Emerging Markets Aggregate Bond ETF**

	<b>For the Year Ended April 30,</b>		<b>For the Period May 11, 2011(a) through April 30, 2012</b>
	<b>2014</b>	<b>2013</b>	
Net asset value, beginning of period	\$ 26.43	\$ 25.28	\$ 25.00

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Income from investment operations:

Net investment income	1.19	1.16	1.30
Net realized and unrealized gain (loss) on investments	(2.49 )	1.10	0.18
<b>Total from investment operations</b>	<b>(1.30 )</b>	<b>2.26</b>	<b>1.48</b>
Less:			
Dividends from net investment income	(0.61 )	(1.10 )	(1.19 )
Distributions from net realized capital gains		(0.01 )	(0.01 )
Return of capital	(0.57 )		
<b>Total dividends and distributions</b>	<b>(1.18 )</b>	<b>(1.11 )</b>	<b>(1.20 )</b>
Net asset value, end of period	\$ 23.95	\$ 26.43	\$ 25.28
Total return (b)	(4.78 )%	9.25 %	6.05 %(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 21,556	\$ 47,571	\$ 7,583
Ratio of gross expenses to average net assets	1.34 %	1.26 %	1.92 %(d)
Ratio of net expenses to average net assets	0.50 %	0.49 %	0.49 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.49 %	0.49 %	0.49 %(d)
Ratio of net investment income to average net assets	4.57 %	4.92 %	5.44 %(d)
Portfolio turnover rate	58 %	11 %	11 %(c)

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized



For a share outstanding throughout each period:

	<b>Emerging Markets High Yield Bond ETF</b>	
	<b>For the Year Ended April 30, 2014</b>	<b>For the Period May 8, 2012(a) through April 30, 2013</b>
Net asset value, beginning of period	\$ 26.86	\$ 25.03
Income from investment operations:		
Net investment income	1.51	1.54
Net realized and unrealized gain (loss) on investments	(1.21 )	1.75
Total from investment operations	0.30	3.29
Less:		
Dividends from net investment income	(1.48 )	(1.45 )
Distributions from net realized capital gains		(0.01 )
Total dividends and distributions	(1.48 )	(1.46 )
Net asset value, end of period	\$ 25.68	\$ 26.86
Total return (b)	1.34 %	13.47 %(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 339,021	\$ 247,080
Ratio of gross expenses to average net assets	0.53 %	0.69 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	6.05 %	6.09 %(d)
Portfolio turnover rate	16 %	20 %(c)

	<b>Emerging Markets Local Currency Bond ETF</b>			
	<b>For the Year Ended April 30,</b>			<b>For the Period July 22, 2010(a) through April 30, 2011</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>	
	\$ 27.56	\$ 26.28	\$ 27.74	\$ 25.11

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Net asset value, beginning of period					
Income from investment operations:					
Net investment income	1.38	1.36	1.41	0.96	
Net realized and unrealized gain (loss) on investments	(3.98 )	1.13	(1.54 )	2.51	
Total from investment operations	(2.60 )	2.49	(0.13 )	3.47	
Less:					
Dividends from net investment income	(0.87 )	(1.14 )	(1.33 )	(0.84 )	
Return of capital	(0.40 )	(0.07 )			
Total dividends	(1.27 )	(1.21 )	(1.33 )	(0.84 )	
Net asset value, end of period	\$ 23.69	\$ 27.56	\$ 26.28	\$ 27.74	
Total return (b)	(9.35 )%	9.75 %	(0.34 )%	14.02 %(c)	

**Ratios/Supplemental  
Data**

Net assets, end of period (000 s)	\$ 810,369	\$ 1,504,998	\$ 741,109	\$ 349,530	
Ratio of gross expenses to average net assets	0.52 %	0.48 %	0.47 %	0.49 %(d)	
Ratio of net expenses to average net assets	0.47 %	0.47 %	0.47 %	0.49 %(d)	
Ratio of net expenses, excluding interest expense, to average net assets	0.47 %	0.47 %	0.47 %	0.48 %(d)	
Ratio of net investment income to average net assets	5.47 %	5.28 %	5.71 %	5.60 %(d)	
Portfolio turnover rate	16 %	16 %	21 %	3 %(c)	

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and

a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

- (c) Not annualized
  - (d) Annualized
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**FINANCIAL HIGHLIGHTS (continued)**

For a share outstanding throughout each period:

	<b>Fallen Angel High Yield Bond ETF</b>		
	<b>For the Year Ended April 30,</b>		<b>For the Period April 10, 2012(a) through April 30, 2012</b>
	<b>2014</b>	<b>2013</b>	
Net asset value, beginning of period	\$ 27.54	\$ 25.20	\$ 25.00
Income from investment operations:			
Net investment income	1.54	1.62	0.07
Net realized and unrealized gain on investments	0.37	2.39	0.13
Total from investment operations	1.91	4.01	0.20
Less:			
Dividends from net investment income	(1.55 )	(1.55 )	
Distributions from net realized capital gains	(0.08 )	(0.12 )	
Total dividends and distributions	(1.63 )	(1.67 )	
Net asset value, end of period	\$ 27.82	\$ 27.54	\$ 25.20
Total return (b)	7.31 %	16.40 %	0.80 %(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 16,695	\$ 11,017	\$ 10,080
Ratio of gross expenses to average net assets	1.47 %	1.48 %	6.27 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	5.72 %	6.16 %	4.90 %(d)
Portfolio turnover rate	35 %	34 %	0 %(c)

**International High Yield Bond ETF**

	<b>For the Year Ended April 30,</b>		<b>For the Period April 2, 2012(a) through</b>
	<b>2014</b>	<b>2013</b>	

April 30,  
2012

Net asset value, beginning of period	\$ 27.37	\$ 24.93	\$ 24.96
Income from investment operations:			
Net investment income	1.66	1.43	0.10
Net realized and unrealized gain (loss) on investments	0.44	2.43	(0.13 )
Total from investment operations	2.10	3.86	(0.03 )
Less:			
Dividends from net investment income	(1.69 )	(1.42 )	
Distributions from net realized capital gains	(0.05 )		
Total dividends and distributions	(1.74 )	(1.42 )	
Net asset value, end of period	\$ 27.73	\$ 27.37	\$ 24.93
Total return (b)	8.06 %	16.01 %	(0.12 )%(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 160,853	\$ 273,736	\$ 19,943
Ratio of gross expenses to average net assets	0.58 %	0.52 %	2.85 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	5.59 %	5.81 %	5.65 %(d)
Portfolio turnover rate	27 %	11 %	0 %(c)

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized



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	<b>For the Year Ended April 30,</b>		<b>For the Period August 16, 2011(a) through April 30, 2012</b>
	<b>2014</b>	<b>2013</b>	
Net asset value, beginning of period	\$ 29.41	\$ 25.35	\$ 24.85
<b>Income from investment operations:</b>			
Net investment income	3.06	2.84	2.07
Net realized and unrealized gain (loss) on investments	(4.85 )	4.08	0.36
<b>Total from investment operations</b>	<b>(1.79 )</b>	<b>6.92</b>	<b>2.43</b>
<b>Less:</b>			
Dividends from net investment income	(2.61 )	(2.72 )	(1.93 )
Distributions from net realized capital gains		(0.14 )	
Return of capital	(0.61 )		
<b>Total dividends and distributions</b>	<b>(3.22 )</b>	<b>(2.86 )</b>	<b>(1.93 )</b>
Net asset value, end of period	\$ 24.40	\$ 29.41	\$ 25.35
Total return (b)	(4.87 )%	28.75 %	10.87 %(c)
<b>Ratios/Supplemental Data</b>			
Net assets, end of period (000 s)	\$ 106,140	\$ 130,884	\$ 34,228
Ratio of gross expenses to average net assets	0.60 %	0.58 %	1.19 %(d)
Ratio of net expenses to average net assets	0.41 %	0.41 %	0.41 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	12.22 %	11.60 %	14.50 %(d)
Portfolio turnover rate	26 %	6 %	8 %(c)

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized

(e) Amount represents less than \$0.005 per share





**FINANCIAL HIGHLIGHTS (continued)****For a share outstanding throughout each period:**

	<b>Preferred Securities ex Financials ETF</b>	
	<b>For the Year Ended April 30, 2014</b>	<b>For the Period July 16, 2012(a) through April 30, 2013</b>
Net asset value, beginning of period	\$ 20.69	\$ 20.06
Income from investment operations:		
Net investment income	1.25	0.89
Net realized and unrealized gain (loss) on investments	(e)	0.57
Total from investment operations	1.25	1.46
Less:		
Dividends from net investment income	(1.24 )	(0.83 )
Net asset value, end of period	\$ 20.70	\$ 20.69
Total return (b)	6.59 %	7.38 %(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 162,519	\$ 163,471
Ratio of gross expenses to average net assets	0.53 %	0.51 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	6.40 %	6.25 %(d)
Portfolio turnover rate	19 %	21 %(c)

	<b>Renminbi Bond ETF</b>		
	<b>For the Year Ended April 30,</b>		<b>For the Period October 11, 2011(a) through April 30, 2012</b>
	<b>2014</b>	<b>2013</b>	
Net asset value, beginning of period	\$ 26.47	\$ 25.61	\$ 24.93

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Income from investment operations:

Net investment income	0.66	0.53	0.27
Net realized and unrealized gain (loss) on investments	(0.63 )	0.89	0.63
<b>Total from investment operations</b>	<b>0.03</b>	<b>1.42</b>	<b>0.90</b>
Less:			
Dividends from net investment income	(0.96 )	(0.56 )	(0.22 )
Net asset value, end of period	\$ 25.54	\$ 26.47	\$ 25.61
<b>Total return (b)</b>	<b>0.08 %</b>	<b>5.61 %</b>	<b>3.61 %(c)</b>

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 5,107	\$ 5,293	\$ 5,121
Ratio of gross expenses to average net assets	3.08 %	2.42 %	3.32 %(d)
Ratio of net expenses to average net assets	0.39 %	0.39 %	0.39 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.39 %	0.39 %	0.39 %(d)
Ratio of net investment income to average net assets	2.51 %	2.05 %	2.01 %(d)
Portfolio turnover rate	31 %	26 %	11 %(c)

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized

(e) Amount represents less than \$0.005 per share

For a share outstanding throughout each period:

	<b>Treasury-Hedged High Yield Bond ETF</b>	
	<b>For the Year Ended April 30, 2014</b>	<b>For the Period March 21, 2013(a) through April 30, 2013</b>
Net asset value, beginning of period	\$ 25.34	\$ 25.00
Income from investment operations:		
Net investment income	0.89	0.06
Net realized and unrealized gain on investments	0.48	0.28
<b>Total from investment operations</b>	<b>1.37</b>	<b>0.34</b>
Less:		
Dividends from net investment income	(0.85 )	
Distributions from net realized capital gains	(0.23 )	
<b>Total dividends and distributions</b>	<b>(1.08 )</b>	
Net asset value, end of period	\$ 25.63	\$ 25.34
<b>Total return (b)</b>	<b>5.55 %</b>	<b>1.36 %(c)</b>

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 10,251	\$ 10,136
Ratio of gross expenses to average net assets	2.50 %	4.53 %(d)
Ratio of net expenses to average net assets	1.22 %	1.54 %(d)
Ratio of net expenses, excluding interest expense and interest on securities sold short to average net assets	0.50 %	0.50 %(d)
Ratio of net investment income to average net assets	3.52 %	2.26 %(d)
Portfolio turnover rate	41 %	124 %(c)

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized



## **PREMIUM/DISCOUNT INFORMATION**

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Information regarding how often the Shares of a Fund traded on NYSE Arca at a price above (*i.e.*, at a premium) or below (*i.e.*, at a discount) the NAV of the Fund during the past four calendar quarters, as applicable, can be found at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

## **GENERAL INFORMATION**

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### **CONTINUOUS OFFERING**

The method by which Creation Units are created and traded may raise certain issues under applicable securities laws. Because new Creation Units are issued and sold by the Trust on an ongoing basis, at any point a distribution, as such term is used in the Securities Act, may occur. Broker dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery and liability provisions of the Securities Act.

For example, a broker dealer firm or its client may be deemed a statutory underwriter if it takes Creation Units after placing an order with the Distributor, breaks them down into constituent Shares, and sells such Shares directly to customers, or if it chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary market demand for Shares. A determination of whether one is an underwriter for purposes of the Securities Act must take into account all the facts and circumstances pertaining to the activities of the broker dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker dealers who are not underwriters but are participating in a distribution (as contrasted to ordinary secondary trading transactions), and thus dealing with Shares that are part of an unsold allotment within the meaning of Section 4(3)(C) of the Securities Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. This is because the prospectus delivery exemption in Section 4(3) of the Securities Act is not available in respect of such transactions as a result of Section 24(d) of the 1940 Act. As a result, broker dealer firms should note that dealers who are not underwriters but are participating in a distribution (as contrasted with ordinary secondary market transactions) and thus dealing with the Shares that are part of an overallotment within the meaning of Section 4(3)(A) of the Securities Act would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. Firms that incur a prospectus delivery obligation with respect to Shares are reminded that, under Rule 153 of the Securities Act, a prospectus delivery obligation under Section 5(b)(2) of the Securities Act owed to an exchange member in connection with a sale on NYSE Arca is satisfied by the fact that the prospectus is available at NYSE Arca upon request. The prospectus delivery mechanism provided in Rule 153 is only available with respect to transactions on an exchange.

In addition, certain affiliates of the Funds and the Adviser may purchase and resell Fund shares pursuant to this Prospectus.

## **OTHER INFORMATION**

The Trust was organized as a Delaware statutory trust on March 15, 2001. Its Declaration of Trust currently permits the Trust to issue an unlimited number of Shares of beneficial interest. If shareholders are required to vote on any matters, each Share outstanding would be entitled to one vote. Annual meetings of shareholders will not be held except as required by the 1940 Act and other applicable law. See the Funds' SAI for more information concerning the Trust's form of organization. Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies, including Shares of a Fund (except Market Vectors BDC Income ETF).

Registered investment companies are permitted to invest in the Funds (except Market Vectors BDC Income ETF) beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in an SEC exemptive order issued to the Trust, including that such investment companies enter into an agreement with such Fund.

Dechert LLP serves as counsel to the Trust, including the Funds. Ernst & Young LLP serves as the Trust's independent registered public accounting firm and will audit the Fund's financial statements annually.

#### **ADDITIONAL INFORMATION**

This Prospectus does not contain all the information included in the Registration Statement filed with the SEC with respect to the Funds' Shares. Information about the Funds can be reviewed and copied at the SEC's Public Reference Room and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1.202.551.8090. The Funds' Registration Statement, including this Prospectus, the Funds' SAI and the exhibits may be examined at the offices of the SEC (100 F Street, NE, Washington, DC 20549) or on the EDGAR database at the SEC's website (<http://www.sec.gov>), and copies may be obtained,

after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-1520. These documents and other information concerning the Trust also may be inspected at the offices of NYSE Arca (20 Broad Street, New York, New York 10005).

The SAI for the Funds, which has been filed with the SEC, provides more information about the Funds. The SAI for the Funds is incorporated herein by reference and is legally part of this Prospectus. Additional information about the Funds' investments is available in each Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. The SAI and the Funds' annual and semi-annual reports may be obtained without charge by writing to the Funds at Van Eck Securities Corporation, the Funds' distributor, at 335 Madison Avenue, New York, New York 10017 or by calling the distributor at the following number: Investor Information: 1.888.MKT.VCTR (658-8287).

Shareholder inquiries may be directed to the Funds in writing to 335 Madison Avenue, 19th Floor, New York, New York 10017 or by calling 1.888.MKT.VCTR (658-8287).

The Funds' SAI is available at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

(Investment Company Act file no. 811-10325)

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For more detailed information about the Funds, see the SAI dated September 1, 2014, which is incorporated by reference into this Prospectus. Additional information about the Funds' investments will be available in each Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

Call Van Eck at 888.MKT.VCTR to request, free of charge, the annual or semi-annual reports, the SAI, or other information about the Funds or to make shareholder inquiries. You may also obtain the SAI or a Fund's annual or semi-annual reports, when available, by visiting the Van Eck website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

Information about the Funds (including the SAI) can also be reviewed and copied at the SEC Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 202.551.8090.

Reports and other information about the Funds are available on the EDGAR Database on the SEC's internet site at <http://www.sec.gov>. In addition, copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-0102.

Transfer Agent: The Bank of New York Mellon

SEC Registration Number: 333-123257

1940 Act Registration Number: 811-10325

INCOMEPRO

**888.MKT.VCTR**

**[marketvectorsetfs.com](http://marketvectorsetfs.com)**

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September 1, 2014

**MARKET VECTORS**

**MUNICIPAL INCOME ETFs**

CEF Municipal Income ETF	XMPT®
High-Yield Municipal Index ETF	HYD®
Intermediate Municipal Index ETF	ITM®
Long Municipal Index ETF	MLN®
Pre-Refunded Municipal Index ETF	PRB®
Short High-Yield Municipal Index ETF	SHYD™
Short Municipal Index ETF	SMB®

Principal U.S. Listing Exchange for each Fund: NYSE Arca, Inc.

The U.S. Securities and Exchange Commission has not approved or disapproved these securities or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

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**TABLE OF CONTENTS**

<b><u>Summary Information</u></b>	1
<u>Market Vectors CEF Municipal Income ETF (XMPT)</u>	1
<u>Market Vectors High-Yield Municipal Index ETF (HYD)</u>	6
<u>Market Vectors Intermediate Municipal Index ETF (ITM)</u>	11
<u>Market Vectors Long Municipal Index ETF (MLN)</u>	16
<u>Market Vectors Pre-Refunded Municipal Index ETF (PRB)</u>	21
<u>Market Vectors Short High-Yield Municipal Index ETF (SHYD)</u>	26
<u>Market Vectors Short Municipal Index ETF (SMB)</u>	31
<u>Summary Information about Purchases and Sales of Fund Shares and Taxes</u>	35
<u>Additional Information About the Funds Investment Strategies and Risks</u>	36
<u>Tax Advantaged Product Structure</u>	44
<u>Portfolio Holdings</u>	44
<u>Management of the Funds</u>	44
<u>Portfolio Managers</u>	45
<u>Shareholder Information</u>	45
<u>Index Providers</u>	49
<u>S-Network Municipal Bond Closed-End Fund Index</u> <sup>SM</sup>	50
<u>Barclays Municipal Custom High Yield Composite Index</u>	51
<u>Barclays AMT-Free Intermediate Continuous Municipal Index</u>	52
<u>Barclays AMT-Free Long Continuous Municipal Index</u>	53
<u>Barclays Municipal Pre-Refunded Treasury-Escrowed Index</u>	54
<u>Barclays Municipal High-Yield Short Duration Index</u>	55
<u>Barclays AMT-Free Short Continuous Municipal Index</u>	56
<u>License Agreements and Disclaimers</u>	57
<u>Financial Highlights</u>	59
<u>Premium/Discount Information</u>	64
<u>General Information</u>	64

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**MARKET VECTORS CEF MUNICIPAL INCOME ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors CEF Municipal Income ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the S-Network Municipal Bond Closed-End Fund Index<sup>SM</sup> (the CEFMX Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee	0.40 %
Other Expenses	0.39 %
Acquired Fund Fees and Expenses <sup>(a)</sup>	1.25 %
Total Annual Fund Operating Expenses <sup>(b)</sup>	2.04 %
Fee Waivers and Expense Reimbursement <sup>(b)</sup>	(0.39)%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>(b)</sup>	1.65 %

<sup>(a)</sup> Acquired Fund Fees and Expenses reflect the Fund's pro rata portion of the expenses charged by the Underlying Funds (as defined herein). These expenses are based on the total expense ratio disclosed in each Underlying Fund's most recent shareholder report. Because Acquired Fund Fees and Expenses are not borne directly by the Fund, they will not be reflected in the expense information in the Fund's financial statements and the information presented in the table will differ from that presented in the Fund's financial highlights.

<sup>(b)</sup> Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses from exceeding 0.40% of the Fund's average daily net assets per year until at least September 1, 2015. During such time, the expense limitation is expected to continue until the Fund's Board of Trustees acts to discontinue all or a portion of such expense limitation.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these

assumptions, your costs would be:

YEARS	EXPENSES
1	\$ 168
3	\$ 602
5	\$ 1,062
10	\$ 2,338

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 9% of the average value of its portfolio.

**PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in investments the income from which is exempt from U.S. federal income tax (other than federal alternative minimum tax (AMT)). The Fund is a fund of funds, meaning that it invests all or a

**MARKET VECTORS CEF MUNICIPAL INCOME ETF (continued)**

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portion of its assets in other funds (the Underlying Funds ). The Fund normally invests at least 80% of its total assets in securities of issuers that comprise the Fund's benchmark index. The CEFMX Index is comprised of shares of U.S.-listed closed-end funds. The Underlying Funds invest in municipal bonds issued by states or local governments or agencies the income of which is exempt from U.S. federal income tax, but a portion of this income may be subject to the AMT and will generally be subject to state income taxes. The Fund's investment policy to invest at least 80% of its total assets in investments the income from which is exempt from U.S. federal income tax (other than AMT) requires shareholder approval before it can be changed. The Fund may count investments that generate income subject to the AMT toward the 80% investment requirement.

The Investment Company Act of 1940, as amended (the 1940 Act ), places limits on the percentage of the total outstanding stock of an Underlying Fund that may be owned by the Fund; however, exemptive relief from the Securities and Exchange Commission (the SEC ) permits it to invest in Underlying Funds in excess of this limitation if certain conditions are met (the Exemptive Relief ).

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the CEFMX Index by investing in a portfolio of securities that generally replicates the CEFMX Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the CEFMX Index will be 95% or better. A figure of 100% would indicate perfect correlation.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the CEFMX Index concentrates in an industry or group of industries.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Fund of Funds Risk.** The performance of the Fund is dependent on the performance of the Underlying Funds. The Fund is subject to the risks of the Underlying Funds' investments, and the Fund's shareholders will indirectly bear the expenses of the Underlying Funds. In addition, at times certain segments of the market represented by the Underlying Funds may be out of favor and underperform other segments.

**Risks of Investing in Closed-End Funds.** The shares of a closed-end fund may trade at a discount or premium to their net asset value ( NAV ). A closed-end fund may be leveraged as part of its investment strategy. As a result, the Fund may be indirectly exposed to the effects of leverage through its investment in the Underlying Funds. Investments in Underlying Funds that use leverage may cause the value of the Fund's Shares to be more volatile than if the Fund invested in Underlying Funds that do not utilize leverage.

To comply with provisions of the 1940 Act and the Exemptive Relief, the Adviser may be required to vote Underlying Fund shares in the same general proportion as shares held by other shareholders of the Underlying Fund.

**Underlying Funds Risk.** The Fund may be subject to the following risks as a result of its investment in the Underlying Funds:

**Market Risk.** The prices of the securities in the Underlying Funds are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An

investment in the Fund may lose money.

**Municipal Securities Risk.** The Underlying Funds may invest in municipal securities. Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less

liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**High Yield Securities Risk.** The Underlying Funds may invest in high yield securities. Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual municipal developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for municipal securities that are junk bonds may be less liquid than the markets for higher quality securities or junk bonds issued by corporate issuers and, as such, may have an adverse effect on the market prices of and an Underlying Fund's ability to arrive at a fair value for certain securities. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's NAV.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Underlying Funds may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund and each Underlying Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Call Risk.** The Underlying Funds may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Underlying Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Underlying Fund's net investment income, resulting in a decline in the Fund's income.

**Tax Risk.** There is no guarantee that the Underlying Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Underlying Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Underlying Fund to be taxable in the year of receipt. Federal or state changes in income tax or AMT rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Liquidity Risk.** Unlike the Fund, as closed-end funds the Underlying Funds are not limited in their ability to invest in illiquid securities. Securities with reduced liquidity involve greater risk than securities with more liquid markets. Prices of securities not traded on an exchange may vary over time. Secondary trading of a fixed-income security may decline for a period of time if its credit quality unexpectedly declines. An Underlying Fund may not receive full value for assets sold during periods of infrequent trading.

**Leverage Risk.** Ordinary borrowings by an Underlying Fund or an Underlying Fund's investment in derivatives may result in leverage. If the prices of those investments decrease, or if the cost of borrowing exceeds any increase in the prices of investments made with the proceeds of the borrowing, the NAV of the Underlying Fund's shares will decrease more than if the Underlying Fund had not used leverage. An Underlying Fund may have to sell investments at a time and at a price that is unfavorable to the Underlying Fund to repay borrowings. Interest on borrowings is an expense the Underlying Fund would not otherwise incur. Leverage magnifies the potential for gain and the risk of loss. If an Underlying Fund uses leverage, there can be no assurance that the Underlying Fund's leverage strategy will be successful.



**MARKET VECTORS CEF MUNICIPAL INCOME ETF (continued)**

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**Anti-Takeover Measures Risk.** Certain Underlying Funds may have provisions in their organizational documents intended to limit the ability of third parties to acquire control or change the composition of the Underlying Fund's board. This may discourage a third party from seeking to obtain control of the Underlying Fund, which could limit the ability of Underlying Fund shareholders to sell their shares at a premium over prevailing market prices.

**Non-Diversified Risk.** Some of the Underlying Funds may invest a relatively high percentage of their assets in a smaller number of issuers or may invest a larger proportion of their assets in the obligations of a single issuer. As a result, the gains and losses on an investment in such an Underlying Fund may have a greater impact on the Fund's NAV and may make the value of the Fund's investment in such an Underlying Fund more volatile than an investment in more diversified Underlying Funds.

**Risk of Investment Restrictions.** The Fund is subject to the conditions set forth in the Exemptive Relief and certain additional provisions of the 1940 Act that limit the amount that the Fund and its affiliates, in the aggregate, can invest in the outstanding voting securities of any one Underlying Fund. The Fund and its affiliates may not acquire control of an Underlying Fund, which is presumed once ownership of an Underlying Fund's outstanding voting securities exceeds 25%. This limitation could inhibit the Fund's ability to purchase one or more Underlying Funds in the CEFMX Index in the proportions represented in the CEFMX Index. In these circumstances, the Fund would be required to use sampling techniques, which could increase the risk of tracking error.

**Index Tracking Risk.** The Fund's return may not match the return of the CEFMX Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the CEFMX Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the CEFMX Index. The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the CEFMX Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the CEFMX Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the CEFMX Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

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The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

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**Annual Total Returns (%) Calendar Year**

The year-to-date total return as of June 30, 2014 was 14.00%.

Best Quarter: 6.02% 3Q 12

Worst Quarter: -8.18% 2Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (7/12/2011)
Market Vectors CEF Municipal Income ETF (return before taxes)	-12.99 %	2.73 %
Market Vectors CEF Municipal Income ETF (return after taxes on distributions)	-15.09 %	0.61 %
Market Vectors CEF Municipal Income ETF (return after taxes on distributions and sale of Fund Shares)	-7.27 %	1.36 %
S-Network Municipal Bond Closed-End Fund Index (reflects no deduction for fees, expenses or taxes)	-12.58 %	3.38 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Hao-Hung (Peter) Liao	Portfolio Manager	July 2011
George Cao	Portfolio Manager	July 2011

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.



**MARKET VECTORS HIGH-YIELD MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors High-Yield Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays Municipal Custom High Yield Composite Index (the High Yield Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.35 %

Other Expenses<sup>(a)</sup> 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.35 %

<sup>(a)</sup> The investment management agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the investment management agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 36
3	\$ 113
5	\$ 197
10	\$ 443

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 21% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the benchmark index. The High Yield Index is comprised of publicly traded municipal bonds that cover the U.S. dollar denominated high yield long-term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the High Yield Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the High Yield Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the High Yield Index, the Fund does not purchase all of the securities in the High Yield Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's

objective. As such, the Fund may purchase a subset of the bonds in the High Yield Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the High Yield Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the High Yield Index concentrates in an industry or group of industries. As of June 30, 2014, the High Yield Index was concentrated in the industrial development sector, and each of the health care and special tax (*i.e.*, revenue bonds backed by a specific tax) sectors represented a significant portion of the High Yield Index.

## **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or "junk bonds." Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual municipal developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for municipal securities that are junk bonds may be less liquid than the markets for higher quality securities or junk bonds issued by corporate issuers and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the High Yield Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value (NAV).

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a

possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.



**MARKET VECTORS HIGH-YIELD MUNICIPAL INDEX ETF (continued)**

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**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Private Activity Bonds Risk.** The issuers of private activity bonds in which the Fund may invest may be negatively impacted by conditions affecting either the general credit of the user of the private activity project or the project itself. The Fund's private activity bond holdings also may pay interest subject to the alternative minimum tax. See the section of the Prospectus entitled "Shareholder Information Tax Information" for more details.

**Industrial Development Bond Risk.** These revenue bonds are issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. To the extent that the High Yield Index continues to be concentrated in the industrial development sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrial development sector. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. Payment of interest on and repayment of principal on such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

**Health Care Bond Risk.** The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. To the extent that the health care sector continues to represent a significant portion of the High Yield Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the health care sector. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the High Yield Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Puerto Rico Risk.** The Fund may invest a significant portion of its assets in municipal obligations of issuers located in Puerto Rico. Consequently, the Fund may be affected by political, economic and regulatory developments within Puerto Rico and by the financial condition of Puerto Rico's political subdivisions, agencies, instrumentalities and public authorities.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the High Yield Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the High Yield Index. Conversely, a positive development relating to an issuer of securities in the High Yield Index that is not held by the Fund could cause the Fund to underperform the High Yield Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the High Yield Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the High Yield Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the High Yield Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the

High Yield Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the High Yield Index as would be the case if the Fund purchased all of the securities in the High Yield Index in the proportions in which they are represented in the High Yield Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the High Yield Index is based on securities closing prices (*i.e.*, the value of the High Yield Index is not based on fair value prices), the Fund's ability to track the High Yield Index may be adversely affected.

Replication Management Risk. An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the High Yield Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

Tax Risk. There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

Non-Diversified Risk. The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

Premium/Discount Risk. Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

Concentration Risk. The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the High Yield Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the High Yield Index as of June 30, 2014, the Fund's assets were concentrated in the industrial development sector; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## PERFORMANCE

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not

necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

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**MARKET VECTORS HIGH-YIELD MUNICIPAL INDEX ETF (continued)****Annual Total Returns (%) Calendar Year**

The year-to-date total return as of June 30, 2014 was 9.51%.

Best Quarter: 6.39% 1Q 12

Worst Quarter: -5.94% 4Q 10

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Since Inception (2/4/2009)
Market Vectors High-Yield Municipal Index ETF (return before taxes)	-8.50 %	8.52 %
Market Vectors High-Yield Municipal Index ETF (return after taxes on distributions)	-8.50 %	8.47 %
Market Vectors High-Yield Municipal Index ETF (return after taxes on distributions and sale of Fund Shares)	-2.52 %	8.11 %
Barclays Capital Municipal Custom High Yield Composite Index (reflects no deduction for fees, expenses or taxes)	-6.47 %	10.45 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	February 2009
Michael F. Mazier	Portfolio Manager	February 2009

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.



**MARKET VECTORS INTERMEDIATE MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Intermediate Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Intermediate Continuous Municipal Index (the Intermediate Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.24 %

Other Expenses<sup>(a)</sup> 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.24 %

<sup>(a)</sup> The investment management agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the investment management agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 25
3	\$ 77
5	\$ 135
10	\$ 306

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 1% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Intermediate Index. The Intermediate Index is comprised of publicly traded municipal bonds that cover the U.S. dollar denominated intermediate term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Intermediate Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and



**MARKET VECTORS INTERMEDIATE MUNICIPAL INDEX ETF (continued)**

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expenses and that of the Intermediate Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Intermediate Index, the Fund does not purchase all of the securities in the Intermediate Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Intermediate Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Intermediate Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Intermediate Index concentrates in an industry or group of industries. As of June 30, 2014, the transportation and special tax (*i.e.*, revenue bonds backed by a specific tax) sectors represented a significant portion of the Intermediate Index.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the

potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**California Risk.** The Fund may invest a significant portion of its assets in municipal obligations of issuers located in the State of California. Consequently, the Fund may be affected by political, economic and regulatory developments within California and by the financial condition of California's political subdivisions, agencies, instrumentalities and public authorities.

**Transportation Bond Risk.** Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. To the extent that the transportation sector continues to represent a significant portion of the Intermediate Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the transportation sector. Airport bonds are dependent on the general stability of the airline industry and on the stability of a

specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the Intermediate Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Intermediate Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in net asset value (NAV) than would be the case if the Fund held all of the securities in the Intermediate Index. Conversely, a positive development relating to an issuer of securities in the Intermediate Index that is not held by the Fund could cause the Fund to underperform the Intermediate Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Intermediate Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Intermediate Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Intermediate Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Intermediate Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Intermediate Index as would be the case if the Fund purchased all of the securities in the Intermediate Index in the proportions in which they are represented in the Intermediate Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Intermediate Index is based on securities' closing prices (*i.e.*, the value of the Intermediate Index is not based on fair value prices), the Fund's ability to track the Intermediate Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Intermediate Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**MARKET VECTORS INTERMEDIATE MUNICIPAL INDEX ETF (continued)**

Concentration Risk. The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Intermediate Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by comparing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year, five year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 6.02%.

Best Quarter: 7.30% 3Q 09

Worst Quarter: -5.27% 4Q 10

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Past Five Years	Since Inception (12/4/2007)
Market Vectors Intermediate Municipal Index ETF (return before taxes)	-3.53 %	5.52 %	4.35 %
Market Vectors Intermediate Municipal Index ETF (return after taxes on distributions)	-3.53 %	5.51 %	4.34 %
Market Vectors Intermediate Municipal Index ETF (return after taxes on distributions and sale of Fund Shares)	-0.92 %	5.05 %	4.11 %
Barclays Capital AMT-Free Intermediate Continuous Municipal Index (reflects no deduction for fees, expenses or taxes)	-3.16 %	6.18 %	5.17 %



**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	December 2007
Michael F. Mazier	Portfolio Manager	December 2007

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.

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**MARKET VECTORS LONG MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Long Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Long Continuous Municipal Index (the Long Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.24 %

Other Expenses<sup>(a)</sup> 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.24 %

<sup>(a)</sup> The investment management agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the investment management agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 25
3	\$ 77
5	\$ 135
10	\$ 306

**PORTFOLIO TURNOVER**



The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 5% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Long Index. The Long Index is comprised of publicly traded municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Long Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Long Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Long Index, the Fund does not purchase all of the securities in the Long Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase

a subset of the bonds in the Long Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Long Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Long Index concentrates in an industry or group of industries. As of June 30, 2014, the health care, transportation, water and sewer and special tax (*i.e.*, revenue bonds backed by a specific tax) sectors represented a significant portion of the Long Index.

## **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the price of most bonds go down. When the general level of interest rates goes down, the price of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of low volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

Call Risk. The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

Health Care Bond Risk. The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. To the extent that the health care sector continues to represent a significant portion of the Long Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the health care sector. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the

**MARKET VECTORS LONG MUNICIPAL INDEX ETF (continued)**

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way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

**Transportation Bond Risk.** Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. To the extent that the transportation sector continues to represent a significant portion of the Long Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the transportation sector. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

**Water and Sewer Bond Risk.** Water and sewer revenue bonds are often considered to have relatively secure credit as a result of their issuer's importance, monopoly status and generally unimpeded ability to raise rates. To the extent that the water and sewer sector continues to represent a significant portion of the Long Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the water and sewer sector. Despite this, lack of water supply due to insufficient rain, run off or snow pack is a concern that has led to past defaults. Further, public resistance to rate increases, costly environmental litigation and federal environmental mandates are challenges faced by issuers of water and sewer bonds.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the Long Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Long Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in net asset value (NAV) than would be the case if the Fund held all of the securities in the Long Index. Conversely, a positive development relating to an issuer of securities in the Long Index that is not held by the Fund could cause the Fund to underperform the Long Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Long Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Long Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Long Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not

factored into the return of the Long Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Long Index as would be the case if the Fund purchased all of the securities in the Long Index in the proportions in which they are represented in the Long Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Long Index is based on securities' closing prices (*i.e.*, the value of the Long Index is not based on fair value prices), the Fund's ability to track the Long Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Long Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Long Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## PERFORMANCE

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by comparing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year, five year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

### Annual Total Returns (%) Calendar Years

The year-to-date total return as of June 30, 2014 was 11.06%.

Best Quarter: 10.82% 3Q 09

Worst Quarter: -8.60% 4Q 10

### Average Annual Total Returns for the Periods Ended December 31, 2013

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to

investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

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**MARKET VECTORS LONG MUNICIPAL INDEX ETF (continued)**

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	Past One Year	Past Five Years	Since Inception (1/2/2008)
Market Vectors Long Municipal Index ETF (return before taxes)	-8.24 %	6.54 %	2.42 %
Market Vectors Long Municipal Index ETF (return after taxes on distributions)	-8.24 %	6.54 %	2.42 %
Market Vectors Long Municipal Index ETF (return after taxes on distributions and sale of Fund Shares)	-2.97 %	6.20 %	2.85 %
Barclays Capital AMT-Free Long Continuous Municipal Index (reflects no deduction for fees, expenses or taxes)	-6.49 %	8.00 %	4.45 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	January 2008
Michael F. Mazier	Portfolio Manager	January 2008

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.

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**MARKET VECTORS PRE-REFUNDED MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Pre-Refunded Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays Municipal Pre-Refunded Treasury-Escrowed Index (the Pre-Refunded Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.24 %

Other Expenses<sup>(a)</sup> 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.24 %

<sup>(a)</sup> The investment management agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the investment management agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 25
3	\$ 77
5	\$ 135
10	\$ 306

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 61% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the benchmark index. The Pre-Refunded Index is comprised of publicly traded municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. Constituent bonds include pre-refunded and/or escrowed-to-maturity municipal bonds, provided that the collateral in the escrow account is comprised strictly of obligations of, and carry the full faith and credit of, the U.S. Treasury. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Pre-Refunded Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses

**MARKET VECTORS PRE-REFUNDED MUNICIPAL INDEX ETF (continued)**

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and that of the Pre-Refunded Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Pre-Refunded Index, the Fund does not purchase all of the securities in the Pre-Refunded Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Pre-Refunded Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Pre-Refunded Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Pre-Refunded Index concentrates in an industry or group of industries. As of June 30, 2014, the transportation and special tax (*i.e.*, revenue bonds backed by a specific tax) sectors represented a significant portion of the Pre-Refunded Index.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**Pre-Refunded Bonds Risk.** Pre-refunded bonds are bonds that have been refunded to a call date prior to the final maturity of principal, or, in the case of pre-refunded bonds commonly referred to as escrowed-to-maturity bonds, to the final maturity of principal, and remain outstanding in the municipal market. The payment of principal and interest of the pre-refunded bonds held by the Fund is funded from securities held in a designated escrow account where such securities are obligations of and carry the full faith and credit of the U.S. Treasury. The securities held in the escrow fund pledged to pay the principal and interest of the pre-refunded bond do not guarantee the price of the bond. The Fund's investment in pre-refunded bonds may subject the Fund to interest rate and reinvestment risk.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit

worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Reinvestment Risk.** Reinvestment risk is the risk that proceeds from the current investment, both interest payments and principal payments, may be reinvested in instruments that offer lower yields than the current investment due in part to market conditions and the interest rate environment at the time of reinvestment. Reinvestment risk is greater on short- to intermediate-term instruments.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the Pre-Refunded Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Transportation Bond Risk.** Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. To the extent that the transportation sector continues to represent a significant portion of the Pre-Refunded Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the transportation sector. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Pre-Refunded Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in net asset value (NAV) than would be the case if the Fund held all of the securities in the Pre-Refunded Index. Conversely, a positive development relating to an issuer of securities in the Pre-Refunded Index that is not held by the Fund could cause the Fund to underperform the Pre-Refunded Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Pre-Refunded Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Pre-Refunded Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Pre-Refunded Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Pre-Refunded Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Pre-Refunded Index as would be the case if the Fund purchased all of the securities in the Pre-Refunded Index in the proportions in which they are represented in the Pre-Refunded Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Pre-Refunded Index is based on securities' closing prices (*i.e.*, the value of the Pre-Refunded Index is not based on fair value prices), the Fund's ability to track the Pre-Refunded Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific

security is removed from the Pre-Refunded Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and

**MARKET VECTORS PRE-REFUNDED MUNICIPAL INDEX ETF (continued)**

losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Pre-Refunded Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

**PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by showing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 0.94%.

Best Quarter: 1.41% 2Q 10

Worst Quarter: -2.14% 2Q 13

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Past One Year	Since Inception (2/2/2009)
-1.89 %	1.27 %

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Market Vectors Pre-Refunded Municipal Index ETF (return before taxes)		
Market Vectors Pre-Refunded Municipal Index ETF (return after taxes on distributions)	-1.89 %	1.26 %
Market Vectors Pre-Refunded Municipal Index ETF (return after taxes on distributions and sale of Fund Shares)	-0.54 %	1.29 %
Barclays Capital Municipal Pre-Refunded-Treasury-Escrowed Index (reflects no deduction for fees, expenses or taxes)	0.36 %	1.96 %

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**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	February 2009
Michael F. Mazier	Portfolio Manager	February 2009

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.

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**MARKET VECTORS SHORT HIGH-YIELD MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Short High-Yield Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays Municipal High Yield Short Duration Index (the Short High-Yield Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund ( Shares ).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.35 %

Other Expenses 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.35 %

<sup>(a)</sup> The Investment Management Agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**EXPENSE EXAMPLE**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 36
3	\$ 113

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in

higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the period January 13, 2014 (the Fund's commencement of operations) through April 30, 2014, the Fund's portfolio turnover rate was 6% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in securities that comprise the benchmark index. The Short High-Yield Index is composed of publicly traded municipal bonds that cover the U.S. dollar denominated high yield short-term tax-exempt bond market. All bonds must have a fixed rate, a dated-date (*i.e.*, the date when interest begins to accrue) after December 31, 1990 and a nominal maturity of 1 to 10 years. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Short High-Yield Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Short High-Yield Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the

practical difficulties and expense of purchasing all of the securities in the Short High-Yield Index, the Fund does not purchase all of the securities in the Short High-Yield Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Short High-Yield Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Short High-Yield Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Short High-Yield Index concentrates in an industry or group of industries. As of June 30, 2014, the Short High-Yield Index was concentrated in the industrial development sector, and the health care and special tax (i.e., revenue bonds backed by a specific tax) sectors represented a significant portion of the Short High-Yield Index.

## **PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or to otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise

rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**High Yield Securities Risk.** Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual municipal developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities or junk bonds issued by corporate issuers and, as such, may have an adverse effect on the market prices of and the Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Short High-Yield Index. In addition,

**MARKET VECTORS SHORT HIGH-YIELD MUNICIPAL INDEX ETF (continued)**

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periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund's net asset value ( NAV ).

**Industrial Development Bond Risk.** These revenue bonds are issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. To the extent that the Short High-Yield Index continues to be concentrated in the industrial development sector, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the industrial development sector. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. Payment of interest on and repayment of principal of such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

**Health Care Bond Risk.** The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. To the extent that the health care sector continues to represent a significant portion of the Short High-Yield Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the health care sector. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the Short High-Yield Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Puerto Rico Risk.** The Fund may invest a significant portion of its assets in municipal obligations of issuers located in Puerto Rico. Consequently, the Fund may be affected by political, economic and regulatory developments within Puerto Rico and by the financial condition of Puerto Rico's political subdivisions, agencies, instrumentalities and public authorities.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Private Activity Bonds Risk.** The issuers of private activity bonds in which the Fund may invest may be negatively impacted by conditions affecting either the general credit of the user of the private activity project or the project itself. The Fund's private activity bond holdings also may pay interest subject to the alternative minimum tax. See the section of the Prospectus entitled "Shareholder Information Tax Information" for more details.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Short High-Yield Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Short High-Yield Index. Conversely, a positive development relating to an issuer of securities in the Short High-Yield Index that is not held by the Fund could cause the Fund to underperform the Short High-Yield Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Short High-Yield Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Short High-Yield Index and incurs costs associated

with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Short High-Yield Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Short High-Yield Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Short High-Yield Index as would be the case if the Fund purchased all of the securities in the Short High-Yield Index in the proportions in which they are represented in the Short High-Yield Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Short High-Yield Index is based on securities' closing prices (*i.e.*, the value of the Short High-Yield Index is not based on fair value prices), the Fund's ability to track the Short High-Yield Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Short High-Yield Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Short High-Yield Index concentrates in a particular sector or sectors or industry or group of industries. Based on the composition of the Short High-Yield Index as of June 30, 2014, the Fund's assets were concentrated in the industrial development sector; therefore, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## **PERFORMANCE**



The Fund commenced operations on January 13, 2014 and therefore does not have a performance history for a full calendar year. The Fund's financial performance for the Fund's first fiscal period is included in the Financial Highlights section of the Prospectus. Visit [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com) for current performance figures.

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**MARKET VECTORS SHORT HIGH-YIELD MUNICIPAL INDEX ETF (continued)**

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**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	January 2014
Michael F. Mazier	Portfolio Manager	January 2014

**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.

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**MARKET VECTORS SHORT MUNICIPAL INDEX ETF****SUMMARY INFORMATION****INVESTMENT OBJECTIVE**

Market Vectors Short Municipal Index ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Short Continuous Municipal Index (the Short Index).

**FUND FEES AND EXPENSES**

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (*fees paid directly from your investment*) None

**Annual Fund Operating Expenses**

(*expenses that you pay each year as a percentage of the value of your investment*)

Management Fee 0.20 %

Other Expenses<sup>(a)</sup> 0.00 %

Total Annual Fund Operating Expenses<sup>(a)</sup> 0.20 %

<sup>(a)</sup> The investment management agreement between Market Vectors ETF Trust (the Trust) and Van Eck Associates Corporation (the Adviser) provides that the Adviser will pay all expenses of the Fund, except for the fee payment under the investment management agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

**Expense Example**

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	\$ 20
3	\$ 64
5	\$ 113
10	\$ 255

**PORTFOLIO TURNOVER**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 3% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Short Index. The Short Index is comprised of publicly traded municipal bonds that cover the U.S. dollar denominated short-term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Short Index. The Adviser expects that, over time, the correlation between the Fund's performance before fees and expenses and that of the Short Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Short Index, the Fund does not purchase all of the securities in the Short

**MARKET VECTORS SHORT MUNICIPAL INDEX ETF (continued)**

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Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Short Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Short Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Short Index concentrates in an industry or group of industries. As of June 30, 2014, the special tax (*i.e.*, revenue bonds backed by a specific tax) and transportation sectors represented a significant portion of the Short Index.

**PRINCIPAL RISKS OF INVESTING IN THE FUND**

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

**Credit Risk.** Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Call Risk.** The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. To the extent that the special tax sector continues to represent a significant portion of the Short Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the special tax sector. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Transportation Bond Risk.** Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. To the extent that the transportation sector continues to represent a significant portion of the Short Index, the Fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the

transportation sector. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

**Market Risk.** The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

**Sampling Risk.** The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Short Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in net asset value (NAV) than would be the case if the Fund held all of the securities in the Short Index. Conversely, a positive development relating to an issuer of securities in the Short Index that is not held by the Fund could cause the Fund to underperform the Short Index. To the extent the assets in the Fund are smaller, these risks will be greater.

**Index Tracking Risk.** The Fund's return may not match the return of the Short Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Short Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Short Index and deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Short Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Short Index as would be the case if the Fund purchased all of the securities in the Short Index in the proportions in which they are represented in the Short Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Short Index is based on securities' closing prices (*i.e.*, the value of the Short Index is not based on fair value prices), the Fund's ability to track the Short Index may be adversely affected.

**Replication Management Risk.** An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Short Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Non-Diversified Risk.** The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the 1940 Act ). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Concentration Risk.** The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Short Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or sectors or industry or group of industries, the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.



**MARKET VECTORS SHORT MUNICIPAL INDEX ETF (continued)****PERFORMANCE**

The bar chart that follows shows how the Fund performed for the calendar years shown. The table below the bar chart shows the Fund's average annual returns (before and after taxes). The bar chart and table provide an indication of the risks of investing in the Fund by comparing the Fund's performance from year to year and by showing how the Fund's average annual returns for the one year, five years and since inception periods compared with the Fund's benchmark index. All returns assume reinvestment of dividends and distributions. The Fund's past performance (before and after taxes) is not necessarily indicative of how the Fund will perform in the future. Updated performance information is available online at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Annual Total Returns (%) Calendar Years**

The year-to-date total return as of June 30, 2014 was 1.41%.

Best Quarter: 3.16% 3Q 09

Worst Quarter: -1.85% 4Q 10

**Average Annual Total Returns for the Periods Ended December 31, 2013**

The after-tax returns presented in the table below are calculated using the highest historical individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Your actual after-tax returns will depend on your specific tax situation and may differ from those shown below. After-tax returns are not relevant to investors who hold Shares of the Fund through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

	Past One Year	Past Five Years	Since Inception (2/22/2008)
Market Vectors Short Municipal Index ETF (return before taxes)	0.42 %	3.16 %	3.08 %
Market Vectors Short Municipal Index ETF (return after taxes on distributions)	0.41 %	3.14 %	3.07 %
Market Vectors Short Municipal Index ETF (return after taxes on distributions and sale of Fund Shares)	0.85 %	2.89 %	2.85 %
Barclays Capital AMT-Free Short Continuous Municipal Index (reflects no deduction for fees, expenses or taxes)	1.07 %	3.68 %	3.86 %

**PORTFOLIO MANAGEMENT**

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
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James T. Colby III	Portfolio Manager	February 2008
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Michael F. Mazier	Portfolio Manager	February 2008
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**PURCHASE AND SALE OF FUND SHARES**

For important information about the purchase and sale of Fund Shares and tax information, please turn to Summary Information about Purchases and Sales of Fund Shares and Taxes on page 35 of this Prospectus.

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34

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**SUMMARY INFORMATION ABOUT PURCHASES AND SALES OF FUND SHARES AND TAXES**

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**PURCHASE AND SALE OF FUND SHARES**

The Funds issue and redeem Shares at NAV only in a large specified number of Shares, each called a Creation Unit, or multiples thereof. A Creation Unit consists of 100,000 Shares (50,000 Shares with respect to Market Vectors CEF Municipal Income ETF) of a Fund.

Individual Shares of a Fund may only be purchased and sold in secondary market transactions through brokers. Shares of the Funds are listed on NYSE Arca, Inc. ( NYSE Arca ) and because Shares trade at market prices rather than NAV, Shares of the Funds may trade at a price greater than or less than NAV.

**TAX INFORMATION**

The Funds expect to distribute net investment income at least monthly, and any net realized long-term or short-term capital gains annually. The Funds may also pay a special distribution at any time to comply with U.S. federal tax requirements. Dividends paid by the Funds that are properly reported as exempt-interest dividends will not be subject to regular U.S. federal income tax. The Funds intend to invest its assets in a manner such that a significant portion of their dividend distributions to shareholders will generally be exempt from U.S. federal income taxes, including the federal alternative minimum tax for noncorporate shareholders. Such distributions will generally be subject to state income taxes.

Distributions from a Fund's net investment income (other than net tax-exempt income), including any net short-term capital gains, if any, are taxable to you as ordinary income.

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## **ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**

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### **PRINCIPAL INVESTMENT STRATEGIES**

Each Fund (except Market Vectors CEF Municipal Income ETF) uses a sampling approach in seeking to achieve its investment objective. Sampling means that the Adviser uses quantitative analysis to select a representative sample of securities that the Adviser believes collectively have an investment profile similar to the underlying Index. The Adviser seeks to select securities that will have, in the aggregate, investment characteristics (such as return variability, duration, maturity or credit ratings and yield) and liquidity measures similar to those of a Fund's Index. The quantity of holdings in a Fund will be based on a number of factors, including asset size of such Fund. The Adviser generally expects a Fund to hold less than the total number of securities in its Index, but reserves the right to hold as many securities as it believes necessary to achieve the Fund's investment objective. In addition, from time to time, securities are added to or removed from the applicable Index. Each Fund may sell securities that are represented in its Index, or purchase securities that are not yet represented in its Index, in anticipation of their removal from or addition to such Index. Further, the Adviser may choose to underweight or overweight a security, purchase or sell securities not in an Index, or utilize various combinations of other available investment techniques, in seeking to track a Fund's Index.

The Adviser anticipates that, generally, Market Vectors CEF Municipal Income ETF will hold all of the securities that comprise the CEFMX Index in proportion to their weightings in the CEFMX Index. However, because of limitations imposed by 1940 Act regarding investments in other investment companies, Market Vectors CEF Municipal Income ETF may purchase a sample of securities in the CEFMX Index. There also may be instances in which the Adviser may choose to underweight or overweight a security in the CEFMX Index, purchase securities not in the CEFMX Index that the Adviser believes are appropriate to substitute for certain securities in the CEFMX Index or utilize various combinations of other available investment techniques in seeking to replicate as closely as possible, before fees and expenses, the price and yield performance of the CEFMX Index. Market Vectors CEF Municipal Income ETF may sell securities that are represented in the CEFMX Index in anticipation of their removal from the CEFMX Index or purchase securities not represented in the CEFMX Index in anticipation of their addition to the CEFMX Index. Market Vectors CEF Municipal Income ETF may also, in order to comply with the tax diversification requirements of the Internal Revenue Code of 1986, as amended ( Internal Revenue Code ), temporarily invest in securities not included on the CEFMX Index that are expected to be highly correlated with the securities included in the CEFMX Index.

### **ADDITIONAL INVESTMENT STRATEGIES**

Each Fund may invest in securities not included in its respective Index, money market instruments, including repurchase agreements or other funds which invest exclusively in money market instruments, convertible securities, structured notes (notes on which the amount of principal repayment and interest payments are based on the movement of one or more specified factors, such as the movement of a particular stock or stock index), and certain derivatives, which the Adviser believes will help a Fund track its Index. Convertible securities and depositary receipts not included in a Fund's Index may be used by a Fund in seeking performance that corresponds to its respective Index, and in managing cash flows, and may count towards compliance with a Fund's 80% policy. Each Fund may also invest, to the extent permitted by the 1940 Act or, in the case of Market Vectors CEF Municipal Income ETF, the Exemptive Relief, in other affiliated and unaffiliated funds, such as open-end or closed-end management investment companies, including other exchange-traded funds ( ETFs ). A Fund will not, however, invest in money market instruments as part of a temporary defensive strategy to protect against potential securities market declines.

An authorized participant (*i.e.*, a person eligible to place orders with the Distributor (defined below) to create or redeem Creation Units of a Fund) that is not a qualified institutional buyer, as such term is defined under Rule 144A under the Securities Act of 1933, as amended ( Securities Act ), will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

### **BORROWING MONEY**

Each Fund may borrow money from a bank up to a limit of one-third of the market value of its assets. To the extent that a Fund borrows money, it will be leveraged; at such times, the Fund will appreciate or depreciate in value more rapidly than its benchmark Index.

#### **FUNDAMENTAL AND NON-FUNDAMENTAL POLICIES**

Each Fund's investment objective and each of its other investment policies are non-fundamental policies that may be changed by the Board of Trustees without shareholder approval, except as noted in this Prospectus or the Statement of Additional Information ( SAI ) under the section entitled Investment Policies and Restrictions Investment Restrictions.

#### **LENDING PORTFOLIO SECURITIES**

Each Fund may lend its portfolio securities to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions and for other purposes. In connection with such loans, a Fund receives liquid collateral equal to at least 102% of the value of the portfolio securities being loaned. This collateral is marked-to-market on a daily basis. Although a Fund will receive collateral in connection with all loans of its securities holdings, the Fund would be exposed to a risk of loss should a

borrower fail to return the borrowed securities (*e.g.*, the Fund would have to buy replacement securities and the loaned securities may have appreciated beyond the value of the collateral held by the Fund) or become insolvent. The Fund may pay fees to the party arranging the loan of securities. In addition, a Fund will bear the risk of loss of any cash collateral that it invests.

## **RISKS OF INVESTING IN THE FUNDS**

The following section provides additional information regarding the principal risks identified under *Principal Risks of Investing in the Fund* in each Fund's *Summary Information* section followed by additional risk information. The risks listed below are applicable to each Fund unless otherwise noted.

Investors in a Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in a Fund involves a substantial degree of risk. An investment in a Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in a Fund, each of which could significantly and adversely affect the value of an investment in a Fund.

**Credit Risk.** Debt securities, such as bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Debt securities are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a debt security may be downgraded after purchase, or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. A Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

**Interest Rate Risk.** Debt securities, such as bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. Each Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

**Municipal Securities Risk.** Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. In addition, there is a risk that, as a result of the current economic crisis, the ability of any issuer to pay, when due, the principal or interest on its municipal bonds may be materially affected. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics.

Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. Municipal securities

backed by current or anticipated revenues from a specific project or specific assets can be negatively affected by the discontinuance of the taxation supporting the project or assets or the inability to collect revenues for the project or from the assets.

If the Internal Revenue Service ( IRS ) determines that an issuer of a municipal security has not complied with applicable tax requirements, interest from the security could become taxable and the security could decline significantly in value.

The market for municipal bonds may be less liquid than for taxable bonds. There may also be less information available on the financial condition of issuers of municipal securities than for public corporations. This means that it may be harder to buy and sell municipal securities, especially on short notice, and municipal securities may be more difficult for a Fund (and the Underlying Funds in which Market Vectors CEF Municipal Income ETF invests) to value accurately than securities of public corporations. Since the Funds (and the Underlying Funds in which Market Vectors CEF Municipal Income ETF invests) invest a significant portion of their portfolio in municipal securities, each Fund s (and each Underlying Fund s) portfolio may have greater exposure to liquidity risk than a fund that invests in non-municipal securities. In addition, the value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. The markets for many credit instruments, including municipal securities, have experienced periods of

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS  
(continued)**

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illiquidity and extreme volatility since the latter half of 2007. In response to the global economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. In addition, issuers of municipal securities may seek protection under the bankruptcy laws. Many state and local governments that issue municipal securities are currently under significant economic and financial stress and may not be able to satisfy their obligations. The taxing power of any governmental entity may be limited and an entity's credit may depend on factors which are beyond the entity's control.

**High Yield Securities Risk.** (Market Vectors CEF Municipal Income ETF, Market Vectors High-Yield Municipal Index ETF and Market Vectors Short High-Yield Municipal Index ETF only.) Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual municipal developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, a Fund may incur additional expenses to seek recovery. The secondary market for municipal securities that are junk bonds may be less liquid than the markets for higher quality securities or junk bonds issued by corporate issuers and, as such, may have an adverse effect on the market prices of and an underlying Fund's ability to arrive at a fair value for certain securities. The illiquidity of the market also could make it difficult for a Fund to sell certain securities in connection with a rebalancing of the respective Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in a Fund's NAV.

**Fund of Funds Risk.** (Market Vectors CEF Municipal Income ETF only.) The performance of the Fund is dependent on the performance of the Underlying Funds. The Fund will be subject to the risks of the Underlying Funds investments, and the Fund's shareholders will indirectly bear the expenses of the Underlying Funds. In addition, at times certain segments of the market represented by the Underlying Funds may be out of favor and underperform other segments.

**Risks of Investing in Closed-End Funds.** (Market Vectors CEF Municipal Income ETF only.) The shares of a closed-end fund may trade at a discount or premium to its NAV. A closed-end fund may be leveraged as part of its investment strategy. As a result, the Fund may be indirectly exposed to the effects of leverage through its investment in the Underlying Funds. Investments in Underlying Funds that use leverage may cause the value of the Fund's Shares to be more volatile than if the Fund invested in Underlying Funds that do not utilize leverage. To comply with provisions of the 1940 Act, on any matter upon which the Underlying Fund shareholders are solicited to vote, the Adviser will vote Underlying Fund shares held by the Fund in the same general proportion as shares held by other shareholders of the Underlying Fund.

**Risk of Investment Restrictions.** (Market Vectors CEF Municipal Income ETF only.) The Fund is subject to the conditions set forth in the Exemptive Relief and certain additional provisions of the 1940 Act that limit the amount that the Fund and its affiliates, in the aggregate, can invest in the outstanding voting securities of any one Underlying Fund. The Fund and its affiliates may not acquire control of an Underlying Fund, which is presumed once ownership of an Underlying Fund's outstanding voting securities exceeds 25%. This limitation could inhibit the Fund's ability to purchase one or more Underlying Funds in the CEFMX Index in the proportions represented in the CEFMX Index. In these circumstances, the Fund would be required to use sampling techniques, which could increase the risk of tracking error.

**Sampling Risk.** (All Funds except Market Vectors CEF Municipal Income ETF.) A Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in its respective Index. As a result,



an adverse development respecting an issuer of securities held by a Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in its respective Index. Conversely, a positive development relating to an issuer of securities in an Index that is not held by the Fund could cause the Fund to underperform its respective Index. To the extent the assets in a Fund are smaller, these risks will be greater.

**Private Activity Bonds Risk.** (Market Vectors High-Yield Municipal Index ETF and Market Vectors Short High-Yield Municipal Index ETF only.) The issuers of private activity bonds in which the Fund may invest may be negatively impacted by conditions affecting either the general credit of the user of the private activity project or the project itself. Conditions such as regulatory and environmental restrictions and economic downturns may lower the need for these facilities and the ability of users of the project to pay for the facilities. This could cause a decline in the Fund's value. The Fund's private activity bond holdings also may pay interest subject to the alternative minimum tax. See the section of the Prospectus entitled "Shareholder Information - Tax Matters" for more details.

**Pre-Refunded Bonds Risk.** (Market Vectors Pre-Refunded Municipal Index ETF only.) Pre-refunded bonds are bonds that have been refunded to a call date prior to the final maturity of principal, or, in the case of pre-refunded bonds commonly referred to as "escrowed-to-maturity bonds," to the final maturity of principal, and remain outstanding in the municipal market. The payment of principal and interest of the pre-refunded bonds held by the Fund is funded from securities held in a designated escrow.

account where such securities are obligations of and carry the full faith and credit of the U.S. Treasury. The securities held in the escrow fund pledged to pay the principal and interest of the pre-refunded bond do not guarantee the price of the bond. The Fund's investment in pre-refunded bonds may subject the Fund to interest rate and reinvestment risk. In addition, if the Fund sells pre-refunded bonds prior to maturity, the price received may be more or less than the original cost, depending on market conditions at the time of sale.

**Reinvestment Risk.** (Market Vectors Pre-Refunded Municipal Index ETF only.) Reinvestment risk is the risk that proceeds from the current investment, both interest payments and principal payments, may be reinvested in instruments that offer lower yields than the current investment due in part to market conditions and the interest rate environment at the time of reinvestment. Reinvestment risk is greater on short- to intermediate-term instruments and callable instruments.

**Call Risk.** (All Funds except Market Vectors Pre-Refunded Municipal Index ETF.) The Funds may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, a Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease a Fund's net investment income.

**Market Risk.** The prices of securities in each Fund are subject to risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. Overall securities values could decline generally or could underperform other investments. An investment in a Fund may lose money.

Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and the Underlying Funds in which Market Vectors CEF Municipal Income ETF invests may invest in bonds from the following industries/sectors:

**Electric Utilities Bond Risk.** The electric utilities industry has been experiencing, and will continue to experience, increased competitive pressures. Federal legislation may open transmission access to any electricity supplier, although it is not presently known to what extent competition will evolve. Other risks include: (a) the availability and cost of fuel; (b) the availability and cost of capital; (c) the effects of conservation on energy demand; (d) the effects of rapidly changing environmental, safety and licensing requirements, and other federal, state and local regulations; (e) timely and sufficient rate increases and governmental limitations on rates charged to customers; (f) the effects of opposition to nuclear power; (h) increases in operating costs; and (i) obsolescence of existing equipment, facilities and products.

**Industrial Development Bond Risk.** These revenue bonds are issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. Payment of interest on and repayment of principal of such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

**Transportation Bond Risk.** Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs

and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

Education Bond Risk. In general, there are two types of education related bonds: those issued to finance projects for public and private colleges and universities, and those representing pooled interests in student loans. Bonds issued to supply educational institutions with funds are subject to the risk of unanticipated revenue decline, primarily the result of decreasing student enrollment or decreasing state and federal funding. Among the factors that may lead to declining or insufficient revenues are restrictions on students' ability to pay tuition, availability of state and federal funding and general economic conditions. Student loan revenue bonds are generally offered by state (or substate) authorities or commissions and are backed by pools of student loans. Underlying student loans may be guaranteed by state guarantee agencies and may be subject to reimbursement by the United States Department of Education through its guaranteed student loan program. Others may be private, uninsured loans made to parents or students which are supported by reserves or other

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
**(continued)**

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forms of credit enhancement. Recoveries of principal due to loan defaults may be applied to redemption of bonds or may be used to re-lend, depending on program latitude and demand for loans. Cash flows supporting student loan revenue bonds are impacted by numerous factors, including the rate of student loan defaults, seasoning of the loan portfolio and student repayment deferral periods of forbearance. Other risks associated with student loan revenue bonds include potential changes in federal legislation regarding student loan revenue bonds, state guarantee agency reimbursement and continued federal interest and other program subsidies currently in effect.

**Water and Sewer Bond Risk.** Water and sewer revenue bonds are often considered to have relatively secure credit as a result of their issuer's importance, monopoly status and generally unimpeded ability to raise rates. Despite this, lack of water supply due to insufficient rain, run off or snow pack is a concern that has led to past defaults. Further, public resistance to rate increases, costly environmental litigation and federal environmental mandates are challenges faced by issuers of water and sewer bonds.

**Resource Recovery Bond Risk.** Resource recovery bonds are a type of revenue bond issued to build facilities such as solid waste incinerators or waste-to-energy plants. Typically, a private corporation is involved, at least during the construction phase, and the revenue stream is secured by fees or rents paid by municipalities for use of the facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax receipts. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. The viability of a resource recovery project, environmental protection regulations, and project operator tax incentives may affect the value and credit quality of resource recovery bonds.

**Lease Obligations Risk.** Lease obligations may have risks not normally associated with general obligation or other revenue bonds. Leases and installment purchase or conditional sale contracts (which may provide for title to the leased asset to pass eventually to the issuer) have developed as a means for governmental issuers to acquire property and equipment without the necessity of complying with the constitutional statutory requirements generally applicable for the issuance of debt.

Certain lease obligations contain non appropriation clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for that purpose by the appropriate legislative body on an annual or other periodic basis. Consequently, continued lease payments on those lease obligations containing non appropriation clauses are dependent on future legislative actions. If these legislative actions do not occur, the holders of the lease obligation may experience difficulty in exercising their rights, including disposition of the property. In such circumstances, the Fund might not recover the full principal amount of the obligation.

**Special Tax Bond Risk.** Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of the Fund's portfolio.

**Health Care Bond Risk.** The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health

care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

Tobacco Bond Risk. Tobacco settlement revenue bonds are generally neither general nor legal obligations of a state or any of its political subdivisions and neither the full faith and credit nor the taxing power nor any other assets or revenues of a state or of any political subdivision will be pledged to the payment of any such bonds. In addition, tobacco companies' profits from the sale of tobacco products are inherently variable and difficult to estimate. There can be no guarantee that tobacco companies will earn enough revenues to cover the payments due under tobacco bonds. The revenues of tobacco companies may be adversely affected by the adoption of new legislation and/or by litigation.

**Housing Bond Risk.** Housing revenue bonds are generally issued by a state, county, city, local housing authority or other public agency. They generally are secured by the revenues derived from mortgages purchased with the proceeds of the bond issue. It is extremely difficult to predict the supply of available mortgages to be purchased with the proceeds of an issue or the future cash flow from the underlying mortgages. Consequently, there are risks that proceeds will exceed supply, resulting in early retirement of bonds, or that homeowner repayments will create an irregular cash flow. Many factors may affect the financing of multi family housing projects, including acceptable completion of construction, proper management, occupancy and rent levels, economic conditions and changes to current laws and regulations.

**California Risk.** (Market Vectors Intermediate Municipal Index ETF only.) The Fund may invest a significant portion of its assets in municipal obligations of issuers located in the State of California. Consequently, the Fund may be affected by political, economic and regulatory developments within California and by the financial condition of California's political subdivisions, agencies, instrumentalities and public authorities. The following is a summary of certain factors affecting the State's current financial situation that could, in turn, adversely affect the Fund's investments in California municipal obligations.

Provisions of the California Constitution and State statutes limit the taxing and spending authority of California governmental entities. Payments of certain municipal obligations may also be structurally subordinated to other obligations as a matter of California law. These provisions may impair the ability of California issuers to pay principal and/or interest on their obligations and the ability of the State and municipalities to address financial downturns, including limitations on the ability of the State or municipalities to raise taxes, fees or charges without voter approval. In addition, California has recently experienced financial and economic difficulties, which heighten the risks associated with investing in bonds issued by the State of California and its political subdivisions, agencies, instrumentalities and public authorities. Many local government agencies continue to face budget constraints due to mandated expenditures for health, welfare and public safety, as well as the adverse impact local economic conditions have had on property taxes and sales taxes, two major sources of revenue for local government. In particular, there is an increased risk that payments to bondholders could be interrupted or that an issuer could default on its obligations. A default or credit rating downgrade of a small number of California municipal security issuers could negatively impact the market values and marketability of all California municipal securities held by the Fund. However, if the State's economy weakens the State's budget deficit could continue to grow. Due to California's ongoing economic conditions, several major ratings agencies have downgraded the State's general obligation bond rating in recent years. Further downgrades could result in a reduction in the market value of California municipal obligations held by the Fund. These developments could adversely affect the Fund's income, NAV, liquidity and/or ability to preserve or realize appreciation of capital.

**Puerto Rico Risk.** Each Fund may invest a portion of its assets in municipal obligations of issuers located in Puerto Rico. Consequently, the Fund may be affected by political, economic and regulatory developments within Puerto Rico and by the financial condition of Puerto Rico's political subdivisions, agencies, instrumentalities and public authorities. Events, including economic and political policy changes, tax base erosion, territory constitutional limits on tax increases, budget deficits and other financial difficulties and changes in the credit ratings assigned to Puerto Rico's municipal issuers, are likely to affect the Fund's performance. A decline in tourism, which is an important component of the Puerto Rico economy, and the U.S. recession have had a negative effect on the economy. Over the past several years, several key economic indicators have begun to indicate a significant slowing of economic activity. In addition, Puerto Rico's debt-to-gross domestic product and unemployment rate are greater than any U.S. state. Puerto Rico's general obligation bonds have recently been downgraded by Moody's Investors Service ( Moody's ), Standard & Poor's Ratings Services ( S&P ) and Fitch Ratings, Inc. ( Fitch ), and these ratings agencies have subsequently downgraded other Puerto Rican municipal issuers, with the possibility of additional downgrades if negative trends continue. These downgrades may exacerbate Puerto Rico's current financial difficulties and may result in wider spreads, less liquidity and higher risk of default for its outstanding bonds, which may adversely affect the Fund. These municipal obligations are subject to heightened risks that may adversely affect the value of a Fund's portfolio and the repayment of such

bonds may be subject to significant uncertainties if Puerto Rico's economic downturn continues.

Index Tracking Risk. Each Fund's return may not match the return of its Index for a number of reasons. For example, a Fund incurs a number of operating expenses not applicable to its Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of its Index and (to the extent creations and redemptions are effected in cash) raising cash to meet redemptions or deploying cash in connection with newly created Creation Units. A Fund also bears the costs and risks associated with buying and selling securities while such costs are not factored into the return of its Index. In addition, a Fund's use of a representative sampling approach may cause the Fund's returns to not be as well correlated with the return of its Index as would be the case if the Fund purchased all of the securities in its Index in the proportions represented in such Index and can be expected to result in greater tracking error than if the Fund used a replication indexing strategy. Each Fund may not be fully invested at times as a result of (to the extent creations and redemptions are effected in cash) cash flows into the Fund or reserves of cash held by the Fund to pay expenses and (to the extent creations and redemptions are effected in cash) meet redemptions. In addition, a Fund may not be able to invest in

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS**  
**(continued)**

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certain securities included in its Index, or invest in them in the exact proportions in which they are represented in its Index, due to legal restrictions or limitations or a lack of liquidity on stock exchanges in which such securities trade. Moreover, a Fund may be delayed in purchasing or selling securities included in its Index.

Certain Funds are expected to fair value certain of the securities they hold. To the extent a Fund calculates its NAV based on fair value prices or on the prices that differ from those used in calculating a Fund's respective Index, the Fund's ability to track its Index may be adversely affected. The need to comply with the tax diversification and other requirements of the Internal Revenue Code of 1986, as amended ( Internal Revenue Code ), may also impact the Fund's ability to replicate the performance of its Index. Market Vectors CEF Municipal Income ETF may not be able to invest in certain securities in the exact proportions in which they are represented in the CEFMX Index due to limitations imposed by the 1940 Act on the Fund's investments in other investment companies. In addition, if a Fund utilizes depositary receipts and other derivative instruments, its return may not correlate as well with the return of its Index as would be the case if the Fund purchased all the securities in its Index directly.

**Replication Management Risk.** Unlike many investment companies, the Funds are not actively managed. Therefore, unless a specific security is removed from a Fund's respective Index, a Fund generally would not sell a security because the security's issuer is in financial trouble. If a specific security is removed from a Fund's respective Index, a Fund may be forced to sell such security at an inopportune time or for prices other than at current market values. An investment in the Funds involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt. A Fund's respective Index may not contain the appropriate or a diversified mix of securities for any particular economic cycle. The timing of changes in the securities of a Fund's portfolio in seeking to replicate the respective Index could have a negative effect on the Fund. Unlike with an actively managed fund, the Adviser does not use techniques or defensive strategies designed to lessen the effects of market volatility or to reduce the impact of periods of market decline. This means that, based on market and economic conditions, a Fund's performance could be lower than other types of funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

**Tax Risk.** There is no guarantee that a Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after a Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by a Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

**Liquidity Risk.** (Market Vectors CEF Municipal Income ETF only.) Unlike the Fund, as closed-end funds the Underlying Funds are not limited in their ability to invest in illiquid securities. Securities with reduced liquidity involve greater risk than securities with more liquid markets. Prices of securities not traded on an exchange may vary over time. Secondary trading of a fixed-income security may decline for a period of time if its credit quality unexpectedly declines. An Underlying Fund may not receive full value for assets sold during periods of infrequent trading.

**Anti-Takeover Measures Risk.** (Market Vectors CEF Municipal Income ETF only.) Certain Underlying Funds may have provisions in their organizational documents intended to limit the ability of third parties to acquire control or change the composition of the Underlying Fund's board. This may discourage a third party from seeking to obtain control of the Underlying Fund, which could limit the ability of Underlying Fund shareholders to sell their shares at a



premium over prevailing market prices.

**Leverage Risk.** (Market Vectors CEF Municipal Income ETF only.) Ordinary borrowings by an Underlying Fund or an Underlying Fund's investment in derivatives may result in leverage. If the prices of those investments decrease, or if the cost of borrowing exceeds any increase in the prices of investments made with the proceeds of the borrowing, the NAV of the Underlying Fund's shares will decrease more than if the Underlying Fund had not used leverage. An Underlying Fund may have to sell investments at a time and at a price that is unfavorable to the Underlying Fund to repay borrowings. Interest on borrowings is an expense the Underlying Fund would not otherwise incur. Leverage magnifies the potential for gain and the risk of loss. If an Underlying Fund uses leverage, there can be no assurance that the Underlying Fund's leverage strategy will be successful. Furthermore, the Underlying Funds may pay a management fee to their advisers based on a percentage of managed assets. Managed assets for this purpose can include the proceeds realized and managed from the Underlying Fund's use of leverage. Accordingly, the fact that a decision to increase an Underlying Fund's leverage will have the effect, all other things being equal, of increasing managed assets and therefore the management fee means that an Underlying Fund's adviser may have a conflict of interest in determining whether to use or increase leverage with respect to its management of the Underlying Fund's portfolio.

**Premium/Discount Risk.** Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. The NAV of the

Shares will fluctuate with changes in the market value of a Fund's securities holdings. The market prices of Shares will fluctuate in accordance with changes in NAV and supply and demand on NYSE Arca. The Adviser cannot predict whether Shares will trade below, at or above their NAV. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for Shares will be closely related to, but not identical to, the same forces influencing the prices of the securities of a Fund's Index trading individually or in the aggregate at any point in time. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

**Non-Diversified Risk.** Each Fund is a separate investment portfolio of the Trust, which is an open-end investment company registered under the 1940 Act. Each Fund (except Market Vectors CEF Municipal Income ETF) is classified as a non-diversified investment company under the 1940 Act. As a result, each Fund (except Market Vectors CEF Municipal Income ETF) is subject to the risk that it will be more volatile than a diversified fund because the Fund may invest its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on such Fund's NAV and may make such Fund more volatile than more diversified funds.

Some of the Underlying Funds in which Market Vectors CEF Municipal Income ETF invests may invest a relatively high percentage of their assets in a smaller number of issuers or may invest a larger proportion of their assets in a single company or obligations of a single issuer. As a result, the gains and losses on an investment in such an Underlying Fund may have a greater impact on the Fund's NAV and may make the value of the Fund's investment in such an Underlying Fund more volatile than an investment in more diversified funds.

**Concentration Risk.** A Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent that its respective Index concentrates in a particular sector or sectors or industry or group of industries. The securities of many or all of the companies in the same sector or industry may decline in value due to developments adversely affecting such sector or industry. By concentrating its assets in a particular sector or sectors or industry or group of industries, a Fund is subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of sectors or industries.

## **ADDITIONAL RISKS**

**Risk of Investing in Derivatives.** Derivatives are financial instruments whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate or index. A Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if the Fund invested directly in the underlying securities.

Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or, in the case of over-the-counter derivatives, as a result of the counterparty's credit quality and the risk that a derivative transaction may not have the effect the Adviser anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can create investment leverage, may be highly volatile, and a Fund could lose more than the amount it invests. The use of derivatives may increase the amount and affect the timing and character of taxes payable by shareholders of a Fund.

Many derivative transactions are entered into over-the-counter (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of a Fund's counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, a Fund's contractual

remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the Fund's rights as a creditor (*e.g.*, the Fund may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for a Fund's derivative positions at any time.

**Leverage Risk.** To the extent that a Fund borrows money or utilizes certain derivatives, it will be leveraged. Leveraging generally exaggerates the effect on NAV of any increase or decrease in the market value of the Fund's portfolio securities.

**Short History of an Active Market/No Guarantee of Active Trading Market.** Certain Funds are recently organized series of an investment company. While Shares are listed on NYSE Arca, there can be no assurance that active trading markets for the Shares will be maintained, especially for recently organized Funds. Van Eck Securities Corporation, the distributor of each Fund's Shares (the Distributor), does not maintain a secondary market in the Shares.

**Trading Issues.** Trading in Shares on NYSE Arca may be halted due to market conditions or for reasons that, in the view of NYSE Arca, make trading in Shares inadvisable. In addition, trading in Shares on NYSE Arca is subject to trading halts caused by

**ADDITIONAL INFORMATION ABOUT THE FUNDS INVESTMENT STRATEGIES AND RISKS  
(continued)**

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extraordinary market volatility pursuant to NYSE Arca's circuit breaker rules. There can be no assurance that the requirements of NYSE Arca necessary to maintain the listing of a Fund will continue to be met or will remain unchanged.

**TAX ADVANTAGED PRODUCT STRUCTURE**

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Unlike many conventional mutual funds which are only bought and sold at closing NAVs, the Shares of each Fund have been designed to be tradable in a secondary market on an intra-day basis and to be redeemed principally in-kind in Creation Units at each day's market close. These in-kind arrangements are designed to mitigate adverse effects on a Fund's portfolio that could arise from frequent cash redemption transactions that affect the NAV of the Fund. Moreover, in contrast to conventional mutual funds, where frequent redemptions can have an adverse tax impact on taxable shareholders because of the need to sell portfolio securities which, in turn, may generate taxable gain, the in-kind redemption mechanism of each Fund, to the extent used, generally is not expected to lead to a tax event for shareholders whose shares are not being redeemed.

**PORTFOLIO HOLDINGS**

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A description of each Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's SAI.

**MANAGEMENT OF THE FUNDS**

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**Board of Trustees.** The Board of Trustees of the Trust has responsibility for the general oversight of the management of the Funds, including general supervision of the Adviser and other service providers, but is not involved in the day-to-day management of the Trust. A list of the Trustees and the Trust officers, and their present positions and principal occupations, is provided in the Funds' SAI.

**Investment Adviser.** Under the terms of an investment management agreement between the Trust and Van Eck Associates Corporation with respect to Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF (the "Municipal Investment Management Agreement") and an investment management agreement between the Trust and Van Eck Associates Corporation with respect to Market Vectors CEF Municipal Income ETF (the "CEF Investment Management Agreement" and, together with the Municipal Investment Management Agreement, the "Investment Management Agreement"), Van Eck Associates Corporation serves as the adviser to each Fund and, subject to the supervision of the Board of Trustees, is responsible for the day-to-day investment management of each Fund. As of June 30, 2014, the Adviser managed approximately \$34.45 billion in assets. The Adviser has been an investment adviser since 1955 and also acts as adviser or sub-adviser to other mutual funds, ETFs, other pooled investment vehicles and separate accounts. The Adviser's principal business address is 335 Madison Avenue, 19th Floor, New York, New York 10017. A discussion regarding the Board of Trustees' approval of the Investment Management Agreement is available in the Trust's semi-annual report for the period ended October 31, 2013.

For the services provided to Market Vectors CEF Municipal Income ETF under the CEF Investment Management Agreement, the Fund pays the Adviser monthly fees based on a percentage of the Fund's average daily net assets at the annual rate of 0.40%. From time to time, the Adviser may waive all or a portion of its fee. Until at least September 1, 2015, the Adviser has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses,

taxes and extraordinary expenses of the Fund) from exceeding 0.40% of its average daily net assets per year. Offering costs excluded from the expense caps are: (a) legal fees pertaining to the Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of the Fund to be listed on an exchange. The Fund is responsible for all of its expenses, including the investment advisory fees, costs of transfer agency, custody, legal, audit and other services, interest, taxes, any distribution fees or expenses, offering fees or expenses and extraordinary expenses.

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Pursuant to the Municipal Investment Management Agreement, the Adviser is responsible for all expenses of the applicable Funds, including the costs of transfer agency, custody, fund administration, legal, audit and other services, except for the fee payment under the Municipal Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses. For its services to each Fund, each Fund has agreed to pay the Adviser an annual unitary management fee equal to 0.35% (with respect to Market Vectors High-Yield Municipal Index ETF and Market Vectors Short High-Yield Municipal Index ETF), 0.24% (with respect to Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF and Market Vectors Pre-Refunded Municipal Index ETF) and 0.20% (with respect to Market Vectors Short Municipal Index ETF) of its average daily net assets. Offering costs excluded from the annual unitary management fee are: (a) legal fees pertaining to a Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Fund to be listed on an exchange.

Administrator, Custodian and Transfer Agent. Van Eck Associates Corporation is the administrator for the Funds (the Administrator), and The Bank of New York Mellon is the custodian of each Fund's assets and provides transfer agency and fund accounting services to the Funds. The Administrator is responsible for certain clerical, recordkeeping and/or bookkeeping services which are provided pursuant to the Investment Management Agreement.

Distributor. Van Eck Securities Corporation is the distributor of the Shares. The Distributor will not distribute Shares in less than Creation Units, and does not maintain a secondary market in the Shares. The Shares are traded in the secondary market.

## PORTFOLIO MANAGERS

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The portfolio managers who currently share joint responsibility for the day-to-day management of the Market Vectors CEF Municipal Income ETF's portfolio are Hao-Hung (Peter) Liao and George Cao. The portfolio managers who currently share joint responsibility for the day-to-day management of Market Vectors High-Yield Municipal Index ETF's, Market Vectors Intermediate Municipal Index ETF's, Market Vectors Long Municipal Index ETF's, Market Vectors Pre-Refunded Municipal Index ETF's, Market Vectors Short High-Yield Municipal Index ETF's and Market Vectors Short Municipal Index ETF's portfolios are James T. Colby III and Michael F. Mazier.

Mr. Liao has been employed by the Adviser since the summer of 2004 as an Analyst. Mr. Liao also serves as a portfolio manager for certain other investment companies advised by the Adviser. Mr. Cao has been employed by the Adviser since December 2007 as a Senior Analyst. Prior to joining the Adviser, he served as a Controller of Operations Administrations Division and Corporate Safety (September 2006-December 2007) for United Airlines. He also served as a Management Consultant to PricewaterhouseCoopers LLP as well as a Financial Analyst for SAM Distribution Co. Ltd. Mr. Colby has been employed by the Adviser since September 2007. Prior to joining the Adviser, Mr. Colby served as Senior Portfolio Manager and Director of Municipal High Yield for Lord Abbett as well as Director and Senior Portfolio Manager for Municipal Fixed Income at the John Hancock Funds in Boston. Mr. Colby graduated from Brown University in 1972 with a Bachelor of Arts in Economics and International Relations; and from Hofstra University in 1979 with a Masters of Business Administration in Finance. Mr. Mazier has been employed by the Adviser since August 2007 as a senior fixed income strategist and portfolio manager. Prior to joining the Adviser, Mr. Mazier served as a bond analyst in the Fixed Income Research Department of Morgan Stanley. He was also Vice President at Merrill Lynch Global Research Department, where he covered closed-end funds. Mr. Mazier graduated from Syracuse University in 1983 with a Bachelor of Science majoring in Electrical Engineering; graduated from Villanova University in 1986 with a Master of Science in Computer Engineering; and graduated from Columbia Business School in 1990 with a Master of Business Administration. Each of Messrs. Cao, Colby, Liao and Mazier serve as a portfolio manager of other funds of the Trust. Each of Messrs. Liao and Mazier also serves as a portfolio manager for certain other investment companies advised by the Adviser. See the Funds' SAI for additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and their

respective ownership of Shares.

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**SHAREHOLDER INFORMATION**

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**DETERMINATION OF NAV**

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are

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45

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**SHAREHOLDER INFORMATION (continued)**

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accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the New York Stock Exchange.

The values of each Fund's portfolio securities are based on the securities' closing prices on their local principal markets, where available. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time a Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust's valuation policies and procedures approved by the Board of Trustees. Each Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund's portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate a Fund's NAV and the prices used by the Fund's respective Index. This may adversely affect a Fund's ability to track its respective Index.

**BUYING AND SELLING EXCHANGE-TRADED SHARES**

The Shares of the Funds are listed on NYSE Arca. If you buy or sell Shares in the secondary market, you will incur customary brokerage commissions and charges and may pay some or all of the spread between the bid and the offered price in the secondary market on each leg of a round trip (purchase and sale) transaction. In times of severe market disruption or low trading volume in a Fund's Shares, this spread can increase significantly. It is anticipated that the Shares will trade in the secondary market at prices that may differ to varying degrees from the NAV of the Shares. During periods of disruptions to creations and redemptions or the existence of extreme market volatility, the market prices of Shares are more likely to differ significantly from the Shares' NAV.

The Depository Trust Company (DTC) serves as securities depository for the Shares. (The Shares may be held only in book-entry form; stock certificates will not be issued.) DTC, or its nominee, is the record or registered owner of all outstanding Shares. Beneficial ownership of Shares will be shown on the records of DTC or its participants (described below). Beneficial owners of Shares are not entitled to have Shares registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and are not considered the registered holder thereof. Accordingly, to exercise any rights of a holder of Shares, each beneficial owner must rely on the procedures of: (i) DTC; (ii) DTC Participants, *i.e.*, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC; and (iii) Indirect Participants, *i.e.*, brokers, dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, through which such beneficial owner holds its interests. The Trust understands that under existing industry practice, in the event the Trust requests any action of holders of Shares, or a beneficial owner desires to take any action that DTC, as the record owner of all outstanding Shares, is entitled to take, DTC would authorize the DTC Participants to take such action and that the DTC Participants would authorize the Indirect Participants and beneficial owners acting through such DTC Participants to take such action and would



otherwise act upon the instructions of beneficial owners owning through them. As described above, the Trust recognizes DTC or its nominee as the owner of all Shares for all purposes. For more information, see the section entitled "Book Entry Only System" in the Funds' SAI.

The NYSE Arca is open for trading Monday through Friday and is closed on weekends and the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Because non-U.S. exchanges may be open on days when a Fund does not price its Shares, the value of the securities in the Fund's portfolio may change on days when shareholders will not be able to purchase or sell the Fund's Shares.

**Market Timing and Related Matters.** The Funds impose no restrictions on the frequency of purchases and redemptions. The Board of Trustees considered the nature of each Fund (*i.e.*, a fund whose shares are expected to trade intra-day), that the Adviser monitors the trading activity of authorized participants for patterns of abusive trading, that the Funds reserve the right to reject orders that may be disruptive to the management of or otherwise not in the Funds' best interests, and that each Fund may fair value certain of its securities. Given this structure, the Board of Trustees determined that it is not necessary to impose restrictions on the frequency of purchases and redemptions for the Funds at the present time.

## DISTRIBUTIONS

**Net Investment Income and Capital Gains.** As a shareholder of a Fund, you are entitled to your share of such Fund's distributions of net investment income and net realized capital gains on its investments. Each Fund pays out substantially all of its net earnings to its shareholders as distributions.

Each Fund typically earns income from interest on municipal securities. These amounts, net of expenses, are typically passed along to Fund shareholders as dividends from net investment income. Each Fund generally realizes capital gains or losses whenever it sells securities. Net capital gains are distributed to shareholders as capital gain distributions. Dividends paid by the Funds that are properly designated as exempt-interest dividends will not be subject to regular federal income tax. Distributions from a Fund's net investment income (other than net tax exempt income), including any net short term capital gains, if any, are taxable to you as ordinary income. Any long-term capital gains distributions you receive from a Fund are taxable as long-term capital gains.

Net investment income, if any, is typically distributed to shareholders monthly while capital gains, if any, are typically distributed to shareholders at least annually. Dividends may be declared and paid more frequently to improve index tracking or to comply with the distribution requirements of the Internal Revenue Code. In addition, the Funds may determine to distribute at least annually amounts representing the full dividend yield net of expenses on the underlying investment securities, as if the Funds owned the underlying investment securities for the entire dividend period in which case some portion of each distribution may result in a return of capital, which, for tax purposes, is treated as a return of your investment in Shares.

Distributions in cash may be reinvested automatically in additional Shares of your Fund only if the broker through which you purchased Shares makes such option available.

## TAX INFORMATION

As with any investment, you should consider how your Fund investment will be taxed. The tax information in this Prospectus is provided as general information. You should consult your own tax professional about the tax consequences of an investment in the Funds, including the possible application of foreign, state and local taxes. Unless your investment in a Fund is through a tax-exempt entity or tax-deferred retirement account, such as a 401(k) plan, you need to be aware of the possible tax consequences when: (i) a Fund makes distributions; (ii) you sell Shares in the secondary market or (iii) you create or redeem Creation Units.

**Taxes on Distributions.** As noted above, each Fund expects to distribute net investment income, if any, monthly, and any net realized long-term or short-term capital gains, if any, annually. Each Fund may also pay a special distribution at any time to comply with U.S. federal tax requirements.

Dividends paid by the Funds that are properly designated as exempt-interest dividends will not be subject to regular U.S. federal income tax. The Funds intend to invest their assets in a manner such that a significant portion of their dividend distributions to shareholders will generally be exempt from U.S. federal income taxes, including the federal alternative minimum tax for noncorporate shareholders. The Market Vectors High-Yield Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF and Underlying Funds in which Market Vectors CEF Municipal Income ETF invests may invest a portion of their assets in certain private activity bonds, and as a result, a portion of the exempt-interest dividends paid by them will be an item of tax preference to shareholders subject to the alternative minimum tax. Corporate shareholders should note that income that is generally exempt from the federal alternative minimum tax may in certain situations nonetheless be relevant in determining their federal alternative minimum tax liability, if any. Depending on a shareholder's state of residence, exempt-interest dividends from interest earned on municipal securities of a state or its political subdivisions may be exempt in the hands of such shareholder from income tax in that state. However, income from municipal securities of states other than the shareholder's state of

residence generally will not qualify for tax-free treatment for such shareholder.

In general, your non-tax-exempt distributions are subject to U.S. federal income tax when they are paid, whether you take them in cash or reinvest them in the Fund. Distributions from a Fund's net investment income (other than net tax-exempt income), including any net short-term capital gains, if any, are taxable to you as ordinary income. Whether distributions of capital gains represent long-term or short-term capital gains is determined by how long the Fund owned the investments that generated them, rather than how long you have owned your Shares. Distributions of net short-term capital gains in excess of net long-term capital losses, if any, are generally taxable as ordinary income. Distributions of net long-term capital gains in excess of net short-term capital losses, if any, that are properly reported as capital gain dividends are generally taxable as long-term capital gains. After 2012, long-term capital gains of a non-corporate shareholder are generally taxable at a maximum rate of 15% or 20%, depending on whether the shareholder's income exceeds certain threshold amounts. The Funds do not expect that any of their distributions will be qualified dividends eligible for lower tax rates or for the corporate dividends received deduction.

Exempt-interest dividends from a Fund are taken into account in determining the taxable portion of any Social Security or railroad retirement benefits that you receive.

**SHAREHOLDER INFORMATION (continued)**

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Distributions in excess of a Fund's current and accumulated earnings and profits are treated as a tax-free return of your investment to the extent of your basis in the Shares, and generally as capital gain thereafter. A return of capital, which for tax purposes is treated as a return of your investment, reduces your basis in Shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition of Shares. A distribution will reduce a Fund's NAV per Share and may be taxable to you as ordinary income or capital gain even though, from an economic standpoint, the distribution may constitute a return of capital.

**Taxes on the Sale or Cash Redemption of Exchange Listed Shares.** Currently, any capital gain or loss realized upon a sale of Shares is generally treated as long term capital gain or loss if the Shares have been held for more than one year and as a short term capital gain or loss if held for one year or less. However, any capital loss on a sale of Shares held for six months or less will be disallowed to the extent any exempt-interest dividends were paid with respect to such Shares and any remaining loss is treated as long-term capital loss to the extent that capital gain dividends were paid with respect to such Shares. The ability to deduct capital losses may be further limited. To the extent that a shareholder's Shares are redeemed for cash, this is normally treated as a sale for tax purposes.

**Taxes on Creations and Redemptions of Creation Units.** A person who exchanges securities for Creation Units generally will recognize a gain or loss. The gain or loss will be equal to the difference between the market value of the Creation Units at the time of exchange and the sum of the exchanger's aggregate basis in the securities surrendered and the amount of any cash paid for such Creation Units. A person who exchanges Creation Units for securities will generally recognize a gain or loss equal to the difference between the exchanger's basis in the Creation Units and the sum of the aggregate market value of the securities received. The IRS, however, may assert that a loss realized upon an exchange of primarily securities for Creation Units cannot be deducted currently under the rules governing wash sales, or on the basis that there has been no significant change in economic position. Persons exchanging securities for Creation Units or redeeming Creation Units should consult their own tax adviser with respect to whether wash sale rules apply and when a loss might be deductible and the tax treatment of any creation or redemption transaction.

Under current U.S. federal income tax laws, any capital gain or loss realized upon a redemption (or creation) of Creation Units is generally treated as long-term capital gain or loss if the Shares (or securities surrendered) have been held for more than one year and as a short-term capital gain or loss if the Shares (or securities surrendered) have been held for one year or less.

If you create or redeem Creation Units, you will be sent a confirmation statement showing how many Shares you created or sold and at what price.

**Medicare Tax.** An additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person's modified adjusted gross income (in the case of an individual) or adjusted gross income (in the case of an estate or trust) exceeds certain threshold amounts.

**Non-U.S. Shareholders.** If you are not a citizen or resident alien of the United States or if you are a non-U.S. entity, a Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies or unless such income is effectively connected with a U.S. trade or business.

As part of the Foreign Account Tax Compliance Act, ( FATCA ), a Fund may be required to impose a 30% withholding tax on certain types of U.S. sourced income (e.g., dividends, interest, and other types of passive income) paid effective July 1, 2014, and proceeds from the sale or other disposition of property producing U.S. sourced income paid effective January 1, 2017 to (i) foreign financial institutions ( FFI s ), including non-U.S. investment funds, unless they agree to

collect and disclose to the Internal Revenue Service ( IRS ) information regarding their direct and indirect U.S. account holders and (ii) certain nonfinancial foreign entities ( NFFE s ), unless they certify certain information regarding their direct and indirect U.S. owners. To avoid possible withholding, FFI s will need to enter into agreements with the IRS which state that they will provide the IRS information, including the names, account numbers and balances, addresses and taxpayer identification numbers of U.S. account holders and comply with due diligence procedures with respect to the identification of U.S. accounts as well as agree to withhold tax on certain types of withholdable payments made to non-compliant foreign financial institutions or to applicable foreign account holders who fail to provide the required information to the IRS, or similar account information and required documentation to a local revenue authority, should an applicable intergovernmental agreement be implemented. NFFE s will need to provide certain information regarding each substantial U.S. owner or certifications of no substantial U.S. ownership, unless certain exceptions apply, or agree to provide certain information to the IRS.

While final FATCA rules have not been finalized, a Fund may be subject to the FATCA withholding obligation, and also will be required to perform due diligence reviews to classify foreign entity investors for FATCA purposes. Investors are required to agree to provide information necessary to allow a Fund to comply with the FATCA rules. If a Fund is required to withhold amounts from payments pursuant to FATCA, investors will receive distributions that are reduced by such withholding amounts.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Funds, including the possible applicability of the U.S. estate tax.

The foregoing discussion summarizes some of the consequences under current U.S. federal income tax law of an investment in a Fund. It is not a substitute for personal tax advice.

Consult your own tax advisor about the potential tax consequences of an investment in a Fund under all applicable tax laws.

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## **INDEX PROVIDERS**

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The CEFMX Index is published by S-Network Global Indexes, LLC ( S-Network ). The High Yield Index, Intermediate Index, Long Index, Pre-Refunded Index, Short High-Yield Index and Short Index are published by Barclays Inc. ( Barclays ). Barclays and S-Network are referred to herein as the Index Providers. The Index Providers do not sponsor, endorse, or promote the Funds and bear no liability with respect to the Funds or any security.

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**S-NETWORK MUNICIPAL BOND CLOSED-END FUND INDEX<sup>SM</sup>**

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The CEFMX Index is a rules based index intended to serve as a benchmark for closed-end funds listed in the US that are principally engaged in asset management processes designed to produce federally tax-exempt annual yield. The CEFMX Index employs a modified total net assets weighting methodology designed to provide investment exposure across the various business segments that together comprise the federally tax-exempt annual yield sector of the closed-end fund market. The CEFMX Index is divided into four main closed-end fund segments including: leveraged municipal fixed income closed-end funds; unleveraged municipal fixed income closed-end funds; leveraged high yield municipal fixed income closed-end funds; and unleveraged high yield municipal fixed income closed-end funds. The CEFMX Index was determined to yield a benchmark value of approximately 1000 at its inception date, which was the close of trading on December 31, 2005.

The CEFMX Index will reconstitute on the last business day of the last month of each calendar half (March/September) and rebalance quarterly on the last business day of the last month of each calendar quarter. Eligibility for the CEFMX Index is based on closing prices and values as of the close of trading on the second Friday of the reconstitution month (record date).

Constituent closed-end funds for the CEFMX Index must have a market capitalization of greater than \$100 million on the semi-annual record date to be added to the CEFMX Index. A constituent of the CEFMX Index whose market capitalization falls below \$60 million on the semi-annual record date shall be deleted from the CEFMX Index before the open of trade on the effective date of the next semi-annual reconstitution. Closed-end funds must have an average daily turnover of more than \$500,000 per day for the three months prior to the semi-annual record date to be eligible for inclusion in the CEFMX Index. Closed-end funds whose shares have traded at average premiums of 20% or more to their NAVs for the ten business days prior to the second Friday of the reconstitution month shall be excluded from the CEFMX Index. The closed-end fund's shares must trade on a regulated US stock exchange that issues a last closing price in order to be included in the CEFMX Index.

As of June 30, 2014, the CEFMX Index included 85 closed-end funds, of which approximately 88% of the CEFMX Index was comprised of leveraged municipal fixed income closed-end funds, approximately 6% of the CEFMX Index was comprised of unleveraged municipal fixed income closed-end funds, approximately 4% of the CEFMX Index was comprised of leveraged high yield municipal fixed income closed-end funds and approximately 2% of the CEFMX Index was invested in unleveraged high yield municipal fixed income closed-end funds.

The CEFMX Index is calculated and maintained by Thomson Reuters on behalf of S-Network. CEFMX Index values are distributed over the Consolidated Tape Association's Network B between the hours of approximately 9:00 AM (EST) and 4:30 PM (EST) Monday through Friday, under the symbol CEFMX. Index values are disseminated every 15 seconds. The CEFMX Index is calculated using a modified total net assets weighting methodology which is also modified so as to ensure compliance with the diversification requirements of Subchapter M of the Internal Revenue Code. The CEFMX Index is reconstituted semi-annually, at the close of business on the last business day of the rebalancing month, and companies are added and/or deleted based upon the CEFMX Index eligibility criteria. The CEFMX Index is reviewed on an ongoing basis. Changes in CEFMX Index composition and related weight adjustments are necessary whenever there are extraordinary events such as liquidations, conversions, de-listings, bankruptcies, mergers or takeovers involving Index components. In these cases, each event will be taken into account on its effective date. The share weights of the CEFMX Index components are adjusted on each rebalancing date.

Rebalancing data, including constituent weights and related information, is posted on the CEFMX Index's website ([www.closedendfundindex.com](http://www.closedendfundindex.com)) prior to the start of trading on the first business day of the new calendar quarter. A press announcement identifying additions and deletions to the CEFMX Index is issued on the Monday following the third Friday of the rebalancing month. Share weights of the constituents remain constant between quarters except in the event of certain types of corporate actions, including stock splits and reverse stock splits. Share weights of the CEFMX Index are not adjusted between rebalancing dates for shares issued or shares repurchased.





**BARCLAYS MUNICIPAL CUSTOM HIGH YIELD COMPOSITE INDEX**

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The High Yield Index is a market size weighted index composed of publicly traded municipal bonds that cover the U.S. dollar denominated high yield long-term tax-exempt bond market. The majority of the High Yield Index's constituents are from the revenue sector, with some constituents being from the general obligation sector. The revenue sector is divided into industry sectors that consist of but may not be limited to electric, health care, transportation, education, water & sewer, resource recovery, leasing and special tax. As of June 30, 2014, the High Yield Index consisted of 4,340 bonds.

The High Yield Index is calculated using a market value weighting methodology, provided the allocation to issuers from the territories of the United States, including: Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Mariana Islands, each individually does not exceed 8%. The market value of each bond over the limit is adjusted on a pro-rata basis. The High Yield Index tracks the high yield municipal bond market with a 75% weight in non-investment grade municipal bonds and a targeted 25% weight in Baa/BBB-rated investment grade municipal bonds. It is comprised of three total return, market size weighted benchmark indexes with weights as follows:

50% weight in Muni High Yield/\$100 Million Deal Size Index. To be included in the Muni High Yield/\$100 Million Deal Size Index, bonds must be unrated or rated Ba1/BB+ or lower by at least two of the following rating agencies if all three rate the bond: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Ba1/BB+ or lower. Bonds in the Muni High Yield/\$100 Million Deal Size Index must have an outstanding par value of at least \$3 million and be issued as part of a transaction of at least \$100 million.

25% weight in Muni High Yield/Under \$100 Million Deal Size Index. To be included in the Muni High Yield/Under \$100 Million Deal Size Index, bonds must be unrated or rated Ba1/BB+ or lower by at least two of the following rating agencies if all three rate the bond: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Ba1/BB+ or lower. Bonds in the Muni High Yield/Under \$100 Million Deal Size Index must have an outstanding par value of at least \$3 million and be issued as part of a transaction of under \$100 million but over \$20 million.

25% weight in Muni Baa-Rated/\$100 Million Deal Size Index. To be included in the Muni Baa-Rated/\$100 Million Deal Size Index, bonds must have a Barclays credit quality classification between Baa1/BBB+ and Baa3/BBB-. The Barclays credit quality classification is based on the three rating agencies, Moody's, S&P and Fitch. If two of the three agencies rate the bond equivalently, then that rating is used. If all three rate the bond differently, the middle rating is used. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Baa1/BBB+, Baa2/BBB, or Baa3/BBB-. The bonds must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$100 million. Remarketed issues are not allowed in the benchmark.

All bonds must have a fixed rate, a dated-date (*i.e.*, the date when interest begins to accrue) after December 31, 1990 and a nominal maturity of 1 to 30 years. Taxable municipal bonds, bonds with floating rates and derivatives are excluded from the High Yield Index.

The composition of the High Yield Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the High Yield Index without a reinvestment return until month end when they are removed from the High Yield Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the High Yield Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The High Yield Index is calculated and is available once a day.

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**BARCLAYS AMT-FREE INTERMEDIATE CONTINUOUS MUNICIPAL INDEX**

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The Intermediate Index is a market size weighted index comprised of publicly traded municipal bonds that cover the U.S. dollar denominated intermediate term tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Intermediate Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, industrial development/pollution control revenue ( IDR/PCR ), transportation, education, water & sewer, resource recovery, leasing and special tax. As of June 30, 2014, the Intermediate Index consisted of 12,516 bonds.

To be included in the Intermediate Index, a bond must be rated Baa3/BBB- or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB-. Potential Intermediate Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date within the last five years and have an effective maturity of 6 to 17 years.

The following types of bonds are excluded from the Intermediate Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives. The Intermediate Index is calculated using a market value weighting methodology.

The composition of the Intermediate Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Intermediate Index without a reinvestment return until month end when they are removed from the Intermediate Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Intermediate Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The Intermediate Index is calculated once a day by Barclays.

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**BARCLAYS AMT-FREE LONG CONTINUOUS MUNICIPAL INDEX**

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The Long Index is a market size weighted index comprised of publicly traded municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Long Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax. As of June 30, 2014, the Long Index consisted of 5,385 bonds.

To be included in the Long Index, bonds must be rated Baa3/BBB- or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB-. Potential Long Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date within the last five years and have an effective maturity of 17 or more years. The following types of bonds are excluded from the Long Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives. The Long Index is calculated using a market value weighting methodology.

The composition of the Long Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Long Index without a reinvestment return until month end when they are removed from the Long Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Long Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The Long Index is calculated once a day by Barclays.

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**BARCLAYS MUNICIPAL PRE-REFUNDED TREASURY-ESCROWED INDEX**

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The Pre-Refunded Index is a market size weighted index comprised of publicly traded municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Pre-Refunded Index is comprised of pre-refunded and/or escrowed-to-maturity municipal bonds, provided that the collateral in the escrow account is comprised strictly of obligations of, and carry the full faith and credit of, the U.S. Treasury. To be included in the Pre-Refunded Index, bonds must have an explicit or implicit credit rating of AAA. As of June 30, 2014, the Pre-Refunded Index consisted of 2,082 bonds.

The Pre-Refunded Index is calculated using a market value weighting methodology. Potential Pre-Refunded Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million in market value. Each potential Pre-Refunded Index component must be pre-refunded or escrowed-to-maturity, provided that the underlying collateral in the escrow account is comprised strictly of marketable U.S. Treasury securities and/or U.S. Treasury-issued State and Local Government Series (SLGS) securities. In addition, each potential Pre-Refunded Index component must have a fixed rated coupon and be denominated in U.S. dollars. The following types of bonds are excluded from the Pre-Refunded Index: taxable municipal bonds, floating rate bonds, derivatives and remarketed issues.

The composition of the Pre-Refunded Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Pre-Refunded Index without a reinvestment return until month end when they are removed from the Pre-Refunded Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Pre-Refunded Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The Pre-Refunded Index is calculated once a day by Barclays.

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**BARCLAYS MUNICIPAL HIGH-YIELD SHORT DURATION INDEX**

The Short High-Yield Index is a market size weighted index composed of publicly traded municipal bonds that cover the U.S. dollar denominated high yield short-term tax-exempt bond market. The majority of the Short High-Yield Index's constituents are from the revenue sector, with some constituents being from the general obligation sector. The revenue sector is divided into industry sectors that consist of but may not be limited to electric, health care, transportation, education, water & sewer, resource recovery, leasing and special tax. As of June 30, 2014, the Short High-Yield Index consisted of approximately 1,431 bonds and 509 issuers. The Short High-Yield Index is calculated using a market value weighting methodology, provided the allocation to issuers from the territories of the United States including: Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Mariana Islands, each individually does not exceed 8%. The market value of each bond over the limit is adjusted on a pro-rata basis. The Short High-Yield Index tracks the high yield municipal bond market with a targeted 75% weight in non-investment grade municipal bonds and a targeted 25% weight in Baa/BBB-rated investment grade municipal bonds. It is comprised of three total return, market size weighted benchmark indexes with target weights as follows:

50% weight in Muni High Yield/\$100 Million Deal Size Index. To be included in the Muni High Yield/\$100 Million Deal Size Index, bonds must be unrated or rated Ba1/BB+ or lower by at least two of the following rating agencies if all three rate the bond: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Ba1/BB+ or lower. Bonds in the Muni High Yield/\$100 Million Deal Size Index must have an outstanding par value of at least \$3 million and be issued as part of a transaction of at least \$100 million.

25% weight in Muni High Yield/Under \$100 Million Deal Size Index. To be included in the Muni High Yield/Under \$100 Million Deal Size Index, bonds must be unrated or rated Ba1/BB+ or lower by at least two of the following rating agencies if all three rate the bond: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Ba1/BB+ or lower. Bonds in the Muni High Yield/Under \$100 Million Deal Size Index must have an outstanding par value of at least \$3 million and be issued as part of a transaction of under \$100 million but over \$20 million.

25% weight in Muni Baa-Rated/\$100 Million Deal Size Index. To be included in the Muni Baa-Rated/\$100 Million Deal Size Index, bonds must have a Barclays credit quality classification between Baa1/BBB+ and Baa3/BBB-. Barclays credit quality classification is based on the three rating agencies, Moody's, S&P and Fitch. If two of the three agencies rate the bond equivalently, then that rating is used. If all three rate the bond differently, the middle rating is used. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be Baa1/BBB+, Baa2/BBB, or Baa3/BBB-. The bonds must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$100 million. Remarketed issues are not allowed in the benchmark.

All bonds must have a fixed rate, a dated-date (*i.e.*, the date when interest begins to accrue) after December 31, 1990 and a nominal maturity of 1 to 10 years. Taxable municipal bonds, bonds with floating rates and derivatives are excluded from the Short High-Yield Index.

The composition of the Short High-Yield Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Short High-Yield Index without a reinvestment return until month end when they are removed from the Short High-Yield Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Short High-Yield Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The Short High-Yield Index is calculated and is available once a day.



**BARCLAYS AMT-FREE SHORT CONTINUOUS MUNICIPAL INDEX**

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The Short Index is a market size weighted index comprised of publicly traded municipal bonds that cover the U.S. dollar denominated short-term tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Short Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax. As of June 30, 2014, the Short Index consisted of 6,335 bonds.

To be included in the Short Index, bonds must be rated Baa3/BBB- or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB-. Potential Short Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date within the last five years and have an effective maturity of 1 to 6 years. The following types of bonds are excluded from the Short Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives. The Short Index is calculated using a market value weighting methodology.

The composition of the Short Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Short Index without a reinvestment return until month end when they are removed from the Short Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Short Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The Short Index is calculated once a day by Barclays.

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Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF.

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**FINANCIAL HIGHLIGHTS**

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The financial highlights table is intended to help you understand the Funds' financial performance for the past 5 fiscal years or since inception for the Funds that have operated for less than 5 years. Certain information reflects financial results for a single Fund Share. The total returns in the table represent that rate that an investor would have earned (or lost) on an investment in a Fund (assuming reinvestment of all dividends and distributions). This information has been audited by Ernst & Young LLP, the Trust's independent registered public accounting firm, whose report, along with the Funds' financial statements, are included in the Funds' Annual Report, which is available upon request.

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**FINANCIAL HIGHLIGHTS (continued)**

For a share outstanding throughout each period:

	<b>CEF Municipal Income ETF</b>		
	<b>For the Year Ended April 30, 2014</b>	<b>For the Year Ended April 30, 2013</b>	<b>For the Period July 12, 2011 (a) through April 30, 2012</b>
Net asset value, beginning of period	\$ 28.29	\$ 27.76	\$ 25.00
Income from investment operations:			
Net investment income	1.46	1.49	1.24
Net realized and unrealized gain (loss) on investments	(2.73 )	0.53	2.66
Total from investment operations	(1.27 )	2.02	3.90
Less:			
Dividends from net investment income	(1.47 )	(1.48 )	(1.12 )
Distributions from net realized capital gains		(0.01 )	(0.02 )
Total dividends and distributions	(1.47 )	(1.49 )	(1.14 )
Net asset value, end of period	\$ 25.55	\$ 28.29	\$ 27.76
Total return (b)	(4.08 )%	7.28 %	15.84 %(c)

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 31,942	\$ 25,463	\$ 8,329
Ratio of gross expenses to average net assets	0.79 %	1.03 %	2.36 %(d)
Ratio of net expenses to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.40 %	0.40 %	0.40 %(d)
Ratio of net investment income to average net assets	6.07 %	5.33 %	6.04 %(d)
Portfolio turnover rate	9 %	3 %	3 %(c)

**High-Yield Municipal Index ETF**

<b>For the Year Ended April 30, 2014</b>	<b>For the Year Ended April 30, 2013</b>	<b>For the Year Ended April 30, 2012</b>	<b>For the Year Ended April 30, 2011</b>	<b>For the Y Ended April 3 2010</b>
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Net asset value, beginning of year	\$ 33.25	\$ 31.62	\$ 28.39	\$ 30.62	\$ 26.2
Income from investment operations:					
Net investment income	1.68	1.61	1.60	1.75	2.0
Net realized and unrealized gain (loss) on investments	(3.23 )	1.66	3.32	(1.97 )	4.1
Total from investment operations	(1.55 )	3.27	4.92	(0.22 )	6.2
Less:					
Dividends from net investment income	(1.70 )	(1.64 )	(1.69 )	(1.79 )	(1.8
Distributions from net realized capital gains	(0.10 )			(0.22 )	
Total dividends and distributions	(1.80 )	(1.64 )	(1.69 )	(2.01 )	(1.8
Net asset value, end of year	\$ 29.90	\$ 33.25	\$ 31.62	\$ 28.39	\$ 30.6
Total return (b)	(4.48 )%	10.55 %	17.90 %	(0.81 )%	24.4
<b>Ratios/Supplemental Data</b>					
Net assets, end of year (000 s)	\$ 977,813	\$ 1,130,541	\$ 566,009	\$ 210,051	\$ 159,21
Ratio of gross expenses to average net assets	0.35 %	0.35 %	0.35 %	0.44 %	0.6
Ratio of net expenses to average net assets	0.35 %	0.35 %	0.35 %	0.35 %	0.3
Ratio of net expenses, excluding interest expense and interest on securities sold short to average net assets	0.35 %	0.35 %	0.35 %	0.35 %	0.3
	5.57 %	5.22 %	6.04 %	6.27 %	7.4

Ratio of net investment income to average net assets

Portfolio turnover rate

21 %

12 %

18 %

42 %

1

(a) Commencement of operations

(b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(c) Not annualized

(d) Annualized

60

For a share outstanding throughout each period:

## Intermediate Municipal Index ETF

	For the Year Ended April 30, 2014	For the Year Ended April 30, 2013	For the Year Ended April 30, 2012	For the Year Ended April 30, 2011	For the Year Ended April 30, 2010
Net asset value, beginning of year	\$ 23.78	\$ 23.22	\$ 21.40	\$ 21.51	\$ 20.77
Income from investment operations:					
Net investment income	0.58	0.59	0.71	0.74	0.75
Net realized and unrealized gain (loss) on investments	(0.71 )	0.57	1.82	(0.08 )	0.75
Total from investment operations	(0.13 )	1.16	2.53	0.66	1.50
Less:					
Dividends from net investment income	(0.58 )	(0.60 )	(0.71 )	(0.74 )	(0.76 )
Distributions from net realized capital gains		(b)		(0.03 )	
Total dividends and distributions	(0.58 )	(0.60 )	(0.71 )	(0.77 )	(0.76 )
Net asset value, end of year	\$ 23.07	\$ 23.78	\$ 23.22	\$ 21.40	\$ 21.51
Total return (a)	(0.45 )%	5.05 %	12.02 %	3.11 %	7.35 %
<b>Ratios/Supplemental Data</b>					
Net assets, end of year (000 s)	\$ 625,118	\$ 746,575	\$ 459,751	\$ 220,371	\$ 159,179
Ratio of gross expenses to average net assets	0.24 %	0.24 %	0.24 %	0.29 %	0.45 %



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Ratio of net expenses to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.23
Ratio of net expenses, excluding interest expense and interest on securities sold short to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.23
Ratio of net investment income to average net assets	2.55 %	2.54 %	3.19 %	3.50 %	3.73
Portfolio turnover rate	1 %	1 %	7 %	19 %	22

Long Municipal Index ETF

	For the Year Ended April 30, 2014	For the Year Ended April 30, 2013	For the Year Ended April 30, 2012	For the Year Ended April 30, 2011	For the Year Ended April 30, 2010
Net asset value, beginning of year	\$ 20.32	\$ 19.65	\$ 17.46	\$ 18.49	\$ 17.28
Income from investment operations:					
Net investment income	0.79	0.77	0.83	0.83	0.83
Net realized and unrealized gain (loss) on investments	(1.36 )	0.67	2.19	(1.03 )	1.23
Total from investment operations	(0.57 )	1.44	3.02	(0.20 )	2.06
Less:					
Dividends from net investment income	(0.79 )	(0.77 )	(0.83 )	(0.83 )	(0.85 )
Net asset value, end of year	\$ 18.96	\$ 20.32	\$ 19.65	\$ 17.46	\$ 18.49
Total return (a)	(2.62 )%	7.44 %	17.67 %	(1.10 )%	12.20 %

**Ratios/Supplemental  
Data**

Net assets, end of year (000 s)	\$ 76,797	\$ 120,905	\$ 81,539	\$ 55,009	\$ 52,711
Ratio of gross expenses to average net assets	0.24 %	0.24 %	0.24 %	0.38 %	0.64 %
Ratio of net expenses to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.25 %
Ratio of net expenses, excluding interest expense, to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %
Ratio of net investment income to average net assets	4.17 %	3.86 %	4.46 %	4.60 %	4.78 %
Portfolio turnover rate	5 %	3 %	22 %	27 %	20 %

(a) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.

(b) Amount represents less than \$0.005 per share.

**FINANCIAL HIGHLIGHTS (continued)**

For a share outstanding throughout each period:

	<b>Pre-Refunded Municipal Index ETF</b>				
	<b>For the Year Ended April 30, 2014</b>	<b>For the Year Ended April 30, 2013</b>	<b>For the Year Ended April 30, 2012</b>	<b>For the Year Ended April 30, 2011</b>	<b>For the Year Ended April 30, 2010</b>
Net asset value, beginning of year	\$ 25.40	\$ 25.35	\$ 25.01	\$ 24.98	\$ 24.73
Income from investment operations:					
Net investment income	0.25	0.38	0.34	0.34	0.35
Net realized and unrealized gain (loss) on investments	(0.67 )	0.05	0.34	0.10	0.24
Total from investment operations	(0.42 )	0.43	0.68	0.44	0.59
Less:					
Dividends from net investment income	(0.28 )	(0.38 )	(0.34 )	(0.35 )	(0.34 )
Distributions from net realized capital gains				(0.06 )	
Total dividends and distributions	(0.28 )	(0.38 )	(0.34 )	(0.41 )	(0.34 )
Net asset value, end of year	\$ 24.70	\$ 25.40	\$ 25.35	\$ 25.01	\$ 24.98
Total return (b)	(1.64 )%	1.71 %	2.74 %	1.74 %	2.38 %

**Ratios/Supplemental  
Data**

Net assets, end of year (000 s)	\$ 34,579	\$ 33,020	\$ 32,957	\$ 35,019	\$ 39,965
Ratio of gross expenses to average	0.24 %	0.24 %	0.24 %	0.38 %	0.67 %

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net assets

Ratio of net expenses to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %
Ratio of net expenses, excluding interest expense and interest on securities sold short to average net assets	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %
Ratio of net investment income to average net assets	1.02 %	1.50 %	1.36 %	1.36 %	1.44 %
Portfolio turnover rate	61 %	19 %	40 %	28 %	8 %

**Short High-Yield  
Municipal Index  
ETF**

**For the Period  
January 13, 2014**

**(a)**

**through  
April 30, 2014**

Net asset value, beginning of period	\$ 24.94
Income from investment operations:	
Net investment income	0.24
Net realized and unrealized gain on investments	0.22
<b>Total from investment operations</b>	<b>0.46</b>
Less:	
Dividends from net investment income	(0.16 )
Net asset value, end of period	\$ 25.24
<b>Total return (b)</b>	<b>1.82 %(c)</b>

**Ratios/Supplemental Data**

Net assets, end of period (000 s)	\$ 27,768
Ratio of gross expenses to average net assets	0.35 %(d)
Ratio of net expenses to average net assets	0.35 %(d)
Ratio of net expenses, excluding interest expense, to average net assets	0.35 %(d)
Ratio of net investment income to average net assets	4.10 %(d)

Portfolio turnover rate

6 %(c)

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- (a) Commencement of operations
  - (b) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares
  - (c) Not annualized
  - (d) Annualized
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62

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For a share outstanding throughout each period:

## Short Municipal Index ETF

	For the Year Ended April 30, 2014	For the Year Ended April 30, 2013	For the Year Ended April 30, 2012	For the Year Ended April 30, 2011	For the Year Ended April 30, 2010
Net asset value, beginning of year	\$ 17.79	\$ 17.74	\$ 17.35	\$ 17.32	\$ 16.93
Income from investment operations:					
Net investment income	0.24	0.26	0.32	0.36	0.39
Net realized and unrealized gain (loss) on investments	(0.18 )	0.06	0.40	0.09	0.39
Total from investment operations	0.06	0.32	0.72	0.45	0.78
Less:					
Dividends from net investment income	(0.24 )	(0.26 )	(0.33 )	(0.36 )	(0.39 )
Distributions from net realized capital gains		(0.01 )	(b)	(0.06 )	
Total dividends and distributions	(0.24 )	(0.27 )	(0.33 )	(0.42 )	(0.39 )
Net asset value, end of year	\$ 17.61	\$ 17.79	\$ 17.74	\$ 17.35	\$ 17.32
Total return (a)	0.36 %	1.83 %	4.16 %	2.59 %	4.64 %

**Ratios/Supplemental  
Data**

Net assets, end of year (000 s)	\$ 242,131	\$ 205,506	\$ 135,742	\$ 94,568	\$ 89,222
Ratio of gross expenses to average net assets	0.20 %	0.20 %	0.20 %	0.29 %	0.55 %
Ratio of net expenses to average net assets	0.20 %	0.20 %	0.20 %	0.20 %	0.20 %

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Ratio of net expenses, excluding interest expense, to average net assets	0.20 %	0.20 %	0.20 %	0.20 %	0.19 %
Ratio of net investment income to average net assets	1.37 %	1.46 %	1.85 %	2.04 %	2.31 %
Portfolio turnover rate	3 %	10 %	23 %	35 %	43 %

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- (a) Total return is calculated assuming an initial investment made at the net asset value at the beginning of period, reinvestment of any dividends and distributions at net asset value on the dividend/distributions payment date and a redemption at the net asset value on the last day of the period. The return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/ distributions or the redemption of Fund shares.
- (b) Amount represents less than \$0.005 per share.
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## **PREMIUM/DISCOUNT INFORMATION**

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Information regarding how often the Shares of a Fund traded on NYSE Arca at a price above (*i.e.*, at a premium) or below (*i.e.*, at a discount) the NAV of the Fund during the past four calendar quarters, as applicable, can be found at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

## **GENERAL INFORMATION**

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### **CONTINUOUS OFFERING**

The method by which Creation Units are created and traded may raise certain issues under applicable securities laws. Because new Creation Units are issued and sold by the Trust on an ongoing basis, a distribution, as such term is used in the Securities Act, may occur at any point. Broker dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery and liability provisions of the Securities Act.

For example, a broker dealer firm or its client may be deemed a statutory underwriter if it takes Creation Units after placing an order with the Distributor, breaks them down into constituent Shares, and sells such Shares directly to customers, or if it chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary market demand for Shares. A determination of whether one is an underwriter for purposes of the Securities Act must take into account all the facts and circumstances pertaining to the activities of the broker dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker dealers who are not underwriters but are participating in a distribution (as contrasted to ordinary secondary trading transactions), and thus dealing with Shares that are part of an unsold allotment within the meaning of Section 4(3)(C) of the Securities Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. This is because the prospectus delivery exemption in Section 4(3) of the Securities Act is not available in respect of such transactions as a result of Section 24(d) of the 1940 Act. As a result, broker dealer firms should note that dealers who are not underwriters but are participating in a distribution (as contrasted with ordinary secondary market transactions) and thus dealing with the Shares that are part of an overallotment within the meaning of Section 4(3)(A) of the Securities Act would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. Firms that incur a prospectus delivery obligation with respect to Shares are reminded that, under Rule 153 of the Securities Act, a prospectus delivery obligation under Section 5(b)(2) of the Securities Act owed to an exchange member in connection with a sale on NYSE Arca is satisfied by the fact that the prospectus is available at NYSE Arca upon request. The prospectus delivery mechanism provided in Rule 153 is only available with respect to transactions on an exchange.

In addition, certain affiliates of the Funds and the Adviser may purchase and resell Fund shares pursuant to this Prospectus.

## **OTHER INFORMATION**

The Trust was organized as a Delaware statutory trust on March 15, 2001. Its Declaration of Trust currently permits the Trust to issue an unlimited number of Shares of beneficial interest. If shareholders are required to vote on any matters, each Share outstanding would be entitled to one vote. Annual meetings of shareholders will not be held except as required by the 1940 Act and other applicable law. See the Funds' SAI for more information concerning the Trust's form of organization. Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies, including Shares of a Fund. Registered investment companies are permitted



to invest in the Funds (except Market Vectors CEF Municipal Income ETF) beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in an SEC exemptive order issued to the Trust, including that such investment companies enter into an agreement with such Funds.

Dechert LLP serves as counsel to the Trust, including the Funds. Ernst & Young LLP serves as the Trust's independent registered public accounting firm and will audit the Fund's financial statements annually.

#### **ADDITIONAL INFORMATION**

This Prospectus does not contain all the information included in the Registration Statement filed with the SEC with respect to the Funds' Shares. Information about the Funds can be reviewed and copied at the SEC's Public Reference Room and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1.202.551.8090. The Funds' Registration

Statement, including this Prospectus, the Funds' SAI and the exhibits may be examined at the offices of the SEC (100 F Street, NE, Washington, DC 20549) or on the EDGAR database at the SEC's website (<http://www.sec.gov>), and copies may be obtained, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-1520. These documents and other information concerning the Trust also may be inspected at the offices of NYSE Arca (20 Broad Street, New York, New York 10005).

The SAI for the Funds, which has been filed with the SEC, provides more information about the Funds. The SAI for the Funds is incorporated herein by reference and is legally part of this Prospectus. Additional information about the Funds' investments is available in each Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. The SAI and the Funds' annual and semi-annual reports may be obtained without charge by writing to the Funds at Van Eck Securities Corporation, the Funds' distributor, at 335 Madison Avenue, New York, New York 10017 or by calling the distributor at the following number: Investor Information: 1.888.MKT.VCTR (658-8287).

Shareholder inquiries may be directed to the Funds in writing to 335 Madison Avenue, 19th Floor, New York, New York 10017 or by calling 1.888.MKT.VCTR (658-8287).

The Funds' SAI is available at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

(Investment Company Act file no. 811-10325)

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For more detailed information about the Funds, see the SAI dated September 1, 2014, which is incorporated by reference into this Prospectus. Additional information about the Funds' investments will be available in each Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

Call Van Eck at 888.MKT.VCTR to request, free of charge, the annual or semi-annual reports, the SAI, or other information about the Funds or to make shareholder inquiries. You may also obtain the SAI or a Fund's annual or semi-annual reports, when available, by visiting the Van Eck website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

Information about the Funds (including the SAI) can also be reviewed and copied at the SEC Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 202.551.8090.

Reports and other information about the Funds are available on the EDGAR Database on the SEC's internet site at <http://www.sec.gov>. In addition, copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-0102.

Transfer Agent: The Bank of New York Mellon  
SEC Registration Number: 333-123257  
1940 Act Registration Number: 811-10325  
MUNIPRO

**888.MKT.VCTR**  
**marketvectorsetfs.com**

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## MARKET VECTORS ETF TRUST

## STATEMENT OF ADDITIONAL INFORMATION

**Dated September 1, 2014**

This Statement of Additional Information (“SAI”) is not a prospectus. It should be read in conjunction with the Prospectuses dated September 1, 2014 (each a “Prospectus” and, together, the “Prospectuses”) for the Market Vectors ETF Trust (the “Trust”), relating to the series of the Trust listed below, as they may be revised from time to time.

<b><u>Fund</u></b>	<b><u>Principal U.S. Listing Exchange</u></b>	<b><u>Ticker</u></b>
Market Vectors BDC Income ETF	NYSE Arca, Inc.	BIZD <sup>®</sup>
Market Vectors CEF Municipal Income ETF	NYSE Arca, Inc.	XMPT <sup>®</sup>
Market Vectors Emerging Markets Aggregate Bond ETF	NYSE Arca, Inc.	EMAG <sup>™</sup>
Market Vectors Emerging Markets High Yield Bond ETF	NYSE Arca, Inc.	HYEM <sup>®</sup>
Market Vectors Emerging Markets Local Currency Bond ETF	NYSE Arca, Inc.	EMLC <sup>®</sup>
Market Vectors Fallen Angel High Yield Bond ETF	NYSE Arca, Inc.	ANGL <sup>®</sup>
Market Vectors High-Yield Municipal Index ETF	NYSE Arca, Inc.	HYD <sup>®</sup>
Market Vectors Intermediate Municipal Index ETF	NYSE Arca, Inc.	ITM <sup>®</sup>
Market Vectors International High Yield Bond ETF	NYSE Arca, Inc.	IHY <sup>®</sup>
Market Vectors Investment Grade Floating Rate ETF	NYSE Arca, Inc.	FLTR <sup>®</sup>
Market Vectors Long Municipal Index ETF	NYSE Arca, Inc.	MLN <sup>®</sup>
Market Vectors Mortgage REIT Income ETF	NYSE Arca, Inc.	MORT <sup>®</sup>
Market Vectors Preferred Securities ex Financials ETF	NYSE Arca, Inc.	PFXF <sup>®</sup>
Market Vectors Pre-Refunded Municipal Index ETF	NYSE Arca, Inc.	PRB <sup>®</sup>
Market Vectors Renminbi Bond ETF	NYSE Arca, Inc.	CHLC <sup>®</sup>
Market Vectors Short High-Yield Municipal Index ETF	NYSE Arca, Inc.	SHYD <sup>™</sup>
Market Vectors Short Municipal Index ETF	NYSE Arca, Inc.	SMB <sup>®</sup>
Market Vectors Treasury-Hedged High Yield Bond ETF	NYSE Arca, Inc.	THHY <sup>®</sup>

A copy of each Prospectus may be obtained without charge by writing to the Trust or the Distributor. The Trust’s address is 335 Madison Avenue, 19th Floor, New York, New York 10017. Capitalized terms used herein that are not defined have the same meaning as in the Prospectuses, unless otherwise noted. The audited financial statements, including the financial highlights appearing in the Trust’s Annual Report to shareholders for the fiscal year ended April 30, 2014 and filed electronically with the Securities and Exchange Commission (the “SEC”), are incorporated by reference and made part of this SAI.

**TABLE OF CONTENTS**

	<b>Page</b>
<u>GENERAL DESCRIPTION OF THE TRUST</u>	1
<u>INVESTMENT POLICIES AND RESTRICTIONS</u>	2
<u>General</u>	2
<u>Municipal Securities</u>	2
<u>Short Sales</u>	2
<u>Repurchase Agreements</u>	3
<u>Futures Contracts and Options</u>	4
<u>Swaps</u>	5
<u>Warrants and Subscription Rights</u>	7
<u>Currency Forwards</u>	7
<u>Convertible Securities</u>	7
<u>Structured Notes</u>	7
<u>Participation Notes</u>	7
<u>Future Developments</u>	8
<u>Investment Restrictions</u>	8
<u>SPECIAL CONSIDERATIONS AND RISKS</u>	11
<u>General</u>	11
<u>Specific Risks Applicable to the Municipal Funds and Market Vectors CEF Municipal Income ETF</u>	13
<u>U.S. Federal Tax Treatment of Futures Contracts</u>	16
<u>EXCHANGE LISTING AND TRADING</u>	17
<u>BOARD OF TRUSTEES OF THE TRUST</u>	18
<u>Trustees and Officers of the Trust</u>	18
<u>Independent Trustees</u>	18
<u>Interested Trustee</u>	20
<u>Officer Information</u>	21
<u>Remuneration of Trustees</u>	25
<u>PORTFOLIO HOLDINGS DISCLOSURE</u>	26
<u>QUARTERLY PORTFOLIO SCHEDULE</u>	26
<u>CODE OF ETHICS</u>	26
<u>PROXY VOTING POLICIES AND PROCEDURES</u>	26
<u>MANAGEMENT</u>	27
<u>Investment Adviser</u>	27
<u>The Administrator</u>	29
<u>Custodian and Transfer Agent</u>	29

<u>The Distributor</u>	29
<u>Affiliated Index Provider</u>	30
<u>Other Accounts Managed by the Portfolio Managers</u>	30
<u>Portfolio Manager Compensation</u>	31
<u>Portfolio Manager Share Ownership</u>	31
<u>BROKERAGE TRANSACTIONS</u>	35
<u>BOOK ENTRY ONLY SYSTEM</u>	36
<u>CREATION AND REDEMPTION OF CREATION UNITS</u>	37
<u>General</u>	37
<u>Fund Deposit</u>	37
<u>Procedures for Creation of Creation Units</u>	38
<u>Placement of Creation Orders Using Clearing Process—All Funds Except Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF</u>	40
<u>Placement of Creation Orders Using Clearing Process—Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF</u>	40
<u>Placement of Creation Orders Outside Clearing Process—Domestic Funds</u>	40
<u>Placement of Creation Orders Outside Clearing Process—Foreign Funds</u>	41
<u>Acceptance of Creation Orders</u>	41
<u>Creation Transaction Fee</u>	42
<u>Redemption of Creation Units</u>	42
<u>Redemption Transaction Fee</u>	43
<u>Placement of Redemption Orders Using Clearing Process—All Funds Except Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF</u>	44
<u>Placement of Redemption Orders Using Clearing Process—Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF</u>	44
<u>Placement of Redemption Orders Outside Clearing Process—Domestic Funds</u>	44
<u>Placement of Redemption Orders Outside Clearing Process—Foreign Funds</u>	45
<u>DETERMINATION OF NET ASSET VALUE</u>	67
<u>DIVIDENDS AND DISTRIBUTIONS</u>	68
<u>General Policies</u>	68
<u>DIVIDEND REINVESTMENT SERVICE</u>	68
<u>CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS</u>	68
<u>TAXES</u>	74
<u>Reportable Transactions</u>	79
<u>CAPITAL STOCK AND SHAREHOLDER REPORTS</u>	79
<u>COUNSEL AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	80

<u>FINANCIAL STATEMENTS</u>	80
<u>LICENSE AGREEMENTS AND DISCLAIMERS</u>	81
<u>APPENDIX A VAN ECK GLOBAL PROXY VOTING POLICIES</u>	88

## GENERAL DESCRIPTION OF THE TRUST

The Trust is an open-end management investment company. The Trust currently consists of 59 investment portfolios. This SAI relates to eighteen investment portfolios, Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF<sup>1</sup>, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF (each, a “Fund” and, together, the “Funds”). Each Fund (except for Market Vectors BDC Income ETF and Market Vectors CEF Municipal Income ETF) is classified as a non-diversified management investment company under the Investment Company Act of 1940, as amended (“1940 Act”), and, as a result, is not required to meet certain diversification requirements under the 1940 Act. Market Vectors BDC Income ETF and Market Vectors CEF Municipal Income ETF are classified as diversified management investment companies under the 1940 Act. The Trust was organized as a Delaware statutory trust on March 15, 2001. The shares of each Fund are referred to herein as “Shares.”

The Funds offer and issue Shares at their net asset value (“NAV”) only in aggregations of a specified number of Shares (each, a “Creation Unit”). Similarly, Shares are redeemable by the Funds only in Creation Units, and for Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF in exchange for specified securities included in each Fund’s Index (defined herein). Creation Units of Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF and Market Vectors Treasury-Hedged High Yield Bond ETF are issued and redeemed partially for cash and partially in exchange for specified securities included in each Fund’s Index. Creation Units of Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF are issued principally for cash and redeemed in exchange for specified securities included in each Fund’s Index. Shares of Market Vectors Renminbi Bond ETF are issued and redeemed principally for cash. The Shares of the Funds are listed on NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) and trade in the secondary market at market prices that may differ from the Shares’ NAV. A Creation Unit consists of 50,000 Shares (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF), 100,000 Shares (with respect to Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF) and 200,000 Shares (with respect to Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF) of a Fund.



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The Trust reserves the right to permit or require a “cash” option for creations and redemptions of Shares of a Fund (subject to applicable legal requirements) to the extent such Shares are not created and redeemed in cash.

Prior to December 10, 2013, the Fund’s name was Market Vectors LatAm Aggregate Bond ETF and its investment objective was to seek to replicate as closely as possible, before fees and expenses, the price and yield performance of The BofA Merrill Lynch Broad Latin America Bond Index.

- 1 -

## INVESTMENT POLICIES AND RESTRICTIONS

### General

Market Vectors CEF Municipal Income ETF is a “fund of funds,” meaning that it invests all or a portion of its assets in other funds (the “Underlying Funds”). The performance of Market Vectors CEF Municipal Income ETF is dependent on the performance of the Underlying Funds. Market Vectors CEF Municipal Income ETF will be subject to the risks of the Underlying Funds’ investments. Because the investment characteristics of Market Vectors CEF Municipal Income ETF will correspond directly to those of the Underlying Funds, the following applies to both Market Vectors CEF Municipal Income ETF and the Underlying Funds, as applicable, and except where otherwise indicated, references in this SAI to a “Fund,” “Funds” or “Market Vectors CEF Municipal Income ETF” include Market Vectors CEF Municipal Income ETF and the Underlying Funds, as applicable.

Market Vectors BDC Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF are each defined as an “Equity Income Fund” and collectively as the “Equity Income Funds.” Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF are each defined as a “Fixed Income Fund” and collectively as the “Fixed Income Funds.”

### Municipal Securities

Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF (collectively, the “Municipal Funds”) and Market Vectors CEF Municipal Income ETF and/or the Underlying Funds, may invest in securities issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. Municipal securities share the attributes of debt/fixed income securities in general, but are generally issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. The municipal securities which each Fund may purchase include general obligation bonds and limited obligation bonds (or revenue bonds), including industrial development bonds issued pursuant to former federal tax law. General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from such issuer’s general revenues and not from any particular source. Limited obligation bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. Tax-exempt industrial development bonds generally are also revenue bonds and thus are not payable from the issuer’s general revenues. The credit and quality of industrial development bonds are usually related to the credit of the corporate user

of the facilities. Payment of interest on and repayment of principal of such bonds is the responsibility of the corporate user (and/or any guarantor). In addition, each Fund may invest in lease obligations. Lease obligations may take the form of a lease or an installment purchase contract issued by public authorities to acquire a wide variety of equipment and facilities.

#### Short Sales

Market Vectors Treasury-Hedged High Yield Bond ETF may engage in short selling to the extent permitted by the 1940 Act and rules and interpretations thereunder. When Market Vectors Treasury-Hedged High Yield Bond ETF makes a short sale, it borrows the security sold short and delivers it to the broker-dealer through which it made the short sale. Market Vectors Treasury-Hedged High Yield Bond ETF may have to pay a fee to borrow particular securities and is often obligated to turn over any payments received on such borrowed securities to the lender of the securities.

Market Vectors Treasury-Hedged High Yield Bond ETF secures its obligation to replace the borrowed security by depositing collateral with the broker-dealer, usually in cash, U.S. Government securities or other liquid securities similar to those borrowed. With respect to uncovered short positions, Market Vectors Treasury-Hedged High Yield Bond ETF is required to deposit similar collateral with its custodian, if necessary, to the extent that the value of both collateral deposits in the aggregate is at all times equal to at least 150% of the current market value of the securities sold short (100% of the current market value if a security is held in the account that is convertible or exchangeable into the security sold short within 90 days without restriction other than the payment of money). Depending on arrangements made with the broker-dealer from which Market Vectors Treasury-Hedged High Yield Bond ETF borrowed the security, regarding payment received by the Fund on such security, the Fund may not receive any payments (including interest) on its collateral deposited with such broker-dealer.

Because making short sales in securities that it does not own exposes Market Vectors Treasury-Hedged High Yield Bond ETF to the risks associated with those securities, such short sales involve speculative exposure risk. Market Vectors Treasury-Hedged High Yield Bond ETF will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. Market Vectors Treasury-Hedged High Yield Bond ETF will realize a gain on a short sale if the security declines in price between those dates. There can be no assurance that Market Vectors Treasury-Hedged High Yield Bond ETF will be able to close out a short sale position at any particular time or at an acceptable price.

Market Vectors Treasury-Hedged High Yield Bond ETF may also make short sales “against the box” without being subject to such limitations. In a short sale “against-the-box,” at the time of the sale, Market Vectors Treasury-Hedged High Yield Bond ETF owns or has the immediate and unconditional right to acquire the identical security at no additional cost. If Market Vectors Treasury-Hedged High Yield Bond ETF makes a short sale against the box, the Fund would not immediately deliver the securities sold and would not receive the proceeds from the sale. The seller is said to have a short position in the securities sold until it delivers the securities sold, at which time it receives the proceeds of the sale. To secure its obligation to deliver securities sold short, Market Vectors Treasury-Hedged High Yield Bond ETF will deposit in escrow in a separate account with the custodian an equal amount of the securities sold short or securities convertible into or exchangeable for such securities. Market Vectors Treasury-Hedged High Yield Bond ETF can close out its short position by purchasing and delivering an equal amount of the securities sold short, rather than by delivering securities already held by the Fund because the Fund might want to continue to receive interest and dividend payments on securities in its portfolio that are convertible into the securities sold short.

#### Repurchase Agreements

The Funds may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from their excess cash balances and to invest securities lending cash collateral. A repurchase agreement is an agreement under which a Fund acquires a money market instrument (generally a security issued by the U.S. Government or an agency thereof, a banker’s acceptance or a certificate of deposit) from a seller, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. The resale price reflects an agreed upon interest rate effective for the period the instrument is held by a Fund and is unrelated to the interest rate on the underlying instrument.

In these repurchase agreement transactions, the securities acquired by a Fund (including accrued interest earned thereon) must have a total value at least equal to the value of the repurchase agreement and are held by the Trust's custodian bank until repurchased. In addition, the Trust's Board of Trustees ("Board" or "Trustees") has established guidelines and standards for review of the creditworthiness of any bank, broker or dealer counterparty to a repurchase agreement with each Fund. No more than an aggregate of 15% of each Fund's net assets will be invested in repurchase agreements having maturities longer than seven days.

The use of repurchase agreements involves certain risks. For example, if the other party to the agreement defaults on its obligation to repurchase the underlying security at a time when the value of the security has declined, the Funds may incur a loss upon disposition of the security. If the other party to the agreement becomes insolvent and subject to liquidation or reorganization under the Bankruptcy Code or other laws, a court may determine that the underlying security is collateral not within the control of a Fund and, therefore, the Fund may incur delays in

disposing of the security and/or may not be able to substantiate its interest in the underlying security and may be deemed an unsecured creditor of the other party to the agreement.

## Futures Contracts and Options

Futures contracts generally provide for the future sale by one party and purchase by another party of a specified instrument, index or commodity at a specified future time and at a specified price. Stock or bond index futures contracts are settled daily with a payment by one party to the other of a cash amount based on the difference between the level of the stock or bond index specified in the contract from one day to the next. Futures contracts are standardized as to maturity date and underlying instrument and are traded on futures exchanges. The Funds may use futures contracts and options on futures contracts based on other indexes or combinations of indexes that Van Eck Associates Corporation (the “Adviser”) believes to be representative of each Fund’s respective benchmark index (each, an “Index”).

An option is a contract that provides the holder the right to buy or sell shares at a fixed price, within a specified period of time. An American call option gives the option holder the right to buy the underlying security from the option writer at the option exercise price at any time prior to the expiration of the option. A European call option gives the option holder the right to buy the underlying security from the option writer only on the option expiration date. An American put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price at any time prior to the expiration of the option. A European put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price only on the option expiration date.

Although futures contracts (other than cash settled futures contracts including most stock or bond index futures contracts) by their terms call for actual delivery or acceptance of the underlying instrument or commodity, in most cases the contracts are closed out before the maturity date without the making or taking of delivery. Closing out an open futures position is done by taking an opposite position (“buying” a contract which has previously been “sold” or “selling” a contract previously “purchased”) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract position is opened or closed.

Futures traders are required to make a good faith margin deposit in cash or government securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying instrument or commodity or payment of the cash settlement amount) if it is not terminated prior to the specified delivery date. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin deposits which may range upward from less than 5% of the value of the contract being traded.

After a futures contract position is opened, the value of the contract is marked-to-market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional “variation” margin will be required.

Conversely, a change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Funds expect to earn interest income on their margin deposits.

The Funds may use futures contracts and options thereon, together with positions in cash and money market instruments, to simulate full investment in each Fund's respective Index. Under such circumstances, the Adviser may seek to utilize other instruments that it believes to be correlated to each Fund's respective Index components or a subset of the components. Liquid futures contracts may not be currently available for the Index of each Fund.

Positions in futures contracts and options may be closed out only on an exchange that provides a secondary market therefor. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract or option at any specific time. Thus, it may not be possible to close a futures or options position. In the event of adverse price movements, the Funds would continue to be required to make daily cash payments to

maintain its required margin. In such situations, if a Fund has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, the Funds may be required to make delivery of the instruments underlying futures contracts they have sold.

The Funds will seek to minimize the risk that they will be unable to close out a futures or options contract by only entering into futures and options for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts or uncovered call options in some strategies (*e.g.*, selling uncovered stock or bond index futures contracts) is potentially unlimited. The Funds do not plan to use futures and options contracts in this way. The risk of a futures position may still be large as traditionally measured due to the low margin deposits required. In many cases, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor relative to the size of a required margin deposit.

Utilization of futures transactions by the Funds involves the risk of imperfect or even negative correlation to each Fund's respective Index if the index underlying the futures contracts differs from the Index. There is also the risk of loss by the Funds of margin deposits in the event of bankruptcy of a broker with whom a Fund has an open position in the futures contract or option.

Certain financial futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

Except as otherwise specified in the Funds' Prospectus or this SAI, there are no limitations on the extent to which the Funds may engage in transactions involving futures and options thereon. The Funds will take steps to prevent their futures positions from "leveraging" their securities holdings. When a Fund has a long futures position, it will maintain with its custodian bank, cash or liquid securities having a value equal to the notional value of the contract (less any margin deposited in connection with the position). When a Fund has a short futures position, as part of a complex stock or bond replication strategy the Fund will maintain with its custodian bank assets substantially identical to those underlying the contract or cash and liquid securities (or a combination of the foregoing) having a value equal to the net obligation of the Fund under the contract (less the value of any margin deposits in connection with the position).

## Swaps



Over-the-counter swap (“OTC”) agreements are contracts between parties in which one party agrees to make payments to the other party based on the change in market value or level of a specified index or asset. In return, the other party agrees to make payments to the first party based on the return of a different specified index or asset. Although over-the-counter swap agreements entail the risk that a party will default on its payment obligations thereunder, each Fund seeks to reduce this risk by entering into agreements that involve payments no less frequently than quarterly. The net amount of the excess, if any, of a Fund’s obligations over its entitlements with respect to each swap is accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess is maintained in an account at the Trust’s custodian bank.

Certain Funds may enter into interest rate swaps and credit default swaps. Interest rate swaps are bilateral contracts in which each party agrees to make periodic payments to the other party based on different referenced interest rates (e.g., a fixed rate and a floating rate) applied to a specified notional amount. A credit default swap is a bilateral contract that enables an investor to buy or sell protection against a defined-issuer credit event. Certain Funds may enter into credit default swap agreements either as a buyer or a seller. A Fund may buy protection to attempt to mitigate the risk of default or credit quality deterioration in one or more of its individual holdings or in a segment of the fixed income securities market to which it has exposure, or to take a “short” position in individual bonds or market segments which it does not own. A Fund may sell protection in an attempt to gain exposure to the

credit quality characteristics of particular bonds or market segments without investing directly in those bonds or market segments. As the protection seller in a credit default swap, a Fund effectively adds economic leverage to its portfolio because, in addition to being subject to investment exposure on its total net assets, the Fund is subject to investment exposure on the notional amount of the swap

The use of such swap agreements involves certain risks. For example, if the counterparty, under a swap agreement, defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, the Funds may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related regulatory developments require the eventual clearing and exchange-trading of many standardized OTC derivative instruments that the Commodity Futures Trading Commission (“CFTC”) and Securities and Exchange Commission (“SEC”) recently defined as “swaps” and “security-based swaps,” respectively. Mandatory exchange-trading and clearing is occurring on a phased-in basis based on the type of market participant and CFTC approval of contracts for central clearing and exchange trading. In a cleared swap, a Fund’s ultimate counterparty is a central clearinghouse rather than a brokerage firm, bank or other financial institution. A Fund initially will enter into cleared swaps through an executing broker. Such transactions will then be submitted for clearing and, if cleared, will be held at regulated futures commission merchants (“FCMs”) that are members of the clearinghouse that serves as the central counterparty. When a Fund enters into a cleared swap, it must deliver to the central counterparty (via an FCM) an amount referred to as “initial margin.” Initial margin requirements are determined by the central counterparty, but an FCM may require additional initial margin above the amount required by the central counterparty. During the term of the swap agreement, a “variation margin” amount may also be required to be paid by a Fund or may be received by the Fund in accordance with margin controls set for such accounts, depending upon changes in the price of the underlying reference asset subject to the swap agreement. At the conclusion of the term of the swap agreement, if a Fund has a loss equal to or greater than the margin amount, the margin amount is paid to the FCM along with any loss in excess of the margin amount. If a Fund has a loss of less than the margin amount, the excess margin is returned to the Fund. If a Fund has a gain, the full margin amount and the amount of the gain is paid to the Fund.

Central clearing is designed to reduce counterparty credit risk compared to uncleared swaps because central clearing interposes the central clearinghouse as the counterparty to each participant’s swap, but it does not eliminate those risks completely. There is also a risk of loss by a Fund of the initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. The assets of a Fund may not be fully protected in the event of the bankruptcy of the FCM or central counterparty because the Fund might be limited to recovering only a pro rata share of all available funds and margin segregated on behalf of an FCM’s customers or central counterparty’s clearing members. If the FCM does not provide accurate reporting, a Fund is also subject to the risk that the FCM could use the Fund’s assets, which are held in an omnibus account with assets belonging to the FCM’s other customers, to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. Certain swaps have begun trading on exchanges called swap execution facilities. Exchange-trading is expected to increase liquidity of swaps trading.

In addition, with respect to cleared swaps, a Fund may not be able to obtain as favorable terms as it would be able to negotiate for an uncleared swap. In addition, an FCM may unilaterally impose position limits or additional margin requirements for certain types of swaps in which a Fund may invest. Central counterparties and FCMs generally can

require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement. Margin requirements for cleared swaps vary on a number of factors, and the margin required under the rules of the clearinghouse and FCM may be in excess of the collateral required to be posted by a Fund to support its obligations under a similar uncleared swap. However, regulators are expected to adopt rules imposing certain margin requirements, including minimums, on uncleared swaps in the near future, which could change this comparison.

The Funds are also subject to the risk that, after entering into a cleared swap with an executing broker, no FCM or central counterparty is willing or able to clear the transaction. In such an event, the central counterparty would void the trade. Before a Fund can enter into a new trade, market conditions may become less favorable to the Fund.

- 6 -

The Adviser will continue to monitor developments regarding trading and execution of cleared swaps on exchanges, particularly to the extent regulatory changes affect a Fund's ability to enter into swap agreements and the costs and risks associated with such investments.

### Warrants and Subscription Rights

Warrants are equity securities in the form of options issued by a corporation which give the holder the right, but not the obligation, to purchase stock, usually at a price that is higher than the market price at the time the warrant is issued. A purchaser takes the risk that the warrant may expire worthless because the market price of the common stock fails to rise above the price set by the warrant.

### Currency Forwards

A currency forward transaction is a contract to buy or sell a specified quantity of currency at a specified date in the future at a specified price which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. Currency forward contracts may be used to increase or reduce exposure to currency price movements.

The use of currency forward transactions involves certain risks. For example, if the counterparty under the contract defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, a Fund may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

### Convertible Securities

A convertible security is a bond, debenture, note, preferred stock, right, warrant or other security that may be converted into or exchanged for a prescribed amount of common stock or other security of the same or a different issuer or into cash within a particular period of time at a specified price or formula. A convertible security generally entitles the holder to receive interest paid or accrued on debt securities or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities generally have characteristics similar to both debt and equity securities. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuations in the market value of the underlying securities. Convertible securities ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities generally rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities although the market prices of convertible securities may be affected by any dividend changes or other changes in the underlying securities.

### Structured Notes

A structured note is a derivative security for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. Investments in structured notes involve risks including interest rate risk, credit risk and market risk. Depending on the factor(s) used and the use of multipliers or deflators, changes in interest rates and movement of such factor(s) may cause significant price fluctuations. Structured notes may be less liquid than other types of securities and more volatile than the reference factor underlying the note.

### Participation Notes

Participation notes (“P-Notes”) are issued by banks or broker-dealers and are designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes can have the characteristics or take the form of various instruments, including, but not limited to, certificates or warrants. The holder of a P-Note that is linked to a particular underlying security is entitled to receive any dividends paid in connection with the

underlying security. However, the holder of a P-Note generally does not receive voting rights as it would if it directly owned the underlying security. P-Notes constitute direct, general and unsecured contractual obligations of the banks or broker-dealers that issue them, which therefore subject a Fund to counterparty risk, as discussed below. Investments in P-Notes involve certain risks in addition to those associated with a direct investment in the underlying foreign securities or foreign securities markets whose return they seek to replicate. For instance, there can be no assurance that the trading price of a P-Note will equal the value of the underlying foreign security or foreign securities market that it seeks to replicate. As the purchaser of a P-Note, a Fund is relying on the creditworthiness of the counterparty issuing the P-Note and has no rights under a P-Note against the issuer of the underlying security. Therefore, if such counterparty were to become insolvent, a Fund would lose its investment. The risk that a Fund may lose its investments due to the insolvency of a single counterparty may be amplified to the extent the Fund purchases P-Notes issued by one issuer or a small number of issuers. P-Notes also include transaction costs in addition to those applicable to a direct investment in securities. In addition, a Fund's use of P-Notes may cause the Fund's performance to deviate from the performance of the portion of the Index to which the Fund is gaining exposure through the use of P-Notes.

Due to liquidity and transfer restrictions, the secondary markets on which P-Notes are traded may be less liquid than the markets for other securities, which may lead to the absence of readily available market quotations for securities in a Fund's portfolio and may cause the value of the P-Notes to decline. The ability of a Fund to value its securities becomes more difficult and the Adviser's judgment in the application of fair value procedures may play a greater role in the valuation of a Fund's securities due to reduced availability of reliable objective pricing data. Consequently, while such determinations will be made in good faith, it may nevertheless be more difficult for a Fund to accurately assign a daily value to such securities.

#### Future Developments

The Funds may take advantage of opportunities in the area of options, futures contracts, options on futures contracts, options on the Funds, warrants, swaps and any other investments which are not presently contemplated for use or which are not currently available, but which may be developed, to the extent such investments are considered suitable for a Fund by the Adviser.

#### Investment Restrictions

The Trust has adopted the following investment restrictions as fundamental policies with respect to each Fund, unless otherwise noted. These restrictions cannot be changed without the approval of the holders of a majority of each Fund's outstanding voting securities. For purposes of the 1940 Act, a majority of the outstanding voting securities of a Fund means the vote, at an annual or a special meeting of the security holders of the Trust, of the lesser of (1) 67% or more of the voting securities of the Fund present at such meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy, or (2) more than 50% of the outstanding voting securities of the Fund. Under these restrictions:

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Each Fund may not make loans, except that a Fund may (i) lend portfolio securities, (ii) enter into repurchase agreements, (iii) purchase all or a portion of an issue of debt securities, bank loan or participation interests, bank certificates of deposit, bankers' acceptances, debentures or other securities, whether or not the purchase is made upon the original issuance of the securities and (iv) participate in an interfund lending program with other registered investment companies;

2. Each Fund may not borrow money, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

3. Each Fund may not issue senior securities except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

Market Vectors BDC Income ETF and Market Vectors CEF Municipal Income ETF may not invest in a manner inconsistent with its classification as a "diversified company" as provided by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the

- 8 -

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SEC under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief applicable to the Fund from the provisions of the 1940 Act, as amended from time to time;

5. Each Municipal Fund (except Market Vectors Short High-Yield Municipal Index ETF) may not purchase a security (other than obligations of the U.S. Government, its agencies or instrumentalities) if, as a result, 25% or more of its total assets would be invested in a single issuer;

6. Each Fund may not purchase or sell real estate, except that a Fund may (i) invest in securities of issuers that invest in real estate or interests therein; (ii) invest in mortgage-related securities and other securities that are secured by real estate or interests therein; and (iii) hold and sell real estate acquired by the Fund as a result of the ownership of securities;

7. Each Fund may not engage in the business of underwriting securities issued by others, except to the extent that the Fund may be considered an underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), in the disposition of restricted securities or in connection with its investments in other investment companies;

8. Each Fund may not purchase or sell commodities, unless acquired as a result of owning securities or other instruments, but it may purchase, sell or enter into financial options and futures, forward and spot currency contracts, swap transactions and other financial contracts or derivative instruments and may invest in securities or other instruments backed by commodities; and

9. Each Fund (except Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF) may not purchase any security if, as a result of that purchase, 25% or more of its total assets would be invested in securities of issuers having their principal business activities in the same industry, except that the Fund may invest 25% or more of the value of its total assets in securities of issuers in any one industry or group of industries if the index that the Fund replicates concentrates in an industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities. With respect to Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF, the Fund may not purchase any security if, as a result of that purchase, 25% or more of its total assets would be invested in securities of issuers having their principal business activities in the same industry, except that the Fund will invest 25% or more of the value of its total assets in securities of issuers in any one industry or group of industries if the index that the Fund replicates concentrates in an industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

In addition, each Municipal Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of borrowings for investment purposes. Market Vectors CEF Municipal Income ETF has adopted a fundamental investment policy to invest at least 80% of its total assets in investments the income from which is exempt from U.S. federal income tax (other than federal alternative minimum tax ("AMT")). Market Vectors CEF Municipal Income ETF may count securities that generate income subject to the AMT toward the 80% investment requirement.



In addition to the investment restrictions (and with respect to the Municipal Funds and Market Vectors CEF Municipal Income ETF, the applicable policy) adopted as fundamental policies as set forth above, each Fund observes the following restrictions, which may be changed by the Board without a shareholder vote. Under these restrictions:

Each Fund (except Market Vectors Short High-Yield Municipal Index ETF) will not invest in securities which are “illiquid” securities, including repurchase agreements maturing in more than seven days and options traded  
1. over-the-counter, if the result is that more than 15% of a Fund’s net assets would be invested in such securities.  
Market Vectors Short High-Yield Municipal Index ETF will not invest in securities or other assets which are “illiquid,” including repurchase

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agreements maturing in more than seven days and options traded over-the-counter, if the result is that more than 15% of the Fund's net assets would be invested in such assets.

2. Each Fund will not (except Market Vectors Treasury-Hedged High Yield Bond ETF) make short sales of securities.

Each Fund will not purchase any security on margin, except for such short-term loans as are necessary for clearance of securities transactions. The deposit or payment by a Fund or initial or variation margin in connection with futures contracts or related options thereon is not considered the purchase of a security on margin.

Each Fund will not participate in a joint or joint-and-several basis in any trading account in securities, although transactions for the Funds and any other account under common or affiliated management may be combined or allocated between a Fund and such account.

Each Fund will not purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act, although a Fund (except Market Vectors BDC Income ETF and Market Vectors CEF Municipal Income ETF) may not acquire any securities of registered open-end investment companies or registered unit investment trusts in reliance on Sections 12(d)(1)(F) or 12(d)(1)(G) of the 1940 Act. Market Vectors BDC Income ETF and Market Vectors CEF Municipal Income ETF will not purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or an exemption or other relief applicable to the Fund from the provisions of the 1940 Act, as amended from time to time.

In addition to the fundamental and non-fundamental investment restrictions set forth above, each of Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Preferred Securities ex Financials ETF observes the following additional restrictions, which may be changed by the Board without a shareholder vote: under normal market conditions (i) any borrowings by the Fund will be on a temporary basis and will not exceed 10% of the Fund's net assets; and (ii) the Fund's investments in the securities of other pooled investment vehicles will not exceed 10% of the Fund's net assets.

If a percentage limitation is adhered to at the time of investment or contract, a later increase or decrease in percentage resulting from any change in value or total or net assets will not result in a violation of such restriction, except that the percentage limitations with respect to the borrowing of money and illiquid securities above in fundamental restriction 2 and non-fundamental restriction 1, respectively, will be continuously complied with.

Each Fixed Income Fund may invest its remaining assets in securities not included in its respective Index, municipal bonds (with respect to Market Vectors CEF Municipal Income ETF), money market instruments or funds which reinvest exclusively in money market instruments, in bonds that are in the relevant market but not the Fund's respective Index, and/or in combinations of certain bond index futures contracts, options on such futures contracts, bond options, bond index options, options on the Shares, and bond index swaps and swaptions, each with a view towards providing each Fund with exposure to the securities in its respective Index.

Each Equity Income Fund may invest its remaining assets in securities not included in its respective Index, money market instruments or funds which reinvest exclusively in money market instruments, in stocks that are in the relevant market but not its Index, and/or in combinations of certain stock index futures contracts, options on such futures contracts, stock options, stock index options, options on the Shares, and stock index swaps and swaptions, each with a view towards providing each Fund with exposure to the securities in its respective Index.

These investments may be made to invest uncommitted cash balances or, in limited circumstances, to assist in meeting shareholder redemptions of Creation Units. Each Fund also will not invest in money market instruments as part of a temporary defensive strategy to protect against potential stock or bond market declines.

- 10 -

## SPECIAL CONSIDERATIONS AND RISKS

A discussion of the risks associated with an investment in each Fund is contained in each Fund's Prospectus under the headings "Summary Information—Principal Risks of Investing in the Fund" with respect to the applicable Fund, and "Additional Information About the Funds' Investment Strategies and Risks—Risks of Investing in the Funds." The discussion below supplements, and should be read in conjunction with, such sections of each Fund's Prospectus.

### General

Investment in each Fund should be made with an understanding that the value of the Fund's portfolio securities may fluctuate in accordance with changes in the financial condition of the issuers of the portfolio securities, the value of securities generally and other factors.

An investment in each Fixed Income Fund should also be made with an understanding of the risks inherent in an investment in fixed income securities. An issuer may have the right to redeem or "call" a bond before maturity, in which case the investor may have to reinvest the proceeds at lower market rates. Most bonds bear interest income at a "coupon" rate that is fixed for the life of the bond. The value of a fixed rate bond usually rises when market interest rates fall, and falls when market interest rates rise. Accordingly, a fixed rate bond's yield (income as a percent of the bond's current value) may differ from its coupon rate as its value rises or falls. Other types of bonds bear income at an interest rate that is adjusted periodically. Because of their adjustable interest rates, the values of "floating-rate" or "variable-rate" bonds generally fluctuate less in response to market interest rate movements than the value of similar fixed rate bonds. The Fixed Income Funds may treat some of these bonds as having a shorter maturity for purposes of calculating the weighted average maturity of its investment portfolio. Generally, prices of higher quality issues tend to fluctuate more with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues. Bonds may be senior or subordinated obligations. Senior obligations generally have the first claim on a corporation's earnings and assets and, in the event of liquidation, are paid before subordinated obligations. Bonds may be unsecured (backed only by the issuer's general creditworthiness) or secured (also backed by specified collateral).

An investment in each Equity Income Fund should also be made with an understanding of the risks inherent in an investment in equity securities, including the risk that the financial condition of issuers may become impaired or that the general condition of the stock market may deteriorate (either of which may cause a decrease in the value of the portfolio securities and thus in the value of Shares). Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic and banking crises. Holders of common stocks incur more risk than holders of preferred stocks and debt obligations because common stockholders, as owners of the issuer, have generally inferior rights to receive payments from the issuer in comparison with the rights of creditors of, or holders of debt obligations or preferred stocks issued by, the issuer. Further, unlike debt securities which typically have a stated principal amount payable at maturity (whose value, however, will be subject to market fluctuations prior thereto), or preferred stocks

which typically have a liquidation preference and which may have stated optional or mandatory redemption provisions, common stocks have neither a fixed principal amount nor a maturity. Common stock values are subject to market fluctuations as long as the common stock remains outstanding. In the event that the securities in an Equity Income Fund's Index are not listed on a national securities exchange, the principal trading market for some may be in the over the counter market. The existence of a liquid trading market for certain securities may depend on whether dealers will make a market in such securities. There can be no assurance that a market will be made or maintained or that any such market will be or remain liquid. The price at which securities may be sold and the value of an Equity Income Fund's Shares will be adversely affected if trading markets for an Equity Income Fund's portfolio securities are limited or absent or if bid/ask spreads are wide.

Shares of each Equity Income Fund are subject to the risks of an investment in a portfolio of equity securities in an economic sector or industry in which each Equity Income Fund's respective Index is highly concentrated. In addition, because it is the policy of each Equity Income Fund to generally invest in the securities

that comprise the Fund's respective Index, the portfolio of securities held by each Equity Income Fund ("Fund Securities") also will be concentrated in that economic sector or industry.

The Funds are not actively managed by traditional methods, and therefore the adverse financial condition of any one issuer will not result in the elimination of its securities from the securities held by a Fund unless the securities of such issuer are removed from its respective Index.

An investment in each Fund should also be made with an understanding that the Fund will not be able to replicate exactly the performance of its respective Index because the total return generated by the securities will be reduced by transaction costs incurred in adjusting the actual balance of the securities and other Fund expenses, whereas such transaction costs and expenses are not included in the calculation of its respective Index. In addition, certain Funds' use of a representative sampling approach may cause each such Fund to not be as well correlated with the return of its respective Index as would be the case if the Fund purchased all of the securities in its respective Index in the proportions represented in such Index. The risk of non-correlation may be higher than other exchange-traded funds which utilize a sampling approach to the extent that a Fund invests a portion of its assets in securities that have economic characteristics that are substantially identical to the securities comprising its respective Index, but which are not included in such Index. It is also possible that for periods of time, a Fund may not fully replicate the performance of its respective Index due to the temporary unavailability of certain Index securities in the secondary market or due to other extraordinary circumstances. It is also possible that the composition of each Fund may not exactly replicate the composition of its respective Index if the Fund has to adjust its portfolio holdings in order to continue to qualify as a "regulated investment company" under the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), or, in the case of Market Vectors BDC Income ETF, to comply with the provisions of the 1940 Act that limit the amount the Fund and its affiliates, in the aggregate, can invest in any one business development company ("BDC").

Regulatory developments affecting the exchange-traded and OTC derivatives markets may impair a Fund's ability to manage or hedge its investment portfolio through the use of derivatives. The Dodd-Frank Act and the rules promulgated thereunder may limit the ability of a Fund to enter into one or more exchange-traded or OTC derivatives transactions.

*All Funds (except for Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF and Market Vectors Mortgage REIT Income ETF).* The Trust, on behalf of the Funds, has filed a notice of eligibility with the National Futures Association claiming an exclusion from the definition of the term "commodity pool operator" ("CPO") pursuant to CFTC Regulation 4.5, as promulgated under the Commodity Exchange Act ("CEA"), with respect to the Funds' operations. Therefore, neither the Funds nor the Adviser (with respect to the Funds) is subject to registration or regulation as a commodity pool or CPO under the CEA. If a Fund becomes subject to these requirements, a Fund may incur additional compliance and other expenses.

Each Fund's use of derivatives may also be limited by the requirements of the Internal Revenue Code for qualification as a regulated investment company for U.S. federal income tax purposes.

With respect to investments in swap transactions, commodity futures, commodity options or certain other derivatives used for purposes other than bona fide hedging purposes, an investment company must meet one of the following tests under the amended regulations in order to claim an exemption from being considered a “commodity pool” or CPO. First, the aggregate initial margin and premiums required to establish an investment company’s positions in such investments may not exceed five percent (5%) of the liquidation value of the investment company’s portfolio (after accounting for unrealized profits and unrealized losses on any such investments). Alternatively, the aggregate net notional value of such instruments, determined at the time of the most recent position established, may not exceed one hundred percent (100%) of the liquidation value of the investment company’s portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, the investment company may not market itself as a commodity pool or otherwise as a vehicle for trading in the commodity futures, commodity options or swaps and derivatives markets. In the event that the Adviser is required to register as a CPO, the disclosure and operations of the Funds would need to comply with all applicable CFTC regulations. Compliance with these additional registration and regulatory requirements would increase operational expenses. Other potentially adverse regulatory initiatives could also develop.

- 12 -

*Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF and Market Vectors Mortgage REIT Income ETF only.* Each of Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF and Market Vectors Mortgage REIT Income ETF has claimed a temporary exemption from the definition of the term CPO under the CEA, and therefore, is not currently subject to registration or regulation as commodity pools under the CEA. When the temporary exemption expires, to the extent Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF or Market Vectors Mortgage REIT Income ETF are not otherwise eligible to claim an exclusion from CFTC regulation, Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF or Market Vectors Mortgage REIT Income ETF, as applicable, may determine to operate subject to CFTC regulation and may incur additional expenses.

#### Specific Risks Applicable to the Municipal Funds and Market Vectors CEF Municipal Income ETF

*Municipal Securities Risk.* The market for municipal bonds may be less liquid than for taxable bonds. There may also be less information available on the financial condition of issuers of municipal securities than for public corporations. This means that it may be harder to buy and sell municipal securities, especially on short notice, and municipal securities may be more difficult for each Fund to value accurately than securities of public corporations. Since each Fund invests a significant portion of its portfolio in municipal securities, each Fund's portfolio may have greater exposure to liquidity risk than a fund that invests in non-municipal securities.

Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer.

Some longer-term municipal securities give the investor the right to "put" or sell the security at par (face value) within a specified number of days following the investor's request – usually one to seven days. This demand feature enhances a security's liquidity by shortening its effective maturity and enables it to trade at a price equal to or very close to par. If a demand feature terminates prior to being exercised, a Fund would hold the longer-term security, which could experience substantially more volatility.

Municipal securities are subject to credit and market risk. Generally, prices of higher quality issues tend to fluctuate more with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues.

Prices and yields on municipal securities are dependent on a variety of factors, including general money-market conditions, the financial condition of the issuer, general conditions of the municipal securities market, the size of a particular offering, the maturity of the obligation and the rating of the issue. A number of these factors, including the ratings of particular issues, are subject to change from time to time. Available information about the financial condition of an issuer of municipal securities may not be as extensive as that which is made available by corporations



whose securities are publicly traded. As a result, municipal securities may be more difficult to value than securities of public corporations.

*Lease Obligations Risk.* Lease obligations may have risks not normally associated with general obligation or other revenue bonds. Leases and installment purchase or conditional sale contracts (which may provide for title to the leased asset to pass eventually to the issuer) have developed as a means for governmental issuers to acquire property and equipment without the necessity of complying with the constitutional statutory requirements generally applicable for the issuance of debt. Certain lease obligations contain “non-appropriation” clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for that purpose by the appropriate legislative body on an annual or other periodic basis. Consequently, continued lease payments on those lease obligations containing “nonappropriation” clauses are dependent on future legislative actions. If these legislative actions do not occur, the holders of the lease obligation may experience difficulty in exercising their rights, including disposition of the property. In such circumstances, a Fund might not recover the full principal amount of the obligation.

- 13 -

*Tobacco Bond Risk.* Tobacco settlement revenue bonds are generally neither general nor legal obligations of a state or any of its political subdivisions and neither the full faith and credit nor the taxing power nor any other assets or revenues of a state or of any political subdivision will be pledged to the payment of any such bonds. In addition, tobacco companies' profits from the sale of tobacco products are inherently variable and difficult to estimate. There can be no guarantee that tobacco companies will earn enough revenues to cover the payments due under tobacco bonds. The revenues of tobacco companies may be adversely affected by the adoption of new legislation and/or by litigation.

*Education Bond Risk.* In general, there are two types of education-related bonds: those issued to finance projects for public and private colleges and universities, and those representing pooled interests in student loans. Bonds issued to supply educational institutions with funds are subject to the risk of unanticipated revenue decline, primarily the result of decreasing student enrollment or decreasing state and federal funding. Among the factors that may lead to declining or insufficient revenues are restrictions on students' ability to pay tuition, availability of state and federal funding, and general economic conditions. Student loan revenue bonds are generally offered by state (or sub-state) authorities or commissions and are backed by pools of student loans. Underlying student loans may be guaranteed by state guarantee agencies and may be subject to reimbursement by the United States Department of Education through its guaranteed student loan program. Others may be private, uninsured loans made to parents or students which are supported by reserves or other forms of credit enhancement. Recoveries of principal due to loan defaults may be applied to redemption of bonds or may be used to re-lend, depending on program latitude and demand for loans. Cash flows supporting student loan revenue bonds are impacted by numerous factors, including the rate of student loan defaults, seasoning of the loan portfolio and student repayment deferral periods of forbearance. Other risks associated with student loan revenue bonds include potential changes in federal legislation regarding student loan revenue bonds, state guarantee agency reimbursement and continued federal interest and other program subsidies currently in effect.

*Electric Utilities Bond Risk.* The electric utilities industry has been experiencing, and will continue to experience, increased competitive pressures. Federal legislation may open transmission access to any electricity supplier, although it is not presently known to what extent competition will evolve. Other risks include: (a) the availability and cost of fuel; (b) the availability and cost of capital; (c) the effects of conservation on energy demand; (d) the effects of rapidly changing environmental, safety and licensing requirements, and other federal, state and local regulations, (e) timely and sufficient rate increases and governmental limitations on rates charged to customers; (f) the effects of opposition to nuclear power; (h) increases in operating costs; and (i) obsolescence of existing equipment, facilities and products.

*Housing Bond Risk.* Housing revenue bonds are generally issued by a state, county, city, local housing authority or other public agency. They generally are secured by the revenues derived from mortgages purchased with the proceeds of the bond issue. It is extremely difficult to predict the supply of available mortgages to be purchased with the proceeds of an issue or the future cash flow from the underlying mortgages. Consequently, there are risks that proceeds will exceed supply, resulting in early retirement of bonds, or that homeowner repayments will create an irregular cash flow. Many factors may affect the financing of multi-family housing projects, including acceptable completion of construction, proper management, occupancy and rent levels, economic conditions and changes to current laws and regulations.

*Transportation Bond Risk.* Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. Airport bonds are dependent on the general stability of the airline industry and on

the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation-related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

*Water and Sewer Bond Risk.* Water and sewer revenue bonds are often considered to have relatively secure credit as a result of their issuer's importance, monopoly status and generally unimpeded ability to raise rates.

- 14 -

Despite this, lack of water supply due to insufficient rain, run-off or snow pack is a concern that has led to past defaults. Further, public resistance to rate increases, costly environmental litigation, and federal environmental mandates are challenges faced by issuers of water and sewer bonds.

*Industrial Development Bond Risk.* Industrial developments bonds are revenue bonds issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. Payment of interest on and repayment of principal of such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

*Resource Recovery Bond Risk.* Resource recovery bonds are a type of revenue bond issued to build facilities such as solid waste incinerators or waste-to-energy plants. Typically, a private corporation is involved, at least during the construction phase, and the revenue stream is secured by fees or rents paid by municipalities for use of the facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax receipts. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. The viability of a resource recovery project, environmental protection regulations, and project operator tax incentives may affect the value and credit quality of resource recovery bonds.

*Special Tax Bond Risk.* Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of a Fund's portfolio.

*Health Care Bond Risk.* The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

*Tax Risks.* As with any investment, you should consider how your investment in Shares of a Fund will be taxed. The tax information in the Prospectus and SAI is provided as general information. You should consult your own tax professional about the tax consequences of an investment in Shares of a Fund.

There is no guarantee that a Fund's income will be exempt from federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after a Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by a Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

*Municipal Market Disruption Risk.* The value of municipal securities may be affected by uncertainties in the municipal market related to legislation or litigation involving the taxation of municipal securities or the rights of

municipal securities holders in the event of a bankruptcy. Proposals to restrict or eliminate the federal income tax exemption for interest on municipal securities are introduced before Congress from time to time. Proposals also may be introduced before state legislatures that would affect the state tax treatment of a municipal fund's distributions. If such proposals were enacted, the availability of municipal securities and the value of a municipal fund's holdings would be affected. Municipal bankruptcies are relatively rare, and certain provisions of the U.S. Bankruptcy Code governing such bankruptcies are unclear and remain untested. Further, the application of state law to municipal issuers could produce varying results among the states or among municipal securities issuers within a state. These legal uncertainties could affect the municipal securities market generally, certain specific segments of the market, or the relative credit quality of particular securities. There is also the possibility that as a result of litigation or other conditions, the power or ability of issuers to meet their obligations for the payment of interest and principal on their municipal securities may be materially affected or their obligations may be found to be invalid or unenforceable. Such litigation or conditions may from time to time have the effect of introducing uncertainties in the market for municipal securities or certain segments thereof, or of materially affecting the credit risk with respect to particular bonds. Adverse economic, business, legal or political developments might affect all or a substantial portion of the Funds' municipal securities in the same manner. Any of these effects could have a significant impact on the prices of some or all of the municipal securities held by a Fund.

#### U.S. Federal Tax Treatment of Futures Contracts

Each Fund may be required for federal income tax purposes to mark-to-market and recognize as income for each taxable year their net unrealized gains and losses on certain futures contracts as of the end of the year as well as those actually realized during the year. Gain or loss from futures contracts required to be marked-to-market will be 60% long-term and 40% short-term capital gain or loss. Application of this rule may alter the timing and character of distributions to shareholders. Each Fund may be required to defer the recognition of losses on futures contracts to the extent of any unrecognized gains on related positions held by the Fund.

In order for a Fund to continue to qualify for U.S. federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income, *i.e.*, dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Fund's business of investing in securities. It is anticipated that any net gain realized from the closing out of futures contracts will be considered gain from the sale of securities and therefore will be qualifying income for purposes of the 90% requirement.

Each Fund distributes to shareholders annually any net capital gains which have been recognized for U.S. federal income tax purposes (including unrealized gains at the end of the Fund's fiscal year) on futures transactions. Such distributions are combined with distributions of capital gains realized on each Fund's other investments and shareholders are advised on the nature of the distributions.

## EXCHANGE LISTING AND TRADING

A discussion of exchange listing and trading matters associated with an investment in each Fund is contained in each Fund's Prospectus under the headings "Summary Information—Principal Risks of Investing in the Fund" with respect to the applicable Fund, "Additional Information About the Funds' Investment Strategies and Risks—Risks of Investing in the Funds," "Shareholder Information—Determination of NAV" and "Shareholder Information—Buying and Selling Exchange-Traded Shares." The discussion below supplements, and should be read in conjunction with, such sections of each Fund's Prospectus.

The Shares of each Fund are traded in the secondary market at prices that may differ to some degree from their NAV. The Exchange may but is not required to remove the Shares of the Funds from listing if: (1) following the initial twelve-month period beginning upon the commencement of trading of the Funds, there are fewer than 50 beneficial holders of the Shares for 30 or more consecutive trading days, (2) the value of a Fund's respective Index or portfolio of securities on which the Fund is based is no longer calculated or available or (3) such other event shall occur or condition exists that, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable. In addition, the Exchange will remove the Shares from listing and trading upon termination of the Trust. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of Shares of the Funds will continue to be met.

As in the case of other securities traded on the Exchange, brokers' commissions on transactions will be based on negotiated commission rates at customary levels.

In order to provide investors with a basis to gauge whether the market price of the Shares of each Fixed Income Fund (except Market Vectors CEF Municipal Income ETF) on the Exchange is approximately consistent with the current value of the assets of a Fund on a per Share basis, an updated Intra-Day Optimized Portfolio Value is disseminated intra-day through the facilities of the Consolidated Tape Association's Network B Intra-Day Optimized Portfolio Values are disseminated every 15 seconds during regular Exchange trading hours based on the most recently reported prices of Fund Securities.

In order to provide investors with a basis to gauge whether the market price of Market Vectors BDC Income ETF's, Market Vectors CEF Municipal Income ETF's, Market Vectors Mortgage REIT Income ETF's and Market Vectors Preferred Securities ex Financials ETF's Shares on the Exchange is approximately consistent with the current value of the assets of Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF on a per Share basis, an updated Indicative Per Share Portfolio Value is disseminated intra-day through the facilities of the Consolidated Tape Association's Network B. Indicative Per Share Portfolio Values are disseminated every 15 seconds during regular Exchange trading hours based on the most recently reported prices of Market Vectors BDC Income ETF's, Market Vectors CEF Municipal Income ETF's, Market Vectors Mortgage REIT Income ETF's and Market Vectors Preferred Securities ex Financials ETF's securities. As the respective international local markets close, the Indicative Per Share Portfolio Value will continue to be updated for foreign exchange rates for the remainder of the U.S. trading day at the prescribed 15 second interval.

The Funds are not involved in or responsible for the calculation or dissemination of the Indicative Per Share Portfolio Value or Intra-Day Optimized Portfolio Value and makes no warranty as to the accuracy of the Indicative Per Share Portfolio Value or Intra-Day Optimized Portfolio Value.

- 17 -



BOARD OF TRUSTEES OF THE TRUST

Trustees and Officers of the Trust

The Board of the Trust consists of five Trustees, four of whom are not “interested persons” (as defined in the 1940 Act), of the Trust (the “Independent Trustees”). Mr. David H. Chow, an Independent Trustee, serves as Chairman of the Board. The Board is responsible for overseeing the management and operations of the Trust, including general supervision of the duties performed by the Adviser and other service providers to the Trust. The Adviser is responsible for the day-to-day administration and business affairs of the Trust.

The Board believes that each Trustee’s experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees lead to the conclusion that the Board possesses the requisite skills and attributes to carry out its oversight responsibilities with respect to the Trust. The Board believes that the Trustees’ ability to review, critically evaluate, question and discuss information provided to them, to interact effectively with the Adviser, other service providers, counsel and independent auditors, and to exercise effective business judgment in the performance of their duties, support this conclusion. The Board also has considered the following experience, qualifications, attributes and/or skills, among others, of its members in reaching its conclusion: such person’s character and integrity; length of service as a board member of the Trust; such person’s willingness to serve and willingness and ability to commit the time necessary to perform the duties of a Trustee; and as to each Trustee other than Mr. van Eck, his status as not being an “interested person” (as defined in the 1940 Act) of the Trust. In addition, the following specific experience, qualifications, attributes and/or skills apply as to each Trustee: Mr. Chow, significant business and financial experience, particularly in the investment management industry, experience with trading and markets through his involvement with the Pacific Stock Exchange, and service as a chief executive officer, board member, partner or executive officer of various businesses and non-profit organizations; Mr. Short, business and financial experience, particularly in the investment management industry, and service as a president, board member or executive officer of various businesses; Mr. Sidebottom, business and financial experience, particularly in the investment management industry, and service as partner and/or executive officer of various businesses; Mr. Stamberger, business and financial experience and service as the president and chief executive officer of SmartBrief Inc., a media company; and Mr. van Eck, business and financial experience, particularly in the investment management industry, and service as a president, executive officer and/or board member of various businesses, including the Adviser, Van Eck Securities Corporation, and Van Eck Absolute Return Advisers Corporation. References to the experience, qualifications, attributes and skills of Trustees are pursuant to requirements of the SEC, do not constitute holding out of the Board or any Trustee as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

The Trustees of the Trust, their addresses, positions with the Trust, ages, term of office and length of time served, principal occupations during the past five years, the number of portfolios in the Fund Complex overseen by each Trustee and other directorships, if any, held by the Trustees, are set forth below.

Independent Trustees

<b>Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Number of Portfolios in Fund Complex<sup>3</sup> Overseen</b>	<b>Other Directorships Held By Trustee During Past Five Years</b>
David H. Chow, 56*†	Chairman Trustee	Since 2008 Since 2006	Founder and CEO, DanCourt Management LLC (financial/strategy consulting firm and Registered Investment Adviser), March 1999 to present.	59	Director, Forward Management LLC and Audit Committee Chairman, January 2008 to

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Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex <sup>3</sup> Overseen	Other Directorships Held By Trustee During Past Five Years
R. Alastair Short, 61*†	Trustee	Since 2006	President, Apex Capital Corporation (personal investment vehicle), January 1988 to present; Vice Chairman, W.P. Stewart & Co., Inc. (asset management firm), September 2007 to September 2008; and Managing Director, The GlenRock Group, LLC (private equity investment firm), May 2004 to September 2007.	70	present; Trustee, Berea College of Kentucky and Vice-Chairman of the Investment Committee, May 2009 to present; Member of the Governing Council of the Independent Directors Council, October 2012 to present; President, July 2013 to present; Secretary and Board Member of the CFA Society of Stamford, July 2009 to present.  Chairman and Independent Director, EULAV Asset Management, January 2011 to present; Independent Director, Tremont offshore funds, June 2009 to present; Director, Kenyon Review.
Peter J. Sidebottom, 51*†	Trustee	Since 2012	Independent business adviser, January 2014 to present; Partner, Bain & Company (management consulting firm), April 2012 to December 2013; Executive Vice	59	Board Member, Special Olympics, New Jersey, November 2011 to September 2013; Director, The Charlotte

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Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex <sup>3</sup> Overseen	Other Directorships Held By Trustee During Past Five Years
			President and Senior Operating Committee Member, TD Ameritrade (on-line brokerage firm), February 2009 to January 2012; Executive Vice President, Wachovia Corporation (financial services firm), December 2004 to February 2009.		Research Institute, December 2000 to present; Board Member, Social Capital Institute, University of North Carolina Charlotte, November 2004 to January 2012.
Richard D. Stamberger, 55*†	Trustee	Since 2006	Director, President and CEO, SmartBrief, Inc. (media company).	70	Director, Food and Friends, Inc., 2013 to present.

1 The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

2 Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.

3 The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.

\*Member of the Audit Committee.

†Member of the Nominating and Corporate Governance Committee.

Interested Trustee

Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex <sup>3</sup> Overseen	Other Directorships Held By Trustee During Past Five Years
Jan F. van Eck, 50 <sup>4</sup>	Trustee, President and Chief Executive Officer	Trustee (Since 2006); President and Chief Executive Officer (Since 2009)	Director, President and Owner of the Adviser, Van Eck Associates Corporation; Director and President, Van Eck Securities Corporation (“VESC”); Director and President, Van Eck Absolute Return Advisers Corp. (“VEARA”).	59	Director, National Committee on US-China Relations.

1 The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

2 Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.

3 The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.

4 "Interested person" of the Trust within the meaning of the 1940 Act. Mr. van Eck is an officer of the Adviser.

- 20 -

## Officer Information

The Officers of the Trust, their addresses, positions with the Trust, ages and principal occupations during the past five years are set forth below.

<b>Officer's Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During The Past Five Years</b>
Russell G. Brennan, 49	Assistant Vice President and Assistant Treasurer	Since 2008	Assistant Vice President and Assistant Treasurer of the Adviser (Since 2008); Manager (Portfolio Administration) of the Adviser (September 2005-October 2008); Officer of other investment companies advised by the Adviser.
Charles T. Cameron, 54	Vice President	Since 2006	Director of Trading (Since 1995) and Portfolio Manager (Since 1997) for the Adviser; Officer of other investment companies advised by the Adviser.
Simon Chen, 42	Assistant Vice President	Since 2012	Greater China Director of the Adviser (Since January 2012); General Manager, SinoMarkets Ltd. (June 2007 to December 2011).
John J. Crimmins, 57	Vice President, Treasurer, Chief Financial Officer and Principal Accounting Officer	Vice President, Chief Financial Officer and Principal Accounting Officer (Since 2012); Treasurer (Since 2009)	Vice President of Portfolio Administration of the Adviser (Since 2009); Vice President of VESC and VEARA (Since 2009); Chief Financial, Operating and Compliance Officer, Kern Capital Management LLC (September 1997-February 2009); Officer of other investment companies advised by the Adviser.
Eduardo Escario, 38	Vice President	Since 2012	Regional Director, Business Development/Sales for Southern Europe and South America of the Adviser (Since July 2008); Regional Director (Spain, Portugal, South America and Africa) of Dow Jones Indexes and STOXX Ltd. (May 2001-July 2008).
Lars Hamich, 45	Vice President	Since 2012	Managing Director and Chief Executive Officer of Van Eck Global (Europe) GmbH (Since 2009); Chief Executive Officer of Market Vectors Index Solutions GmbH ("MVIS") (Since June 2011); Managing Director of STOXX Limited (Until 2008).
Wu-Kwan Kit, 33	Assistant Vice President and Assistant Secretary	Since 2011	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (Since 2011); Associate, Schulte Roth & Zabel

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(September 2007- 2011); University of Pennsylvania Law School (August 2004 – May 2007).

Susan C. Lashley, 59 Vice President Since 2006

Vice President of the Adviser and VESC; Officer of other investment companies advised by the Adviser.

- 21 -

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<b>Officer's Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During The Past Five Years</b>
Laura I. Martínez, 34	Assistant Vice President and Assistant Secretary	Since 2008	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (Since 2008); Associate, Davis Polk & Wardwell (October 2005-June 2008); Officer of other investment companies advised by the Adviser.
Ferat Oeztuerk, 31	Assistant Vice President	Since 2012	Sales Associate, Van Eck Global (Europe) GmbH (since November 2011); Account Manager, Vodafone Global Enterprise Limited (January 2011 to October 2011).
James Parker, 45	Assistant Treasurer	Since June 2014	Manager (Portfolio Administration) of the Adviser (Since June 2010); Vice President of JPMorgan Chase & Co. (April 1999 to January 2010).
Jonathan R. Simon, 40	Vice President, Secretary and Chief Legal Officer	Vice President (Since 2006) and Secretary and Chief Legal Officer (Since 2014)	Vice President (since 2006), General Counsel and Secretary (since 2014) of the Adviser, VESC and VEARA; Officer of other investment companies advised by the Adviser.
Bruce J. Smith, 59	Senior Vice President	Since 2006	Senior Vice President, Chief Financial Officer, Treasurer and Controller of the Adviser, VESC and VEARA (Since 1997); Director of the Adviser, VESC and VEARA (Since October 2010); Officer of other investment companies advised by the Adviser.
Janet Squitieri, 52	Chief Compliance Officer	Since September 2013	Vice President, Global Head of Compliance of the Adviser, VESC and VEARA (since September 2013); Chief Compliance Officer and Senior Vice President North America of HSBC Global Asset Management NA (August 2010 – September 2013); Chief Compliance Officer North America of Babcock & Brown LP (July 2008 – June 2010).

<sup>1</sup>The address for each Officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

<sup>2</sup>Officers are elected yearly by the Trustees.



The Board of the Trust met six times during the fiscal year ended April 30, 2014.

The Board has an Audit Committee consisting of four Trustees who are Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Audit Committee and each of Messrs. Chow, Short and Stamberger has been designated as an “audit committee financial expert” as defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Mr. Short is the Chairman of the Audit Committee. The Audit Committee has the responsibility, among other things, to: (i) oversee the accounting and financial reporting processes of the Trust and its internal control over financial reporting; (ii) oversee the quality and integrity of the Trust’s financial statements and the independent audit thereof; (iii) oversee or, as appropriate, assist the Board’s oversight of the Trust’s compliance with legal and regulatory requirements that relate to the Trust’s accounting and financial reporting, internal control over financial reporting and independent audit; (iv) approve prior to appointment the engagement of the Trust’s independent registered public accounting firm and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Trust’s independent registered public accounting firm; and (v) act as a liaison between the Trust’s independent registered

- 22 -

public accounting firm and the full Board. The Audit Committee met four times during the fiscal year ended April 30, 2014.

The Board also has a Nominating and Corporate Governance Committee consisting of four Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Nominating and Corporate Governance Committee. Mr. Stamberger is the Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has the responsibility, among other things, to: (i) evaluate, as necessary, the composition of the Board, its committees and sub-committees and make such recommendations to the Board as deemed appropriate by the Committee; (ii) review and define Independent Trustee qualifications; (iii) review the qualifications of individuals serving as Trustees on the Board and its committees; (iv) evaluate, recommend and nominate qualified individuals for election or appointment as members of the Board and recommend the appointment of members and chairs of each Board committee and subcommittee; and (v) review and assess, from time to time, the performance of the committees and subcommittees of the Board and report the results to the Board. The Nominating and Corporate Governance Committee did not meet during the fiscal year ended April 30, 2014.

The Board has determined that its leadership structure is appropriate given the business and nature of the Trust. In connection with its determination, the Board considered that the Chairman of the Board is an Independent Trustee. The Chairman of the Board can play an important role in setting the agenda of the Board and also serves as a key point person for dealings between management and the other Independent Trustees. The Independent Trustees believe that the Chairman's independence facilitates meaningful dialogue between the Adviser and the Independent Trustees. The Board also considered that the Chairman of each Board committee is an Independent Trustee, which yields similar benefits with respect to the functions and activities of the various Board committees. The Independent Trustees also regularly meet outside the presence of management and are advised by independent legal counsel. The Board has determined that its committees help ensure that the Trust has effective and independent governance and oversight. The Board also believes that its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from management of the Trust, including the Adviser. The Board reviews its structure on an annual basis.

As an integral part of its responsibility for oversight of the Trust in the interests of shareholders, the Board, as a general matter, oversees risk management of the Trust's investment programs and business affairs. The function of the Board with respect to risk management is one of oversight and not active involvement in, or coordination of, day-to-day risk management activities for the Trust. The Board recognizes that not all risks that may affect the Trust can be identified, that it may not be practical or cost-effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment-related risks) to achieve the Trust's goals, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. Moreover, reports received by the Trustees that may relate to risk management matters are typically summaries of the relevant information.

The Board exercises oversight of the risk management process primarily through the Audit Committee, and through oversight by the Board itself. The Trust faces a number of risks, such as investment-related and compliance risks. The Adviser's personnel seek to identify and address risks, *i.e.*, events or circumstances that could have material adverse effects on the business, operations, shareholder services, investment performance or reputation of the Trust. Under the overall supervision of the Board or the applicable Committee of the Board, the Trust, the Adviser, and the affiliates of

the Adviser employ a variety of processes, procedures and controls to identify such possible events or circumstances, to lessen the probability of their occurrence and/or to mitigate the effects of such events or circumstances if they do occur. Different processes, procedures and controls are employed with respect to different types of risks. Various personnel, including the Trust's Chief Compliance Officer, as well as various personnel of the Adviser and other service providers such as the Trust's independent accountants, may report to the Audit Committee and/or to the Board with respect to various aspects of risk management, as well as events and circumstances that have arisen and responses thereto.

Except as follows, the officers and Trustees of the Trust, in the aggregate, own less than 1% of the Shares of each Fund as of July 31, 2014. The following Trustees and/or officers beneficially own 1% or more of a Fund's Shares, as noted below:

- 23 -

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Fund Name	Name of Beneficial Owners	Number of Shares	Percent of Fund
Market Vectors CEF Municipal Income ETF	Jan van Eck and James Parker	22,670	1.68%
Market Vectors Emerging Markets Aggregate Bond ETF	Jan van Eck	52,243	6.66%
Market Vectors Renminbi Bond ETF	Jan van Eck	2,500	1.25%
Market Vectors Treasury-Hedged High Yield Bond ETF	Jan van Eck	21,000	5.25%

For each Trustee, the dollar range of equity securities beneficially owned (including ownership through the Trust's Deferred Compensation Plan) by the Trustee in the Trust and in all registered investment companies advised by the Adviser ("Family of Investment Companies") that are overseen by the Trustee is shown below.

Name of Trustee	Dollar Range of Equity Securities in Market Vectors BDC Income ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors CEF Municipal Income ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Emerging Markets Aggregate Bond ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Emerging Markets High Yield Bond ETF (As of December 31, 2013)
David H. Chow	None	None	None	None
R. Alastair Short	None	None	None	None
Peter J. Sidebottom	None	None	None	None
Richard D. Stamberger	None	None	None	None
Jan F. van Eck	None	None	None	None

  

Name of Trustee	Dollar Range of Equity Securities in Market Vectors Emerging Markets Local Currency Bond ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Fallen Angel High Yield Bond ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors High-Yield Municipal Index ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Intermediate Municipal Index ETF (As of December 31, 2013)
David H. Chow	Over \$100,000	None	None	None
R. Alastair Short	None	None	None	None
Peter J. Sidebottom	None	None	None	None
Richard D. Stamberger	None	None	Over \$100,000	None
Jan F. van Eck	None	None	None	None

<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in Market Vectors International High Yield Bond ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Investment Grade Floating Rate ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Long Municipal Index ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Mortgage REIT Income ETF (As of December 31, 2013)</b>
David H. Chow	None	None	None	None
R. Alastair Short	None	None	None	None
Peter J. Sidebottom	None	None	None	None
Richard D. Stamberger	None	None	None	None
Jan F. van Eck	None	None	None	None

<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in Market Vectors Preferred Securities ex Financials ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Pre-Refunded Municipal Index ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Renminbi Bond ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Short High-Yield Municipal Index ETF (As of December 31, 2013)</b>
David H. Chow	None	None	None	N/A
R. Alastair Short	None	None	None	N/A
Peter J. Sidebottom	None	None	None	N/A
Richard D. Stamberger	None	None	None	N/A
Jan F. van Eck	None	None	None	N/A

<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in Market Vectors Short Municipal Index ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Treasury-Hedged High Yield Bond ETF (As of December 31, 2013)</b>	<b>Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen By Trustee In Family of Investment Companies (As of December 31, 2013)</b>
David H. Chow	None	None	Over \$100,000
R. Alastair Short	None	None	Over \$100,000
Peter J. Sidebottom	None	None	None
Richard D. Stamberger	None	None	Over \$100,000
Jan F. van Eck	None	None	Over \$100,000

As to each Independent Trustee and his immediate family members, no person owned beneficially or of record securities in an investment manager or principal underwriter of the Funds, or a person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with the investment manager or principal underwriter of the Funds.

### Remuneration of Trustees

The Trust pays each Independent Trustee an annual retainer of \$80,000, a per meeting fee of \$15,000 for scheduled quarterly meetings of the Board and each special meeting of the Board and a per meeting fee of \$7,500 for telephonic meetings. The Trust pays the Chairman of the Board an annual retainer of \$45,500, the Chairman of the Audit Committee an annual retainer of \$19,500 and the Chairman of the Governance Committee an annual retainer of \$13,000. The Trust also reimburses each Trustee for travel and other out-of-pocket expenses incurred in attending such meetings. No pension or retirement benefits are accrued as part of Trustee compensation.

The table below shows the compensation paid to the Trustees by the Trust for the calendar year ended December 31, 2013. Annual Trustee fees may be reviewed periodically and changed by the Trust's Board.

<b>Name of Trustee</b>	<b>Aggregate Compensation From the Trust</b>	<b>Deferred Compensation From the Trust</b>	<b>Pension or Retirement Benefits Accrued as Part of the Trust's Expenses<sup>(2)</sup></b>	<b>Estimated Annual Benefits Upon Retirement</b>	<b>Total Compensation From the Trust and the Fund Complex<sup>(1)</sup> Paid to Trustee<sup>(2)</sup></b>
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David H. Chow	\$ 230,500	\$ 230,500	N/A	N/A	\$ 230,500
R. Alastair Short	\$ 189,500	\$ 0	N/A	N/A	\$ 319,500
Peter J. Sidebottom	\$ 170,000	\$ 0	N/A	N/A	\$ 170,000
Richard D. Stamberger	\$ 183,000	\$ 91,500	N/A	N/A	\$ 323,000
Jan F. van Eck <sup>(3)</sup>	\$ 0	\$ 0	N/A	N/A	\$ 0

(1) The “Fund Complex” consists of Van Eck Funds, Van Eck VIP Trust and the Trust.

(2) Because the funds of the Fund Complex have different fiscal year ends, the amounts shown are presented on a calendar year basis.

(3) “Interested person” under the 1940 Act.

- 25 -

## PORTFOLIO HOLDINGS DISCLOSURE

Each Fund's portfolio holdings are publicly disseminated each day the Fund is open for business through financial reporting and news services, including publicly accessible Internet web sites. In addition, a basket composition file, which includes the security names and share quantities to deliver in exchange for Creation Units, together with estimates and actual cash components, is publicly disseminated daily prior to the opening of the Exchange via the National Securities Clearing Corporation (the "NSCC"), a clearing agency that is registered with the SEC. The basket represents one Creation Unit of each Fund. The Trust, Adviser, Custodian and Distributor will not disseminate non-public information concerning the Trust.

## QUARTERLY PORTFOLIO SCHEDULE

The Trust is required to disclose, after its first and third fiscal quarters, the complete schedule of the Funds' portfolio holdings with the SEC on Form N-Q. Form N-Q for the Funds is available on the SEC's website at <http://www.sec.gov>. The Funds' Form N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may be obtained by calling 202.551.8090. The Funds' Form N-Q is available through the Funds' website, at [www.vaneck.com](http://www.vaneck.com) or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017.

## CODE OF ETHICS

The Funds, the Adviser and the Distributor have each adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act, designed to monitor personal securities transactions by their personnel (the "Personnel"). The Code of Ethics requires that all trading in securities that are being purchased or sold, or are being considered for purchase or sale, by the Funds must be approved in advance by the Head of Trading, the Director of Research and the Chief Compliance Officer of the Adviser. Approval will be granted if the security has not been purchased or sold or recommended for purchase or sale for a Fund on the day that the Personnel of the Adviser requests pre-clearance, or otherwise if it is determined that the personal trading activity will not have a negative or appreciable impact on the price or market of the security, or is of such a nature that it does not present the dangers or potential for abuses that are likely to result in harm or detriment to the Funds. At the end of each calendar quarter, all Personnel must file a report of all transactions entered into during the quarter. These reports are reviewed by a senior officer of the Adviser.

Generally, all Personnel must obtain approval prior to conducting any transaction in securities. Independent Trustees, however, are not required to obtain prior approval of personal securities transactions. Personnel may purchase securities in an initial public offering or private placement, *provided* that he or she obtains preclearance of the purchase and makes certain representations.



PROXY VOTING POLICIES AND PROCEDURES

The Funds' proxy voting record is available upon request and on the SEC's website at <http://www.sec.gov>. Proxies for each Fund's portfolio securities are voted in accordance with the Adviser's proxy voting policies and procedures, which are set forth in Appendix A to this SAI.

The Trust is required to disclose annually each Fund's complete proxy voting record on Form N-PX covering the period July 1 through June 30 and file it with the SEC no later than August 31. Form N-PX for the Funds is available through the Funds' website, at [www.vaneck.com](http://www.vaneck.com), or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017. The Funds' Form N-PX is also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

- 26 -

## MANAGEMENT

The following information supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Management of the Funds."

### Investment Adviser

Van Eck Associates Corporation acts as investment adviser to the Trust and, subject to the general supervision of the Board, is responsible for the day-to-day investment management of the Funds. The Adviser is a private company with headquarters in New York and manages other mutual funds and separate accounts.

The Adviser serves as investment adviser to each Municipal Fund pursuant to an investment management agreement between the Trust and the Adviser with respect to the Municipal Funds (the "Municipal Funds Investment Management Agreement") and also serves as investment adviser to each of Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Renminbi Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF pursuant to an investment management agreement between the Trust and the Adviser with respect to such Funds (the "Trust Investment Management Agreement" and, together with the Municipal Funds Investment Management Agreement, the "Investment Management Agreements"). Under the Investment Management Agreements, the Adviser, subject to the supervision of the Board and in conformity with the stated investment policies of each Fund, manages the investment of the Funds' assets. The Adviser is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of the Funds.

Pursuant to the Investment Management Agreements, the Trust has agreed to indemnify the Adviser for certain liabilities, including certain liabilities arising under the federal securities laws, unless such loss or liability results from willful misfeasance, bad faith or gross negligence in the performance of its duties or the reckless disregard of its obligations and duties.

*Compensation.* As compensation for its services under the Trust Investment Management Agreement, the Adviser is paid a monthly fee based on a percentage of each applicable Fund's average daily net assets at the annual rate of 0.35% (with respect to Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Emerging Markets Aggregate Bond ETF and Market Vectors Renminbi Bond ETF), 0.40% (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF) and 0.45% (with respect to Market Vectors Treasury-Hedged High

Yield Bond ETF). From time to time, the Adviser may waive all or a portion of its fees. Until at least September 1, 2015, the Adviser has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of each Fund (excluding the Municipal Funds) (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.19% (with respect to Market Vectors Investment Grade Floating Rate ETF), 0.39% (with respect to Market Vectors Renminbi Bond ETF), 0.40% (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF), 0.47% (with respect to Market Vectors Emerging Markets Local Currency Bond ETF), 0.49% (with respect to Market Vectors Emerging Markets Aggregate Bond ETF) and 0.50% (with respect to Market Vectors Treasury-Hedged High Yield Bond ETF) of its average daily net assets per year. Offering costs excluded from the expense caps are: (a) legal fees pertaining to a Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Fund to be listed on an exchange.

Under the Municipal Funds Investment Management Agreement, the Adviser is responsible for all expenses of the Municipal Funds, including the costs of transfer agency, custody, fund administration, legal, audit

- 27 -

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and other services, except for the fee payment under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses. For its services to each applicable Municipal Fund, each applicable Municipal Fund has agreed to pay the Adviser an annual unitary management fee equal to 0.20% (with respect to Market Vectors Short Municipal Index ETF), 0.24% (with respect to Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF and Market Vectors Pre-Refunded Municipal Index ETF) and 0.35% (with respect to Market Vectors High-Yield Municipal Index ETF and Market Vectors Short High-Yield Municipal Index ETF) of its average daily net assets. Offering costs excluded from the annual unitary management fee are: (a) legal fees pertaining to a Municipal Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Municipal Fund to be listed on an exchange.

The management fees paid by each Fund and the expenses waived or assumed by the Adviser during the Funds' fiscal years ended April 30, 2012, 2013 and 2014, as applicable, or, if the Fund has not been in existence for a full fiscal year, since the commencement of operations of that Fund are set forth in the chart below.

Fund	Management Fees Paid During the Fiscal Year Ended April 30,			Expenses Waived or Assumed by the Adviser During the Fiscal Year Ended April 30,			Date of Commencement of Operations of the Fund
	2012	2013	2014	2012	2013	2014	
Market Vectors BDC Income ETF	N/A	\$3,827	\$93,391	N/A	\$43,172	\$95,113	02/11/13
Market Vectors CEF Municipal Income ETF	\$16,587	\$63,047	\$101,019	\$81,236	\$63,047	\$97,486	07/12/11
Market Vectors Emerging Markets Aggregate Bond ETF	\$25,154	\$46,299	\$72,196	\$102,419	\$103,036	\$171,100	05/11/11
Market Vectors Emerging Markets High Yield Bond ETF	N/A	\$148,168	\$962,291	N/A	\$110,478	\$325,619	05/08/12
Market Vectors Emerging Markets Local Currency Bond ETF	\$1,791,599	\$3,687,803	\$3,695,374	\$0	\$25,099	\$481,394	07/22/10
Market Vectors Fallen Angel High Yield Bond ETF	\$2,129	\$42,195	\$58,963	\$32,200	\$113,521	\$157,862	04/10/12
Market Vectors High-Yield Municipal Index ETF*	\$1,141,043	\$3,180,392	\$3,078,348	\$0	\$0	\$0	02/04/09
Market Vectors Intermediate Municipal Index ETF*	\$762,046	\$1,542,402	\$1,496,726	\$0	\$0	\$0	12/04/07
Market Vectors International High Yield	\$6,935	\$503,179	\$807,176	\$33,967	\$159,706	\$362,044	04/02/12

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Bond ETF							
Market Vectors							
Investment Grade	\$27,756	\$33,664	\$245,533	\$136,998	\$124,435	\$249,248	04/25/11
Floating Rate ETF							
Market Vectors Long							
Municipal Index ETF*	\$154,675	\$260,547	\$204,981	\$0	\$0	\$0	01/02/08
Market Vectors							
Mortgage REIT Income	\$43,394	\$325,112	\$407,469	\$85,751	\$134,407	\$190,133	08/16/11
ETF							
Market Vectors							
Preferred Securities ex	N/A	\$302,125	\$579,777	N/A	\$85,398	\$186,563	07/16/12
Financials ETF							
Market Vectors							
Pre-Refunded Municipal	\$83,042	\$83,201	\$80,315	\$0	\$0	\$0	02/02/09
Index ETF*							
Market Vectors							
Renminbi Bond ETF	\$9,297	\$18,037	\$18,378	\$77,786	\$104,415	\$140,926	10/11/11
Market Vectors Short							
High-Yield Municipal	N/A	N/A	\$14,146	N/A	N/A	\$0	01/13/14
Index ETF							
Market Vectors Short							
Municipal Index ETF*	\$222,404	\$339,966	\$450,644	\$0	\$0	\$0	02/22/08
Market Vectors							
Treasury-Hedged High	N/A	\$4,937	\$45,515	N/A	\$32,786	\$129,540	03/21/13
Yield Bond ETF							

\* As noted above, each Municipal Fund has adopted a unitary management fee.

*Term.* Each Investment Management Agreement is subject to annual approval by (1) the Board or (2) a vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of each Fund, *provided* that in either event such continuance also is approved by a majority of the Board who are not interested persons (as defined

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in the 1940 Act) of the Trust by a vote cast in person at a meeting called for the purpose of voting on such approval. Each Investment Management Agreement is terminable without penalty, on 60 days' notice, by the Board or by a vote of the holders of a majority (as defined in the 1940 Act) of a Fund's outstanding voting securities. Each Investment Management Agreement is also terminable upon 60 days' notice by the Adviser and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

### The Administrator

Van Eck Associates Corporation also serves as administrator for the Trust pursuant to each Investment Management Agreement. Under each Investment Management Agreement, the Adviser is obligated on a continuous basis to provide such administrative services as the Board of the Trust reasonably deems necessary for the proper administration of the Trust and the Funds. The Adviser will generally assist in all aspects of the Trust's and the Funds' operations; supply and maintain office facilities, statistical and research data, data processing services, clerical, bookkeeping and record keeping services (including without limitation the maintenance of such books and records as are required under the 1940 Act and the rules thereunder, except as maintained by other agents), internal auditing, executive and administrative services, and stationery and office supplies; prepare reports to shareholders or investors; prepare and file tax returns; supply financial information and supporting data for reports to and filings with the SEC and various state Blue Sky authorities; supply supporting documentation for meetings of the Board; provide monitoring reports and assistance regarding compliance with the Declaration of Trust, by-laws, investment objectives and policies and with federal and state securities laws; arrange for appropriate insurance coverage; calculate NAVs, net income and realized capital gains or losses; and negotiate arrangements with, and supervise and coordinate the activities of, agents and others to supply services.

### Custodian and Transfer Agent

The Bank of New York Mellon ("The Bank of New York"), located at 101 Barclay Street, New York, New York, 10286, serves as custodian for the Funds pursuant to a Custodian Agreement. As Custodian, The Bank of New York holds the Funds' assets. The Bank of New York serves as the Funds' transfer agent pursuant to a Transfer Agency Agreement. The Bank of New York may be reimbursed by a Fund for its out-of-pocket expenses. In addition, The Bank of New York provides various accounting services to each of the Funds pursuant to a fund accounting agreement.

### The Distributor

Van Eck Securities Corporation (the "Distributor") is the principal underwriter and distributor of Shares. Its principal address is 335 Madison Avenue, New York, New York 10017 and investor information can be obtained by calling 1-888-MKT-VCTR. The Distributor has entered into an agreement with the Trust which will continue from its effective date unless terminated by either party upon 60 days' prior written notice to the other party by the Trust and the Adviser, or by the Distributor, or until termination of the Trust or each Fund offering its Shares, and which is

renewable annually thereafter (the “Distribution Agreement”), pursuant to which it distributes Shares. Shares will be continuously offered for sale by the Trust through the Distributor only in Creation Units, as described below under “Creation and Redemption of Creation Units—Procedures for Creation of Creation Units.” Shares in less than Creation Units are not distributed by the Distributor. The Distributor will deliver a prospectus to persons purchasing Shares in Creation Units and will maintain records of both orders placed with it and confirmations of acceptance furnished by it. The Distributor is a broker-dealer registered under the Exchange Act and a member of the Financial Industry Regulatory Authority (“FINRA”). The Distributor has no role in determining the investment policies of the Trust or which securities are to be purchased or sold by the Trust.

The Distributor may also enter into sales and investor services agreements with broker-dealers or other persons that are Participating Parties and DTC Participants (as defined below) to provide distribution assistance, including broker-dealer and shareholder support and educational and promotional services but must pay such broker-dealers or other persons, out of its own assets.

The Distribution Agreement provides that it may be terminated at any time, without the payment of any penalty: (i) by vote of a majority of the Independent Trustees or (ii) by vote of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Funds, on at least 60 days’ written notice to the Distributor. The

Distribution Agreement is also terminable upon 60 days' notice by the Distributor and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

#### Affiliated Index Provider

Market Vectors® US Business Development Companies Index (the “BDC Index”), Market Vectors® EM Aggregate Bond Index (“EM Aggregate Bond Index”), Market Vectors® US Investment Grade Floating Rate Index (the “Floating Rate Index”), Market Vectors® Global Mortgage REITs Index (the “Mortgage REITs Index”), Market Vectors® Renminbi Bond Index (the “Renminbi Bond Index”) and Market Vectors® US Treasury-Hedged High Yield Bond Index (the “Treasury-Hedged High Yield Index”) are published by MVIS (the “Index Provider”), which is a wholly owned subsidiary of the Adviser. In order to minimize any potential for conflicts caused by the fact that the Adviser or its affiliates act as the Index Provider to the Fund, the Index Provider has retained Solactive AG, an unaffiliated third party (the “Calculation Agent”), to calculate the BDC Index, EM Aggregate Bond Index, Floating Rate Index, Mortgage REITs Index, Renminbi Index and Treasury-Hedged High Yield Index. The Calculation Agent, using a rules-based methodology, will calculate, maintain and disseminate each of the BDC Index, EM Aggregate Bond Index, Floating Rate Index, Mortgage REITs Index, Renminbi Index and Treasury-Hedged High Yield Index on a daily basis. The Index Provider will monitor the results produced by the Calculation Agent to help ensure that the BDC Index, EM Aggregate Bond Index, Floating Rate Index, Mortgage REITs Index, Renminbi Index and Treasury-Hedged High Yield Index are being calculated in accordance with the applicable rules-based methodology. In addition, the Adviser and MVIS have established policies and procedures designed to prevent non-public information about pending changes to the BDC Index, EM Aggregate Bond Index, Floating Rate Index, Mortgage REITs Index, Renminbi Index and Treasury-Hedged High Yield Index from being used or disseminated in an improper manner. Furthermore, the Adviser and the Index Provider have established policies and procedures designed to prevent improper use and dissemination of non-public information about Market Vectors BDC Income ETF's, Market Vectors Emerging Markets Aggregate Bond ETF's, Market Vectors Investment Grade Floating Rate ETF's, Market Vectors Mortgage REIT Income ETF's, Market Vectors Renminbi Bond ETF's and Market Vectors Treasury-Hedged High Yield Bond ETF's portfolio strategies and to prevent Market Vectors Investment Grade Floating Rate ETF's, Market Vectors Mortgage REIT Income ETF's and Market Vectors Renminbi Bond ETF's portfolio managers from having any influence on the construction of each of the BDC Index's, Floating Rate Index's, Mortgage REITs Index's, Renminbi Index's and Treasury-Hedged High Yield Index's methodology.

#### Other Accounts Managed by the Portfolio Managers

As of the date indicated below, Messrs. Cao, Colby, Liao, Mazier and Rodilosso managed the following other accounts:

Other Accounts Managed  
(As of April 30, 2014)

Accounts with respect to  
which the  
advisory fee is based on the



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Name of Portfolio Manager	Category of Account	Number of Accounts in Category	Total Assets in Accounts in Category	performance of the account	
				Number of Accounts in Category	Total Assets in Accounts in Category
George Cao	Registered investment companies	44	\$19,877 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0

- 30 -

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James T. Colby III	Registered investment companies	6	\$1,984 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0
Hao-Hung (Peter) Liao	Registered investment companies	44	\$19,877 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0
Michael F. Mazier	Registered investment companies	15	\$3,770 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0
Francis G. Rodilosso	Registered investment companies	8	\$1,461 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0

Although the funds in the Trust that are managed by Messrs. Cao, Colby, Liao, Mazier and Rodilosso may have different investment strategies, each has an investment objective of seeking to replicate, before fees and expenses, its respective underlying index. The Adviser does not believe that management of the various accounts presents a material conflict of interest for Messrs. Cao, Colby, Liao, Mazier and Rodilosso or the Adviser.

### Portfolio Manager Compensation

The portfolio managers are paid a fixed base salary and a bonus. The bonus is based upon the quality of investment analysis and the management of the funds. The quality of management of the funds includes issues of replication, rebalancing, portfolio monitoring and efficient operation, among other factors. Portfolio managers who oversee accounts with significantly different fee structures are generally compensated by discretionary bonus rather than a set formula to help reduce potential conflicts of interest. At times, the Adviser and its affiliates manage accounts with incentive fees.

### Portfolio Manager Share Ownership

The portfolio holdings of Messrs. Cao, Colby, Liao, Mazier and Rodilosso as of April 30, 2014 of the Funds are shown below.

**George Cao:**

Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors BDC Income ETF	X						
Market Vectors CEF Municipal Income ETF	X						
Market Vectors Mortgage REIT Income ETF	X						
Market Vectors Preferred Securities ex Financials ETF		X					

**James T. Colby III:**

Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors High-Yield Municipal Index ETF	X						
Market Vectors Intermediate Municipal Index ETF	X						
Market Vectors Long Municipal Index ETF	X						
Market Vectors Pre-Refunded Municipal Index ETF	X						
Market Vectors Short High-Yield Municipal Index ETF	X						
Market Vectors Short Municipal Index ETF	X						

**Hao-Hung (Peter) Liao:**

Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors BDC Income ETF	X						
Market Vectors CEF Municipal Income ETF		X					
Market Vectors Mortgage REIT Income ETF		X					
Market Vectors Preferred Securities ex Financials ETF		X					

**Michael F. Mazier:**

Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors Emerging Markets Aggregate Bond ETF		X					
Market Vectors Emerging Markets High Yield Bond ETF	X						
Market Vectors Emerging Markets Local Currency Bond ETF			X				
Market Vectors Fallen Angel High Yield Bond ETF	X						
Market Vectors High-Yield Municipal Index ETF	X						
Market Vectors Intermediate Municipal Index ETF			X				
Market Vectors International High Yield Bond ETF			X				
Market Vectors Investment Grade Floating Rate ETF			X				

Market Vectors Long Municipal Index ETF X

- 33 -

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Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors Pre-Refunded Municipal Index ETF	X						
Market Vectors Renminbi Bond ETF	X						
Market Vectors Short High-Yield Municipal Index ETF	X						
Market Vectors Short Municipal Index ETF	X						
Market Vectors Treasury-Hedged High Yield Bond ETF	X						

**Francis G. Rodillosso:**

Fund	None	\$1 to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$1,000,000	Over \$1,000,000
Market Vectors Emerging Markets Aggregate Bond ETF		X					
Market Vectors Emerging Markets High Yield Bond ETF	X						
Market Vectors Emerging Markets Local Currency Bond ETF		X					
Market Vectors Fallen Angel High Yield Bond ETF		X					
Market Vectors International High Yield Bond ETF		X					
Market Vectors Investment Grade Floating Rate ETF		X					
Market Vectors Renminbi Bond ETF	X						
Market Vectors Treasury-Hedged High Yield Bond ETF	X						

## BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio securities, the Adviser looks for prompt execution of the order at a favorable price. Generally, the Adviser works with recognized dealers in these securities, except when a better price and execution of the order can be obtained elsewhere. The Funds will not deal with affiliates in principal transactions unless permitted by exemptive order or applicable rule or regulation. The Adviser owes a duty to its clients to seek best execution on trades effected. Since the investment objective of each Fund is investment performance that corresponds to that of an Index, the Adviser does not intend to select brokers and dealers for the purpose of receiving research services in addition to a favorable price and prompt execution either from that broker or an unaffiliated third party.

The Adviser assumes general supervision over placing orders on behalf of the Trust for the purchase or sale of portfolio securities. If purchases or sales of portfolio securities of the Trust and one or more other investment companies or clients supervised by the Adviser are considered at or about the same time, transactions in such securities are allocated among the several investment companies and clients in a manner deemed equitable to all by the Adviser. In some cases, this procedure could have a detrimental effect on the price or volume of the security so far as the Trust is concerned. However, in other cases, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Trust. The primary consideration is best execution.

Portfolio turnover may vary from year to year, as well as within a year. High turnover rates are likely to result in comparatively greater brokerage expenses and taxable distributions. The overall reasonableness of brokerage commissions is evaluated by the Adviser based upon its knowledge of available information as to the general level of commissions paid by other institutional investors for comparable services.

The aggregate brokerage commissions paid by each Fund during the Fund's fiscal years ended April 30, 2012, 2013 and 2014, as applicable, or, if the Fund has not been in existence for a full fiscal year, since the commencement of operations of that Fund are set forth in the chart below.

Fund	Brokerage Commissions Paid During the Fiscal Year Ended April 30,			Date of Commencement of Operations of the Fund
	2012	2013	2014	
Market Vectors BDC Income ETF	N/A	\$ 21	\$	02/11/13
Market Vectors CEF Municipal Income ETF	\$ 225	\$ 2,603	\$ 4,182	07/12/11
Market Vectors Emerging Markets Aggregate Bond ETF	\$	\$	\$	05/11/11
Market Vectors Emerging Markets High Yield Bond ETF	N/A	\$	\$	05/08/12

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Market Vectors Emerging Markets Local Currency Bond ETF	\$ 6,271	\$ 8,773	\$	07/22/10
Market Vectors Fallen Angel High Yield Bond ETF	\$	\$	\$	04/10/12
Market Vectors High-Yield Municipal Index ETF	\$	\$	\$	02/04/09
Market Vectors Intermediate Municipal Index ETF	\$	\$	\$	12/04/07

- 35 -



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Fund	Brokerage Commissions Paid During the Fiscal Year Ended April 30,			Date of Commencement of Operations of the Fund
	2012	2013	2014	
Market Vectors International High Yield Bond ETF	\$	\$	\$	04/02/12
Market Vectors Investment Grade Floating Rate ETF	\$	\$	\$	04/25/11
Market Vectors Long Municipal Index ETF	\$	\$	\$	01/02/08
Market Vectors Mortgage REIT Income ETF	\$ 2,071	\$ 6,970	\$ 37,429	08/16/11
Market Vectors Preferred Securities ex Financials ETF	N/A	\$ 25,355	\$ 45,425	07/16/12
Market Vectors Pre-Refunded Municipal Index ETF	\$	\$	\$	02/02/09
Market Vectors Renminbi Bond ETF	\$	\$	\$	10/11/11
Market Vectors Short High-Yield Municipal Index ETF	N/A	N/A	\$	
Market Vectors Short Municipal Index ETF	\$	\$	\$	02/22/08
Market Vectors Treasury-Hedged High Yield Bond ETF	N/A	\$	\$	03/21/13

BOOK ENTRY ONLY SYSTEM

The following information supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Buying and Selling Exchange-Traded Shares."

The Depository Trust Company ("DTC") acts as securities depository for the Shares. Shares of the Funds are represented by securities registered in the name of DTC or its nominee and deposited with, or on behalf of, DTC. Certificates will not be issued for Shares.

DTC, a limited-purpose trust company, was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among the DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. More specifically, DTC is owned by a number of its DTC Participants and by the New York Stock Exchange ("NYSE") and FINRA. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership of Shares is limited to DTC Participants, Indirect Participants and persons holding interests through DTC Participants and Indirect Participants. Ownership of beneficial interests in Shares (owners of such beneficial interests are referred to herein as “Beneficial Owners”) is shown on, and the transfer of ownership is effected only through, records maintained by DTC (with respect to DTC Participants) and on the records of DTC Participants (with respect to Indirect Participants and Beneficial Owners that are not DTC Participants). Beneficial Owners will receive from or through the DTC Participant a written confirmation relating to their purchase of Shares.

Conveyance of all notices, statements and other communications to Beneficial Owners is effected as follows. Pursuant to the Depositary Agreement between the Trust and DTC, DTC is required to make available to the Trust upon request and for a fee to be charged to the Trust a listing of the Shares holdings of each DTC Participant. The Trust shall inquire of each such DTC Participant as to the number of Beneficial Owners holding Shares, directly or indirectly, through such DTC Participant. The Trust shall provide each such DTC Participant with copies of such notice, statement or other communication, in such form, number and at such place as such DTC Participant may reasonably request, in order that such notice, statement or communication may be transmitted by such DTC Participant, directly or indirectly, to such Beneficial Owners. In addition, the Trust shall pay to each such DTC Participant a fair and reasonable amount as reimbursement for the expenses attendant to such transmittal, all subject to applicable statutory and regulatory requirements.

Share distributions shall be made to DTC or its nominee, Cede & Co., as the registered holder of all Shares. DTC or its nominee, upon receipt of any such distributions, shall credit immediately DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in Shares as shown on the records of DTC or its nominee. Payments by DTC Participants to Indirect Participants and Beneficial Owners of Shares held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in a "street name," and will be the responsibility of such DTC Participants.

The Trust has no responsibility or liability for any aspects of the records relating to or notices to Beneficial Owners, or payments made on account of beneficial ownership interests in such Shares, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and the DTC Participants or the relationship between such DTC Participants and the Indirect Participants and Beneficial Owners owning through such DTC Participants.

DTC may determine to discontinue providing its service with respect to the Shares at any time by giving reasonable notice to the Trust and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Trust shall take action either to find a replacement for DTC to perform its functions at a comparable cost or, if such a replacement is unavailable, to issue and deliver printed certificates representing ownership of Shares, unless the Trust makes other arrangements with respect thereto satisfactory to the Exchange.

## CREATION AND REDEMPTION OF CREATION UNITS

### General

The Funds issue and sell Shares only in Creation Units on a continuous basis through the Distributor, without an initial sales load, at their NAV next determined after receipt, on any Business Day (as defined herein), of an order in proper form. An Authorized Participant (defined below) that is not a "qualified institutional buyer," as such term is defined under Rule 144A of the Securities Act of 1933, will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

A "Business Day" with respect to the Funds is any day on which the NYSE is open for business. As of the date of the Prospectus, the NYSE observes the following holidays: New Year's Day, Martin Luther King, Jr. Day, President's Day (Washington's Birthday), Good Friday, Memorial Day (observed), Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

### Fund Deposit

The consideration for a purchase of Creation Units of Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF consists of the in-kind deposit of a designated portfolio of securities (the “Deposit Securities”) that comprise a Fund’s Index and an amount of cash computed as described below (the “Cash Component”). The consideration for a purchase of Creation Units of Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF and Market Vectors Treasury-Hedged High Yield Bond ETF consists of cash and/or the Deposit Securities that comprise a Fund’s Index and the Cash Component. The consideration for a purchase of Creation Units of Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF is principally for cash. The Cash Component together with the Deposit Securities, as applicable, are referred to as the “Fund Deposit,” which represents the minimum initial and subsequent investment amount for Shares. The specified Deposit Securities generally will correspond, *pro rata*, to the extent practicable, to the component securities of a Fund’s portfolio. The Cash Component represents the difference between the NAV of a Creation Unit and the market value of Deposit Securities and may include a Dividend Equivalent Payment. The “Dividend Equivalent Payment” enables each Fund to make a complete distribution of dividends on the next dividend payment date, and is an amount equal, on a per Creation Unit basis, to the dividends

on all the securities held by the Fund (“Fund Securities”) with ex-dividend dates within the accumulation period for such distribution (the “Accumulation Period”), net of expenses and liabilities for such period, as if all of the Fund Securities had been held by the Trust for the entire Accumulation Period. The Accumulation Period begins on the ex-dividend date for each Fund and ends on the next ex-dividend date.

The Administrator, through the NSCC, makes available on each Business Day, immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time), the list of the names and the required number of shares of each Deposit Security to be included in the current Fund Deposit (based on information at the end of the previous Business Day) as well as the Cash Component for each Fund. Such Fund Deposit is applicable, subject to any adjustments as described below, in order to effect creations of Creation Units of each Fund until such time as the next-announced Fund Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for a Fund Deposit for each Fund changes as rebalancing adjustments and corporate action events are reflected from time to time by the Adviser with a view to the investment objective of the applicable Fund. The composition of the Deposit Securities may also change in response to adjustments to the weighting or composition of the securities constituting each Fund’s respective Index. In addition, the Trust reserves the right to accept a basket of securities or cash that differs from Deposit Securities or to permit or require the substitution of an amount of cash (*i.e.*, a “cash in lieu” amount) to be added to the Cash Component to replace any Deposit Security which may, among other reasons, not be available in sufficient quantity for delivery, not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention or which may not be eligible for transfer through the Clearing Process (described below), or which may not be eligible for trading by a Participating Party (defined below). In light of the foregoing, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase the Deposit Securities represented by the cash in lieu amount in the secondary market (“Market Purchases”). In such cases where the Trust makes Market Purchases because a Deposit Security may not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities were purchased by the Trust and the cash in lieu amount (which amount, at the Adviser’s discretion, may be capped), applicable registration fees and taxes. Brokerage commissions incurred in connection with the Trust’s acquisition of Deposit Securities will be at the expense of each Fund and will affect the value of all Shares of the Fund; but the Adviser may adjust the transaction fee to the extent the composition of the Deposit Securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. The adjustments described above will reflect changes, known to the Adviser on the date of announcement to be in effect by the time of delivery of the Fund Deposit, in the composition of the relevant Index or resulting from stock splits and other corporate actions.

Pursuant to a patent pending process, and subject to the receipt of appropriate regulatory relief, each Fund (except the Equity Income Funds and Market Vectors CEF Municipal Income ETF) may in the future divide the daily list of Deposit Securities into different “categories,” based on various risk and return characteristics that may include (but not be limited to): (1) credit rating; (2) sector (e.g., revenue, pre-refunded or insured bonds); (3) issuer (or state of issuer); (4) call date; (5) maturity; and (6) coupon yield. With respect to each category, an Authorized Participant (as defined below) would be required, pursuant to rules established by the Fund, to contribute one bond from each category in-kind as a Deposit Security in a Fund Deposit. There is no assurance that such relief will be granted.

In addition to the list of names and numbers of securities constituting the current Deposit Securities of a Fund Deposit, the Administrator, through the NSCC, also makes available (i) on each Business Day, the Dividend Equivalent Payment, if any, and the estimated Cash Component effective through and including the previous Business Day, per outstanding Shares of the Fund, and (ii) on a continuous basis throughout the day, the Indicative Per Share Portfolio Value.

#### Procedures for Creation of Creation Units

To be eligible to place orders with the Distributor to create Creation Units of the Funds, an entity or person either must be (1) a “Participating Party,” *i.e.*, a broker-dealer or other participant in the Clearing Process through the Continuous Net Settlement System of the NSCC; or (2) a DTC Participant (see “Book Entry Only System”);

- 38 -

and, in either case, must have executed an agreement with the Distributor and the Transfer Agent with respect to creations and redemptions of Creation Units (as it may be amended from time to time in accordance with its terms) (“Participant Agreement”) (discussed below). A Participating Party and DTC Participant are collectively referred to as an “Authorized Participant.” All Creation Units of the Funds, however created, will be entered on the records of the Depository in the name of Cede & Co. for the account of a DTC Participant.

All orders to create Creation Units must be placed in multiples of 50,000 Shares (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF), 100,000 Shares (with respect to Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF and Market Vectors Short Municipal Index ETF) and 200,000 Shares (with respect to Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Treasury-Hedged High Yield Bond ETF) of a Fund. All orders to create Creation Units, whether through the Clearing Process or outside the Clearing Process, must be received by the Distributor no later than the closing time of the regular trading session on NYSE Arca (“Closing Time”) (ordinarily 4:00 p.m. Eastern time) on the date such order is placed in order for creation of Creation Units to be effected based on the NAV of a Fund as determined on such date. A “Custom Order” may be placed by an Authorized Participant in the event that the Trust permits or requires the substitution of an amount of cash to be added to the Cash Component to replace any Deposit Security which may not be available in sufficient quantity for delivery or which may not be eligible for trading by such Authorized Participant or the investor for which it is acting, or other relevant reason. The Business Day on which a creation order (or order to redeem as discussed below) is placed is herein referred to as the “Transmittal Date.” Orders must be transmitted by telephone or other transmission method acceptable to the Distributor pursuant to procedures set forth in the Participant Agreement, as described below (see “—Placement of Creation Orders Using Clearing Process”). Severe economic or market disruptions or changes, or telephone or other communication failure, may impede the ability to reach the Distributor, a Participating Party or a DTC Participant.

Creation Units may be created in advance of the receipt by the Trust of all or a portion of the Fund Deposit. In such cases, the Authorized Participant will remain liable for the full deposit of the missing portion(s) of the Fund Deposit and will be required to post collateral with the Trust consisting of cash at least equal to a percentage of the marked-to-market value of such missing portion(s) that is specified in the Participant Agreement. The Trust may use such collateral to buy the missing portion(s) of the Fund Deposit at any time and will subject such Authorized Participant to liability for any shortfall between the cost to the Trust of purchasing such securities and the value of such collateral. The Trust will have no liability for any such shortfall. The Trust will return any unused portion of the collateral to the Authorized Participant once the entire Fund Deposit has been properly received by the Distributor and deposited into the Trust.

Orders to create Creation Units of a Fund shall be placed with a Participating Party or DTC Participant, as applicable, in the form required by such Participating Party or DTC Participant. Investors should be aware that their particular broker may not have executed a Participant Agreement, and that, therefore, orders to create Creation Units of the Funds may have to be placed by the investor’s broker through a Participating Party or a DTC Participant who has

executed a Participant Agreement. At any given time there may be only a limited number of broker-dealers that have executed a Participant Agreement. Those placing orders to create Creation Units of a Fund through the Clearing Process should afford sufficient time to permit proper submission of the order to the Distributor prior to the Closing Time on the Transmittal Date.

Orders for creation that are effected outside the Clearing Process are likely to require transmittal by the DTC Participant earlier on the Transmittal Date than orders effected using the Clearing Process. Those persons placing orders outside the Clearing Process should ascertain the deadlines applicable to DTC and the Federal Reserve Bank wire system by contacting the operations department of the broker or depository institution effectuating such transfer of Deposit Securities and Cash Component.

- 39 -



Orders to create Creation Units of a Fund may be placed through the Clearing Process utilizing procedures applicable to domestic funds for domestic securities (“Domestic Funds”) (see “—Placement of Creation Orders Using Clearing Process”) or outside the Clearing Process utilizing the procedures applicable to either Domestic Funds or foreign funds for foreign securities (“Foreign Funds”) (see “—Placement of Creation Orders Outside Clearing Process—Domestic Funds” and “—Placement of Creation Orders Outside Clearing Process—Foreign Funds”). In the event that a Fund includes both domestic and foreign securities, the time for submitting orders is as stated in the “Placement of Creation Orders Outside Clearing Process—Foreign Funds” and “Placement of Redemption Orders Outside Clearing Process—Foreign Funds” sections below shall operate.

Placement of Creation Orders Using Clearing Process—All Funds Except Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF

Fund Deposits must be delivered through a DTC Participant that has executed a Participant Agreement. A DTC Participant who wishes to place an order creating Creation Units of the Funds need not be a Participating Party, but such orders must state that the creation of Creation Units will be effected through a transfer of securities and cash. The Fund Deposit transfer must be ordered by the DTC Participant in a timely fashion so as to ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Trust by no later than 4:00 p.m. Eastern time, on the Settlement Date. The “Settlement Date” for each Fund is generally the third Business Day following the Transmittal Date. All questions as to the number of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Trust, whose determination shall be final and binding. The cash equal to the Cash Component must be transferred directly to the Distributor through the Federal Reserve wire system in a timely manner so as to be received by the Distributor no later than 4:00 p.m. Eastern time, on the next Business Day immediately following the Transmittal Date. An order to create Creation Units of the Funds is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date; and (ii) all other procedures set forth in the Participant Agreement are properly followed. Upon written notice to the Distributor, such cancelled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the current NAV of a Fund. The delivery of Creation Units so created will occur no later than the third (3rd) Business Day following the day on which the creation order is deemed received by the Distributor.

Placement of Creation Orders Using Clearing Process—Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF

Fund Deposits created through the Clearing Process, if available, must be delivered through a Participating Party that has executed a Participant Agreement.

The Participant Agreement authorizes the Distributor to transmit to NSCC on behalf of the Participating Party such trade instructions as are necessary to effect the Participating Party’s creation order. Pursuant to such trade instructions from the Distributor to NSCC, the Participating Party agrees to transfer the requisite Deposit Securities (or contracts

to purchase such Deposit Securities that are expected to be delivered in a “regular way” manner by the third (3rd Business Day) and the Cash Component to the Trust, together with such additional information as may be required by the Distributor. An order to create Creation Units of a Fund through the Clearing Process is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date and (ii) all other procedures set forth in the Participant Agreement are properly followed.

#### Placement of Creation Orders Outside Clearing Process—Domestic Funds

Fund Deposits created outside the Clearing Process must be delivered through a DTC Participant that has executed a Participant Agreement. A DTC Participant who wishes to place an order creating Creation Units of the Funds to be effected outside the Clearing Process need not be a Participating Party, but such orders must state that the DTC Participant is not using the Clearing Process and that the creation of Creation Units will instead be effected through a transfer of securities and cash. The Fund Deposit transfer must be ordered by the DTC Participant in a

- 40 -

timely fashion so as to ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Trust by no later than 11:00 a.m. Eastern time, of the next Business Day immediately following the Transmittal Date. All questions as to the number of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Trust, whose determination shall be final and binding. The cash equal to the Cash Component must be transferred directly to the Distributor through the Federal Reserve wire system in a timely manner so as to be received by the Distributor no later than 2:00 p.m. Eastern time, on the next Business Day immediately following the Transmittal Date. An order to create Creation Units of a Fund outside the Clearing Process is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date; and (ii) all other procedures set forth in the Participant Agreement are properly followed. However, if the Distributor does not receive both the requisite Deposit Securities and the Cash Component in a timely fashion on the next Business Day immediately following the Transmittal Date, such order will be cancelled. Upon written notice to the Distributor, such cancelled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the current NAV of the applicable Fund. The delivery of Creation Units so created will occur no later than the third (3rd) Business Day following the day on which the creation order is deemed received by the Distributor.

Additional transaction fees may be imposed with respect to transactions effected outside the Clearing Process (through a DTC participant) and in circumstances in which any cash can be used in lieu of Deposit Securities to create Creation Units. (See “Creation Transaction Fee” section below.)

#### Placement of Creation Orders Outside Clearing Process—Foreign Funds

The Distributor will inform the Transfer Agent, the Adviser and the Custodian upon receipt of a Creation Order. The Custodian will then provide such information to the appropriate subcustodian. The Custodian will cause the subcustodian of such Fund to maintain an account into which the Deposit Securities (or the cash value of all or part of such securities, in the case of a permitted or required cash purchase or “cash in lieu” amount) will be delivered. Deposit Securities must be delivered to an account maintained at the applicable local custodian. The Trust must also receive, on or before the contractual settlement date, immediately available or same day funds estimated by the Custodian to be sufficient to pay the Cash Component next determined after receipt in proper form of the purchase order, together with the creation transaction fee described below.

Once the Transfer Agent has accepted a creation order, the Transfer Agent will confirm the issuance of a Creation Unit of a Fund against receipt of payment, at such NAV as will have been calculated after receipt in proper form of such order. The Transfer Agent will then transmit a confirmation of acceptance of such order.

Creation Units will not be issued until the transfer of good title to the Trust of the Deposit Securities and the payment of the Cash Component have been completed. When the subcustodian has confirmed to the Custodian that the required Deposit Securities (or the cash value thereof) have been delivered to the account of the relevant subcustodian, the Distributor and the Adviser will be notified of such delivery and the Transfer Agent will issue and cause the delivery of the Creation Units.

Acceptance of Creation Orders

The Trust reserves the absolute right to reject a creation order transmitted to it by the Distributor if, for any reason, (a) the order is not in proper form; (b) the creator or creators, upon obtaining the Shares, would own 80% or more of the currently outstanding Shares of a Fund; (c) the Deposit Securities delivered are not as specified by the Administrator, as described above; (d) the acceptance of the Deposit Securities would have certain adverse tax consequences to a Fund; (e) the acceptance of the Fund Deposit would, in the opinion of counsel, be unlawful; (f) the acceptance of the Fund Deposit would otherwise, in the discretion of the Trust or the Adviser, have an adverse effect on the Trust or the rights of beneficial owners; or (g) in the event that circumstances outside the control of the Trust, the Distributor and the Adviser make it for all practical purposes impossible to process creation orders. Examples of such circumstances include, without limitation, acts of God or public service or utility problems such as earthquakes, fires, floods, extreme weather conditions and power outages resulting in telephone, telecopy and computer failures; wars; civil or military disturbances, including acts of civil or military authority or governmental actions; terrorism; sabotage; epidemics; riots; labor disputes; market conditions or activities causing

- 41 -

trading halts; systems failures involving computer or other information systems affecting the Trust, the Adviser, the Distributor, DTC, the NSCC or any other participant in the creation process, and similar extraordinary events. The Transfer Agent will notify a prospective creator of its rejection of the order of such person. The Trust, the Custodian, any subcustodian and the Distributor are under no duty, however, to give notification of any defects or irregularities in the delivery of Fund Deposits to Authorized Participants nor shall either of them incur any liability to Authorized Participants for the failure to give any such notification.

All questions as to the number of shares of each security in the Deposit Securities and the validity, form, eligibility and acceptance for deposit of any securities to be delivered shall be determined by the Trust, and the Trust's determination shall be final and binding.

#### Creation Transaction Fee

A fixed creation transaction fee of \$500 (for Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Income ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Investment Grade Floating Rate Bond ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF) and \$1,000 (for Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Renminbi Bond ETF) payable to the Custodian is imposed on each creation transaction regardless of the number of Creation Units purchased in the transaction. As of the date of this SAI, the fixed creation fee of \$500 for Market Vectors Emerging Markets Aggregate Bond ETF is being waived by the Trust. An additional 1.0% charge will be imposed for cash creations affecting both long and short positions held by Market Vectors Treasury-Hedged High Yield Bond ETF. In addition, a variable charge for cash creations or for creations outside the Clearing Process currently of up to four times the basic creation transaction fee may be imposed. In the case of cash creations or where the Trust permits or requires a creator to substitute cash in lieu of depositing a portion of the Deposit Securities, the creator may be assessed an additional variable charge to compensate the Funds for the costs associated with purchasing the applicable securities. (See "Fund Deposit" section above.) As a result, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase, in the secondary market or otherwise gain exposure to, the portfolio securities that could have been delivered as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons ("Market Purchases"). In such cases where the Trust makes Market Purchases, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities and/or financial instruments were purchased by the Trust and the cash in lieu amount (which amount, at the Adviser's discretion, may be capped), applicable registration fees, brokerage commissions, fees and expenses incurred in connection with short sale transactions (with respect to Market Vectors Treasury-Hedged High Yield Bond ETF) and certain taxes. The Adviser may adjust the transaction fee to the extent the composition of the creation securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. Creators of Creation Units are responsible for the costs of transferring the securities constituting the Deposit Securities to the account of the Trust.

## Redemption of Creation Units

Shares may be redeemed only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Distributor, only on a Business Day and only through a Participating Party or DTC Participant who has executed a Participant Agreement. **The Trust will not redeem Shares in amounts less than Creation Units.** Beneficial Owners also may sell Shares in the secondary market, but must accumulate enough Shares to constitute a Creation Unit in order to have such Shares redeemed by the Trust. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit assembly of a Creation Unit. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Shares to constitute a redeemable Creation Unit. See with respect to each Fund the section entitled “Summary Information—Principal Risks of Investing in the Fund” and “Additional Information About the Funds’ Investment Strategies and Risks—Risks of Investing in the Funds” in the Prospectus.

- 42 -

The Administrator, through NSCC, makes available immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time) on each day that the Exchange is open for business, the Fund Securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day. The Fund Securities generally will correspond, *pro rata*, to the extent practicable, to the component securities of a Fund's portfolio. If the Trust determines, based on information available to the Trust when a redemption request is submitted by an Authorized Participant, that (i) the short interest of a Fund in the marketplace is greater than or equal to 100% and (ii) the orders in the aggregate from all Authorized Participants redeeming Fund Shares on a Business Day represent 25% or more of the outstanding Shares of a Fund, such Authorized Participant will be required to verify to the Trust the accuracy of its representations that are deemed to have been made by submitting a request for redemption. If, after receiving notice of the verification requirement, the Authorized Participant does not verify the accuracy of its representations that are deemed to have been made by submitting a request for redemption in accordance with this requirement, its redemption request will be considered not to have been received in proper form.

As with respect to the purchase of Creation Units, pursuant to a patent pending process, the Funds (except Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF) may, in the future, subject to the receipt of appropriate regulatory relief, divide the daily list of Fund Securities into different "categories," based on similar criteria set forth above regarding the division of each Fund's Deposit Securities into categories. In determining the Fund Securities and the order in which they are listed within each category, the Adviser would seek to construct a redemption basket that will reflect the general characteristics of the Fund's portfolio. Upon each request for a redemption of Creation Units, the Custodian, acting on behalf of the Adviser, would allocate the first bond on the list from each category (as of the time such redemption request is received by the Transfer Agent) to such redeemer to receive in-kind. There is no assurance that such relief will be granted.

Unless cash redemptions are permitted or required for a Fund, the redemption proceeds for a Creation Unit generally consist of Fund Securities as announced by the Administrator on the Business Day of the request for redemption, plus cash in an amount equal to the difference between the NAV of the Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities, less the redemption transaction fee and variable fees described below. Should the Fund Securities have a value greater than the NAV of the Shares being redeemed, a compensating cash payment to the Trust equal to the differential plus the applicable redemption transaction fee will be required to be arranged for by or on behalf of the redeeming shareholder. Each Fund reserves the right to honor a redemption request by delivering a basket of securities or cash that differs from the Fund Securities.

#### Redemption Transaction Fee

The basic redemption transaction fee of \$500 (for Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Income ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors Investment Grade Floating Rate Bond ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield

Bond ETF) and \$1,000 (for Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors International High Yield Bond ETF and Market Vectors Renminbi Bond ETF) is the same no matter how many Creation Units are being redeemed pursuant to any one redemption request. As of the date of this SAI, the basic redemption transaction fee of \$500 for Market Vectors Emerging Markets Aggregate Bond ETF is being waived by the Trust. An additional charge up to four times the redemption transaction fee will be charged with respect to cash redemptions or redemptions outside of the Clearing Process. An additional variable charge for cash redemptions or partial cash redemptions (when cash redemptions are permitted or required for a Fund) may also be imposed to compensate the applicable Fund for the costs associated with selling the applicable securities. As a result, in order to seek to replicate the in-kind redemption order process, the Trust expects to sell, in the secondary market, the portfolio securities or settle any financial instruments that may not be permitted to be re-registered in the name of the Participating Party as a result of an in-kind redemption order pursuant to local law or market convention, or for other reasons (“Market Sales”). In such cases where the Trust makes Market Sales, the Authorized Participant will reimburse the Trust for, among



other things, any difference between the market value at which the securities and/or financial instruments were sold or settled by the Trust and the cash in lieu amount (which amount, at the Adviser's discretion, may be capped), applicable registration fees, brokerage commissions and certain taxes ("Transaction Costs"). The Adviser may adjust the transaction fee to the extent the composition of the redemption securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. In no event will fees charged by a Fund in connection with a redemption exceed 2% of the value of each Creation Unit. Investors who use the services of a broker or other such intermediary may be charged a fee for such services. To the extent a Fund cannot recoup the amount of Transaction Costs incurred in connection with a redemption from the redeeming shareholder because of the 2% cap or otherwise, those Transaction Costs will be borne by the Fund's remaining shareholders and negatively affect the Fund's performance.

**Placement of Redemption Orders Using Clearing Process—All Funds Except Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF**

Orders to redeem Creation Units of a Fund must be delivered through a DTC Participant that has executed the Participant Agreement with the Distributor and with the Trust. A DTC Participant who wishes to place an order for redemption of Creation Units of a Fund to be effected need not be a Participating Party, but such orders must state that redemption of Creation Units of the Funds will instead be effected through transfer of Creation Units of the Funds directly through DTC. An order to redeem Creation Units of a Fund is deemed received by the Administrator on the Transmittal Date if (i) such order is received by the Administrator not later than 4:00 p.m. Eastern time on such Transmittal Date; (ii) such order is preceded or accompanied by the requisite number of Shares of Creation Units specified in such order, which delivery must be made through DTC to the Administrator no later than 11:00 a.m. Eastern time, on such Transmittal Date (the "DTC Cut-Off-Time"); and (iii) all other procedures set forth in the Participant Agreement are properly followed.

After the Administrator has deemed an order for redemption received, the Administrator will initiate procedures to transfer the requisite Fund Securities (or contracts to purchase such Fund Securities) which are expected to be delivered within three Business Days and the cash redemption payment to the redeeming Beneficial Owner by the third Business Day following the Transmittal Date on which such redemption order is deemed received by the Administrator.

**Placement of Redemption Orders Using Clearing Process—Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Mortgage REIT Income ETF and Market Vectors Preferred Securities ex Financials ETF**

Orders to redeem Creation Units of a Fund through the Clearing Process, if available, must be delivered through a Participating Party that has executed the Participant Agreement. An order to redeem Creation Units of a Fund using the Clearing Process is deemed received on the Transmittal Date if (i) such order is received by the Distributor not later than 4:00 p.m. Eastern time on such Transmittal Date; and (ii) all other procedures set forth in the Participant

Agreement are properly followed; such order will be effected based on the NAV of the applicable Fund as next determined. An order to redeem Creation Units of the Fund using the Clearing Process made in proper form but received by the Fund after 4:00 p.m. Eastern time, will be deemed received on the next Business Day immediately following the Transmittal Date. The requisite Fund Securities (or contracts to purchase such Fund Securities which are expected to be delivered in a “regular way” manner) and the applicable cash payment will be transferred by the third (3rd) Business Day following the date on which such request for redemption is deemed received.

#### Placement of Redemption Orders Outside Clearing Process—Domestic Funds

Orders to redeem Creation Units of a Fund outside the Clearing Process must be delivered through a DTC Participant that has executed the Participant Agreement. A DTC Participant who wishes to place an order for redemption of Creation Units of a Fund to be effected outside the Clearing Process need not be a Participating Party, but such orders must state that the DTC Participant is not using the Clearing Process and that redemption of Creation Units of the Fund will instead be effected through transfer of Creation Units of the Fund directly through DTC. An order to redeem Creation Units of a Fund outside the Clearing Process is deemed received by the Administrator on

the Transmittal Date if (i) such order is received by the Administrator not later than 4:00 p.m. Eastern time on such Transmittal Date; (ii) such order is preceded or accompanied by the requisite number of Shares of Creation Units specified in such order, which delivery must be made through DTC to the Administrator no later than 11:00 a.m. Eastern time, on such Transmittal Date (the “DTC Cut-Off-Time”); and (iii) all other procedures set forth in the Participant Agreement are properly followed.

After the Administrator has deemed an order for redemption outside the Clearing Process received, the Administrator will initiate procedures to transfer the requisite Fund Securities (or contracts to purchase such Fund Securities) which are expected to be delivered within three Business Days and the cash redemption payment to the redeeming Beneficial Owner by the third Business Day following the Transmittal Date on which such redemption order is deemed received by the Administrator. An additional variable redemption transaction fee of up to four times the basic transaction fee is applicable to redemptions outside the Clearing Process.

#### Placement of Redemption Orders Outside Clearing Process—Foreign Funds

Arrangements satisfactory to the Trust must be in place for the Participating Party to transfer the Creation Units through DTC on or before the settlement date. Redemptions of Shares for Fund Securities will be subject to compliance with applicable U.S. federal and state securities laws and a Fund (whether or not it otherwise permits or requires cash redemptions) reserves the right to redeem Creation Units for cash to the extent that the Funds could not lawfully deliver specific Fund Securities upon redemptions or could not do so without first registering the Deposit Securities under such laws.

In connection with taking delivery of Shares for Fund Securities upon redemption of Creation Units, a redeeming shareholder or entity acting on behalf of a redeeming shareholder must maintain appropriate custody arrangements with a qualified broker-dealer, bank or other custody providers in each jurisdiction in which any of the Fund Securities are customarily traded, to which account such Fund Securities will be delivered. If neither the redeeming shareholder nor the entity acting on behalf of a redeeming shareholder has appropriate arrangements to take delivery of the Fund Securities in the applicable foreign jurisdiction and it is not possible to make other such arrangements, or if it is not possible to effect deliveries of the Fund Securities in such jurisdictions, the Trust may, in its discretion, exercise its option to redeem such Shares in cash, and the redeeming shareholder will be required to receive its redemption proceeds in cash.

Deliveries of redemption proceeds generally will be made within three business days. Due to the schedule of holidays in certain countries or for other reasons, however, the delivery of redemption proceeds may take longer than three business days after the day on which the redemption request is received in proper form. In such cases, the local market settlement procedures will not commence until the end of the local holiday periods.

The holidays applicable to Foreign Funds are listed below. The proclamation of new holidays, the treatment by market participants of certain days as “informal holidays” (*e.g.*, days on which no or limited securities transactions occur, as a

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result of substantially shortened trading hours), the elimination of existing holidays or changes in local securities delivery practices, could affect the information set forth herein at some time in the future. The dates in calendar years 2014 and 2015 in which the regular holidays affect the relevant securities markets are as follows (the following holiday schedule is subject to potential changes in the securities market):

**2014**

**ANGOLA**

January 1	April 4	May 25	November 11
January 4	April 18	June 1	December 25
February 4	April 21	September 17	December 26
March 8	May 1	November 2	

**ARGENTINA**

January 1	April 2	May 2	October 13	December 26
March 3	April 17	June 20	November 6	
March 4	April 18	July 9	November 24	
March 24	May 1	August 18	December 25	

**AUSTRALIA**

January 1	April 18	August 4	December 26
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- 45 -

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January 27	April 21	October 6
March 3	April 25	November 4
March 10	June 9	December 25

**AUSTRIA**

January 1	May 1	August 15	December 26
January 6	May 29	December 8	December 31
April 18	June 9	December 24	
April 21	June 19	December 25	

**AZERBAIJAN**

January 1	April 18	June 15	October 9
January 20	April 21	June 26	November 12
March 8	May 9	July 28	November 17
March 21	May 28	October 4	December 31

**BAHAMAS**

January 1	June 9	December 25
April 18	July 10	December 26
April 21	August 4	
June 6	October 12	

**BAHRAIN**

January 1	July 29	October 6	December 16
January 13	July 30	October 24	December 17
May 1	October 4	November 1	
July 28	October 5	November 2	

\*The Bahraini market is closed every Friday.

**BANGLADESH**

January 14	May 13	July 28	October 6	December 31
March 17	June 14	July 29	October 7	
March 26	July 1	July 30	November 4	
April 14	July 26	August 17	December 16	
May 1	July 27	October 5	December 25	

\*The Bangladeshi market is closed every Friday.

**BARBADOS**

January 1	April 28	August 4
January 21	May 1	November 30
April 18	June 9	December 25
April 21	August 1	

**BELGIUM**

January 1	May 29	August 15
April 18	May 30	November 11
April 21	June 9	December 25
May 1	July 21	December 26

**BERMUDA**

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January 1	July 31	December 25
April 18	August 1	December 26
May 24	September 1	
June 16	November 11	

**BOLIVIA**

January 1	June 19
March 3	August 6
April 18	November 3
May 1	December 25

**BRAZIL**

January 1	April 18	July 9	December 31
March 3	April 21	October 20	
March 4	May 1	December 24	
March 5	June 19	December 25	

**BULGARIA**

January 1	May 24	December 25
March 3	September 6	December 31

April 18 September 22  
 May 1 November 3  
 May 6 December 24

**CANADA**

January 1	July 1	December 25
February 17	August 4	December 26
April 18	September 1	
May 19	October 13	

**CAYMAN ISLANDS**

January 1	April 21	November 10
January 27	May 19	December 25
March 5	June 9	December 26
April 18	July 7	

**CHILE**

January 1	June 16	October 31
April 18	August 15	December 8
May 1	September 18	December 25
May 21	September 19	December 31

**CHINA**

January 1	February 6	May 7	October 6
January 20	February 7	May 26	October 7
January 30	February 17	July 4	October 13
January 31	May 1	September 1	November 11
February 3	May 2	October 1	November 27
February 4	May 5	October 2	December 25
February 5	May 6	October 3	

**COLOMBIA**

January 1	April 18	June 30	November 3
January 6	May 1	August 7	November 17
March 24	June 2	August 18	December 8
April 17	June 23	October 13	December 25

**COTE D'IVOIRE**

January 1	May 27	July 28	November 1
January 13	May 29	August 7	November 15
April 21	June 9	August 15	December 25
May 1	July 24	October 4	

**CROATIA**

January 1	June 19	October 8
January 6	June 22	December 13
April 20	June 25	December 25
May 1	August 5	

**CYPRUS**

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January 1	April 1	June 8	December 25
January 6	April 18	August 15	
March 3	April 21	October 1	
March 25	May 1	October 25	

**CZECH REPUBLIC**

January 1	May 8	December 25
April 18	October 28	December 26
April 21	November 17	December 31
May 1	December 24	

**DENMARK**

January 1	May 16	June 9	December 26
April 17	May 29	June 30	December 31
April 18	May 30	December 24	
April 21	June 5	December 25	

**DOMINICAN REPUBLIC**

January 1	February 27	August 16
January 6	April 18	September 24



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January 21	May 1	November 6
January 26	June 19	December 25

**ECUADOR**

January 1	August 10	December 25
April 18	October 9	December 31
May 1	November 2	
May 24	November 3	

**EGYPT**

January 1	April 21	July 28	October 6
January 7	May 1	July 29	
January 13	July 1	July 30	
April 20	July 23	October 5	

\*The Egyptian market is closed every Friday.

**EL SALVADOR**

January 1	May 1	October 12
April 17	August 3	November 2
April 18	August 4	December 25
April 19	September 15	December 31

**FINLAND**

January 1	April 21	December 26
January 6	May 1	December 31
April 17	December 24	
April 18	December 25	

**FRANCE**

January 1	May 8	November 11
April 18	May 29	December 25
April 21	July 14	December 26
May 1	August 15	

**GABON**

January 1	May 1	August 15	December 25
March 12	May 6	August 16	
April 17	June 9	October 4	
April 21	July 28	November 1	

**GEORGIA**

January 1	April 9	August 28
January 7	April 20	October 14
January 19	April 21	November 23
March 3	May 9	
March 8	May 26	

**GERMANY**

January 1	December 24
April 18	December 25

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April 21      December 26  
May 1        December 31

**GHANA**

January 1      May 1        October 4  
March 6        May 25      December 5  
April 18       July 1        December 25  
April 21       July 28

**GREECE**

January 1      April 18      August 15  
January 6      April 21      October 28  
March 3        May 1        December 25  
March 25      June 9        December 26

**GUATEMALA**

January 1      May 1        October 2    December 31  
April 18       June 30      November 1  
April 19       August 15    December 24  
April 21       September 15 December 25

- 48 -

**HONDURAS**

January 1	April 19	October 12
April 14	May 1	October 24
April 17	September 15	December 25
April 18	October 3	

**HONG KONG**

January 1	April 21	July 1	December 24
January 30	May 1	September 9	December 25
January 31	May 6	October 1	December 26
April 18	June 2	October 2	December 31

**HUNGARY**

January 1	June 9	December 24
April 21	August 20	December 25
May 1	October 23	December 26
May 2	October 24	

**INDIA**

January 14	April 1	May 14	October 2	November 4
February 19	April 8	July 29	October 3	November 6
February 27	April 14	August 15	October 6	December 25
March 17	April 18	August 18	October 23	
March 31	May 1	August 29	October 24	

**INDONESIA**

January 1	April 18	May 29	July 31	December 31
January 14	May 1	July 28	August 1	
January 31	May 15	July 29	December 25	
March 31	May 27	July 30	December 26	

**IRAQ**

January 1	May 1	October 3
January 6	July 14	October 4
January 13	July 28	October 25
April 9	August 8	November 3

**IRELAND**

January 1	May 1	October 27	December 29
March 17	May 5	December 24	
April 18	June 2	December 25	
April 21	August 4	December 26	

**ISRAEL**

March 16	April 21	June 4	October 8
April 14	May 5	August 5	October 9
April 15	May 6	September 24	October 15
April 20	June 3	September 25	October 16

\*The Israeli market is closed every Friday.

**ITALY**

January 1	May 1	December 24
January 6	June 2	December 25
April 18	August 15	December 26
April 25	December 8	December 31

**JAMAICA**

January 1	May 23	December 25
March 5	August 1	December 26
April 18	August 4	
April 21	October 24	

**JAPAN**

January 1	February 11	May 6	October 13	December 31
January 2	March 21	July 21	November 3	
January 3	April 29	September 15	November 24	
January 13	May 5	September 23	December 23	

- 49 -

**JORDAN**

January 1	July 27	October 3	October 7
January 13	July 28	October 4	December 25
May 1	July 29	October 5	
May 25	July 30	October 6	

\*The Jordanian market is closed every Friday.

**KAZAKHSTAN**

January 1	March 21	May 7	December 1
January 2	March 24	May 9	December 16
January 7	March 25	July 7	December 17
March 10	May 1	September 1	

**KUWAIT**

January 2	February 27	July 30	October 7
January 16	May 29	July 31	October 23
February 25	July 28	October 5	
February 26	July 29	October 6	

\*The Kuwaiti market is closed every Friday.

**LATVIA**

January 1	May 4	December 25	
April 18	June 23	December 26	
April 21	June 24	December 31	
May 1	November 22		

**LEBANON**

January 1	April 18	May 25	November 3
January 6	April 20	July 28	November 22
January 13	May 1	August 15	December 18
February 9	May 6	October 4	December 25

**LITHUANIA**

January 1	April 21	June 24	December 25
February 16	May 1	July 6	December 26
March 11	May 4	August 15	
April 20	June 1	November 1	

**LUXEMBOURG**

January 1	June 9	November 1	
April 21	June 23	December 25	
May 1	August 15	December 26	
May 29	September 1		

**MALAYSIA**

January 1	February 3	June 7	October 6
January 14	May 1	July 28	October 22
January 30	May 13	July 29	October 23
January 31	May 15	July 30	October 25
February 1	May 30	September 1	December 25

**MEXICO**

January 1	March 21	September 16	December 25
February 3	April 17	November 17	
February 5	April 18	November 20	
March 17	May 1	December 12	

**MONGOLIA**

January 1	July 11
March 2	November 26
March 8	
June 1	

**MOROCCO**

January 1	July 30	October 6
January 13	August 14	November 6
May 1	August 20	November 18
July 29	August 21	

**NAMIBIA**

January 1	May 1	August 26
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- 50 -

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March 21	May 4	December 10
April 18	May 25	December 25
April 21	May 29	December 26

**NETHERLANDS**

January 1	April 30	June 9
April 18	May 1	December 25
April 21	May 29	December 26

**NEW ZEALAND**

January 1	February 6	June 2
January 2	April 18	October 27
January 20	April 21	December 25
January 27	April 25	December 26

**NIGERIA**

January 1	May 1	October 1	December 26
January 13	May 29	October 6	
April 18	July 28	October 7	
April 21	July 29	December 25	

**NORWAY**

January 1	April 21	December 24
April 16	May 1	December 25
April 17	May 29	December 26
April 18	June 9	December 31

**OMAN**

January 1	July 28	November 22
January 13	October 4	
May 27	October 25	
July 23	November 5	

\*The Omani market is closed every Friday.

**PAKISTAN**

January 1	July 1	July 31	November 3
January 14	July 25	August 14	November 4
February 5	July 28	October 6	December 25
May 1	July 29	October 7	
June 30	July 30	October 8	

**PANAMA**

January 1	August 15	November 28
January 9	October 24	December 8
April 18	November 5	December 25
May 1	November 10	

**PARAGUAY**

January 1	April 21	August 15
March 1	May 1	December 8
April 18	May 15	December 25

April 20                      June 12

**PERU**

January 1	July 28	December 25
April 17	July 29	
April 18	October 8	
May 1	December 8	

**PHILIPPINES**

January 1	April 18	August 25	December 30
January 31	May 1	December 24	December 31
April 9	June 12	December 25	
April 17	August 21	December 26	

**POLAND**

January 1	May 1	December 24
January 6	June 19	December 25
April 18	August 15	December 26
April 21	November 11	December 31



**PORTUGAL**

January 1	April 25	June 19	December 24
March 4	May 1	August 15	December 25
April 18	June 10	December 1	December 26
April 21	June 13	December 8	

**QATAR**

July 28	July 31	October 6
July 29	September 3	October 7
July 30	October 5	

\*The Qatari market is closed every Friday.

**ROMANIA**

January 1	June 9
January 6	December 1
April 21	December 25
May 1	December 26

**RUSSIA**

January 1	January 6	April 30	June 11	December 31
January 2	January 7	May 1	June 12	
January 3	January 8	May 2	June 13	
January 4	March 7	May 8	November 3	
January 5	March 10	May 9	November 4	

**SAUDI ARABIA**

July 28  
September 23  
October 4

\*The Saudi Arabian market is closed every Friday.

**SENEGAL**

January 1	May 1	August 15	November 3
January 13	May 29	October 4	December 25
April 4	June 9	October 25	
April 21	July 28	November 1	

**SERBIA**

January 1	April 18	May 2
January 2	April 20	
January 7	April 21	
February 15	May 1	

**SINGAPORE**

January 1	May 13	December 25
January 31	July 28	
April 18	October 6	
May 1	October 23	

**SLOVENIA**

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January 1	April 21	June 8	November 1
January 2	April 27	June 25	December 25
February 8	May 1	August 15	December 26
April 20	May 2	October 31	

**SOUTH AFRICA**

January 1	April 28	December 16
March 21	May 1	December 25
April 18	June 16	December 26
April 21	September 24	

**SOUTH KOREA**

January 1	March 1	August 15	October 3
January 30	May 5	September 7	December 24
January 31	May 6	September 8	
February 1	June 6	September 9	

**SPAIN**

January 1	April 21	July 25	December 25
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- 52 -

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January 6	May 1	August 15	December 26
April 17	May 2	September 9	
April 18	May 15	December 8	

**SRI LANKA**

January 1	March 14	May 16	October 8
January 14	March 18	June 12	October 22
January 15	March 21	July 11	October 23
February 4	May 1	July 29	November 6
February 14	May 14	September 8	December 25
February 27	May 15	October 7	

**SWEDEN**

January 1	May 1	December 24
January 6	May 29	December 25
April 18	June 6	December 26
April 21	June 20	December 31

**SWITZERLAND**

January 1	May 1	December 25
January 2	May 29	December 26
January 6	June 9	December 31
April 18	August 1	
April 21	December 24	

**TAIWAN**

January 1	February 28	September 8
January 30	April 5	October 10
January 31	May 1	
February 3	June 2	

**THAILAND**

January 1	April 15	July 1	December 5
February 14	May 1	July 11	December 10
April 7	May 5	August 12	December 31
April 14	May 13	October 23	

**TUNISIA**

January 1	April 9	August 13
January 13	May 1	October 4
March 20	July 25	October 25
March 21	July 28	November 7

**TURKEY**

January 1	July 28	October 6
April 23	July 29	October 7
May 1	July 30	October 28
May 19	October 3	October 29

**UKRAINE**

January 1	May 1	June 30
January 7	May 2	August 25
March 8	May 9	
April 21	June 9	

**UNITED ARAB EMIRATES**

January 1	July 29	October 6
January 13	August 6	October 25
May 26	October 4	December 2
July 28	October 5	December 3

\*The United Arab Emirates is closed every Friday.

**UNITED KINGDOM**

January 1	May 5	December 25
April 18	May 26	December 26
April 21	August 25	

**URUGUAY**

January 6	April 19	July 18	December 25
March 3	May 1	August 25	

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April 17	May 18	October 13
April 18	June 19	November 2

**VENEZUELA**

January 1	April 19	July 24
March 3	May 1	October 12
April 17	June 24	December 25
April 18	July 5	

**VIETNAM**

January 1	February 4	May 1
January 30	February 5	September 2
January 31	April 9	
February 3	April 30	

**ZAMBIA**

January 1	May 25	December 25
March 12	July 1	
April 18	July 7	
April 21	August 4	
May 1	October 25	

**2015**

**ANGOLA**

January 1	April 3	May 25	November 11
January 4	April 4	June 1	December 25
February 4	April 6	September 17	December 26
March 8	May 1	November 2	

**ARGENTINA**

January 1	May 1	November 6	December 31
March 31	June 16	December 8	
April 17	July 9	December 24	
April 18	August 18	December 25	

**AUSTRALIA**

January 1	April 18	May 19	August 13	December 25
January 27	April 21	June 2	September 29	December 26
March 3	April 25	June 9	October 6	
March 10	May 5	August 4	November 4	

**AUSTRIA**

January 1	May 1	August 15	December 24
January 6	May 14	October 26	December 25
April 3	May 25	November 1	December 26
April 6	June 4	December 8	December 31

**AZERBAIJAN**

January 1	April 3	June 15	October 18
January 20	April 6	June 26	November 12
March 8	May 9	July 18	November 17

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March 21      May 28      September 23 December 31

**BAHAMAS**

January 1      June 5      December 25  
April 3      July 10      December 26  
April 6      August 3  
May 25      October 12

**BAHRAIN**

January 1      July 19      September 27 December 16  
January 13      July 20      October 13      December 17  
May 1      September 25 October 24      December 24  
July 28      September 26 October 25

\*The Bahraini market is closed every Friday.

**BANGLADESH**

January 3      July 18      December 16  
February 21      September 5      December 24  
March 26      September 23 December 25

- 54 -

April 14      October 22

May 1        October 24

\*The Bangladeshi market is closed every  
Friday.

#### **BARBADOS**

January 1	April 28	August 3
January 21	May 1	November 30
April 3	May 25	December 25
April 6	August 1	

#### **BELGIUM**

January 1	May 14	August 15
April 5	May 24	November 1
April 6	May 25	November 11
May 1	July 21	December 25

#### **BERMUDA**

January 1	July 30	December 25
April 3	July 31	December 26
May 24	September 7	
June 15	November 11	

#### **BOLIVIA**

January 1	June 4
February 16	August 6
April 3	November 1
May 1	December 25

#### **BRAZIL**

January 1	April 3	June 4	November 15
February 16	April 5	September 7	December 24
February 17	April 21	October 12	December 25
February 18	May 1	November 2	December 31

#### **BULGARIA**

January 1	May 24	December 25
March 3	September 6	December 31
April 10	September 22	
May 1	November 1	
May 6	December 24	

#### **CANADA**

January 1	March 16	June 21	August 3	December 26
January 2	April 3	June 22	September 7	
February 9	April 6	June 24	October 12	

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February 16	April 20	July 1	November 11
February 27	May 18	July 9	December 25

**CAYMAN ISLANDS**

January 1	April 6	November 9
January 26	May 18	December 25
February 18	June 8	December 26
April 3	July 6	

**CHILE**

January 1	June 29	December 8
April 3	July 16	December 25
May 1	September 18	December 31
May 21	October 12	

**CHINA**

January 1	February 23	September 27	October 7
January 2	February 24	October 1	December 25
February 18	April 6	October 2	
February 19	May 1	October 5	
February 20	June 20	October 6	

**COLOMBIA**

January 1	April 3	June 15	August 17	December 8
January 12	May 1	June 29	October 12	December 25



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March 23	May 18	July 20	November 2	December 31
April 2	June 8	August 7	November 16	

**COTE D'IVOIRE**

January 1	May 14	July 18	November 1
January 3	May 16	August 7	November 15
April 6	May 25	August 15	December 25
May 1	July 13	September 23	

**CROATIA**

January 1	June 4	October 8
January 6	June 22	November 1
April 5	June 25	December 25
May 1	August 5	

**CYPRUS**

January 1	April 1	May 31	December 25
January 6	April 10	August 15	
February 23	April 13	October 1	
March 25	May 1	October 28	

**CZECH REPUBLIC**

January 1	July 6	December 24
April 6	September 28	December 25
May 1	October 28	
May 8	November 17	

**DENMARK**

January 1	May 1	December 24	December 26
April 2	May 14	December 25	
April 3	May 25	December 31	
April 6	June 5		

**DOMINICAN REPUBLIC**

January 1	February 27	August 16
January 6	April 3	September 24
January 21	May 1	November 6
January 26	June 4	December 25

**ECUADOR**

January 1	August 10	December 25
April 3	October 9	December 31
May 1	November 2	
May 24	November 3	

**EGYPT**

January 1	July 1	September 25
January 7	July 20	October 6
April 13	July 23	October 15
May 1	September 24	December 24

\*The Egyptian market is closed every Friday.

**EL SALVADOR**

January 1	May 1	October 12
April 2	August 3	November 2
April 3	August 4	December 25
April 4	September 15	December 31

**FINLAND**

January 1	May 1	December 25
January 6	May 14	
April 3	June 19	
April 6	December 24	

**FRANCE**

January 1	May 8	November 11
April 3	May 14	December 25
April 6	May 25	
May 1	July 14	

**GABON**

January 1 May 1 August 15 December 25  
 March 12 May 6 August 16  
 April 6 May 25 September 23  
 April 17 July 18 November 1

**GEORGIA**

January 1 April 9 August 28  
 January 7 April 12 October 14  
 January 19 April 13 November 23  
 March 3 May 9  
 March 8 May 26

**GERMANY**

January 1 May 1 December 25  
 January 6 May 14  
 April 3 May 25  
 April 6 June 4

**GHANA**

January 1 May 1 September 23  
 March 6 May 25 December 4  
 April 3 July 1 December 25  
 April 6 July 18

**GREECE**

January 1 April 3 June 1  
 January 6 April 6 October 28  
 February 23 April 13 December 25  
 March 25 May 1

**GUATEMALA**

January 1 May 1 October 20 December 31  
 April 3 June 30 November 1  
 April 4 August 15 December 24  
 April 6 September 15 December 25

**HONDURAS**

January 1 April 14 October 12  
 April 2 May 1 October 21  
 April 3 September 15 December 25  
 April 4 October 3

**HONG KONG**

January 1 April 6 September 28 December 26  
 February 19 May 1 October 1  
 February 20 May 25 October 21  
 April 3 July 1 December 25

**HUNGARY**

January 1	May 25	December 25
April 6	August 20	
May 1	October 23	

**INDIA**

January 1	April 2	July 17	October 15	December 25
January 26	April 3	August 15	October 22	
February 17	May 1	September 17	November 11	
March 6	May 25	October 2	November 25	

**INDONESIA**

January 1	May 14	October 15
February 19	May 15	December 24
April 3	August 17	December 25
May 1	September 24	

**IRAQ**

January 1	May 1	September 23
January 3	July 14	October 3
January 6	July 18	October 13

- 57 -

April 9      August 8      October 23

**IRELAND**

January 1    April 24      October 26  
 March 17    May 4        December 24  
 April 3      June 1        December 25  
 April 6      August 3      December 29

**ISRAEL**

March 5    April 23      September 23  
 April 10    May 7        September 28  
 April 15    September 14 October 5  
 April 22    September 15 December 7

\*The Israeli market is closed every Friday.

**ITALY**

January 1      May 1        December 25  
 January 6      June 2        December 31  
 April 3        June 29  
 April 6        December 8

**JAMAICA**

January 1      May 23      December 25  
 February 18    August 1      December 26  
 April 3        August 3  
 April 6        October 19

**JAPAN**

January 1      April 29      July 20      October 12    December 31  
 January 2      May 4        September 21 November 3  
 January 12     May 5        September 22 November 23  
 February 11    May 6        September 23 December 23

**JORDAN**

January 1      May 15      October 15  
 April 3        May 25      December 24  
 April 6        June 9        December 25  
 May 1        September 24

\*The Jordanian market is closed every Friday.

**KAZAKHSTAN**

January 1      March 23      July 6        December 16  
 January 2      May 1        August 31    December 17  
 January 7      May 7        September 24  
 March 9        May 11      December 1

**KUWAIT**

January 1      July 17      December 24  
 February 25    September 22

February 26      October 13

\*The Kuwaiti market is closed every Friday.

**LATVIA**

January 1	May 4	December 25
April 3	June 23	December 26
April 6	June 24	December 31
May 1	November 18	

**LEBANON**

January 1	April 3	May 6	September 23
January 3	April 5	May 25	October 13
January 6	April 12	July 18	
February 9	May 1	August 15	December 25

**LITHUANIA**

January 1	April 6	June 24	December 25
February 16	May 1	July 6	December 26
March 11	May 3	August 15	
April 5	June 7	November 1	

**LUXEMBOURG**

January 1	June 9	November 1
April 6	June 23	December 25
May 1	August 15	December 26
May 14	September 1	

**MALAYSIA**

January 1	June 1	October 13
January 3	June 6	November 11
February 1	July 18	December 25
February 19	August 31	
May 1	September 23	

**MEXICO**

January 1	March 16	May 5	November 20
January 6	April 2	September 16	December 25
February 2	April 3	November 2	
February 5	May 1	November 16	

**MONGOLIA**

January 1	July 11
February 21	November 26
March 8	
June 1	

**MOROCCO**

January 1	August 21	November 18
May 1	October 13	December 24
August 14	August 21	
August 20	November 6	

**NAMIBIA**

January 1	May 1	August 26
March 21	May 4	December 10
April 3	May 14	December 25
April 6	May 25	December 26

**NETHERLANDS**

January 1	April 27	May 14
April 3	April 30	May 25
April 6	May 5	December 25

**NEW ZEALAND**

January 1	April 6	December 25
January 2	April 27	December 28
February 6	June 1	
April 3	October 26	

**NIGERIA**

January 1	May 1	October 1	December 31
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March 20	May 29	November 23
April 3	June 12	December 24
April 6	September 24	December 25

**NORWAY**

January 1	May 1	December 25
April 2	May 14	December 31
April 3	May 25	
April 6	December 24	

**OMAN**

January 1	July 23
January 3	September 23
May 16	October 13
July 18	November 18

\*The Omani market is closed every Friday.

**PAKISTAN**

January 1	July 20	November 9
February 5	August 14	December 24



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March 23      September 24 December 25  
 May 1        September 25

**PANAMA**

January 1      August 15      November 28  
 January 9      November 3      December 8  
 April 3        November 5      December 25  
 May 1         November 10

**PARAGUAY**

January 1      April 6        August 15  
 March 1        May 1         December 8  
 April 3        May 15        December 25  
 April 5        June 12

**PERU**

January 1      June 29        December 25  
 April 2        July 28        December 31  
 April 3        October 8  
 May 1         December 8

**PHILIPPINES**

January 1      April 3        August 21      November 30 December 31  
 February 19    April 9        August 31      December 24  
 February 25    May 1         September 24    December 25  
 April 2        June 12        November 2      December 30

**POLAND**

January 1      May 1  
 January 6      June 4  
 April 3        November 11  
 April 6        December 25

**PORTUGAL**

January 1      June 1        December 1  
 February 17    June 4        December 8  
 April 3        June 10        December 24  
 May 1         October 5      December 25

**QATAR**

February 10    September 21    December 18  
 July 20        September 22    December 24  
 July 21        September 23  
 July 22        October 15

\*The Qatari market is closed every Friday.

**ROMANIA**

January 1      May 25  
 January 6      December 1  
 April 13        December 25  
 May 1         December 26

**RUSSIA**

January 1	January 7	May 1	December 30
January 2	January 8	May 11	December 31
January 5	February 23	June 12	
January 6	March 9	November 4	

**SAUDI ARABIA**

July 18  
September 23

\*The Saudi Arabian market is closed every Friday.

**SENEGAL**

January 1	May 1	August 15	December 25
January 13	May 14	September 23	
April 4	May 25	October 13	
April 6	July 18	November 1	

- 60 -

**SERBIA**

January 1	February 16	November 11
January 2	April 10	
January 7	April 13	
January 14	May 1	

**SINGAPORE**

January 1	May 1	December 25
February 19	August 10	December 31
February 20	November 11	
April 3	December 24	

**SLOVENIA**

January 1	June 25
April 6	September 15
April 27	November 23
May 1	December 25

**SOUTH AFRICA**

January 1	May 1	December 16
April 3	June 16	December 25
April 6	August 10	
April 27	September 24	

**SOUTH KOREA**

January 1	May 5	October 3
February 19	May 25	December 25
March 1	August 15	
May 1	September 27	

**SPAIN**

January 1	April 3	May 25	December 25
January 6	April 6	June 4	
March 19	May 1	October 12	
April 2	May 14	December 8	

**SRI LANKA**

January 1	April 3	July 15	December 24
January 2	April 14	September 22	December 25
January 14	May 1	October 1	
February 4	May 22	October 9	
February 17	June 1	November 11	

**SWEDEN**

January 1	April 6	June 19	December 31
January 5	April 30	October 30	
January 6	May 1	December 24	
April 3	May 14	December 25	

**SWITZERLAND**

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January 1	May 25
January 2	August 1
April 3	December 24
April 6	December 25
May 14	December 26

**TAIWAN**

January 1	February 28	September 27
February 19	April 5	October 10
February 20	May 1	
February 23	June 20	

**THAILAND**

January 1	April 13	May 5	December 4	December 31
February 19	April 14	July 1	December 10	
February 20	April 15	August 12	December 24	
April 6	May 1	October 23	December 25	

**TUNISIA**

January 1	April 9	August 13
January 3	May 1	September 23

- 61 -

March 20 July 18 October 13  
 March 21 July 25 November 7

**TURKEY**

January 1 July 20 September 25  
 April 23 September 23 October 29  
 May 1 October 3 October 29  
 May 19 September 24

**UNITED ARAB  
 EMIRATES**

January 1 September 24 December 2  
 May 15 September 25 December 3  
 July 20 October 15 December 24

\*The United Arab Emirates is closed every Friday.

**UKRAINE**

January 1 May 1 August 24  
 January 7 May 4  
 January 14 May 11  
 March 9 June 1  
 April 13 June 29

**UNITED KINGDOM**

January 1 April 3 May 25 December 25  
 January 2 April 6 August 3 December 28  
 January 6 May 4 August 31

**URUGUAY**

January 6 April 19 July 18 December 25  
 March 3 May 1 August 25  
 April 17 May 18 October 13  
 April 18 June 19 November 2

**VENEZUELA**

January 1 April 19 July 24  
 February 16 May 1 October 12  
 April 2 June 24 December 25  
 April 3 July 5

**VIETNAM**

January 1 February 23 May 1  
 February 18 February 24 September 2  
 February 19 April 28 December 25  
 February 20 April 30

**ZAMBIA**

January 1	May 25	December 25
March 12	July 6	
April 3	July 7	
April 6	August 3	
May 1	October 24	

The longest redemption cycle for Foreign Funds is a function of the longest redemption cycle among the countries whose securities comprise the Funds. In the calendar years 2014 and 2015, the dates of regular holidays affecting the following securities markets present the worst-case (longest) redemption cycle\* for Foreign Funds as follows:

**SETTLEMENT PERIODS GREATER THAN  
SEVEN DAYS FOR YEAR 2014**

	Beginning of Settlement Period	End of Settlement Period	Number of Days in Settlement Period
Austria	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	10
Bangladesh	07/22/14	08/04/14	13
	07/23/14	08/05/14	13
	07/24/14	08/06/14	13

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	09/30/14	10/08/14	8
	10/01/14	10/09/14	8
	10/02/14	10/13/14	11
	12/24/14	01/01/15	8
China	01/27/14	02/10/14	14
	01/28/14	02/11/14	14
	01/29/14	02/12/14	14
	04/28/14	05/08/14	10
	04/29/14	05/09/14	10
	04/30/14	05/12/14	12
	09/26/14	10/08/14	12
	09/29/14	10/09/14	10
	09/30/14	10/10/14	10
Czech Republic	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	10
Denmark	4/14/2014	4/23/2014	8
	4/15/2014	4/24/2014	8
	4/16/2014	4/25/2014	8
	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	10
Egypt	12/31/2013	1/8/2014	8
	1/6/2014	1/14/2014	8
	4/14/2014	4/22/2014	8
	4/15/2014	4/23/2014	8
	4/16/2014	4/24/2014	8
	4/17/2014	4/27/2014	10
	7/21/2014	7/31/2014	10
	7/22/2014	8/3/2014	12
	7/24/2014	8/4/2014	11
	9/29/2014	10/7/2014	8
	9/30/2014	10/8/2014	8
	10/1/2014	10/9/2014	8
	10/2/2014	10/12/2014	10
Finland	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	10
Hungary	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	12/31/2014	8
Indonesia	7/23/2014	8/4/2014	12
	7/24/2014	8/5/2014	12
	7/25/2014	8/6/2014	12
	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	11
Ireland	12/23/14	01/02/14	10
	12/19/14	12/30/14	11
	12/22/14	12/31/14	9
	12/23/14	01/02/15	10

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Italy	12/19/14	12/29/14	10
	12/22/14	12/30/14	8
	12/23/14	01/02/15	10
Japan	12/26/14	01/05/15	10
	12/29/14	01/06/15	8
	12/30/14	01/07/15	8
Jordan	07/23/14	08/03/14	11
	07/24/14	08/04/14	11
Malaysia	01/27/14	02/04/14	8
	01/28/14	02/05/14	8
	01/29/14	02/06/14	8
	07/23/14	07/31/14	8
	07/24/14	08/01/14	8
	07/25/14	08/04/14	10
Norway	4/14/2014	4/22/2014	8
	4/15/2014	4/23/2014	8
	4/16/2014	4/24/2014	8
	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8

- 63 -



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	12/23/2014	1/2/2015	10
Oman	07/24/14	08/03/14	10
	07/27/14	08/04/14	8
	07/28/14	08/05/14	8
	09/30/14	10/08/14	8
	10/01/14	10/09/14	8
	10/02/14	10/12/14	10
Pakistan	07/23/14	08/01/14	9
	07/24/14	08/04/14	11
Philippines	12/19/2014	12/29/2014	10
	12/22/2014	12/30/2014	8
	12/23/2014	1/2/2015	10
Portugal	12/19/14	12/29/14	10
	12/22/14	12/30/14	8
	12/23/14	12/31/14	8
Qatar	7/23/2014	8/3/2014	11
	7/24/2014	8/4/2014	11
	7/27/2014	8/5/2014	11
	9/30/2014	10/8/2014	8
	10/1/2014	10/9/2014	8
	10/2/2014	10/12/2014	10
Russia	12/27/2014	1/9/2014	13
	12/30/2014	1/10/2014	11
	12/31/2014	1/13/2014	13
South Africa	12/23/13	01/02/14	10
	12/24/13	01/03/14	10
	12/27/13	01/06/14	10
	12/30/13	01/07/14	8
	12/31/13	01/08/14	8
	03/14/14	03/24/14	10
	03/17/14	03/25/14	8
	03/18/14	03/26/14	8
	03/19/14	03/27/14	8
	03/20/14	03/28/14	8
	04/11/14	04/22/14	9
	04/14/14	04/23/14	9
	04/15/14	04/24/14	9
	04/16/14	04/25/14	9
	04/17/14	04/29/14	12
	04/22/14	04/30/14	8
	04/23/14	05/02/14	9
	04/24/14	05/05/14	11
	04/25/14	05/06/14	11
	04/29/14	05/07/14	8
	04/30/14	05/08/14	8
	06/09/14	06/17/14	8
	06/10/14	06/18/14	8
	06/11/14	06/19/14	8
	06/12/14	06/20/14	8
	06/13/14	06/23/14	10
	09/17/14	09/25/14	8

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	09/18/14	09/26/14	8
	09/19/14	09/29/14	10
	09/22/14	09/30/14	8
	09/23/14	10/01/14	8
	12/09/14	12/17/14	8
	12/10/14	12/18/14	8
	12/11/14	12/19/14	8
	12/12/14	12/22/14	10
	12/15/14	12/23/14	8
	12/18/14	12/29/14	11
	12/19/14	12/30/14	11
	12/22/14	12/31/14	9
	12/23/14	01/02/15	10
	12/14/14	01/05/15	12
	12/29/14	01/06/15	8
	12/30/14	01/07/15	8
	12/31/14	01/08/15	8
Spain	4/14/2014	4/22/2014	8
	4/15/2014	4/23/2014	8

- 64 -

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	4/16/2014	4/24/2014	8
Sri Lanka	04/09/14	04/19/14	10
	04/12/14	04/20/14	8
	04/13/14	04/21/14	8
Sweden	12/23/13	01/02/14	10
	12/19/14	12/29/14	10
	12/22/14	12/30/14	8
	12/23/14	01/02/15	10
Switzerland	12/19/14	12/29/14	10
	12/22/14	12/30/14	8
	12/23/14	01/05/15	13
	12/29/14	01/06/15	8
	12/30/14	01/07/15	8
Taiwan	01/24/14	02/05/14	12
	01/27/14	02/06/14	10
United Arab Emirates	7/22/2014	7/30/2014	8
	7/23/2014	7/31/2014	8
	7/24/2014	8/1/2014	8
	11/26/2014	12/4/2014	8
	11/27/2014	12/8/2014	11
	4/29/2014	5/7/2014	8
Vietnam	7/22/2014	7/30/2014	8

**SETTLEMENT PERIODS GREATER THAN SEVEN DAYS FOR YEAR 2015**

	Beginning of Settlement Period	End of Settlement Period	Number of Days in Settlement Period
China	02/13/15	02/25/15	12
	02/16/15	02/26/15	10
	02/17/15	02/27/15	10
	09/28/15	10/08/15	10
	09/29/15	10/09/15	10
	09/30/15	10/12/15	12
Denmark	3/30/2015	4/7/2015	8
	3/31/2015	4/8/2015	8
	4/1/2015	4/9/2015	8
Japan	12/26/14	01/05/15	10
	12/29/14	01/06/15	8
	12/30/14	01/07/15	8
	04/28/15	05/07/15	9
	04/30/15	05/08/15	8
	05/01/15	05/11/15	10
	09/16/15	09/24/15	8
	09/17/15	09/25/15	8

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	09/18/15	09/28/15	11
Norway	3/30/2015	4/7/2015	8
	3/31/2015	4/8/2015	8
	4/1/2015	4/9/2015	8
Philippines	12/22/2014	1/2/2015	11
	12/23/2014	1/4/2015	12
	12/23/2014	1/5/2015	13
	12/28/2014	1/5/2015	8
	12/29/2014	1/6/2015	8
Qatar	7/15/2015	7/23/2015	8
	7/16/2015	7/26/2015	10
	7/19/2015	7/27/2015	8
	9/16/2015	9/24/2015	8
	9/17/2015	9/27/2015	10
	9/20/2015	9/28/2015	8
Russia	12/24/2014	1/9/2015	16
	12/26/2014	1/12/2015	17
	12/29/2014	1/13/2015	15
	12/24/2015	1/11/2016	18
	12/28/2015	1/15/2016	15
	12/29/2015	1/18/2015	18
South Africa	12/23/2014	1/2/2015	10
	12/24/2014	1/5/2015	12
	12/29/2014	1/6/2015	8
	12/30/2014	1/7/2015	8

- 65 -

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	12/31/2014	1/8/2015	8
	3/27/2015	4/7/2015	11
	3/30/2015	4/8/2015	9
	3/31/2015	4/9/2015	9
	4/1/2015	4/10/2015	9
	4/2/2015	4/13/2015	11
	4/20/2015	4/28/2015	8
	4/21/2015	4/29/2015	8
	4/22/2015	4/30/2015	8
	4/23/2015	5/1/2015	8
	4/23/2015	5/4/2015	11
	4/24/2015	5/5/2015	11
	4/28/2015	5/6/2015	8
	4/29/2015	5/7/2015	8
	4/30/2015	5/8/2015	8
	6/9/2015	6/17/2015	8
	6/10/2015	6/18/2015	8
	6/11/2015	6/19/2015	8
	6/12/2015	6/22/2015	10
	6/15/2015	6/23/2015	8
	8/3/2015	8/11/2015	8
	8/4/2015	8/12/2015	8
	8/5/2015	8/13/2015	8
	8/6/2015	8/14/2015	8
	8/7/2015	8/17/2015	10
	9/17/2015	9/25/2015	8
	9/18/2015	9/28/2015	10
	9/21/2015	9/29/2015	8
	9/22/2015	9/30/2015	8
	9/23/2015	10/1/2015	8
	12/9/2015	12/17/2015	8
	12/10/2015	12/18/2015	8
	12/11/2015	12/21/2015	10
	12/14/2015	12/22/2015	8
	12/15/2015	12/23/2015	8
	12/18/2015	12/28/2015	10
	12/21/2015	12/29/2015	8
	12/22/2015	12/30/2015	8
	12/23/2015	12/31/2015	8
	12/24/2015	1/4/2016	11
	12/28/2015	1/5/2016	8
	12/29/2015	1/6/2016	8
	12/30/2015	1/7/2016	8
	12/31/2015	1/8/2016	8
Spain	3/30/2015	4/7/2015	8
	3/31/2015	4/8/2015	8
	4/1/2015	4/9/2015	8
Switzerland	12/23/2014	1/5/2015	13
	12/29/2014	1/7/2015	9
	12/30/2014	1/8/2015	9
	12/30/2015	1/7/2016	8

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Taiwan	02/16/15	02/24/15	8
	02/17/15	02/25/15	8
Thailand	04/08/15	04/16/15	8
	04/09/15	04/17/15	8
	04/10/15	04/20/15	10
Vietnam	2/13/2015	2/25/2015	12
	2/16/2015	2/26/2015	10
	2/17/2015	2/27/2015	10
	4/24/2015	5/4/2015	10
	4/27/2015	5/5/2015	8

\* These worst-case redemption cycles are based on information regarding regular holidays, which may be out of date. Based on changes in holidays, longer (worse) redemption cycles are possible.

The right of redemption may be suspended or the date of payment postponed (1) for any period during which the NYSE is closed (other than customary weekend and holiday closings); (2) for any period during which trading on the NYSE is suspended or restricted; (3) for any period during which an emergency exists as a result of

- 66 -

which disposal of the Shares of a Fund or determination of its NAV is not reasonably practicable; or (4) in such other circumstance as is permitted by the SEC.

#### DETERMINATION OF NET ASSET VALUE

The following information supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Determination of NAV."

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the NYSE. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of each Fund's portfolio securities are based on the securities' closing prices on their local principal markets, where available. Due to the time differences between the United States and certain countries in which certain Funds invest, securities on these exchanges may not trade at times when Shares of a Fund will trade. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Short positions may be valued based on ask prices obtained from such sources in the absence of a last reported sales price for the shorted security. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time a Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust's valuation policies and procedures approved by the Board of Trustees. Each Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund's portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. In addition, each Fund currently expects that it will fair value certain of the foreign securities held by a Fund each day the Fund calculates its NAV, except those securities principally traded on exchanges that close at the same time the Fund calculates its NAV. Accordingly, a Fund's NAV may reflect certain portfolio securities' fair values rather than their market prices at the time the exchanges on which they principally trade close. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate a Fund's NAV and the prices used by the Fund's respective Index. This may adversely affect a Fund's ability to track its respective Index. With respect to securities that are traded in foreign markets, the value of a Fund's portfolio securities may change on

days when you will not be able to purchase or sell your Shares.

- 67 -



## DIVIDENDS AND DISTRIBUTIONS

The following information supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Distributions."

### General Policies

Dividends from net investment income, if any, are declared and paid monthly by each Fund (quarterly with respect to Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF). Distributions of net realized capital gains, if any, generally are declared and paid once a year, but the Trust may make distributions on a more frequent basis for each Fund to improve its Index tracking or to comply with the distribution requirements of the Internal Revenue Code, in all events in a manner consistent with the provisions of the 1940 Act. It is currently expected that each Fund will distribute virtually all of its net income (interest less expenses) monthly (quarterly with respect to Market Vectors BDC Income ETF and Market Vectors Mortgage REIT Income ETF) while capital gains distributions will generally occur annually in December. In addition, the Trust may distribute at least annually amounts representing the full dividend yield on the underlying portfolio securities of the Funds, net of expenses of the Funds, as if each Fund owned such underlying portfolio securities for the entire dividend period in which case some portion of each distribution may result in a return of capital for tax purposes for certain shareholders.

Dividends and other distributions on Shares are distributed, as described below, on a pro rata basis to Beneficial Owners of such Shares. Dividend payments are made through DTC Participants and Indirect Participants to Beneficial Owners then of record with proceeds received from the Trust. The Trust makes additional distributions to the minimum extent necessary (i) to distribute the entire annual taxable income and net-tax exempt interest income of the Trust, plus any net capital gains and (ii) to avoid imposition of the excise tax imposed by Section 4982 of the Internal Revenue Code. Management of the Trust reserves the right to declare special dividends if, in its reasonable discretion, such action is necessary or advisable to preserve the status of each Fund as a regulated investment company ("RIC") or to avoid imposition of income or excise taxes on undistributed income.

### DIVIDEND REINVESTMENT SERVICE

No reinvestment service is provided by the Trust. Broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by Beneficial Owners of the Funds through DTC Participants for reinvestment of their dividend distributions. If this service is used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole Shares of the Funds. Beneficial Owners should contact their broker to determine the availability and costs of the service and the details of participation therein. Brokers may require Beneficial Owners to adhere to specific procedures and timetables.

## CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS

The following table sets forth the name, address and percentage of ownership of each shareholder who is known by the Trust to own, of record or beneficially, 5% or more of the outstanding equity securities of each Fund as of July 31, 2014:

**Market Vectors BDC Income ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Charles Schwab & Co., Inc.  101 Montgomery Street, San Francisco, CA 94104 J.P. Morgan Clearing Corp.	17.28%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 National Financial Services LLC	14.79%
200 Liberty Street, New York, NY 10281 TD Ameritrade Clearing, Inc	10.16%
4211 South 102nd Street, Omaha, NE 68127-1031	7.82%

- 68 -

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American Enterprise Investment Service	7.34%
901 3rd Ave South, Minneapolis, MN 55474 Stephen Inc.	7.12%
111Center Street, 4th Floor, Little Rock, AR 72201-4402	

**Market Vectors CEF Municipal Income ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
National Financial Services LLC	20.08%
200 Liberty Street, New York, NY 10281 Pershing LLC	12.60%
One Pershing Plaza, Jersey City, NJ 07399 Morgan Stanley Smith Barney LLC	11.39%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 Merrill Lynch, Pierce, Fenner & Smith Inc.	9.30%
World Financial Center, North Tower, New York, NY 10080 Charles Schwab & Co., Inc.	8.22%
101 Montgomery Street, San Francisco, CA 94104 TD Ameritrade Clearing, Inc	5.41%
4211 South 102nd Street, Omaha, NE 68127-1031	

**Market Vectors Emerging Markets Aggregate Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
National Financial Services LLC	16%
200 Liberty Street, New York, NY 10281 Merrill Lynch Professional Clearing Corp.	8%
101 Hudson Street, Jersey City, NJ 07302 Merrill Lynch, Pierce, Fenner & Smith Inc.	5%
World Financial Center, North Tower, New York, NY 10080 Charles Schwab & Co., Inc.	5%
101 Montgomery Street, San Francisco, CA 94104	

**Market Vectors Emerging Markets High Yield Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
National Financial Services LLC	25.05%
200 Liberty Street, New York, NY 10281 American Enterprise Investment Service	17.32%
901 3rd Ave South, Minneapolis, MN 55474 Pershing LLC	13.29%
One Pershing Plaza, Jersey City, NJ 07399 The Bank of New York Mellon	9.76%
One Wall Street, 5th Floor, New York, NY 10286-0001 City National Bank	6.78%
555 South Flower Street, Los Angeles, CA 90071 LPL Financial Corp.	6.66%
9785 Towne CTR Drive, San Diego, CA 92121-1968	

**Market Vectors Emerging Markets Local Currency Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Merrill Lynch, Pierce, Fenner & Smith Inc.	16.73%
World Financial Center, North Tower, New York, NY 10080	

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State Street Bank and Trust Company	9.78%
225 Franklin Street, Boston, MA 02110	
National Financial Services LLC	9.71%
200 Liberty Street, New York, NY 10281	
The Bank of New York Mellon	7.31%
One Wall Street, 5th Floor, New York, NY 10286-0001	
Brown Brothers Harriman & Co.	6.79%
50 Milk Street, Boston, MA 02109	
Pershing LLC	5.78%
One Pershing Plaza, Jersey City, NJ 07399	
Charles Schwab & Co., Inc.	5.57%
101 Montgomery Street, San Francisco, CA 94104	

**Market Vectors Fallen Angel High Yield Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Morgan Stanley Smith Barney LLC	19.00%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311	
Charles Schwab & Co., Inc.	17.73%
101 Montgomery Street, San Francisco, CA 94104	
TD Ameritrade Clearing, Inc	13.74%
4211 South 102nd Street, Omaha, NE 68127-1031	
National Financial Services LLC	11.51%
200 Liberty Street, New York, NY 10281	
Pershing LLC	8.96%
One Pershing Plaza, Jersey City, NJ 07399	
Merrill Lynch Professional Clearing Corp.	6.11%
101 Hudson Street, Jersey City, NJ 07302	

**Market Vectors High-Yield Municipal Index ETF**

Name and Address of Beneficial Owner

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	Percentage of Class of Fund Owned
Merrill Lynch, Pierce, Fenner & Smith Inc.	14.37%
World Financial Center, North Tower, New York, NY 10080 Charles Schwab & Co., Inc.	12.87%
101 Montgomery Street, San Francisco, CA 94104 National Financial Services LLC	9.93%
200 Liberty Street, New York, NY 10281 Morgan Stanley Smith Barney LLC	8.56%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 J.P. Morgan Clearing Corp.	8.41%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 TD Ameritrade Clearing, Inc	7.93%
4211 South 102nd Street, Omaha, NE 68127-1031 UBS Financial Service Inc.	7.50%
1200 Harbor Blvd, Weehawken NJ 07086	

**Market Vectors Intermediate Municipal Index ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Merrill Lynch, Pierce, Fenner & Smith Inc.	43.62%
World Financial Center, North Tower, New York, NY 10080 Charles Schwab & Co., Inc.	8.57%
101 Montgomery Street, San Francisco, CA 94104	

- 70 -

**Market Vectors Intermediate Municipal Index ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
J.P. Morgan Clearing Corp.	8.40%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 Morgan Stanley Smith Barney LLC	6.03%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 National Financial Services LLC	5.49%
200 Liberty Street, New York, NY 10281	

**Market Vectors International High Yield Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
The Bank of New York Mellon	19.78%
One Wall Street, 5th Floor, New York, NY 10286-0001 Janney Montgomery Scott LLC	14.06%
2 N Tamiami Trail, Sarasota, FL 34236 Brown Brothers Harriman & Co.	14.00%
50 Milk Street, Boston, MA 02109 Charles Schwab & Co., Inc.	12.11%
101 Montgomery Street, San Francisco, CA 94104 National Financial Services LLC	7.14%
200 Liberty Street, New York, NY 10281 J.P. Morgan Clearing Corp.	5.01%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001	

**Market Vectors Investment Grade Floating Rate ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Charles Schwab & Co., Inc.	25.82%
101 Montgomery Street, San Francisco, CA 94104 Pershing LLC	11.55%

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One Pershing Plaza, Jersey City, NJ 07399 TD Ameritrade Clearing, Inc	10.78%
4211 South 102nd Street, Omaha, NE 68127-1031 National Financial Services LLC	10.61%
200 Liberty Street, New York, NY 10281 Morgan Stanley Smith Barney LLC	5.64%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 Raymond James & Associates Inc.	5.45%
880 Carilion Parkway, Saint Petersburg, FL 33716	

**Market Vectors Long Municipal Index ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Merrill Lynch, Pierce, Fenner & Smith Inc.	22.67%
World Financial Center, North Tower, New York, NY 10080 National Financial Services LLC	11.23%
200 Liberty Street, New York, NY 10281 The Bank of New York Mellon	10.07%
One Wall Street, 5th Floor, New York, NY 10286-0001 J.P. Morgan Clearing Corp.	9.10%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 UBS Financial Service Inc.	8.65%

- 71 -



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1200 Harbor Blvd, Weehawken NJ 07086  
Charles Schwab & Co., Inc.

6.63%

101 Montgomery Street, San Francisco, CA 94104

**Market Vectors Mortgage REIT Income ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
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National Financial Services LLC

16.43%

200 Liberty Street, New York, NY 10281  
Charles Schwab & Co., Inc.

14.71%

101 Montgomery Street, San Francisco, CA 94104  
Merrill Lynch, Pierce, Fenner & Smith Inc.

12.56%

World Financial Center, North Tower, New York, NY 10080  
Morgan Stanley Smith Barney LLC

11.55%

1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311  
TD Ameritrade Clearing, Inc

7.38%

4211 South 102nd Street, Omaha, NE 68127-1031

**Market Vectors Preferred Securities ex Financials ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
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Charles Schwab & Co., Inc.

24.17%

101 Montgomery Street, San Francisco, CA 94104  
National Financial Services LLC

18.41%

200 Liberty Street, New York, NY 10281  
TD Ameritrade Clearing, Inc

10.99%

4211 South 102nd Street, Omaha, NE 68127-1031  
Pershing LLC

5.23%

One Pershing Plaza, Jersey City, NJ 07399

**Market Vectors Pre-Refunded Municipal Index ETF**

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Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Merrill Lynch, Pierce, Fenner & Smith Inc. World Financial Center, North Tower, New York, NY 10080 J.P. Morgan Clearing Corp.	17.74%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 Charles Schwab & Co., Inc.	13.75%
101 Montgomery Street, San Francisco, CA 94104 National Financial Services LLC	13.04%
200 Liberty Street, New York, NY 10281 Merrill Lynch Professional Clearing Corp.	9.37%
101 Hudson Street, Jersey City, NJ 07302 Morgan Stanley Smith Barney LLC	7.13%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 RBC Capital Markets Corporation	6.96%
1 Liberty St, New York, NY 10006 UBS Financial Service Inc.	6.79%
1200 Harbor Blvd, Weehawken, NJ 07086	6.26%

**Market Vectors Renminbi ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Goldman Sachs Execution & Clearing, Proxy Department 30 Hudson Street, Jersey City, NJ 07302	14.60%

- 72 -

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Merrill Lynch, Pierce, Fenner & Smith Inc.	8.93%
World Financial Center, North Tower, New York, NY 10080 KCG Americas LLC	6.67%
545 Washington Blvd, Jersey City, NJ 07310 Pershing LLC	5.90%
One Pershing Plaza, Jersey City, NJ 07399	

**Market Vectors Short High-Yield Municipal Index ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
National Financial Services LLC	20.83%
200 Liberty Street, New York, NY 10281 J.P. Morgan Clearing Corp.	20.26%
3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001 Charles Schwab & Co., Inc.	15.11%
101 Montgomery Street, San Francisco, CA 94104 TD Ameritrade Clearing, Inc	9.68%
4211 South 102nd Street, Omaha, NE 68127-1031 Merrill Lynch, Pierce, Fenner & Smith Inc.	7.02%
World Financial Center, North Tower, New York, NY 10080	

**Market Vectors Short Municipal Index ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
Charles Schwab & Co., Inc.	24.81%
101 Montgomery Street, San Francisco, CA 94104 Merrill Lynch, Pierce, Fenner & Smith Inc.	11.48%
World Financial Center, North Tower, New York, NY 10080 National Financial Services LLC	9.81%
200 Liberty Street, New York, NY 10281 Morgan Stanley Smith Barney LLC	8.40%
1 Harborside Financial Center, Plaza II, Jersey City, NJ 07311 J.P. Morgan Clearing Corp.	7.90%

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3 Chase Metrotech Center, Proxy Dept./NY1-H034, Brooklyn NY 11245-0001  
TD Ameritrade Clearing, Inc

6.87%

4211 South 102nd Street, Omaha, NE 68127-1031  
Pershing LLC

6.45%

One Pershing Plaza, Jersey City, NJ 07399

**Market Vectors Treasury-Hedged High Yield Bond ETF**

Name and Address of Beneficial Owner	Percentage of Class of Fund Owned
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Merrill Lynch Professional Clearing Corp.	
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38.38%

101 Hudson Street, Jersey City, NJ 07302 National Financial Services LLC	
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32.16%

200 Liberty Street, New York, NY 10281 The Huntington National Bank	
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6.75%

7 Easton Oval, Columbus, OH 43219	
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- 73 -

## TAXES

The following information also supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Tax Information" and the section in this Statement of Additional Information entitled "Special Considerations and Risks." The following summary of certain relevant tax provisions is subject to change, and does not constitute legal or tax advice.

Each Fund intends to qualify for and to elect treatment as a RIC under Subchapter M of the Internal Revenue Code. As a RIC, each Fund will not be subject to U.S. federal income tax on the portion of its taxable investment income and capital gains that it distributes to its shareholders. To qualify for treatment as a RIC, a company must annually distribute at least 90% of its net investment company taxable income (which includes dividends, interest and net short-term capital gains) and at least 90% of its net tax-exempt interest income, for each tax year, if any, to its shareholders and meet several other requirements relating to the nature of its income and the diversification of its assets, among others. If a Fund fails to qualify for any taxable year as a RIC, all of its taxable income will be subject to tax at regular corporate income tax rates without any deduction for distributions to shareholders, and such distributions generally will be taxable to shareholders as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits.

Market Vectors CEF Municipal Income ETF is treated as a separate corporation for federal income tax purposes from the Underlying Funds. Market Vectors CEF Municipal Income ETF, therefore, is considered to be a separate entity in determining its treatment under the rules for RICs described herein and in the Prospectus. Losses in an Underlying Fund do not generally offset gains or distributions of another Underlying Fund. Redemptions of shares in an Underlying Fund could also result in a gain and/or income to Market Vectors CEF Municipal Income ETF. The Fund's use of the fund-of-funds structure could therefore affect the amount, timing and character of distributions to shareholders. Redemptions of shares in an Underlying Fund could also cause additional distributable gains to shareholders of Market Vectors CEF Municipal Income ETF.

Each Fund will be subject to a 4% excise tax on certain undistributed income if it does not distribute to its shareholders in each calendar year an amount at least equal to the sum of 98% of its ordinary income (taking into account certain deferrals and elections) for the calendar year, 98.2% of its capital gain net income for the twelve months ended October 31 of such year, and 100% of any undistributed amounts from the prior years. Each Fund intends to declare and distribute dividends and distributions in the amounts and at the times necessary to avoid the application of this 4% excise tax.

As a result of U.S. federal income tax requirements, the Trust on behalf of the Funds, has the right to reject an order for a creation of Shares if the creator (or group of creators) would, upon obtaining the Shares so ordered, own 80% or more of the outstanding Shares of a Fund and if, pursuant to Section 351 of the Internal Revenue Code, the Funds would have a basis in the Deposit Securities different from the market value of such securities on the date of deposit. The Trust also has the right to require information necessary to determine beneficial share ownership for purposes of the 80% determination. See "Creation and Redemption of Creation Units—Procedures for Creation of Creation Units."

Dividends, interest and gains received by a Fund from a non-U.S. investment may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. If more than 50% of a Fund's total assets at the end of its taxable year consist of foreign stock or securities or if at least 50% of the value of a Fund's total assets at the close of each quarter of its taxable year is represented by interests in RICs, the Fund may elect to "pass through" to its investors certain foreign income taxes paid by the Fund, with the result that each investor will (i) include in gross income, as an additional dividend, even though not actually received, the investor's pro rata share of the Fund's foreign income taxes, and (ii) either deduct (in calculating U.S. taxable income) or credit (in calculating U.S. federal income), subject to certain holding period and other limitations, the investor's pro rata share of the Fund's foreign income taxes. It is expected that more than 50% of each of Market Vectors Emerging Markets Aggregate Bond ETF's, Market Vectors Emerging Markets High Yield Bond ETF's, Market Vector Emerging Markets Local Currency Bond ETF's, Market Vectors International High Yield Bond ETF's and Market Vectors Renminbi Bond ETF's assets will consist of foreign securities.

- 74 -

Under Section 988 of the Internal Revenue Code, special rules are provided for certain transactions in a foreign currency other than the taxpayer's functional currency (i.e., unless certain special rules apply, currencies other than the U.S. dollar). In general, foreign currency gains or losses from forward contracts, from futures contracts that are not "regulated futures contracts," and from unlisted options will be treated as ordinary income or loss under Section 988 of the Internal Revenue Code. Also, certain foreign exchange gains or losses derived with respect to foreign fixed income securities are also subject to Section 988 treatment. In general, therefore, Section 988 gains or losses will increase or decrease the amount of a Fund's investment company taxable income available to be distributed to shareholders as ordinary income, rather than increasing or decreasing the amount of the Fund's net capital gain. If a portion of a Fund's investment income may be received in foreign currencies, the Fund will be required to compute its income in U.S. dollars for distribution to shareholders. After the Fund has distributed income, subsequent foreign currency losses may result in the Fund having distributed more income in a particular fiscal period than was available from investment income, which could result in a return of capital to shareholders.

Each Fund will report to shareholders annually the amounts of dividends received from ordinary income, tax-exempt income and the amount of distributions received from capital gains and the portion of dividends, if any, which may qualify for the dividends received deduction. Certain ordinary dividends paid to non-corporate shareholders may qualify for taxation at a lower tax rate applicable to long-term capital gains provided holding period and other requirements are met at both the shareholder and Fund levels. The Funds (except for Market Vectors BDC Income ETF and Market Vectors Preferred Securities ex Financials ETF) do not expect that any of their distributions will be qualified dividends eligible for lower tax rates or for the corporate dividends received deduction. In the event that Market Vectors BDC Income ETF and Market Vectors Preferred Securities ex Financials ETF receive such a dividend and designate the distribution of such dividend as a qualified dividend, the dividend may be taxed at maximum capital gains rates of 15% or 20%, provided holding period and other requirements are met at both the shareholder and the Fund level. It is not expected that any significant portion of the Market Vectors BDC Income ETF's or Market Vectors Preferred Securities ex Financials ETF's distributions will be eligible for qualified dividend treatment.

In general, a sale of Shares results in capital gain or loss, and for individual shareholders, is taxable at a federal rate dependent upon the length of time the Shares were held. A redemption of a shareholder's Fund Shares is normally treated as a sale for tax purposes. Fund Shares held for a period of one year or less at the time of such sale or redemption will, for tax purposes, generally result in short-term capital gains or losses, and those held for more than one year will generally result in long-term capital gains or losses. After 2012, the maximum tax rate on long-term capital gains available to a non-corporate shareholder generally is 15% or 20%, depending on whether the shareholder's income exceeds certain threshold amounts (but the 25% capital gain tax rate will remain applicable to 25% rate gain distributions received by Market Vectors Mortgage REIT Income ETF).

Special tax rules may change the normal treatment of gains and losses recognized by a Fund if and when a Fund invests in structured notes, swaps, options, futures transactions, futures transactions and non-U.S. corporations classified as passive foreign investment companies ("PFICs"). Those special tax rules can, among other things, affect the treatment of capital gain or loss as long-term or short-term and may result in ordinary income or loss rather than capital gain or loss and may accelerate when a Fund has to take these items into account for U.S. federal income tax purposes. The application of these special rules would therefore also affect the timing and character of distributions made by a Fund. See "U.S. Federal Tax Treatment of Futures Contracts" for certain federal income tax rules regarding futures contracts.

There may be uncertainty as to the appropriate treatment of certain of a Fund's investments for U.S. federal income tax purposes. In particular, a Fund may invest a portion of its net assets in below investment grade instruments. Investments in these types of instruments may present special tax issues for such Fund. U.S. federal income tax rules are not entirely clear about issues such as when a Fund may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt obligations in a bankruptcy or workout context are taxable. These and other issues will be addressed by a Fund, to the extent necessary, in order to seek to ensure that it distributes sufficient income to ensure that it does not become subject to U.S. federal income or excise tax.

- 75 -



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An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts.

Investments in PFICs are subject to special tax rules which may result in adverse tax consequences to a Fund and its shareholders. To the extent a Fund invests in PFICs, it generally intends to elect to "mark to market" these investments at the end of each taxable year. By making this election, the Fund will recognize as ordinary income any increase in the value of such shares as of the close of the taxable year over their adjusted basis and as ordinary loss any decrease in such investment (but only to the extent of prior income from such investment under the mark to market rules). Gains realized with respect to a disposition of a PFIC that a Fund has elected to mark to market will be ordinary income. By making the mark to market election, a Fund may recognize income in excess of the distributions that it receives from its investments. Accordingly, a Fund may need to borrow money or dispose of some of its investments in order to meet its distribution requirements. If a Fund does not make the mark to market election with respect to an investment in a PFIC, the Fund could become subject to U.S. federal income tax with respect to certain distributions from, and gain on the dispositions of, the PFIC which cannot be avoided by distributing such amounts to the Fund's shareholders.

A Fund or some of the real estate investment trusts ("REIT"s) in which a Fund may invest may be permitted to hold residual interests in real estate mortgage investment conduits ("REMIC"s). Under Treasury regulations not yet issued, but that may apply retroactively, a portion of a Fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Internal Revenue Code as an "excess inclusion") will be subject to federal income tax in all events. These regulations are expected to provide that excess inclusion income of a RIC, such as a Fund, will be allocated to shareholders of the RIC in proportion to the dividends received by shareholders, with the same consequences as if shareholders held the related REMIC residual interest directly.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and that otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax.

If at any time during any taxable year a "disqualified organization" (as defined in the Code) is a record holder of a share in a RIC, then the RIC will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. It is not expected that a substantial portion of a Fund's assets will be residual interests in REMICs. Additionally, the Funds do not intend to invest in REITs in which a substantial portion of the assets will consist of residual interests in REMICs.

If at the end of each quarter of the taxable year of a RIC, 50% or more of the assets, by value, of the RIC are either (i) state, municipal and other bonds that pay interest that is exempt from federal income tax, or (ii) interests in other RICs, the RIC may designate a portion of its dividends as exempt-interest dividends. The Municipal Funds and Market Vectors CEF Municipal Income ETF expect to be eligible to make such designations with respect to a substantial amount of the income each receives. The portion of the dividends that are designated as being exempt-interest dividends generally will be exempt from federal income tax and may be exempt from state and local taxation. Depending on a shareholder's state of residence, exempt-interest dividends paid by the Funds from interest earned on municipal securities of that state, or its political subdivision, may be exempt in the hands of such shareholder from income tax in that state and its localities. However, income from municipal securities of states other than the shareholder's state of residence generally will not qualify for this treatment.

Interest on indebtedness incurred by a shareholder to purchase or carry shares of the Municipal Funds will not be deductible for U.S. federal income tax purposes. In addition, the IRS may require a shareholder in a Fund that

- 76 -

receives exempt-interest dividends to treat as taxable income a portion of certain otherwise non-taxable social security and railroad retirement benefit payments. In addition, the receipt of dividends and distributions from the Funds may affect a foreign corporate shareholder's federal "branch profits" tax liability and the federal "excess net passive income" tax liability of a shareholder of a Subchapter S corporation. Shareholders should consult their own tax advisers as to whether they are (i) "substantial users" with respect to a facility or "related" to such users within the meaning of the IRC or (ii) subject to the federal "branch profits" tax, or the deferral "excess net passive income" tax.

Shares of the Municipal Funds and Market Vectors CEF Municipal Income ETF generally would not be suitable for tax-exempt institutions or tax-deferred retirement plans (e.g., plans qualified under Section 401 of the Internal Revenue Code, and individual retirement accounts). Such retirement plans would not gain any benefit from the tax-exempt nature of a Municipal Fund's and Market Vectors CEF Municipal Income ETF's dividends because such dividends would be ultimately taxable to beneficiaries when distributed to them.

Gain or loss on the sale or redemption of Fund Shares is measured by the difference between the amount of cash received (or the fair market value of any property received) and the adjusted tax basis of the Shares. Shareholders should keep records of investments made (including Shares acquired through reinvestment of dividends and distributions) so they can compute the tax basis of their Fund Shares. Legislation passed by Congress requires reporting of adjusted cost basis information for covered securities, which generally include shares of a regulated investment company acquired after January 1, 2012, to the Internal Revenue Service and to taxpayers. Shareholders should contact their financial intermediaries with respect to reporting of cost basis and available elections for their accounts.

A loss realized on a sale or exchange of Shares of a Fund may be disallowed if other Fund Shares (or substantially identical shares) are acquired (whether through the automatic reinvestment of dividends or otherwise) within a sixty-one (61) day period beginning thirty (30) days before and ending thirty (30) days after the date that the Shares are disposed of. In such a case, the basis of the Shares acquired will be adjusted to reflect the disallowed loss. Any loss upon the sale or exchange of Shares held for six (6) months or less will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholders. Distribution of ordinary income and capital gains may also be subject to foreign, state and local taxes. If a shareholder receives exempt interest dividends with respect to any Share of the Funds and if the Share is held by the shareholder for six months or less, then any loss on the sale or exchange of the Share may, to the extent of the exempt interest dividends, be disallowed.

Certain Funds may invest a portion of their assets in certain "private activity bonds." As a result, a portion of the exempt-interest dividends paid by such Funds will be an item of tax preference to shareholders subject to the alternative minimum tax. Certain corporations which are subject to the alternative minimum tax may also have to include exempt-interest dividends in calculating their alternative minimum taxable income in situations where the "adjusted current earnings" of the corporation exceeds its alternative minimum taxable income. However, the alternative minimum tax consequences discussed in this paragraph do not apply with respect to interest paid on bonds issued after December 31, 2008 and before January 1, 2011 (including refunding bonds issued during that period to refund bonds originally issued after December 31, 2003 and before January 1, 2009).

Any market discount recognized on a bond is taxable as ordinary income. A market discount bond is a bond acquired in the secondary market at a price below redemption value or adjusted issue price if issued with original issue discount. Absent an election by the Funds to include the market discount in income as it accrues, gain on the Funds' disposition of such an obligation will be treated as ordinary income rather than capital gain to the extent of the accrued market discount.

A Fund may make investments in which it recognizes income or gain prior to receiving cash with respect to such investment. For example, under certain tax rules, a Fund may be required to accrue a portion of any discount at which certain securities are purchased as income each year even though the Fund receives no payments in cash on the security during the year. To the extent that a Fund makes such investments, it generally would be required to pay out such income or gain as a distribution in each year to avoid taxation at the Fund level.

Distributions reinvested in additional Fund Shares will nevertheless be taxable dividends to Beneficial Owners acquiring such additional Shares to the same extent as if such dividends had been received in cash.

- 77 -

Some shareholders may be subject to a withholding tax on distributions of ordinary income, capital gains and any cash received on redemption of Creation Units (“backup withholding”). The backup withholding rate for individuals is currently 28%. Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with a Fund or who, to the Fund’s knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld will be allowed as a credit against shareholders’ U.S. federal income tax liabilities, and may entitle them to a refund, *provided* that the required information is timely furnished to the Internal Revenue Service.

Distributions of ordinary income paid to shareholders who are nonresident aliens or foreign entities will generally be subject to a 30% U.S. withholding tax unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Prospective investors are urged to consult their tax advisors regarding such withholding.

For taxable years beginning before January 1, 2014 (unless further extended by Congress), properly designated dividends received by a nonresident alien or foreign entity are generally exempt from U.S. federal withholding tax when they (i) are paid in respect of the Fund’s “qualified net interest income” (generally, the Fund’s U.S. source interest income, reduced by expenses that are allocable to such income), or (ii) are paid in connection with the Fund’s “qualified short-term capital gains” (generally, the excess of the Fund’s net short-term capital gain over the Fund’s long-term capital loss for such taxable year). However, depending on the circumstances, the Fund may designate all, some or none of the Fund’s potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, and a portion of the Fund’s distributions (e.g. interest from non-U.S. sources or any foreign currency gains) would be ineligible for this potential exemption from withholding. There can be no assurance as to whether or not legislation will be enacted to extend this exemption.

As part of the Foreign Account Tax Compliance Act, (“FATCA”), a Fund may be required to impose a 30% withholding tax on certain types of U.S. sourced income (e.g., dividends, interest, and other types of passive income) paid effective July 1, 2014, and proceeds from the sale or other disposition of property producing U.S. sourced income paid effective January 1, 2017 to (i) foreign financial institutions (“FFI’s”), including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service (“IRS”) information regarding their direct and indirect U.S. account holders and (ii) certain nonfinancial foreign entities (“NFFE’s”), unless they certify certain information regarding their direct and indirect U.S. owners. To avoid possible withholding, FFI’s will need to enter into agreements with the IRS which state that they will provide the IRS information, including the names, account numbers and balances, addresses and taxpayer identification numbers of U.S. account holders and comply with due diligence procedures with respect to the identification of U.S. accounts as well as agree to withhold tax on certain types of withholdable payments made to non-compliant foreign financial institutions or to applicable foreign account holders who fail to provide the required information to the IRS, or similar account information and required documentation to a local revenue authority, should an applicable intergovernmental agreement be implemented. NFFE’s will need to provide certain information regarding each substantial U.S. owner or certifications of no substantial U.S. ownership, unless certain exceptions apply, or agree to provide certain information to the IRS.

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While final FATCA rules have not been finalized, a Fund may be subject to the FATCA withholding obligation, and also will be required to perform due diligence reviews to classify foreign entity investors for FATCA purposes. Investors are required to agree to provide information necessary to allow a Fund to comply with the FATCA rules. If a Fund is required to withhold amounts from payments pursuant to FATCA, investors will receive distributions that are reduced by such withholding amounts.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in a Fund, including the possible applicability of the U.S. estate tax.

The foregoing discussion is a summary only and is not intended as a substitute for careful tax planning. Purchasers of Shares of the Trust should consult their own tax advisers as to the tax consequences of investing in such Shares, including under state, local and other tax laws. Finally, the foregoing discussion is based on applicable provisions of the Internal Revenue Code, regulations, judicial authority and administrative interpretations in effect

- 78 -

on the date hereof. Changes in applicable authority could materially affect the conclusions discussed above, and such changes often occur.

### Reportable Transactions

Under promulgated Treasury regulations, if a shareholder recognizes a loss on disposition of a Fund's Shares of \$2 million or more in any one taxable year (or \$4 million or more over a period of six taxable years) for an individual shareholder or \$10 million or more in any taxable year (or \$20 million or more over a period of six taxable years) for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC that engaged in a reportable transaction are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all RICs. In addition, significant penalties may be imposed for the failure to comply with the reporting requirements. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

### CAPITAL STOCK AND SHAREHOLDER REPORTS

The Trust currently is comprised of 59 investment funds. The Trust issues Shares of beneficial interest with no par value. The Board may designate additional funds of the Trust.

Each Share issued by the Trust has a *pro rata* interest in the assets of the corresponding Fund. Shares have no pre-emptive, exchange, subscription or conversion rights and are freely transferable. Each Share is entitled to participate equally in dividends and distributions declared by the Board with respect to the relevant Fund, and in the net distributable assets of such Fund on liquidation.

Each Share has one vote with respect to matters upon which a shareholder vote is required consistent with the requirements of the 1940 Act and the rules promulgated thereunder and each fractional Share has a proportional fractional vote. Shares of all funds vote together as a single class except that if the matter being voted on affects only a particular fund it will be voted on only by that fund, and if a matter affects a particular fund differently from other funds, that fund will vote separately on such matter. Under Delaware law, the Trust is not required to hold an annual meeting of shareholders unless required to do so under the 1940 Act. The policy of the Trust is not to hold an annual meeting of shareholders unless required to do so under the 1940 Act. All Shares of the Trust have noncumulative voting rights for the election of Trustees. Under Delaware law, Trustees of the Trust may be removed by vote of the shareholders.

Under Delaware law, the shareholders of a Fund are not generally subject to liability for the debts or obligations of the Trust. Similarly, Delaware law provides that a Fund will not be liable for the debts or obligations of any other series of the Trust. However, no similar statutory or other authority limiting statutory trust shareholder liability may exist in other states. As a result, to the extent that a Delaware statutory trust or a shareholder is subject to the jurisdiction of courts of such other states, the courts may not apply Delaware law and may thereby subject the Delaware statutory trust's shareholders to liability for the debts or obligations of the Trust. The Trust's Amended and Restated Declaration of Trust (the "Declaration of Trust") provides for indemnification by the relevant Fund for all loss suffered by a shareholder as a result of an obligation of the Fund. The Declaration of Trust also provides that a Fund shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Fund and satisfy any judgment thereon.

The Trust will issue through DTC Participants to its shareholders semi-annual reports containing unaudited financial statements and annual reports containing financial statements audited by an independent auditor approved by the Trust's Trustees and by the shareholders when meetings are held and such other information as may be required by applicable laws, rules and regulations. Beneficial Owners also receive annually notification as to the tax status of the Trust's distributions.



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Shareholder inquiries may be made by writing to the Trust, c/o Van Eck Associates Corporation, 335 Madison Avenue, 19th Floor, New York, New York 10017.

### COUNSEL AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Dechert LLP, 1095 Avenue of the Americas, New York, New York, 10036, is counsel to the Trust and has passed upon the validity of each Fund's Shares.

Ernst & Young LLP, 5 Times Square, New York, New York 10036, is the Trust's independent registered public accounting firm and audits the Funds' financial statements and performs other related audit services.

### FINANCIAL STATEMENTS

The audited financial statements of each Fund, including the financial highlights, and the report of Ernst & Young LLP, appearing in the Trust's Annual Report to shareholders for the fiscal year ended April 30, 2014 and filed electronically with the SEC, are incorporated by reference and made part of this SAI. You may request a copy of the Trust's Annual Report and Semi-Annual Report for the Funds at no charge by calling 1.888.MKT.VCTR (658-8287) during normal business hours.

- 80 -

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- 81 -

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- 82 -

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- 83 -

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- 84 -

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- 85 -

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- 86 -

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APPENDIX A

VAN ECK GLOBAL PROXY VOTING POLICIES

Van Eck Global (the “Adviser”) has adopted the following policies and procedures which are reasonably designed to ensure that proxies are voted in a manner that is consistent with the best interests of its clients in accordance with its fiduciary duties and Rule 206(4)-6 under the Investment Advisers Act of 1940. When an adviser has been granted proxy voting authority by a client, the adviser owes its clients the duties of care and loyalty in performing this service on their behalf. The duty of care requires the adviser to monitor corporate actions and vote client proxies. The duty of loyalty requires the adviser to cast the proxy votes in a manner that is consistent with the best interests of the client.

Rule 206(4)-6 also requires the Adviser to disclose information about the proxy voting procedures to its clients and to inform clients how to obtain information about how their proxies were voted. Additionally, Rule 204-2 under the Advisers Act requires the Adviser to maintain certain proxy voting records.

An adviser that exercises voting authority without complying with Rule 206(4)-6 will be deemed to have engaged in a “fraudulent, deceptive, or manipulative” act, practice or course of business within the meaning of Section 206(4) of the Advisers Act.

The Adviser intends to vote all proxies in accordance with applicable rules and regulations, and in the best interests of clients without influence by real or apparent conflicts of interest. To assist in its responsibility for voting proxies and the overall voting process, the Adviser has engaged an independent third party proxy voting specialist, Glass Lewis & Co., LLC. The services provided by Glass Lewis include in-depth research, global issuer analysis, and voting recommendations as well as vote execution, reporting and recordkeeping.

**Resolving Material Conflicts of Interest**

When a material conflict of interest exists, proxies will be voted in the following manner:

1. Strict adherence to the Glass Lewis guidelines , or
2. The potential conflict will be disclosed to the client:
  - a. with a request that the client vote the proxy,

b. with a recommendation that the client engage another party to determine how the proxy should be voted or

c. if the foregoing are not acceptable to the client, disclosure of how Van Eck intends to vote and a written consent to that vote by the client.

Any deviations from the foregoing voting mechanisms must be approved by the Chief Compliance Officer with a written explanation of the reason for the deviation.

A **material conflict of interest** means the existence of a business relationship between a portfolio company or an affiliate and the Adviser, any affiliate or subsidiary, or an “affiliated person” of a Van Eck mutual fund. Examples of when a material conflict of interest exists include a situation where the adviser provides significant investment advisory, brokerage or other services to a company whose management is soliciting proxies; an officer of the Adviser serves on the board of a charitable organization that receives charitable contributions from the portfolio company and the charitable organization is a client of the Adviser; a portfolio company that is a significant selling agent of the Adviser’s products and services solicits proxies; a broker-dealer or insurance company that controls 5% or more of the Adviser’s assets solicits proxies; the Adviser serves as an investment adviser to the pension or other



investment account of the portfolio company; the Adviser and the portfolio company have a lending relationship. In each of these situations voting against management may cause the Adviser a loss of revenue or other benefit.

### **Client Inquiries**

All inquiries by clients as to how the Adviser has voted proxies must immediately be forwarded to Portfolio Administration.

### **Disclosure to Clients:**

#### 1. Notification of Availability of Information

Client Brochure - The Client Brochure or Part II of Form ADV will inform clients that they can obtain information from the Adviser on how their proxies were voted. The Client Brochure or Part II of Form ADV will be mailed to each client annually. The Legal Department will be responsible for coordinating the mailing with Sales/Marketing Departments.

#### 2. Availability of Proxy Voting Information

At the client's request or if the information is not available on the Adviser's website, a hard copy of the account's proxy votes will be mailed to each client.

### **Recordkeeping Requirements**

1. Van Eck will retain the following documentation and information for each matter relating to a portfolio security with respect to which a client was entitled to vote:

a. proxy statements received;

b. identifying number for the portfolio security;

c. shareholder meeting date;

d. brief identification of the matter voted on;

e. whether the vote was cast on the matter;

f. how the vote was cast (e.g., for or against proposal, or abstain; for or withhold regarding election of directors);

g. records of written client requests for information on how the Adviser voted proxies on behalf of the client;

h. a copy of written responses from the Adviser to any written or oral client request for information on how the Adviser voted proxies on behalf of the client; and any documents prepared by the Adviser that were material to the decision on how to vote or that memorialized the basis for the decision, if such documents were prepared.

Copies of proxy statements filed on EDGAR, and proxy statements and records of proxy votes maintained with a third party (i.e., proxy voting service) need not be maintained. The third party must agree in writing to provide a copy of the documents promptly upon request.

3. If applicable, any document memorializing that the costs of voting a proxy exceed the benefit to the client or any other decision to refrain from voting, and that such abstention was in the client's best interest.

- 89 -

Proxy voting records will be maintained in an easily accessible place for five years, the first two at the office of the 4. Adviser. Proxy statements on file with EDGAR or maintained by a third party and proxy votes maintained by a third party are not subject to these particular retention requirements.

### **Voting Foreign Proxies**

At times the Adviser may determine that, in the best interests of its clients, a particular proxy should not be voted. This may occur, for example, when the cost of voting a foreign proxy (translation, transportation, etc.) would exceed the benefit of voting the proxy or voting the foreign proxy may cause an unacceptable limitation on the sale of the security. Any such instances will be documented by the Portfolio Manager and reviewed by the Chief Compliance Officer.

### **Securities Lending**

Certain portfolios managed by the Adviser participate in securities lending programs to generate additional revenue. Proxy voting rights generally pass to the borrower when a security is on loan. The Adviser will use its best efforts to recall a security on loan and vote such securities if the Portfolio Manager determines that the proxy involves a material event.

### **Proxy Voting Policy**

The Adviser has reviewed the Glass Lewis Proxy Guidelines (“Guidelines”) and has determined that the Guidelines are consistent with the Adviser’s proxy voting responsibilities and its fiduciary duty with respect to its clients. The Adviser will review any material amendments to the Guidelines.

While it is the Adviser’s policy to generally follow the Guidelines, the Adviser retains the right, on any specific proxy, to vote differently from the Guidelines, if the Adviser believes it is in the best interests of its clients. Any such exceptions will be documented by the Adviser and reviewed by the Chief Compliance Officer.

The portfolio manager or analyst covering the security is responsible for making proxy voting decisions. Portfolio Administration, in conjunction with the portfolio manager and the custodian, is responsible for monitoring corporate actions and ensuring that corporate actions are timely voted.

PROXY PAPER™

GUIDELINES

2014 PROXY SEASON

AN OVERVIEW OF THE GLASS LEWIS

APPROACH TO PROXY ADVICE

UNITED STATES

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TABLE OF

CONTENTS

I. OVERVIEW OF SIGNIFICANT UPDATES FOR 2014	1
Majority-Approved Shareholder Proposals Seeking Board Declassification	1
Poison Pills with a Term of One Year or Less	1
Dual-Listed Companies	1
Hedging and Pledging of Stock	1
SEC Final Rules Regarding Compensation Committee Member Independence and Compensation Consultants	1
II. A BOARD OF DIRECTORS THAT SERVES THE INTERESTS OF SHAREHOLDERS	2
Election of Directors	2
Independence	2
Voting Recommendations on the Basis of Board Independence	4
Committee Independence	4
Independent Chairman	4
Performance	5
Voting Recommendations on the Basis of Performance	5
Board Responsiveness	6
The Role of a Committee Chairman	6
Audit Committees and Performance	7
Standards for Assessing the Audit Committee	7
Compensation Committee Performance	10
Nominating and Governance Committee Performance	12
Board Level Risk Management Oversight	13
Experience	14
Other Considerations	14
Controlled Companies	16
Unofficially Controlled Companies and 20-50% Beneficial Owners	17
Exceptions for Recent IPOs	17
Dual-Listed Companies	18
Mutual Fund Boards	18
Declassified Boards	19
Mandatory Director Term and Age limits	20
Requiring Two or More Nominees per Board Seat	21
Proxy Access	21

Majority Vote for the Election of Directors	21
The Plurality Vote Standard	21
Advantages of a Majority Vote Standard	22
<b>III. TRANSPARENCY AND INTEGRITY OF FINANCIAL REPORTING</b>	<b>23</b>
Auditor Ratification	23
Voting Recommendations on Auditor Ratification	23
Pension Accounting Issues	24
<b>IV. THE LINK BETWEEN COMPENSATION AND PERFORMANCE</b>	<b>25</b>
Advisory Vote on Executive Compensation (“Say-on-Pay”)	25
Say-on-Pay Voting Recommendations	26
Company Responsiveness	27
Pay for Performance	27
Short-Term Incentives	27
Long-Term Incentives	28
Recoupment (“Clawback”) Provisions	29
Hedging of Stock	29
Pledging of Stock	29
Compensation Consultant Independence	30
Frequency of Say-on-Pay	30
Vote on Golden Parachute Arrangements	31
Equity-Based Compensation Plan Proposals	31
Option Exchanges	32
Option Backdating, Spring-Loading and Bullet-Dodging	33
Director Compensation Plans	33
Executive Compensation Tax Deductibility (IRS 162(m) Compliance)	34
<b>V. GOVERNANCE STRUCTURE AND THE SHAREHOLDER FRANCHISE</b>	<b>35</b>
Anti-Takeover Measures	35
Poison Pills (Shareholder Rights Plans)	35
NOL Poison Pills	35
Fair Price Provisions	36
Reincorporation	37
Exclusive Forum Provisions	37
Authorized Shares	38
Advance Notice Requirements	38
Voting Structure	39
Cumulative Voting	39
Supermajority Vote Requirements	40

Transaction of Other Business	40
Anti-Greenmail Proposals	40
Mutual Funds: Investment Policies and Advisory Agreements	40
Real Estate Investment Trusts	41
Preferred Stock Issuances at REITs	41
Business Development Companies	41
Authorization to Sell Shares at a Price below Net Asset Value	41

VI. COMPENSATION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE SHAREHOLDER INITIATIVES OVERVIEW	43
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### III

I.

**OVERVIEW OF SIGNIFICANT UPDATES FOR 2014**

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail throughout this document:

**MAJORITY-APPROVED SHAREHOLDER PROPOSALS SEEKING BOARD DECLASSIFICATION**

We have updated our policy with regard to implementation of majority-approved shareholder proposals seeking board declassification. If a company fails to implement a shareholder proposal seeking board declassification, which received majority support from shareholders (excluding abstentions and broker non-votes) at the previous year's annual meeting, we will consider recommending that shareholders vote against all nominees up for election that served throughout the previous year, regardless of their committee membership.

**POISON PILLS WITH A TERM OF ONE YEAR OR LESS**

We have refined our policy with regard to short-term poison pills (those with a term of one year or less). If a poison pill with a term of one year or less was adopted without shareholder approval, we will consider recommending that shareholders vote against all members of the governance committee. If the board has, without seeking shareholder approval, extended the term of a poison pill by one year or less in two consecutive years, we will consider recommending that shareholders vote against the entire board.

**DUAL-LISTED COMPANIES**

We have clarified our approach to companies whose shares are listed on exchanges in multiple countries, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules. In determining which Glass Lewis country-specific policy to apply, we will consider a number of factors, and we will apply the policy standards most relevant in each situation.

**HEDGING AND PLEDGING OF STOCK**

We have included general discussions of our policies regarding hedging of stock and pledging of shares owned by executives.



**SEC FINAL RULES REGARDING COMPENSATION COMMITTEE MEMBER INDEPENDENCE AND  
COMPENSATION CONSULTANTS**

We have summarized the SEC requirements for compensation committee member independence and compensation consultant independence, and how these new rules may affect our evaluation of compensation committee members. These requirements were mandated by Section 952 of the Dodd-Frank Act and formally adopted by the NYSE and NASDAQ in 2013. Companies listed on these exchanges were required to meet certain basic requirements under the new rules by July 1, 2013, with full compliance by the earlier of their first annual meeting after January 15, 2014, or October 31, 2014.

II.

**A BOARD OF DIRECTORS THAT SERVES THE INTERESTS OF SHAREHOLDERS  
ELECTION OF DIRECTORS**

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that a board can best protect and enhance the interests of shareholders if it is sufficiently independent, has a record of positive performance, and consists of individuals with diverse backgrounds and a breadth and depth of relevant experience.

**INDEPENDENCE**

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine when a director's service track record on multiple boards indicates a lack of objective decision-making. Ultimately, we believe the determination of whether a director is independent or not must take into consideration both compliance with the applicable independence listing requirements as well as judgments made by the director.

We look at each director nominee to examine the director's relationships with the company, the company's executives, and other directors. We do this to evaluate whether personal, familial, or financial relationships (not including director compensation) may impact the director's decisions. We believe that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests. We also believe that a director who owns more than 20% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

Thus, we put directors into three categories based on an examination of the type of relationship they have with the company:

**Independent Director** – An independent director has no material financial, familial or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service. Relationships that existed within three to five years<sup>1</sup> before the inquiry are usually considered “current” for purposes of this test.

In our view, a director who is currently serving in an interim management position should be considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such capacity is considered independent. Moreover, a director who previously served in an interim management position for over one year and is no longer serving in such capacity is considered an affiliate for five years following the date of his/her resignation or departure from the interim management position. Glass Lewis applies a three-year look-back period to all directors who have an affiliation with the company other than former employment, for which we apply a five-year look-back.

<sup>1</sup> NASDAQ originally proposed a five-year look-back period but both it and the NYSE ultimately settled on a three-year look-back prior to finalizing their rules. A five-year standard is more appropriate, in our view, because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.

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Affiliated Director – An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.<sup>2</sup> This includes directors whose employers have a material financial relationship with the company.<sup>3</sup> In addition, we view a director who owns or controls 20% or more of the company’s voting stock as an affiliate<sup>4</sup>

We view 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

Definition of “Material”: A material relationship is one in which the dollar value exceeds:

- \$50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services; or

- \$120,000 (or where no amount is disclosed) for those directors employed by a professional services firm such as a law firm, investment bank, or consulting firm and the company pays the firm, not the individual, for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor; or charities where a director serves on the board or is an executive;<sup>5</sup> and any aircraft and real estate dealings between the company and the director’s firm; or

- 1% of either company’s consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).<sup>6</sup>

Definition of “Familial”: Familial relationships include a person’s spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person’s home. A director is an affiliate if: i) he or she has a family member who is employed by the company and receives more than \$120,000 in annual compensation; or, ii) he or she has a family member who is employed by the company and the company does not disclose this individual’s compensation.

Definition of “Company”: A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

Inside Director – An inside director simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company. In our view, an inside director who derives a greater amount of income as a result of affiliated transactions with the company rather than through compensation paid by the company (i.e., salary, bonus, etc. as a company employee) faces a conflict between making decisions that are in the best interests of the company versus

those in the director's own best interests. Therefore, we will recommend voting against such a director.

2 If a company classifies one of its non-employee directors as non-independent, Glass Lewis will classify that director as an affiliate.

3 We allow a five-year grace period for former executives of the company or merged companies who have consulting agreements with the surviving company. (We do not automatically recommend voting against directors in such cases for the first five years.) If the consulting agreement persists after this five-year grace period, we apply the materiality thresholds outlined in the definition of "material."

4 This includes a director who serves on a board as a representative (as part of his or her basic responsibilities) of an investment firm with greater than 20% ownership. However, while we will generally consider him/her to be affiliated, we will not recommend voting against unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.

5 We will generally take into consideration the size and nature of such charitable entities in relation to the company's size and industry along with any other relevant factors such as the director's role at the charity. However, unlike for other types of related party transactions, Glass Lewis generally does not apply a look-back period to affiliated relationships involving charitable contributions; if the relationship between the director and the school or charity ceases, or if the company discontinues its donations to the entity, we will consider the director to be independent.

6 This includes cases where a director is employed by, or closely affiliated with, a private equity firm that profits from an acquisition made by the company. Unless disclosure suggests otherwise, we presume the director is affiliated.

## **VOTING RECOMMENDATIONS ON THE BASIS OF BOARD INDEPENDENCE**

Glass Lewis believes a board will be most effective in protecting shareholders' interests if it is at least two-thirds independent. We note that each of the Business Roundtable, the Conference Board, and the Council of Institutional Investors advocates that two-thirds of the board be independent. Where more than one-third of the members are affiliated or inside directors, we typically<sup>7</sup> recommend voting against some of the inside and/or affiliated directors in order to satisfy the two-thirds threshold.

In the case of a less than two-thirds independent board, Glass Lewis strongly supports the existence of a presiding or lead director with authority to set the meeting agendas and to lead sessions outside the insider chairman's presence.

In addition, we scrutinize avowedly "independent" chairmen and lead directors. We believe that they should be unquestionably independent or the company should not tout them as such.

## **COMMITTEE INDEPENDENCE**

We believe that only independent directors should serve on a company's audit, compensation, nominating, and governance committees.<sup>8</sup> We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating, or governance committee, or who has served in that capacity in the past year.

Pursuant to Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require that boards apply enhanced standards of independence when making an affirmative determination of the independence of compensation committee members. Specifically, when making this determination, in addition to the factors considered when assessing general director independence, the board's considerations must include: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by the listed company to the director (the "Fees Factor"); and (ii) whether the director is affiliated with the listing company, its subsidiaries, or affiliates of its subsidiaries (the "Affiliation Factor").

Glass Lewis believes it is important for boards to consider these enhanced independence factors when assessing compensation committee members. However, as discussed above in the section titled Independence, we apply our own standards when assessing the independence of directors, and these standards also take into account consulting and advisory fees paid to the director, as well as the director's affiliations with the company and its subsidiaries and affiliates. We may recommend voting against compensation committee members who are not independent based on our standards.

## INDEPENDENT CHAIRMAN

Glass Lewis believes that separating the roles of CEO (or, more rarely, another executive position) and chairman creates a better governance structure than a combined CEO/chairman position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals set by the board. This is needlessly complicated when a CEO chairs the board, since a CEO/chairman presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chairman controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched

7 With a staggered board, if the affiliates or insiders that we believe should not be on the board are not up for election, we will express our concern regarding those directors, but we will not recommend voting against the other affiliates or insiders who are up for election just to achieve two-thirds independence. However, we will consider recommending voting against the directors subject to our concern at their next election if the concerning issue is not resolved.

8 We will recommend voting against an audit committee member who owns 20% or more of the company's stock, and we believe that there should be a maximum of one director (or no directors if the committee is comprised of less than three directors) who owns 20% or more of the company's stock on the compensation, nominating, and governance committees.

position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chairman can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Further, it is the board's responsibility to select a chief executive who can best serve a company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. Such a replacement becomes more difficult and happens less frequently when the chief executive is also in the position of overseeing the board.

Glass Lewis believes that the installation of an independent chairman is almost always a positive step from a corporate governance perspective and promotes the best interests of shareholders. Further, the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Encouragingly, many companies appear to be moving in this direction—one study even indicates that less than 12 percent of incoming CEOs in 2009 were awarded the chairman title, versus 48 percent as recently as 2002.<sup>9</sup> Another study finds that 45 percent of S&P 500 boards now separate the CEO and chairman roles, up from 23 percent in 2003, although the same study found that of those companies, only 25 percent have truly independent chairs.<sup>10</sup>

We do not recommend that shareholders vote against CEOs who chair the board. However, we typically recommend that our clients support separating the roles of chairman and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that it is in the long-term best interests of the company and its shareholders.

## **PERFORMANCE**

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served.



**VOTING RECOMMENDATIONS ON THE BASIS OF PERFORMANCE**

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

1. A director who fails to attend a minimum of 75% of board and applicable committee meetings, calculated in the aggregate.<sup>11</sup>
2. A director who belatedly filed a significant form(s) 4 or 5, or who has a pattern of late filings if the late filing was the director's fault (we look at these late filing situations on a case-by-case basis).

9 Ken Favaro, Per-Ola Karlsson and Gary Neilson. "CEO Succession 2000-2009: A Decade of Convergence and Compression." Booz & Company (from Strategy+Business, Issue 59, Summer 2010).

10 Spencer Stuart Board Index, 2013, p. 5

11 However, where a director has served for less than one full year, we will typically not recommend voting against for failure to attend 75% of meetings. Rather, we will note the poor attendance with a recommendation to track this issue going forward. We will also refrain from recommending to vote against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

3. A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.
4. A director who has received two against recommendations from Glass Lewis for identical reasons within the prior year at different companies (the same situation must also apply at the company being analyzed).
5. All directors who served on the board if, for the last three years, the company's performance has been in the bottom quartile of the sector and the directors have not taken reasonable steps to address the poor performance.

## BOARD RESPONSIVENESS

Glass Lewis believes that any time 25% or more of shareholders vote contrary to the recommendation of management, the board should, depending on the issue, demonstrate some level of responsiveness to address the concerns of shareholders. These include instances when 25% or more of shareholders (excluding abstentions and broker non-votes): WITHOLD votes from (or vote AGAINST) a director nominee, vote AGAINST a management-sponsored proposal, or vote FOR a shareholder proposal. In our view, a 25% threshold is significant enough to warrant a close examination of the underlying issues and an evaluation of whether or not a board response was warranted and, if so, whether the board responded appropriately following the vote. While the 25% threshold alone will not automatically generate a negative vote recommendation from Glass Lewis on a future proposal (e.g. to recommend against a director nominee, against a say-on-pay proposal, etc.), it may be a contributing factor if we recommend to vote against management's recommendation in the event we determine that the board did not respond appropriately.

As a general framework, our evaluation of board responsiveness involves a review of publicly available disclosures (e.g. the proxy statement, annual report, 8-Ks, company website, etc.) released following the date of the company's last annual meeting up through the publication date of our most current Proxy Paper. Depending on the specific issue, our focus typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities;
- Any revisions made to the company's articles of incorporation, bylaws or other governance documents;
- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports; and
- Any modifications made to the design and structure of the company's compensation program.

Our Proxy Paper analysis will include a case-by-case assessment of the specific elements of board responsiveness that we examined along with an explanation of how that assessment impacts our current vote recommendations.

### **THE ROLE OF A COMMITTEE CHAIRMAN**

Glass Lewis believes that a designated committee chairman maintains primary responsibility for the actions of his or her respective committee. As such, many of our committee-specific vote recommendations deal with the applicable committee chair rather than the entire committee (depending on the seriousness of the issue). However, in cases where we would ordinarily recommend voting against a committee chairman but the chair is not specified, we apply the following general rules, which apply throughout our guidelines:

If there is no committee chair, we recommend voting against the longest-serving committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member serving on the committee (i.e. in either case, the “senior director”); and

If there is no committee chair, but multiple senior directors serving on the committee, we recommend voting against both (or all) such senior directors.

In our view, companies should provide clear disclosure of which director is charged with overseeing each committee. In cases where that simple framework is ignored and a reasonable analysis cannot determine which committee member is the designated leader, we believe shareholder action against the longest serving committee member(s) is warranted. Again, this only applies if we would ordinarily recommend voting against the committee chair but there is either no such position or no designated director in such role.

On the contrary, in cases where there is a designated committee chair and the recommendation is to vote against the committee chair, but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

## AUDIT COMMITTEES AND PERFORMANCE

Audit committees play an integral role in overseeing the financial reporting process because “[v]ibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important.”<sup>12</sup>

When assessing an audit committee’s performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee member monitors and oversees the process and procedures that management and auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

*A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting – the full board including the audit committee, financial management including the internal auditors, and the outside auditors – form a ‘three legged stool’ that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be ‘first among equals’ in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process.*

**STANDARDS FOR ASSESSING THE AUDIT COMMITTEE**

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting recommendations, the Conference Board Commission on Public Trust and Private Enterprise said "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."<sup>13</sup>

We are skeptical of audit committees where there are members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO) or corporate controller, or similar experience. While

12 Audit Committee Effectiveness – What Works Best.” PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

13 Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

we will not necessarily vote against members of an audit committee when such expertise is lacking, we are more likely to vote against committee members when a problem such as a restatement occurs and such expertise is lacking.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and would vote in favor of its members, but we would recommend voting against the following members under the following circumstances:<sup>14</sup>

All members of the audit committee when options were backdated, there is a lack of adequate controls in place,  
1. there was a resulting restatement, and disclosures indicate there was a lack of documentation with respect to the option grants.

The audit committee chair, if the audit committee does not have a financial expert or the committee's financial  
2. expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.

3. The audit committee chair, if the audit committee did not meet at least 4 times during the year.

4. The audit committee chair, if the committee has less than three members.

Any audit committee member who sits on more than three public company audit committees, unless the audit  
5. committee member is a retired CPA, CFO, controller or has similar experience, in which case the limit shall be four committees, taking time and availability into consideration including a review of the audit committee member's attendance at all board and committee meetings.<sup>15</sup>

6. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if audit and audit-related fees total one-third or less of the total fees billed by the auditor.

7. The audit committee chair when tax and/or other fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case we also recommend against ratification of the auditor).

8.

All members of an audit committee where non-audit fees include fees for tax services (including, but not limited to, such things as tax avoidance or shelter schemes) for senior executives of the company. Such services are prohibited by the Public Company Accounting Oversight Board (“PCAOB”).

9. All members of an audit committee that reappointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.

14 As discussed under the section labeled “Committee Chairman,” where the recommendation is to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against the members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

15 Glass Lewis may exempt certain audit committee members from the above threshold if, upon further analysis of relevant factors such as the director’s experience, the size, industry-mix and location of the companies involved and the director’s attendance at all the companies, we can reasonably determine that the audit committee member is likely not hindered by multiple audit committee commitments.

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10. All members of an audit committee when audit fees are excessively low, especially when compared with other companies in the same industry.

The audit committee chair<sup>16</sup> if the committee failed to put auditor ratification on the ballot for shareholder approval. However, if the non-audit fees or tax fees exceed audit plus audit-related fees in either the current or the prior year, then Glass Lewis will recommend voting against the entire audit committee.

12. All members of an audit committee where the auditor has resigned and reported that a section 10A<sup>17</sup> letter has been issued.

13. All members of an audit committee at a time when material accounting fraud occurred at the company.<sup>18</sup>

14. All members of an audit committee at a time when annual and/or multiple quarterly financial statements had to be restated, and any of the following factors apply:

• The restatement involves fraud or manipulation by insiders;

• The restatement is accompanied by an SEC inquiry or investigation;

• The restatement involves revenue recognition;

• The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or

• The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.

All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion. 15. For example, the company has filed two or more quarterly or annual financial statements late within the last 5 quarters.

16. All members of an audit committee when it has been disclosed that a law enforcement agency has charged the company and/or its employees with a violation of the Foreign Corrupt Practices Act (FCPA).

17. All members of an audit committee when the company has aggressive accounting policies and/ or poor disclosure or lack of sufficient transparency in its financial statements.

18.



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All members of the audit committee when there is a disagreement with the auditor and the auditor resigns or is dismissed (e.g., the company receives an adverse opinion on its financial statements from the auditor).

19. All members of the audit committee if the contract with the auditor specifically limits the auditor's liability to the company for damages.<sup>19</sup>
20. All members of the audit committee who served since the date of the company's last annual

16 As discussed under the section labeled "Committee Chairman," in all cases, if the chair of the committee is not specified, we recommend voting against the director who has been on the committee the longest.

17 Auditors are required to report all potential illegal acts to management and the audit committee unless they are clearly inconsequential in nature. If the audit committee or the board fails to take appropriate action on an act that has been determined to be a violation of the law, the independent auditor is required to send a section 10A letter to the SEC. Such letters are rare and therefore we believe should be taken seriously.

18 Recent research indicates that revenue fraud now accounts for over 60% of SEC fraud cases, and that companies that engage in fraud experience significant negative abnormal stock price declines—facing bankruptcy, delisting, and material asset sales at much higher rates than do non-fraud firms (Committee of Sponsoring Organizations of the Treadway Commission. "Fraudulent Financial Reporting: 1998-2007." May 2010).

19 The Council of Institutional Investors. "Corporate Governance Policies," p. 4, April 5, 2006; and "Letter from Council of Institutional Investors to the AICPA," November 8, 2006.

meeting, and when, since the last annual meeting, the company has reported a material weakness that has not yet been corrected, or, when the company has an ongoing material weakness from a prior year that has not yet been corrected.

We also take a dim view of audit committee reports that are boilerplate, and which provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filings occurs, we take into consideration, in forming our judgment with respect to the audit committee, the transparency of the audit committee report.

## **COMPENSATION COMMITTEE PERFORMANCE**

Compensation committees have the final say in determining the compensation of executives. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for such items as pay, pensions and severance arrangements. It is important in establishing compensation arrangements that compensation be consistent with, and based on the long-term economic performance of, the business's long-term shareholders returns.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes disclosure of compensation arrangements, the matrix used in assessing pay for performance, and the use of compensation consultants. In order to ensure the independence of the compensation consultant, we believe the compensation committee should only engage a compensation consultant that is not also providing any services to the company or management apart from their contract with the compensation committee. It is important to investors that they have clear and complete disclosure of all the significant terms of compensation arrangements in order to make informed decisions with respect to the oversight and decisions of the compensation committee.

Finally, compensation committees are responsible for oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establishment of equity award plans, and granting of equity awards. For example, the use of a compensation consultant who maintains a business relationship with company management may cause the committee to make decisions based on information that is compromised by the consultant's conflict of interests. Lax controls can also contribute to improper awards of compensation such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Central to understanding the actions of a compensation committee is a careful review of the Compensation Discussion and Analysis ("CD&A") report included in each company's proxy. We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. The CD&A is also integral to the evaluation of compensation proposals at companies, such as advisory votes on executive compensation, which allow shareholders to vote on the compensation paid to a company's top executives.

When assessing the performance of compensation committees, we will recommend voting against for the following:<sup>20</sup>

- All members of the compensation committee who are up for election and served at the time of poor
1. pay-for-performance (e.g., a company receives an F grade in our pay-for-performance analysis) when shareholders are not provided with an advisory vote on executive compensation

<sup>20</sup> As discussed under the section labeled “Committee Chairman,” where the recommendation is to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

at the annual meeting.<sup>21</sup>

Any member of the compensation committee who has served on the compensation committee of at least two other public companies that received F grades in our pay-for-performance model and whose oversight of compensation at the company in question is suspect.

The compensation committee chair if the company received two D grades in consecutive years in our pay-for-performance analysis, and if during the past year the company performed the same as or worse than its peers.<sup>22</sup>

4. All members of the compensation committee (during the relevant time period) if the company entered into excessive employment agreements and/or severance agreements.

All members of the compensation committee when performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained.

6. All members of the compensation committee if excessive employee perquisites and benefits were allowed.

7. The compensation committee chair if the compensation committee did not meet during the year, but should have (e.g., because executive compensation was restructured or a new executive was hired).

8. All members of the compensation committee when the company repriced options or completed a “self tender offer” without shareholder approval within the past two years.

9. All members of the compensation committee when vesting of in-the-money options is accelerated.

10. All members of the compensation committee when option exercise prices were backdated. Glass Lewis will recommend voting against an executive director who played a role in and participated in option backdating.

11. All members of the compensation committee when option exercise prices were spring-loaded or otherwise timed around the release of material information.

All members of the compensation committee when a new employment contract is given to an executive that does not include a clawback provision and the company had a material restatement, especially if the restatement was due to fraud.

13. The chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the

compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets.

14. All members of the compensation committee during whose tenure the committee failed to

21 Where there are multiple CEOs in one year, we will consider not recommending against the compensation committee but will defer judgment on compensation policies and practices until the next year or a full year after arrival of the new CEO. In addition, if a company provides shareholders with a say-on-pay proposal and receives an F grade in our pay-for-performance model, we will recommend that shareholders only vote against the say-on-pay proposal rather than the members of the compensation committee, unless the company exhibits egregious practices. However, if the company receives successive F grades, we will then recommend against the members of the compensation committee in addition to recommending voting against the say-on-pay proposal.

22 In cases where a company has received two consecutive D grades, or if its grade improved from an F to a D in the most recent period, and during the most recent year the company performed better than its peers (based on our analysis), we refrain from recommending to vote against the compensation committee chair. In addition, if a company provides shareholders with a say-on-pay proposal in this instance, we will consider voting against the advisory vote rather than the compensation committee chair unless the company exhibits unquestionably egregious practices.

implement a shareholder proposal regarding a compensation-related issue, where the proposal received the affirmative vote of a majority of the voting shares at a shareholder meeting, and when a reasonable analysis suggests that the compensation committee (rather than the governance committee) should have taken steps to implement the request.<sup>23</sup>

All members of a compensation committee during whose tenure the committee failed to address shareholder concerns following majority shareholder rejection of the say-on-pay proposal in the previous year. Where the proposal was approved but there was a significant shareholder vote (i.e., greater than 25% of votes cast) against the say-on-pay proposal in the prior year, if there is no evidence that the board responded accordingly to the vote including actively engaging shareholders on this issue, we will also consider recommending voting against the chairman of the compensation committee or all members of the compensation committee, depending on the severity and history of the compensation problems and the level of opposition.

## **NOMINATING AND GOVERNANCE COMMITTEE PERFORMANCE**

The nominating and governance committee, as an agency for the shareholders, is responsible for the governance by the board of the company and its executives. In performing this role, the board is responsible and accountable for selection of objective and competent board members. It is also responsible for providing leadership on governance policies adopted by the company, such as decisions to implement shareholder proposals that have received a majority vote. (At most companies, a single committee is charged with these oversight functions; at others, the governance and nominating responsibilities are apportioned among two separate committees.)

Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience and culture.

Regarding the committee responsible for governance, we will recommend voting against the following:<sup>24</sup>

All members of the governance committee<sup>25</sup> during whose tenure the board failed to implement a shareholder proposal with a direct and substantial impact on shareholders and their rights – i.e., where the proposal received enough shareholder votes (at least a majority) to allow the board to implement or begin to implement that proposal.<sup>26</sup> Examples of these types of shareholder proposals are majority vote to elect directors and to declassify the board.

<sup>2</sup>. The governance committee chair,<sup>27</sup> when the chairman is not independent and an independent lead or presiding director has not been appointed.<sup>28</sup>

23 In all other instances (i.e., a non-compensation-related shareholder proposal should have been implemented) we recommend that shareholders vote against the members of the governance committee.

24 As discussed in the guidelines section labeled “Committee Chairman,” where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

25 If the board does not have a committee responsible for governance oversight and the board did not implement a shareholder proposal that received the requisite support, we will recommend voting against the entire board. If the shareholder proposal at issue requested that the board adopt a declassified structure, we will recommend voting against all director nominees up for election.

26 Where a compensation-related shareholder proposal should have been implemented, and when a reasonable analysis suggests that the members of the compensation committee (rather than the governance committee) bear the responsibility for failing to implement the request, we recommend that shareholders only vote against members of the compensation committee.

27 As discussed in the guidelines section labeled “Committee Chairman,” if the committee chair is not specified, we recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member serving on the committee.

28 We believe that one independent individual should be appointed to serve as the lead or presiding director. When such a position is rotated among directors from meeting to meeting, we will recommend voting against as if there were no lead or presiding director.

3. In the absence of a nominating committee, the governance committee chair when there are less than five or the whole nominating committee when there are more than 20 members on the board.

4. The governance committee chair, when the committee fails to meet at all during the year.

The governance committee chair, when for two consecutive years the company provides what we consider to be “inadequate” related party transaction disclosure (i.e., the nature of such transactions and/or the monetary amounts involved are unclear or excessively vague, thereby preventing a shareholder from being able to reasonably interpret the independence status of multiple directors above and beyond what the company maintains is compliant with SEC or applicable stock exchange listing requirements).

The governance committee chair, when during the past year the board adopted a forum selection clause (i.e., an exclusive forum provision)<sup>29</sup> without shareholder approval, or, if the board is currently seeking shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal.

Regarding the nominating committee, we will recommend voting against the following:<sup>30</sup>

All members of the nominating committee, when the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

2. The nominating committee chair, if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated or appointed since the time of the last annual meeting).

3. In the absence of a governance committee, the nominating committee chair<sup>31</sup> when the chairman is not independent, and an independent lead or presiding director has not been appointed.<sup>32</sup>

4. The nominating committee chair, when there are less than five or the whole nominating committee when there are more than 20 members on the board.<sup>33</sup>

5. The nominating committee chair, when a director received a greater than 50% against vote the prior year and not only was the director not removed, but the issues that raised shareholder concern were not corrected.<sup>34</sup>

## **BOARD-LEVEL RISK MANAGEMENT OVERSIGHT**

Glass Lewis evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at



29 A forum selection clause is a bylaw provision stipulating that a certain state, typically Delaware, shall be the exclusive forum for all intra-corporate disputes (e.g. shareholder derivative actions, assertions of claims of a breach of fiduciary duty, etc.). Such a clause effectively limits a shareholder's legal remedy regarding appropriate choice of venue and related relief offered under that state's laws and rulings.

30 As discussed in the guidelines section labeled "Committee Chairman," where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

31 As discussed under the section labeled "Committee Chairman," if the committee chair is not specified, we will recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member on the committee.

32 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis, unless if the chairman also serves as the CEO, in which case we will recommend voting against the director who has served on the board the longest.

33 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis, unless if the chairman also serves as the CEO, in which case we will recommend voting against the director who has served on the board the longest.

34 Considering that shareholder discontent clearly relates to the director who received a greater than 50% against vote rather than the nominating chair, we review the validity of the issue(s) that initially raised shareholder concern, follow-up on such matters, and only recommend voting against the nominating chair if a reasonable analysis suggests that it would be most appropriate. In rare cases, we will consider recommending against the nominating chair when a director receives a substantial (i.e., 25% or more) vote against based on the same analysis.

financial firms which inherently maintain significant exposure to financial risk. We believe such financial firms should have a chief risk officer reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight. Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firms have complex hedging or trading strategies, those firms should also have a chief risk officer and a risk committee.

Our views on risk oversight are consistent with those expressed by various regulatory bodies. In its December 2009 Final Rule release on Proxy Disclosure Enhancements, the SEC noted that risk oversight is a key competence of the board and that additional disclosures would improve investor and shareholder understanding of the role of the board in the organization's risk management practices. The final rules, which became effective on February 28, 2010, now explicitly require companies and mutual funds to describe (while allowing for some degree of flexibility) the board's role in the oversight of risk.

When analyzing the risk management practices of public companies, we take note of any significant losses or writedowns on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or writedown, and where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise)<sup>35</sup>, we will consider recommending to vote against the chairman of the board on that basis. However, we generally would not recommend voting against a combined chairman/CEO, except in egregious cases.

## **EXPERIENCE**

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database of directors serving at over 8,000 of the most widely held U.S. companies. We use this database to track the performance of directors across companies.

### **Voting Recommendations on the Basis of Director Experience**

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, excessive compensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.<sup>36</sup>

Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the

committee is responsible.

## **OTHER CONSIDERATIONS**

In addition to the three key characteristics – independence, performance, experience – that we use to evaluate board members, we consider conflict-of-interest issues as well as the size of the board of directors when making voting recommendations.

35 A committee responsible for risk management could be a dedicated risk committee, the audit committee, or the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

36 We typically apply a three-year look-back to such issues and also take into account the level of support the director has received from shareholders since the time of the failure.

## Conflicts of Interest

We believe board members should be wholly free of identifiable and substantial conflicts of interest, regardless of the overall level of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of directors:

1. A CFO who is on the board: In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Due to the critical importance of financial disclosure and reporting, we believe the CFO should report to the board and not be a member of it.

2. A director who is on an excessive number of boards: We will typically recommend voting against a director who serves as an executive officer of any public company while serving on more than two other public company boards and any other director who serves on more than six public company boards.<sup>37</sup> Academic literature suggests that one board takes up approximately 200 hours per year of each member's time. We believe this limits the number of boards on which directors can effectively serve, especially executives at other companies.<sup>38</sup> Further, we note a recent study has shown that the average number of outside board seats held by CEOs of S&P 500 companies is 0.6, down from 0.7 in 2008 and 1.0 in 2003.<sup>39</sup>

3. A director, or a director who has an immediate family member, providing material consulting or other material professional services to the company: These services may include legal, consulting, or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.

4. A director, or a director who has an immediate family member, engaging in airplane, real estate, or similar deals, including perquisite-type grants from the company, amounting to more than \$50,000. Directors who receive these sorts of payments from the company will have to make unnecessarily complicated decisions that may pit their interests against shareholder interests.

5. Interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.<sup>40</sup>

6. All board members who served at a time when a poison pill with a term of longer than one year was adopted without shareholder approval within the prior twelve months.<sup>41</sup> In the event a board is classified and shareholders are therefore unable to vote against all directors, we will recommend voting against the remaining directors the next year they are up for a shareholder vote. If a poison pill with a term of one year or less was adopted without shareholder approval, and without adequate justification, we will consider recommending that shareholders vote against all members of the governance committee. If the board has, without seeking shareholder

<sup>37</sup> Glass Lewis will not recommend voting against the director at the company where he or she serves as an executive officer, only at the other public companies where he or she serves on the board.

38 Our guidelines are similar to the standards set forth by the NACD in its “Report of the NACD Blue Ribbon Commission on Director Professionalism,” 2001 Edition, pp. 14-15 (also cited approvingly by the Conference Board in its “Corporate Governance Best Practices: A Blueprint for the Post-Enron Era,” 2002, p. 17), which suggested that CEOs should not serve on more than 2 additional boards, persons with full-time work should not serve on more than 4 additional boards, and others should not serve on more than six boards.

39 Spencer Stuart Board Index, 2013, p. 6.

40 We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. We will also evaluate multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.

41 Refer to Section V. Governance Structure and the Shareholder Franchise for further discussion of our policies regarding anti-takeover measures, including poison pills.

approval, and without adequate justification, extended the term of a poison pill by one year or less in two consecutive years, we will consider recommending that shareholders vote against the entire board.

#### Size of the Board of Directors

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of “too many cooks in the kitchen” and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the chairman of the nominating committee at a board with fewer than five directors. With boards consisting of more than 20 directors, we typically recommend voting against all members of the nominating committee (or the governance committee, in the absence of a nominating committee).<sup>42</sup>

#### **CONTROLLED COMPANIES**

Controlled companies present an exception to our independence recommendations. The board’s function is to protect shareholder interests; however, when an individual or entity owns more than 50% of the voting shares, the interests of the majority of shareholders are the interests of that entity or individual. Consequently, Glass Lewis does not apply our usual two-thirds independence rule and therefore we will not recommend voting against boards whose composition reflects the makeup of the shareholder population.

#### Independence Exceptions

The independence exceptions that we make for controlled companies are as follows:

We do not require that controlled companies have boards that are at least two-thirds independent. So long as the

1. insiders and/or affiliates are connected with the controlling entity, we accept the presence of non-independent board members.

2. The compensation committee and nominating and governance committees do not need to consist solely of independent directors.

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We believe that standing nominating and corporate governance committees at controlled companies are unnecessary. Although having a committee charged with the duties of searching for, selecting, and nominating independent directors can be beneficial, the unique composition of a controlled company's shareholder base makes such committees weak and irrelevant.

Likewise, we believe that independent compensation committees at controlled companies are unnecessary. Although independent directors are the best choice for approving and monitoring senior executives' pay, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests. As such, we believe that having affiliated directors on a controlled company's compensation committee is acceptable. However, given that a controlled company has certain obligations to minority shareholders we feel that an insider should not serve on the compensation committee. Therefore, Glass Lewis

42 The Conference Board, at p. 23 in its May 2003 report "Corporate Governance Best Practices, Id.," quotes one of its roundtable participants as stating, "[w]hen you've got a 20 or 30 person corporate board, it's one way of assuring that nothing is ever going to happen that the CEO doesn't want to happen."

will recommend voting against any insider (the CEO or otherwise) serving on the compensation committee.

- Controlled companies do not need an independent chairman or an independent lead or presiding director.
3. Although an independent director in a position of authority on the board – such as chairman or presiding director – can best carry out the board’s duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

#### Size of the Board of Directors

We have no board size requirements for controlled companies.

#### Audit Committee Independence

We believe that audit committees should consist solely of independent directors. Regardless of a company’s controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company’s financial statements. Allowing affiliated directors to oversee the preparation of financial reports could create an insurmountable conflict of interest.

#### **UNOFFICIALLY CONTROLLED COMPANIES AND 20-50% BENEFICIAL OWNERS**

Where a shareholder group owns more than 50% of a company’s voting power but the company is not a “controlled” company as defined by relevant listing standards, we apply a lower independence requirement of a majority of the board but believe the company should otherwise be treated like another public company; we will therefore apply all other standards as outlined above.

Similarly, where an individual or entity holds between 20-50% of a company’s voting power, but the company is not “controlled,” we believe it is reasonable to allow proportional representation on the board and committees (excluding the audit committee) based on the individual or entity’s percentage of ownership.

#### **EXCEPTIONS FOR RECENT IPOs**

We believe companies that have recently completed an initial public offering (“IPO”) should be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. We believe a one-year grace period immediately following the date of a company’s IPO is sufficient time for most



companies to comply with all relevant regulatory requirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (e.g., board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

However, two specific cases warrant strong shareholder action against the board of a company that completed an IPO within the past year:

Adoption of a poison pill: In cases where a board implements a poison pill preceding an IPO, we will consider voting against the members of the board who served during the period of the poison pill's adoption if the board (i) did not also commit to submit the poison pill to a shareholder vote within 12 months of the IPO or (ii) did not provide a sound rationale for adopting the pill and the pill does not expire in three years or less. In our view,<sup>1</sup> adopting such an anti-takeover device unfairly penalizes future shareholders who (except for electing to buy or sell the stock) are unable to weigh in on a matter that could potentially negatively impact their ownership interest. This notion is strengthened when a board adopts a poison pill with a five to ten year life immediately prior to having a public shareholder base so as to insulate management for a substantial amount

of time while postponing and/or avoiding allowing public shareholders the ability to vote on the pill's adoption. Such instances are indicative of boards that may subvert shareholders' best interests following their IPO.

Adoption of an exclusive forum provision: Consistent with our general approach to boards that adopt exclusive forum provisions without shareholder approval (refer to our discussion of nominating and governance committee performance in Section I of the guidelines), in cases where a board adopts such a provision for inclusion in a company's charter or bylaws before the company's IPO, we will recommend voting against the chairman of the governance committee, or, in the absence of such a committee, the chairman of the board, who served during the period of time when the provision was adopted.

In addition, shareholders should also be wary of companies that adopt supermajority voting requirements before their IPO. Absent explicit provisions in the articles or bylaws stipulating that certain policies will be phased out over a certain period of time (e.g. a predetermined declassification of the board, a planned separation of the chairman and CEO, etc.) long-term shareholders could find themselves in the predicament of having to attain a supermajority vote to approve future proposals seeking to eliminate such policies.

## **DUAL-LISTED COMPANIES**

For those companies whose shares trade on exchanges in multiple countries, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules, we will apply the governance standards most relevant in each situation. We will consider a number of factors in determining which Glass Lewis country-specific policy to apply, including but not limited to: (i) the corporate governance structure and features of the company including whether the board structure is unique to a particular market; (ii) the nature of the proposals; (iii) the location of the company's primary listing, if one can be determined; (iv) the regulatory/governance regime that the board is reporting against; and (v) the availability and completeness of the company's SEC filings.

## **MUTUAL FUND BOARDS**

Mutual funds, or investment companies, are structured differently from regular public companies (i.e., operating companies). Typically, members of a fund's adviser are on the board and management takes on a different role from that of regular public companies. Thus, we focus on a short list of requirements, although many of our guidelines remain the same.

The following mutual fund policies are similar to the policies for regular public companies:

1. Size of the board of directors: The board should be made up of between five and twenty directors.
- 2.

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The CFO on the board: Neither the CFO of the fund nor the CFO of the fund's registered investment adviser should serve on the board.

3. Independence of the audit committee: The audit committee should consist solely of independent directors.

4. Audit committee financial expert: At least one member of the audit committee should be designated as the audit committee financial expert.

The following differences from regular public companies apply at mutual funds:

1. Independence of the board: We believe that three-fourths of an investment company's board should be made up of independent directors. This is consistent with a proposed SEC rule on

investment company boards. The Investment Company Act requires 40% of the board to be independent, but in 2001, the SEC amended the Exemptive Rules to require that a majority of a mutual fund board be independent. In 2005, the SEC proposed increasing the independence threshold to 75%. In 2006, a federal appeals court ordered that this rule amendment be put back out for public comment, putting it back into “proposed rule” status. Since mutual fund boards play a vital role in overseeing the relationship between the fund and its investment manager, there is greater need for independent oversight than there is for an operating company board.

2. When the auditor is not up for ratification: We do not recommend voting against the audit committee if the auditor is not up for ratification. Due to the different legal structure of an investment company compared to an operating company, the auditor for the investment company (i.e., mutual fund) does not conduct the same level of financial review for each investment company as for an operating company.

3. Non-independent chairman: The SEC has proposed that the chairman of the fund board be independent. We agree that the roles of a mutual fund’s chairman and CEO should be separate. Although we believe this would be best at all companies, we recommend voting against the chairman of an investment company’s nominating committee as well as the chairman of the board if the chairman and CEO of a mutual fund are the same person and the fund does not have an independent lead or presiding director. Seven former SEC commissioners support the appointment of an independent chairman and we agree with them that “an independent board chairman would be better able to create conditions favoring the long-term interests of fund shareholders than would a chairman who is an executive of the adviser.” (See the comment letter sent to the SEC in support of the proposed rule at <http://www.sec.gov/news/studies/indchair.pdf>)

4. Multiple funds overseen by the same director: Unlike service on a public company board, mutual fund boards require much less of a time commitment. Mutual fund directors typically serve on dozens of other mutual fund boards, often within the same fund complex. The Investment Company Institute’s (“ICI”) Overview of Fund Governance Practices, 1994-2012, indicates that the average number of funds served by an independent director in 2012 was 53. Absent evidence that a specific director is hindered from being an effective board member at a fund due to service on other funds’ boards, we refrain from maintaining a cap on the number of outside mutual fund boards that we believe a director can serve on.

## **DECLASSIFIED BOARDS**

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests.

Empirical studies have shown: (i) companies with staggered boards reduce a firm’s value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.

In our view, there is no evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Research shows that shareholders are worse off when a staggered board blocks a transaction. A study by a group of Harvard Law professors concluded that companies whose staggered boards prevented a takeover “reduced shareholder returns for targets ... on the order of eight to ten percent in the nine months after a hostile bid was

announced.<sup>43</sup> When a staggered board negotiates

43 Lucian Bebchuk, John Coates IV, Guhan Subramanian, “The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants,” 55 Stanford Law Review 885-917 (2002), page 1.

a friendly transaction, no statistically significant difference in premiums occurs.<sup>44</sup> Further, one of those same professors found that charter-based staggered boards “reduce the market value of a firm by 4% to 6% of its market capitalization” and that “staggered boards bring about and not merely reflect this reduction in market value.”<sup>45</sup> A subsequent study reaffirmed that classified boards reduce shareholder value, finding “that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth.”<sup>46</sup>

Shareholders have increasingly come to agree with this view. In 2013, 91% of S&P 500 companies had declassified boards, up from approximately 40% a decade ago.<sup>47</sup> Clearly, more shareholders have supported the repeal of classified boards. Resolutions relating to the repeal of staggered boards garnered on average over 70% support among shareholders in 2008, whereas in 1987, only 16.4% of votes cast favored board declassification.<sup>48</sup>

Given the empirical evidence suggesting staggered boards reduce a company’s value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

## **MANDATORY DIRECTOR TERM AND AGE LIMITS**

Glass Lewis believes that director age and term limits typically are not in shareholders’ best interests. Too often age and term limits are used by boards as a crutch to remove board members who have served for an extended period of time. When used in that fashion, they are indicative of a board that has a difficult time making “tough decisions.”

Academic literature suggests that there is no evidence of a correlation between either length of tenure or age and director performance. On occasion, term limits can be used as a means to remove a director for boards that are unwilling to police their membership and to enforce turnover. Some shareholders support term limits as a way to force change when boards are unwilling to do so.

While we understand that age limits can be a way to force change where boards are unwilling to make changes on their own, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. Further, age limits unfairly imply that older (or, in rare cases, younger) directors cannot contribute to company oversight.

In our view, a director’s experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, we support periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. We believe the board should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

We believe that shareholders are better off monitoring the board's approach to corporate governance and the board's stewardship of company performance rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

44 Id. at 2 (“Examining a sample of seventy-three negotiated transactions from 2000 to 2002, we find no systematic benefits in terms of higher premia to boards that have [staggered structures].”).

45 Lucian Bebchuk, Alma Cohen, “The Costs of Entrenched Boards” (2004).

46 Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, “Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment,” SSRN: <http://ssrn.com/abstract=1706806> (2010), p. 26.

47 Spencer Stuart Board Index, 2013, p. 4

48 Lucian Bebchuk, John Coates IV and Guhan Subramanian, “The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy,” 54 *Stanford Law Review* 887-951 (2002).

## **REQUIRING TWO OR MORE NOMINEES PER BOARD SEAT**

In an attempt to address lack of access to the ballot, shareholders sometimes propose that the board give shareholders a choice of directors for each open board seat in every election. However, we feel that policies requiring a selection of multiple nominees for each board seat would discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board's clear choice or that he or she would be elected. Therefore, Glass Lewis generally will vote against such proposals.

## **PROXY ACCESS**

Proxy Access has garnered significant attention in recent years. As in 2013, we expect to see a number of shareholder proposals regarding this topic in 2014 and perhaps even some companies unilaterally adopting some elements of proxy access. However, considering the uncertainty in this area and the inherent case-by-case nature of those situations, we refrain from establishing any specific parameters at this time.

For a discussion of recent regulatory events in this area, along with a detailed overview of the Glass Lewis approach to Shareholder Proposals regarding Proxy Access, refer to Glass Lewis' *Proxy Paper Guidelines for Shareholder Initiatives*.

## **MAJORITY VOTE FOR THE ELECTION OF DIRECTORS**

In stark contrast to the failure of shareholder access to gain acceptance, majority voting for the election of directors is fast becoming the de facto standard in corporate board elections. In our view, the majority voting proposals are an effort to make the case for shareholder impact on director elections on a company-specific basis.

While this proposal would not give shareholders the opportunity to nominate directors or lead to elections where shareholders have a choice among director candidates, if implemented, the proposal would allow shareholders to have a voice in determining whether the nominees proposed by the board should actually serve as the overseer-representatives of shareholders in the boardroom. We believe this would be a favorable outcome for shareholders.

During the first half of 2013, Glass Lewis tracked approximately 30 shareholder proposals seeking to require a majority vote to elect directors at annual meetings in the U.S. While this is roughly on par with what we have reviewed in each of the past several years, it is a sharp contrast to the 147 proposals tracked during all of 2006. This large drop in the number of proposals being submitted in recent years compared to 2006 is a result of many companies



having already adopted some form of majority voting, including approximately 84% of companies in the S&P 500 Index, up from 56% in 2008.<sup>49</sup> During 2013, these proposals received, on average, 59% shareholder support (excluding abstentions and broker non-votes), up from 54% in 2008. Further, nearly half of these resolutions received majority shareholder support.

## **THE PLURALITY VOTE STANDARD**

Today, most US companies still elect directors by a plurality vote standard. Under that standard, if one shareholder holding only one share votes in favor of a nominee (including himself, if the director is a shareholder), that nominee “wins” the election and assumes a seat on the board. The common concern among companies with a plurality voting standard is the possibility that one or more directors would not receive a majority of votes, resulting in “failed elections.” This was of particular concern during the 1980s, an era of frequent takeovers and contests for control of companies.

49 Spencer Stuart Board Index, 2013, p. 13

## **ADVANTAGES OF A MAJORITY VOTE STANDARD**

If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to be elected. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

We believe that a majority vote standard will likely lead to more attentive directors. Occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests in favor of other interests that conflict with those of investors. Glass Lewis will generally support proposals calling for the election of directors by a majority vote except for use in contested director elections.

In response to the high level of support majority voting has garnered, many companies have voluntarily taken steps to implement majority voting or modified approaches to majority voting. These steps range from a modified approach requiring directors that receive a majority of withheld votes to resign (e.g., Ashland Inc.) to actually requiring a majority vote of outstanding shares to elect directors (e.g., Intel).

We feel that the modified approach does not go far enough because requiring a director to resign is not the same as requiring a majority vote to elect a director and does not allow shareholders a definitive voice in the election process. Further, under the modified approach, the corporate governance committee could reject a resignation and, even if it accepts the resignation, the corporate governance committee decides on the director's replacement. And since the modified approach is usually adopted as a policy by the board or a board committee, it could be altered by the same board or committee at any time.

III.

TRANSPARENCY AND INTEGRITY OF FINANCIAL REPORTING

**AUDITOR RATIFICATION**

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health. As stated in the October 6, 2008 Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury:

*"The auditor is expected to offer critical and objective judgment on the financial matters under consideration, and actual and perceived absence of conflicts is critical to that expectation. The Committee believes that auditors, investors, public companies, and other market participants must understand the independence requirements and their objectives, and that auditors must adopt a mindset of skepticism when facing situations that may compromise their independence."*

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection. Moreover, in October 2008, the Advisory Committee on the Auditing Profession went even further, and recommended that "to further enhance audit committee oversight and auditor accountability... disclosure in the company proxy statement regarding shareholder ratification [should] include the name(s) of the senior auditing partner(s) staffed on the engagement."<sup>50</sup>

On August 16, 2011, the PCAOB issued a Concept Release seeking public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced, with a specific emphasis on mandatory audit firm rotation. The PCAOB convened several public roundtable meetings during 2012 to further discuss such matters. Glass Lewis believes auditor rotation can ensure both the independence of the auditor and the integrity of the audit; we will typically recommend supporting proposals to require auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years), particularly at companies with a history of accounting problems.

**VOTING RECOMMENDATIONS ON AUDITOR RATIFICATION**

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised. Where a board has not allowed shareholders to review and ratify an auditor, we typically recommend voting against the audit committee chairman. When there have been material restatements of annual financial statements or material weaknesses in internal controls, we usually recommend voting against the entire audit committee.

50 "Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury." p. VIII:20, October 6, 2008.

Reasons why we may not recommend ratification of an auditor include:

1. When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.

2. Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.<sup>51</sup>

3. When the auditor performs prohibited services such as tax-shelter work, tax services for the CEO or CFO, or contingent-fee work, such as a fee based on a percentage of economic benefit to the company.

4. When audit fees are excessively low, especially when compared with other companies in the same industry.

5. When the company has aggressive accounting policies.

6. When the company has poor disclosure or lack of transparency in its financial statements.

7. Where the auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures without adequate justification.

8. We also look for other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.

## **PENSION ACCOUNTING ISSUES**

A pension accounting question often raised in proxy proposals is what effect, if any, projected returns on employee pension assets should have on a company's net income. This issue often arises in the executive-compensation context in a discussion of the extent to which pension accounting should be reflected in business performance for purposes of calculating payments to executives.

Glass Lewis believes that pension credits should not be included in measuring income that is used to award performance-based compensation. Because many of the assumptions used in accounting for retirement plans are subject to the company's discretion, management would have an obvious conflict of interest if pay were tied to pension income. In our view, projected income from pensions does not truly reflect a company's performance.

51 An auditor does not audit interim financial statements. Thus, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.



IV.

**THE LINK BETWEEN COMPENSATION AND PERFORMANCE**

Glass Lewis carefully reviews the compensation awarded to senior executives, as we believe that this is an important area in which the board's priorities are revealed. Glass Lewis strongly believes executive compensation should be linked directly with the performance of the business the executive is charged with managing. We believe the most effective compensation arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to fixed pay elements.

Glass Lewis believes that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which pay is keeping pace with company performance. When reviewing proxy materials, Glass Lewis examines whether the company discloses the performance metrics used to determine executive compensation. We recognize performance metrics must necessarily vary depending on the company and industry, among other factors, and may include a wide variety of financial measures as well as industry-specific performance indicators. However, we believe companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivize will lead to better corporate performance.

Moreover, it is rarely in shareholders' interests to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for the company and its shareholders. While we favor full disclosure for senior executives and we view pay disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories) as potentially useful, we do not believe shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

**ADVISORY VOTE ON EXECUTIVE COMPENSATION ("SAY-ON-PAY")**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required companies to hold an advisory vote on executive compensation at the first shareholder meeting that occurs six months after enactment of the bill (January 21, 2011).

This practice of allowing shareholders a non-binding vote on a company's compensation report is standard practice in many non-US countries, and has been a requirement for most companies in the United Kingdom since 2003 and in Australia since 2005. Although say-on-pay proposals are non-binding, a high level of "against" or "abstain" votes indicates substantial shareholder concern about a company's compensation policies and procedures.

Given the complexity of most companies' compensation programs, Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

We believe that each company should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company's long-term shareholder value.



Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis focuses on four main areas when reviewing say-on-pay proposals:

- The overall design and structure of the company's executive compensation program including performance metrics;
- The quality and content of the company's disclosure;
- The quantum paid to executives; and
- The link between compensation and performance as indicated by the company's current and past pay-for-performance grades.

We also review any significant changes or modifications, and rationale for such changes, made to the company's compensation structure or award amounts, including base salaries.

## **SAY-ON-PAY VOTING RECOMMENDATIONS**

In cases where we find deficiencies in a company's compensation program's design, implementation or management, we will recommend that shareholders vote against the say-on-pay proposal. Generally such instances include evidence of a pattern of poor pay-for-performance practices (i.e., deficient or failing pay for performance grades), unclear or questionable disclosure regarding the overall compensation structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Although not an exhaustive list, the following issues when weighed together may cause Glass Lewis to recommend voting against a say-on-pay vote:

- Inappropriate peer group and/or benchmarking issues;
- Inadequate or no rationale for changes to peer groups;
-

Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes;

- Guaranteed bonuses;
- Targeting overall levels of compensation at higher than median without adequate justification;
- Bonus or long-term plan targets set at less than mean or negative performance levels;
- Performance targets not sufficiently challenging, and/or providing for high potential payouts;
- Performance targets lowered without justification;
- Discretionary bonuses paid when short- or long-term incentive plan targets were not met;
- Executive pay high relative to peers not justified by outstanding company performance; and

The terms of the long-term incentive plans are inappropriate (please see “Long-Term Incentives” on page 28).

In instances where a company has simply failed to provide sufficient disclosure of its policies, we may recommend shareholders vote against this proposal solely on this basis, regardless of the appropriateness of compensation levels.

## **COMPANY RESPONSIVENESS**

At companies that received a significant level of shareholder disapproval (25% or greater) to their say-on-pay proposal at the previous annual meeting, we believe the board should demonstrate some level of engagement and responsiveness to the shareholder concerns behind the discontent. While we recognize that sweeping changes cannot be made to a compensation program without due consideration and that a majority of shareholders voted in favor of the proposal, we will look for disclosure in the proxy statement and other publicly-disclosed filings that indicates the compensation committee is responding to the prior year’s vote results including engaging with large shareholders to identify the concerns causing the substantial vote against. In the absence of any evidence that the board is actively engaging shareholders on these issues and responding accordingly, we may recommend holding compensation committee members accountable for failing to adequately respond to shareholder opposition, giving careful consideration to the level of shareholder protest and the severity and history of compensation problems.

Where we identify egregious compensation practices, we may also recommend voting against the compensation committee based on the practices or actions of its members during the year, such as approving large one-off payments, the inappropriate, unjustified use of discretion, or sustained poor pay for performance practices.

## **PAY FOR PERFORMANCE**

Glass Lewis believes an integral part of a well-structured compensation package is a successful link between pay and performance. Our proprietary pay-for-performance model was developed to better evaluate the link between pay and performance of the top five executives at US companies. Our model benchmarks these executives’ pay and company performance against peers selected by Equilar’s market-based peer groups and across five performance metrics. By measuring the magnitude of the gap between two weighted-average percentile rankings (executive compensation and performance), we grade companies from a school letter system: “A”, “B”, “F”, etc. The grades guide our evaluation of compensation committee effectiveness and we generally recommend voting against compensation committee of companies with a pattern of failing our pay-for-performance analysis.

We also use this analysis to inform our voting decisions on say-on-pay proposals. As such, if a company receives a failing grade from our proprietary model, we are likely to recommend that shareholders vote against the say-on-pay proposal. However, there may be exceptions to this rule such as when a company makes significant enhancements to its compensation programs that may not be reflected yet in a quantitative assessment.

## **SHORT-TERM INCENTIVES**

A short-term bonus or incentive (“STI”) should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on company-wide or divisional financial measures as well as non-financial factors such as those related to safety, environmental issues, and customer satisfaction. While we recognize that companies operating in different sectors or markets may seek to utilize a wide range of metrics, we expect such measures to be appropriately tied to a company’s business drivers.

Further, the target and potential maximum awards that can be achieved under STI awards should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential maximum award should be clearly justified to shareholders.

Glass Lewis recognizes that disclosure of some measures may include commercially confidential information. Therefore, we believe it may be reasonable to exclude such information in some cases as long as the company provides sufficient justification for non-disclosure. However, where a short-term bonus has been paid, companies should disclose the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved.

Where management has received significant STIs but short-term performance over the previous year prima facie appears to be poor or negative, we believe the company should provide a clear explanation of why these significant short-term payments were made.

## **LONG-TERM INCENTIVES**

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that Glass Lewis believes are common to most well-structured long-term incentive ("LTI") plans. These include:

- No re-testing or lowering of performance conditions;
- Performance metrics that cannot be easily manipulated by management;
- Two or more performance metrics;
- At least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Performance periods of at least three years;
- Stretching metrics that incentivize executives to strive for outstanding performance while not encouraging excessive risk-taking; and
- Individual limits expressed as a percentage of base salary.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

While cognizant of the inherent complexity of certain performance metrics, Glass Lewis generally believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target and is therefore more susceptible to manipulation. When utilized for relative measurements, external benchmarks such as a sector index or peer group should be disclosed and transparent. The rationale behind the selection of a specific index or peer group should also be disclosed. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

We also believe shareholders should evaluate the relative success of a company's compensation programs, particularly with regard to existing equity-based incentive plans, in linking pay and performance in evaluating new LTI plans to determine the impact of additional stock awards. We

will therefore review the company's pay-for-performance grade (see below for more information) and specifically the proportion of total compensation that is stock-based.

## **RECOUPMENT (“CLAWBACK”) PROVISIONS**

Section 954 of the Dodd-Frank Act requires the SEC to create a rule requiring listed companies to adopt policies for recouping certain compensation during a three-year look-back period. The rule applies to incentive-based compensation paid to current or former executives if the company is required to prepare an accounting restatement due to erroneous data resulting from material non-compliance with any financial reporting requirements under the securities laws.

These recoupment provisions are more stringent than under Section 304 of the Sarbanes-Oxley Act in three respects: (i) the provisions extend to current or former executive officers rather than only to the CEO and CFO; (ii) it has a three-year look-back period (rather than a twelve-month look-back period); and (iii) it allows for recovery of compensation based upon a financial restatement due to erroneous data, and therefore does not require misconduct on the part of the executive or other employees.

## **HEDGING OF STOCK**

Glass Lewis believes that the hedging of shares by executives in the shares of the companies where they are employed severs the alignment of interests of the executive with shareholders. We believe companies should adopt strict policies to prohibit executives from hedging the economic risk associated with their shareownership in the company.

## **PLEDGING OF STOCK**

Glass Lewis believes that shareholders should examine the facts and circumstances of each company rather than apply a one-size-fits-all policy regarding employee stock pledging. Glass Lewis believes that shareholders benefit when employees, particularly senior executives have “skin-in-the-game” and therefore recognizes the benefits of measures designed to encourage employees to both buy shares out of their own pocket and to retain shares they have been granted; blanket policies prohibiting stock pledging may discourage executives and employees from doing either.

However, we also recognize that the pledging of shares can present a risk that, depending on a host of factors, an executive with significant pledged shares and limited other assets may have an incentive to take steps to avoid a forced sale of shares in the face of a rapid stock price decline. Therefore, to avoid substantial losses from a forced sale to meet the terms of the loan, the executive may have an incentive to boost the stock price in the short term in a

manner that is unsustainable, thus hurting shareholders in the long-term. We also recognize concerns regarding pledging may not apply to less senior employees, given the latter group's significantly more limited influence over a company's stock price. Therefore, we believe that the issue of pledging shares should be reviewed in that context, as should policies that distinguish between the two groups.

Glass Lewis believes that the benefits of stock ownership by executives and employees may outweigh the risks of stock pledging, depending on many factors. As such, Glass Lewis reviews all relevant factors in evaluating proposed policies, limitations and prohibitions on pledging stock, including:

- The number of shares pledged;
- The percentage executives' pledged shares are of outstanding shares;
- The percentage executives' pledged shares are of each executive's shares and total assets;
- Whether the pledged shares were purchased by the employee or granted by the company;



- Whether there are different policies for purchased and granted shares;
- Whether the granted shares were time-based or performance-based;
- The overall governance profile of the company;
- The volatility of the company's stock (in order to determine the likelihood of a sudden stock price drop);
- The nature and cyclicity, if applicable, of the company's industry;
- The participation and eligibility of executives and employees in pledging;
- The company's current policies regarding pledging and any waiver from these policies for employees and executives; and
- Disclosure of the extent of any pledging, particularly among senior executives.

## **COMPENSATION CONSULTANT INDEPENDENCE**

As mandated by Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require compensation committees to consider six factors in assessing compensation advisor independence. These factors include: (1) provision of other services to the company; (2) fees paid by the company as a percentage of the advisor's total annual revenue; (3) policies and procedures of the advisor to mitigate conflicts of interests; (4) any business or personal relationships of the consultant with any member of the compensation committee; (5) any company stock held by the consultant; and (6) any business or personal relationships of the consultant with any executive officer of the company. According to the SEC, "no one factor should be viewed as a determinative factor." Glass Lewis believes this six-factor assessment is an important process for every compensation committee to undertake.

We believe compensation consultants are engaged to provide objective, disinterested, expert advice to the compensation committee. When the consultant or its affiliates receive substantial income from providing other services to the company, we believe the potential for a conflict of interest arises and the independence of the consultant may be jeopardized. Therefore, Glass Lewis will, when relevant, note the potential for a conflict of interest when the fees paid to the advisor or its affiliates for other services exceeds those paid for compensation consulting.

## **FREQUENCY OF SAY-ON-PAY**

The Dodd-Frank Act also requires companies to allow shareholders a non-binding vote on the frequency of say-on-pay votes, i.e. every one, two or three years. Additionally, Dodd-Frank requires companies to hold such votes on the frequency of say-on-pay votes at least once every six years.

We believe companies should submit say-on-pay votes to shareholders every year. We believe that the time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareholders through more frequent accountability. Implementing biannual or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the compensation committee. Unless a company provides a compelling rationale or unique circumstances for say-on-pay votes less frequent than annually, we will generally recommend that shareholders support annual votes on compensation.

## **VOTE ON GOLDEN PARACHUTE ARRANGEMENTS**

The Dodd-Frank Act also requires companies to provide shareholders with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control transactions. However, if the golden parachute arrangements have previously been subject to a say-on-pay vote which shareholders approved, then this required vote is waived.

Glass Lewis believes the narrative and tabular disclosure of golden parachute arrangements benefits all shareholders. Glass Lewis analyzes each golden parachute arrangement on a case-by-case basis, taking into account, among other items: the ultimate value of the payments particularly compared to the value of the transaction, the tenure and position of the executives in question, and the type of triggers involved (single vs. double).

## **EQUITY-BASED COMPENSATION PLAN PROPOSALS**

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Glass Lewis evaluates equity-based compensation plans using a detailed model and analytical review.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our model and analysis takes into account factors such as plan administration, the method and terms of exercise, repricing history, express or implied rights to reprice, and the presence of evergreen provisions.

Our analysis is primarily quantitative and focused on the plan's cost as compared with the business's operating metrics. We run twenty different analyses, comparing the program with absolute limits we believe are key to equity value creation and with a carefully chosen peer group. In general, our model seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareholders and the projected annual cost relative to the company's financial performance. Each of the twenty analyses (and their constituent parts) is weighted and the plan is scored in accordance with that weight.

In our analysis, we compare the program's expected annual expense with the business's operating metrics to help determine whether the plan is excessive in light of company performance. We also compare the plan's expected annual cost to the enterprise value of the firm rather than to market capitalization because the employees, managers and directors of the firm contribute to the creation of enterprise value but not necessarily market capitalization (the biggest difference is seen where cash represents the vast majority of market capitalization). Finally, we do not rely exclusively on relative comparisons with averages because, in addition to creeping averages serving to inflate compensation, we believe that some absolute limits are warranted.

We evaluate equity plans based on certain overarching principles:

- Companies should seek more shares only when needed;
- Requested share amounts should be small enough that companies seek shareholder approval every three to four years (or more frequently);
- If a plan is relatively expensive, it should not grant options solely to senior executives and board members;
- Annual net share count and voting power dilution should be limited;

- Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and should be in line with the peer group;
- The expected annual cost of the plan should be proportional to the business's value;
- The intrinsic value that option grantees received in the past should be reasonable compared with the business's financial results;
- Plans should deliver value on a per-employee basis when compared with programs at peer companies;
- Plans should not permit re-pricing of stock options;
- Plans should not contain excessively liberal administrative or payment terms;
- Plans should not count shares in ways that understate the potential dilution, or cost, to common shareholders. This refers to "inverse" full-value award multipliers;
- Selected performance metrics should be challenging and appropriate, and should be subject to relative performance measurements; and
- Stock grants should be subject to minimum vesting and/or holding periods sufficient to ensure sustainable performance and promote retention.

## OPTION EXCHANGES

Glass Lewis views option repricing plans and option exchange programs with great skepticism. Shareholders have substantial risk in owning stock and we believe that the employees, officers, and directors who receive stock options should be similarly situated to align their interests with shareholder interests.

We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option's value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration.

In short, repricings and option exchange programs change the bargain between shareholders and employees after the bargain has been struck.

There is one circumstance in which a repricing or option exchange program is acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the repricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a circumstance, we will recommend supporting a repricing only if the following conditions are true:

- Officers and board members cannot participate in the program;
- The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;
- The exchange is value-neutral or value-creative to shareholders using very conservative assumptions and with a recognition of the adverse selection problems inherent in voluntary programs; and
- Management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

## **OPTION BACKDATING, SPRING-LOADING AND BULLET-DODGING**

Glass Lewis views option backdating, and the related practices of spring-loading and bullet-dodging, as egregious actions that warrant holding the appropriate management and board members responsible. These practices are similar to re-pricing options and eliminate much of the downside risk inherent in an option grant that is designed to induce recipients to maximize shareholder return.

Backdating an option is the act of changing an option's grant date from the actual grant date to an earlier date when the market price of the underlying stock was lower, resulting in a lower exercise price for the option. Since 2006, Glass Lewis has identified over 270 companies that have disclosed internal or government investigations into their past stock-option grants.

Spring-loading is granting stock options while in possession of material, positive information that has not been disclosed publicly. Bullet-dodging is delaying the grants of stock options until after the release of material, negative information. This can allow option grants to be made at a lower price either before the release of positive news or following the release of negative news, assuming the stock's price will move up or down in response to the information. This raises a concern similar to that of insider trading, or the trading on material non-public information.

The exercise price for an option is determined on the day of grant, providing the recipient with the same market risk as an investor who bought shares on that date. However, where options were backdated, the executive or the board (or the compensation committee) changed the grant date retroactively. The new date may be at or near the lowest price for the year or period. This would be like allowing an investor to look back and select the lowest price of the year at which to buy shares.

A 2006 study of option grants made between 1996 and 2005 at 8,000 companies found that option backdating can be an indication of poor internal controls. The study found that option backdating was more likely to occur at companies without a majority independent board and with a long-serving CEO; both factors, the study concluded, were associated with greater CEO influence on the company's compensation and governance practices<sup>52</sup>

Where a company granted backdated options to an executive who is also a director, Glass Lewis will recommend voting against that executive/director, regardless of who decided to make the award. In addition, Glass Lewis will recommend voting against those directors who either approved or allowed the backdating. Glass Lewis feels that executives and directors who either benefited from backdated options or authorized the practice have breached their fiduciary responsibility to shareholders.

Given the severe tax and legal liabilities to the company from backdating, Glass Lewis will consider recommending voting against members of the audit committee who served when options were backdated, a restatement occurs,

material weaknesses in internal controls exist and disclosures indicate there was a lack of documentation. These committee members failed in their responsibility to ensure the integrity of the company's financial reports.

When a company has engaged in spring-loading or bullet-dodging, Glass Lewis will consider recommending voting against the compensation committee members where there has been a pattern of granting options at or near historic lows. Glass Lewis will also recommend voting against executives serving on the board who benefited from the spring-loading or bullet-dodging.

## **DIRECTOR COMPENSATION PLANS**

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. However, a

52 Lucian Bebchuk, Yaniv Grinstein and Urs Peyer. "LUCKY CEOs." November, 2006.



balance is required. Fees should be competitive in order to retain and attract qualified individuals, but excessive fees represent a financial cost to the company and potentially compromise the objectivity and independence of non-employee directors. We will consider recommending supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. However, equity grants to directors should not be performance-based to ensure directors are not incentivized in the same manner as executives but rather serve as a check on imprudent risk-taking in executive compensation plan design.

Glass Lewis uses a proprietary model and analyst review to evaluate the costs of equity plans compared to the plans of peer companies with similar market capitalizations. We use the results of this model to guide our voting recommendations on stock-based director compensation plans.

### **EXECUTIVE COMPENSATION TAX DEDUCTIBILITY (IRS 162(M) COMPLIANCE)**

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of \$1 million for the CEO and the next three most highly compensated executive officers, excluding the CFO, if the compensation is performance-based and is paid under shareholder-approved plans. Companies therefore submit incentive plans for shareholder approval to take advantage of the tax deductibility afforded under 162(m) for certain types of compensation.

We believe the best practice for companies is to provide robust disclosure to shareholders so that they can make fully-informed judgments about the reasonableness of the proposed compensation plan. To allow for meaningful shareholder review, we prefer that disclosure should include specific performance metrics, a maximum award pool, and a maximum award amount per employee. We also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the company's peers.

We typically recommend voting against a 162(m) proposal where: (i) a company fails to provide at least a list of performance targets; (ii) a company fails to provide one of either a total maximum or an individual maximum; or (iii) the proposed plan is excessive when compared with the plans of the company's peers.

The company's record of aligning pay with performance (as evaluated using our proprietary pay-for-performance model) also plays a role in our recommendation. Where a company has a record of setting reasonable pay relative to business performance, we generally recommend voting in favor of a plan even if the plan caps seem large relative to peers because we recognize the value in special pay arrangements for continued exceptional performance.

As with all other issues we review, our goal is to provide consistent but contextual advice given the specifics of the company and ongoing performance. Overall, we recognize that it is generally not in shareholders' best interests to vote against such a plan and forgo the potential tax benefit since shareholder rejection of such plans will not curtail the

awards; it will only prevent the tax deduction associated with them.

V.

**GOVERNANCE STRUCTURE AND THE SHAREHOLDER FRANCHISE  
ANTI-TAKEOVER MEASURES**

**POISON PILLS (SHAREHOLDER RIGHTS PLANS)**

Glass Lewis believes that poison pill plans are not generally in shareholders' best interests. They can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. Typically we recommend that shareholders vote against these plans to protect their financial interests and ensure that they have an opportunity to consider any offer for their shares, especially those at a premium.

We believe boards should be given wide latitude in directing company activities and in charting the company's course. However, on an issue such as this, where the link between the shareholders' financial interests and their right to consider and accept buyout offers is substantial, we believe that shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion. Its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

In certain circumstances, we will support a poison pill that is limited in scope to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable qualifying offer clause. We will consider supporting a poison pill plan if the qualifying offer clause includes each of the following attributes:

- The form of offer is not required to be an all-cash transaction;
- The offer is not required to remain open for more than 90 business days;
- The offeror is permitted to amend the offer, reduce the offer, or otherwise change the terms;
- There is no fairness opinion requirement; and
- There is a low to no premium requirement.

Where these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer.

## **NOL POISON PILLS**

Similarly, Glass Lewis may consider supporting a limited poison pill in the unique event that a company seeks shareholder approval of a rights plan for the express purpose of preserving Net Operating Losses (NOLs). While companies with NOLs can generally carry these losses forward to offset future taxable income, Section 382 of the Internal Revenue Code limits companies' ability to use NOLs in the event of a "change of ownership."<sup>53</sup> In this case, a company may adopt or amend a poison pill ("NOL pill") in order to prevent an inadvertent change of ownership by multiple investors purchasing small

<sup>53</sup> Section 382 of the Internal Revenue Code refers to a "change of ownership" of more than 50 percentage points by one or more 5% shareholders within a three-year period. The statute is intended to deter the "trafficking" of net operating losses.

chunks of stock at the same time, and thereby preserve the ability to carry the NOLs forward. Often such NOL pills have trigger thresholds much lower than the common 15% or 20% thresholds, with some NOL pill triggers as low as 5%.

Glass Lewis evaluates NOL pills on a strictly case-by-case basis taking into consideration, among other factors, the value of the NOLs to the company, the likelihood of a change of ownership based on the size of the holding and the nature of the larger shareholders, the trigger threshold and whether the term of the plan is limited in duration (i.e., whether it contains a reasonable “sunset” provision) or is subject to periodic board review and/or shareholder ratification. However, we will recommend that shareholders vote against a proposal to adopt or amend a pill to include NOL protective provisions if the company has adopted a more narrowly tailored means of preventing a change in control to preserve its NOLs. For example, a company may limit share transfers in its charter to prevent a change of ownership from occurring.

Furthermore, we believe that shareholders should be offered the opportunity to vote on any adoption or renewal of a NOL pill regardless of any potential tax benefit that it offers a company. As such, we will consider recommending voting against those members of the board who served at the time when an NOL pill was adopted without shareholder approval within the prior twelve months and where the NOL pill is not subject to shareholder ratification.

## **FAIR PRICE PROVISIONS**

Fair price provisions, which are rare, require that certain minimum price and procedural requirements be observed by any party that acquires more than a specified percentage of a corporation’s common stock. The provision is intended to protect minority shareholder value when an acquirer seeks to accomplish a merger or other transaction which would eliminate or change the interests of the minority stockholders. The provision is generally applied against the acquirer unless the takeover is approved by a majority of “continuing directors” and holders of a majority, in some cases a supermajority as high as 80%, of the combined voting power of all stock entitled to vote to alter, amend, or repeal the above provisions.

The effect of a fair price provision is to require approval of any merger or business combination with an “interested stockholder” by 51% of the voting stock of the company, excluding the shares held by the interested stockholder. An interested stockholder is generally considered to be a holder of 10% or more of the company’s outstanding stock, but the trigger can vary.

Generally, provisions are put in place for the ostensible purpose of preventing a back-end merger where the interested stockholder would be able to pay a lower price for the remaining shares of the company than he or she paid to gain control. The effect of a fair price provision on shareholders, however, is to limit their ability to gain a premium for their shares through a partial tender offer or open market acquisition which typically raise the share price, often significantly. A fair price provision discourages such transactions because of the potential costs of seeking shareholder approval and because of the restrictions on purchase price for completing a merger or other transaction at a later time.

Glass Lewis believes that fair price provisions, while sometimes protecting shareholders from abuse in a takeover situation, more often act as an impediment to takeovers, potentially limiting gains to shareholders from a variety of transactions that could significantly increase share price. In some cases, even the independent directors of the board cannot make exceptions when such exceptions may be in the best interests of shareholders. Given the existence of state law protections for minority shareholders such as Section 203 of the Delaware Corporations Code, we believe it is in the best interests of shareholders to remove fair price provisions.

## **REINCORPORATION**

In general, Glass Lewis believes that the board is in the best position to determine the appropriate jurisdiction of incorporation for the company. When examining a management proposal to reincorporate to a different state or country, we review the relevant financial benefits, generally related to improved corporate tax treatment, as well as changes in corporate governance provisions, especially those relating to shareholder rights, resulting from the change in domicile. Where the financial benefits are de minimis and there is a decrease in shareholder rights, we will recommend voting against the transaction.

However, costly, shareholder-initiated reincorporations are typically not the best route to achieve the furtherance of shareholder rights. We believe shareholders are generally better served by proposing specific shareholder resolutions addressing pertinent issues which may be implemented at a lower cost, and perhaps even with board approval. However, when shareholders propose a shift into a jurisdiction with enhanced shareholder rights, Glass Lewis examines the significant ways would the company benefit from shifting jurisdictions including the following:

- Is the board sufficiently independent?
- Does the company have anti-takeover protections such as a poison pill or classified board in place?
- Has the board been previously unresponsive to shareholders (such as failing to implement a shareholder proposal that received majority shareholder support)?
- Do shareholders have the right to call special meetings of shareholders?
- Are there other material governance issues at the company?
- Has the company's performance matched or exceeded its peers in the past one and three years?
- How has the company ranked in Glass Lewis' pay-for-performance analysis during the last three years?
- Does the company have an independent chairman?

We note, however, that we will only support shareholder proposals to change a company's place of incorporation in exceptional circumstances.

## **EXCLUSIVE FORUM PROVISIONS**

Glass Lewis believes that charter or bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. As such, shareholders should be wary about approving any limitation on their legal recourse including limiting themselves to a single jurisdiction (e.g.

Delaware) without compelling evidence that it will benefit shareholders.

For this reason, we recommend that shareholders vote against any bylaw or charter amendment seeking to adopt an exclusive forum provision unless the company: (i) provides a compelling argument on why the provision would directly benefit shareholders; (ii) provides evidence of abuse of legal process in other, non-favored jurisdictions; and (iii) maintains a strong record of good corporate governance practices.

Moreover, in the event a board seeks shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal, we will weigh the importance of



the other bundled provisions when determining the vote recommendation on the proposal. We will nonetheless recommend voting against the chairman of the governance committee for bundling disparate proposals into a single proposal (refer to our discussion of nominating and governance committee performance in Section I of the guidelines).

## AUTHORIZED SHARES

Glass Lewis believes that adequate capital stock is important to a company's operation. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock:

1. **Stock Split** – We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: The historical stock pre-split price, if any; the current price relative to the company's most common trading price over the past 52 weeks; and some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.
2. **Shareholder Defenses** – Additional authorized shares could be used to bolster takeover defenses such as a poison pill. Proxy filings often discuss the usefulness of additional shares in defending against or discouraging a hostile takeover as a reason for a requested increase. Glass Lewis is typically against such defenses and will oppose actions intended to bolster such defenses.
3. **Financing for Acquisitions** – We look at whether the company has a history of using stock for acquisitions and attempt to determine what levels of stock have typically been required to accomplish such transactions. Likewise, we look to see whether this is discussed as a reason for additional shares in the proxy.
4. **Financing for Operations** – We review the company's cash position and its ability to secure financing through borrowing or other means. We look at the company's history of capitalization and whether the company has had to use stock in the recent past as a means of raising capital.

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend against the authorization of additional shares. Similar concerns may also lead us to recommend against a proposal to conduct a reverse stock split if the board does not state that it will reduce the number of authorized common shares in a ratio proportionate to the split.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

**ADVANCE NOTICE REQUIREMENTS**

We typically recommend that shareholders vote against proposals that would require advance notice of shareholder proposals or of director nominees.

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements typically range between three to six months prior to the annual meeting. Advance notice requirements typically make it impossible for a shareholder who misses the deadline to present a shareholder proposal or a director nominee that might be in the best interests of the company and its shareholders.

We believe shareholders should be able to review and vote on all proposals and director nominees. Shareholders can always vote against proposals that appear with little prior notice. Shareholders, as owners of a business, are capable of identifying issues on which they have sufficient information and ignoring issues on which they have insufficient information. Setting arbitrary notice restrictions limits the opportunity for shareholders to raise issues that may come up after the window closes.

## **VOTING STRUCTURE**

### **CUMULATIVE VOTING**

Cumulative voting increases the ability of minority shareholders to elect a director by allowing shareholders to cast as many shares of the stock they own multiplied by the number of directors to be elected. As companies generally have multiple nominees up for election, cumulative voting allows shareholders to cast all of their votes for a single nominee, or a smaller number of nominees than up for election, thereby raising the likelihood of electing one or more of their preferred nominees to the board. It can be important when a board is controlled by insiders or affiliates and where the company's ownership structure includes one or more shareholders who control a majority-voting block of company stock.

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders.

However, academic literature indicates that where a highly independent board is in place and the company has a shareholder-friendly governance structure, shareholders may be better off without cumulative voting. The analysis underlying this literature indicates that shareholder returns at firms with good governance structures are lower and that boards can become factionalized and prone to evaluating the needs of special interests over the general interests of shareholders collectively.

We review cumulative voting proposals on a case-by-case basis, factoring in the independence of the board and the status of the company's governance structure. But we typically find these proposals on ballots at companies where independence is lacking and where the appropriate checks and balances favoring shareholders are not in place. In those instances we typically recommend in favor of cumulative voting.

Where a company has adopted a true majority vote standard (i.e., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), Glass Lewis will recommend voting against cumulative voting proposals due to the incompatibility of the two election methods. For companies that have not adopted a true majority voting standard but have adopted some form of majority voting,

Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Where a company has not adopted a majority voting standard and is facing both a shareholder proposal to adopt majority voting and a shareholder proposal to adopt cumulative voting, Glass Lewis will support only the majority voting proposal. When a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

## **SUPERMAJORITY VOTE REQUIREMENTS**

Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. An example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority shareholders. We believe that a simple majority is appropriate to approve all matters presented to shareholders.

## **TRANSACTION OF OTHER BUSINESS**

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before an annual or special meeting. In our opinion, granting unfettered discretion is unwise.

## **ANTI-GREENMAIL PROPOSALS**

Glass Lewis will support proposals to adopt a provision preventing the payment of greenmail, which would serve to prevent companies from buying back company stock at significant premiums from a certain shareholder. Since a large or majority shareholder could attempt to compel a board into purchasing its shares at a large premium, the anti-greenmail provision would generally require that a majority of shareholders other than the majority shareholder approve the buyback.

## **MUTUAL FUNDS: INVESTMENT POLICIES AND ADVISORY AGREEMENTS**

Glass Lewis believes that decisions about a fund's structure and/or a fund's relationship with its investment advisor or sub-advisors are generally best left to management and the members of the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. As such, we focus our analyses of such proposals on the following main areas:

- The terms of any amended advisory or sub-advisory agreement;
- Any changes in the fee structure paid to the investment advisor; and
- Any material changes to the fund's investment objective or strategy.

We generally support amendments to a fund's investment advisory agreement absent a material change that is not in the best interests of shareholders. A significant increase in the fees paid to an investment advisor would be reason for us to consider recommending voting against a proposed amendment to an investment advisory agreement. However, in certain cases, we are more inclined to support an increase in advisory fees if such increases result from being performance-based rather than asset-based. Furthermore, we generally support sub-advisory agreements between a fund's advisor and sub-advisor, primarily because the fees received by the sub-advisor are paid by the advisor, and not by the fund.

In matters pertaining to a fund's investment objective or strategy, we believe shareholders are best served when a fund's objective or strategy closely resembles the investment discipline shareholders understood and selected when they initially bought into the fund. As such, we generally recommend voting against amendments to a fund's investment objective or strategy when the proposed changes would leave shareholders with stakes in a fund that is noticeably different than when originally contemplated, and which could therefore potentially negatively impact some investors' diversification strategies.

## **REAL ESTATE INVESTMENT TRUSTS**

The complex organizational, operational, tax and compliance requirements of Real Estate Investment Trusts (“REITs”) provide for a unique shareholder evaluation. In simple terms, a REIT must have a minimum of 100 shareholders (the “100 Shareholder Test”) and no more than 50% of the value of its shares can be held by five or fewer individuals (the “5/50 Test”). At least 75% of a REITs’ assets must be in real estate, it must derive 75% of its gross income from rents or mortgage interest, and it must pay out 90% of its taxable earnings as dividends. In addition, as a publicly traded security listed on a stock exchange, a REIT must comply with the same general listing requirements as a publicly traded equity.

In order to comply with such requirements, REITs typically include percentage ownership limitations in their organizational documents, usually in the range of 5% to 10% of the REITs outstanding shares. Given the complexities of REITs as an asset class, Glass Lewis applies a highly nuanced approach in our evaluation of REIT proposals, especially regarding changes in authorized share capital, including preferred stock.

## **PREFERRED STOCK ISSUANCES AT REITS**

Glass Lewis is generally against the authorization of preferred shares that allows the board to determine the preferences, limitations and rights of the preferred shares (known as “blank-check preferred stock”). We believe that granting such broad discretion should be of concern to common shareholders, since blank-check preferred stock could be used as an antitakeover device or in some other fashion that adversely affects the voting power or financial interests of common shareholders. However, given the requirement that a REIT must distribute 90% of its net income annually, it is inhibited from retaining capital to make investments in its business. As such, we recognize that equity financing likely plays a key role in a REIT’s growth and creation of shareholder value. Moreover, shareholder concern regarding the use of preferred stock as an anti-takeover mechanism may be allayed by the fact that most REITs maintain ownership limitations in their certificates of incorporation. For these reasons, along with the fact that REITs typically do not engage in private placements of preferred stock (which result in the rights of common shareholders being adversely impacted), we may support requests to authorize shares of blank-check preferred stock at REITs.

## **BUSINESS DEVELOPMENT COMPANIES**

Business Development Companies (“BDCs”) were created by the U.S. Congress in 1980; they are regulated under the Investment Company Act of 1940 and are taxed as regulated investment companies (“RICs”) under the Internal Revenue Code. BDCs typically operate as publicly traded private equity firms that invest in early stage to mature private companies as well as small public companies. BDCs realize operating income when their investments are sold off, and therefore maintain complex organizational, operational, tax and compliance requirements that are similar to those of REITs—the most evident of which is that BDCs must distribute at least 90% of their taxable earnings as dividends.

**AUTHORIZATION TO SELL SHARES AT A PRICE BELOW NET ASSET VALUE**

Considering that BDCs are required to distribute nearly all their earnings to shareholders, they sometimes need to offer additional shares of common stock in the public markets to finance operations and acquisitions. However, shareholder approval is required in order for a BDC to sell shares of common stock at a price below Net Asset Value (“NAV”). Glass Lewis evaluates these proposals using a case-by-case approach, but will recommend supporting such requests if the following conditions are met:



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- The authorization to allow share issuances below NAV has an expiration date of one year or less from the date that shareholders approve the underlying proposal (i.e. the meeting date);
- The proposed discount below NAV is minimal (ideally no greater than 20%);
- The board specifies that the issuance will have a minimal or modest dilutive effect (ideally no greater than 25% of the company's then-outstanding common stock prior to the issuance); and
- A majority of the company's independent directors who do not have a financial interest in the issuance approve the sale.

In short, we believe BDCs should demonstrate a responsible approach to issuing shares below NAV, by proactively addressing shareholder concerns regarding the potential dilution of the requested share issuance, and explaining if and how the company's past below-NAV share issuances have benefitted the company.

VI.

COMPENSATION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE SHAREHOLDER INITIATIVES  
OVERVIEW

Glass Lewis typically prefers to leave decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, to management and the board, except when there is a clear link between the proposal and value enhancement or risk mitigation. We feel strongly that shareholders should not attempt to micromanage the company, its businesses or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and then hold directors accountable for management and policy decisions through board elections. However, we recognize that support of appropriately crafted shareholder initiatives may at times serve to promote or protect shareholder value.

To this end, Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally recommend supporting shareholder proposals calling for the elimination of, as well as to require shareholder approval of, antitakeover devices such as poison pills and classified boards. We generally recommend supporting proposals likely to increase and/or protect shareholder value and also those that promote the furtherance of shareholder rights. In addition, we also generally recommend supporting proposals that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance.

**For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*.**

**DISCLAIMER**

This document sets forth the proxy voting policy and guidelines of Glass, Lewis & Co., LLC. The policies included herein have been developed based on Glass Lewis' experience with proxy voting and corporate governance issues and are not tailored to any specific person. Moreover, these guidelines are not intended to be exhaustive and do not include all potential voting issues. The information included herein is reviewed periodically and updated or revised as necessary. Glass Lewis is not responsible for any actions taken or not taken on the basis of this information. This document may not be reproduced or distributed in any manner without the written permission of Glass Lewis.

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PROXY PAPER™

GUIDELINES

2014 PROXY SEASON

AN OVERVIEW OF THE GLASS LEWIS

APPROACH TO PROXY ADVICE

INTERNATIONAL

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TABLE OF

CONTENTS

I. ELECTION OF DIRECTORS	1
Board Composition	1
Slate Elections	2
Board Committee Composition	2
Review of Risk Management Controls	2
Classified Boards	2
II. FINANCIAL REPORTING	3
Accounts and Reports	3
Income Allocation (Distribution of Dividend)	3
Appointment of Auditors and Authority to Set Fees	3
III. COMPENSATION	4
Compensation Report/Compensation Policy	4
Long Term Incentive Plans	4
Performance-Based Equity Compensation	4
Director Compensation	5
Retirement Benefits for Directors	5
Limits on Executive Compensation	5
IV. GOVERNANCE STRUCTURE	6
Amendments to the Articles of Association	6
Anti-Takeover Measures	6
Poison Pills (Shareholder Rights Plans)	6
Supermajority Vote Requirements	6
Increase in Authorized Shares	6
Issuance of Shares	7
Repurchase of Shares	7
V. ENVIRONMENTAL AND SOCIAL RISK	8

I.

**ELECTION OF DIRECTORS**

Boards are put in place to represent shareholders and protect their interests. Glass Lewis seeks boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. In our view, boards working to protect and enhance the best interests of shareholders typically include some independent directors (the percentage will vary by local market practice and regulations), boast a record of positive performance, have directors with diverse backgrounds, and appoint directors with a breadth and depth of experience.

**BOARD COMPOSITION**

When companies disclose sufficient relevant information, we look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships are likely to impact the decisions of that board member. Where the company does not disclose the names and backgrounds of director nominees with sufficient time in advance of the shareholder meeting to evaluate their independence and performance, we will consider recommending abstaining on the directors' election.

We vote in favor of governance structures that will drive positive performance and enhance shareholder value. The most crucial test of a board's commitment to the company and to its shareholders is the performance of the board and its members. The performance of directors in their capacity as board members and as executives of the company, when applicable, and in their roles at other companies where they serve is critical to this evaluation.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the three-five years prior to the inquiry are usually considered to be "current" for purposes of this test.

In our view, a director is affiliated if he or she has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the Company. This also includes a director who owns or controls 10-20% or more of the company's voting stock.

We define an inside director as one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of



the company.

Although we typically vote for the election of directors, we will recommend voting against directors for the following reasons:

- A director who attends less than 75% of the board and applicable committee meetings.
- A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.

We also feel that the following conflicts of interest may hinder a director's performance and will therefore recommend voting against a:

- CFO who presently sits on the board.
- Director who presently sits on an excessive number of boards.

- Director, or a director whose immediate family member, provides material professional services to the company at any time during the past five years.
- Director, or a director whose immediate family member, engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
- Director with an interlocking directorship.

## **SLATE ELECTIONS**

In some countries, companies elect their board members as a slate, whereby shareholders are unable to vote on the election of each individual director, but rather are limited to voting for or against the board as a whole. If significant issues exist concerning one or more of the nominees or in markets where directors are generally elected individually, we will recommend voting against the entire slate of directors.

## **BOARD COMMITTEE COMPOSITION**

We believe that independent directors should serve on a company's audit, compensation, nominating and governance committees. We will support boards with such a structure and encourage change where this is not the case.

## **REVIEW OF RISK MANAGEMENT CONTROLS**

We believe companies, particularly financial firms, should have a dedicated risk committee, or a committee of the board charged with risk oversight, as well as a chief risk officer who reports directly to that committee, not to the CEO or another executive. In cases where a company has disclosed a sizable loss or writedown, and where a reasonable analysis indicates that the company's board-level risk committee should be held accountable for poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise), we will consider recommending to vote against the chairman of the board on that basis.

## **CLASSIFIED BOARDS**

Glass Lewis favors the repeal of staggered boards in favor of the annual election of directors. We believe that staggered boards are less accountable to shareholders than annually elected boards. Furthermore, we feel that the annual election of directors encourages board members to focus on protecting the interests of shareholders.



II.

**FINANCIAL REPORTING  
ACCOUNTS AND REPORTS**

Many countries require companies to submit the annual financial statements, director reports and independent auditors' reports to shareholders at a general meeting. Shareholder approval of such a proposal does not discharge the board or management. We will usually recommend voting in favor of these proposals except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report and/or annual report not be published at the writing of our report, we will recommend that shareholders abstain from voting on this proposal.

**INCOME ALLOCATION (DISTRIBUTION OF DIVIDEND)**

In many countries, companies must submit the allocation of income for shareholder approval. We will generally recommend voting for such a proposal. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high relative to its peers and the company has not provided a satisfactory explanation.

**APPOINTMENT OF AUDITORS AND AUTHORITY TO SET FEES**

We believe that role of the auditor is crucial in protecting shareholder value. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

We generally support management's recommendation regarding the selection of an auditor and support granting the board the authority to fix auditor fees except in cases where we believe the independence of an incumbent auditor or the integrity of the audit has been compromised.

However, we recommend voting against ratification of the auditor and/or authorizing the board to set auditor fees for the following reasons:

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- When audit fees added to audit-related fees total less than one-half of total fees.
- When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in financial statements.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

III.

COMPENSATION  
**COMPENSATION REPORT/COMPENSATION POLICY**

We closely review companies' remuneration practices and disclosure as outlined in company filings to evaluate management-submitted advisory compensation report and policy vote proposals. In evaluating these proposals, which can be binding or non-binding depending on the country, we examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company and the levels of remuneration in comparison to company performance and that of its peers.

We will usually recommend voting against approval of the compensation report or policy when the following occur:

- Gross disconnect between pay and performance;
- Performance goals and metrics are inappropriate or insufficiently challenging;
- Lack of disclosure regarding performance metrics and goals as well as the extent to which the performance metrics, targets and goals are implemented to enhance company performance and encourage prudent risk-taking;
- Excessive discretion afforded to or exercised by management or the compensation committee to deviate from defined performance metrics and goals in making awards;
- Ex gratia or other non-contractual payments have been made and the reasons for making the payments have not been fully explained or the explanation is unconvincing;
- Guaranteed bonuses are established;
- There is no clawback policy; or
- Egregious or excessive bonuses, equity awards or severance payments.

**LONG TERM INCENTIVE PLANS**

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an employee's pay to a company's performance, thereby aligning their interests with those of shareholders. Tying a portion of an employee's compensation to the performance of the Company provides an

incentive to maximize share value. In addition, equity-based compensation is an effective way to attract, retain and motivate key employees.

In order to allow for meaningful shareholder review, we believe that incentive programs should generally include: (i) specific and appropriate performance goals; (ii) a maximum award pool; and (iii) a maximum award amount per employee. In addition, the payments made should be reasonable relative to the performance of the business and total compensation to those covered by the plan should be in line with compensation paid by the Company's peers.

#### **PERFORMANCE-BASED EQUITY COMPENSATION**

Glass Lewis believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. While we do not believe that equity-based compensation plans for all employees need to be based on overall company performance, we do support such limitations for grants to senior executives (although even some equity-based compensation of senior executives

without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment).

Boards often argue that such a proposal would hinder them in attracting talent. We believe that boards can develop a consistent, reliable approach, as boards of many companies have, that would still attract executives who believe in their ability to guide the company to achieve its targets. We generally recommend that shareholders vote in favor of performance-based option requirements.

There should be no retesting of performance conditions for all share- and option- based incentive schemes. We will generally recommend that shareholders vote against performance-based equity compensation plans that allow for re-testing.

## **DIRECTOR COMPENSATION**

Glass Lewis believes that non-employee directors should receive appropriate types and levels of compensation for the time and effort they spend serving on the board and its committees. Director fees should be reasonable in order to retain and attract qualified individuals. In particular, we support compensation plans that include non performance-based equity awards, which help to align the interests of outside directors with those of shareholders.

Glass Lewis compares the costs of these plans to the plans of peer companies with similar market capitalizations in the same country to help inform its judgment on this issue.

## **RETIREMENT BENEFITS FOR DIRECTORS**

We will typically recommend voting against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Directors should receive adequate compensation for their board service through initial and annual fees.

## **LIMITS ON EXECUTIVE COMPENSATION**

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive compensation. Such matters should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their



disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance is in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. Performance-based compensation may be limited if a chief executive's pay is capped at a low level rather than flexibly tied to the performance of the company.

IV.

**GOVERNANCE STRUCTURE  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from evaluating each amendment on its own merits. In such cases, we will analyze each change individually and will recommend voting for the proposal only when we believe that the amendments on balance are in the best interests of shareholders.

**ANTI-TAKEOVER MEASURES**

**POISON PILLS (SHAREHOLDER RIGHTS PLANS)**

Glass Lewis believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation.

In certain limited circumstances, we will support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause.

**SUPERMAJORITY VOTE REQUIREMENTS**

Glass Lewis favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where

supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

## **INCREASE IN AUTHORIZED SHARES**

Glass Lewis believes that having adequate capital stock available for issuance is important to the operation of a company. We will generally support proposals when a company could reasonably use the requested shares for financing, stock splits and stock dividends. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of large pools of unallocated shares available for any purpose.

In general, we will support proposals to increase authorized shares up to 100% of the number of shares currently authorized unless, after the increase the company would be left with less than 30% of its authorized shares outstanding.

## **ISSUANCE OF SHARES**

Issuing additional shares can dilute existing holders in some circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares requested are excessive, we typically recommend against the issuance. In the case of a private placement, we will also consider whether the company is offering a discount to its share price.

In general, we will support proposals to issue shares (with pre-emption rights) when the requested increase is the lesser of (i) the unissued ordinary share capital; or (ii) a sum equal to one-third of the issued ordinary share capital. This authority should not exceed five years. In some countries, if the proposal contains a figure greater than one-third, the company should explain the nature of the additional amounts.

We will also generally support proposals to suspend pre-emption rights for a maximum of 5-20% of the issued ordinary share capital of the company, depending on the country in which the company is located. This authority should not exceed five years, or less for some countries.

## **REPURCHASE OF SHARES**

We will recommend voting in favor of a proposal to repurchase shares when the plan includes the following provisions: (i) a maximum number of shares which may be purchased (typically not more than 15% of the issued share capital); and (ii) a maximum price which may be paid for each share (as a percentage of the market price).

V.

#### ENVIRONMENTAL AND SOCIAL RISK

We believe companies should actively evaluate risks to long-term shareholder value stemming from exposure to environmental and social risks and should incorporate this information into their overall business risk profile. In addition, we believe companies should consider their exposure to changes in environmental or social regulation with respect to their operations as well as related legal and reputational risks. Companies should disclose to shareholders both the nature and magnitude of such risks as well as steps they have taken or will take to mitigate those risks.

When we identify situations where shareholder value is at risk, we may recommend voting in favor of a reasonable and well-targeted proposal if we believe supporting the proposal will promote disclosure of and/or mitigate significant risk exposure. In limited cases where a company has failed to adequately mitigate risks stemming from environmental or social practices, we will recommend shareholders vote against: (i) ratification of board and/or management acts; (ii) approving a company's accounts and reports and/or; (iii) directors (in egregious cases).

8

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[LOGO]

September 1,  
2014

California Long Municipal Index ETF (MCC)

Massachusetts Municipal Index ETF (MMX)

New Jersey Municipal Index ETF (MNJ)

New York Long Municipal Index ETF (TFN)

Ohio Municipal Index ETF (OHF)

Pennsylvania Municipal Index ETF (PAM)

Principal U.S. Listing Exchange for each Fund: NYSE Arca, Inc.

The U.S. Securities and Exchange Commission has not approved or disapproved these securities or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

**Table of Contents**

<u>Summary Information</u>	1
<u>Market Vectors California Long Municipal Index ETF</u>	1
<u>Market Vectors Massachusetts Municipal Index ETF</u>	6
<u>Market Vectors New Jersey Municipal Index ETF</u>	11
<u>Market Vectors New York Long Municipal Index ETF</u>	16
<u>Market Vectors Ohio Municipal Index ETF</u>	21
<u>Market Vectors Pennsylvania Municipal Index ETF</u>	26
<u>Summary Information About Purchases and Sales of Fund Shares and Taxes</u>	31
<u>Additional Information About the Funds' Investment Strategies and Risks</u>	32
<u>Portfolio Holdings</u>	42
<u>Management of the Funds</u>	42
<u>Portfolio Managers</u>	43
<u>Shareholder Information</u>	44
<u>Index Provider</u>	49
<u>Barclays AMT-Free California Long Municipal Index</u>	50
<u>Barclays AMT-Free Massachusetts Municipal Index</u>	51
<u>Barclays AMT-Free New Jersey Municipal Index</u>	52
<u>Barclays AMT-Free New York Long Municipal Index</u>	53
<u>Barclays AMT-Free Ohio Municipal Index</u>	54
<u>Barclays AMT-Free Pennsylvania Municipal Index</u>	55
<u>License Agreements and Disclaimers</u>	56
<u>Financial Highlights</u>	57
<u>Premium/Discount Information</u>	58
<u>General Information</u>	59

Summary Information

Market Vectors California Long Municipal Index ETF

Investment Objective

Market Vectors California Long Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free California Long Municipal Index (the “California Index”).

Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
<b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup> “Other Expenses” are based on estimated amounts for the current fiscal year.

Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or

selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

**YEAR EXPENSES**

1	\$26
3	\$80

**Portfolio Turnover**

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

## Principal Investment Strategies

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the California Index. The California Index is comprised of publicly traded California municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the California Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the California Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the California Index, the Fund does not purchase all of the securities in the California Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the California Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the California Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the California Index concentrates in an industry or group of industries.

## Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their

obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also

- 2 -

adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*California Specific Risk.* Investors will be exposed to risks associated with the unique aspects of the State of California's economy, political system and government financing structures. Unfavorable developments in any economic sector may have a substantial impact on the overall California municipal market. Provisions of the California Constitution and state statutes that limit the taxing and spending authority of California governmental entities may impair the ability of California issuers to pay principal and/or interest on their obligations. Payments of certain municipal obligations may also be structurally subordinated to other obligations as a matter of California law. The deterioration of California's fiscal situation as a result of the recent economic downturn increases the risk of investing in California municipal securities, including the risk of potential issuer default, and also heightens the risk that the prices of California municipal securities, and the Fund's net asset value ("NAV"), will experience greater volatility. In addition, further downgrades of California's general obligation bond rating could result in a reduction in the market value of the California municipal securities held by the Fund, which could negatively impact the Fund's NAV and/or the distributions paid by the Fund. Future political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of issuers of California municipal securities.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the California Index. As a result, an adverse development respecting an

- 3 -



issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the California Index. Conversely, a positive development relating to an issuer of securities in the California Index that is not held by the Fund could cause the Fund to underperform the California Index. To the extent the assets in the Fund are smaller, these risks will be greater.

*Index Tracking Risk.* The Fund's return may not match the return of the California Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the California Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the California Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the California Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the California Index as would be the case if the Fund purchased all of the securities in the California Index in the proportions in which they are represented in the California Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the California Index is based on securities' closing prices (*i.e.*, the value of the California Index is not based on fair value prices), the Fund's ability to track the California Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income tax or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the Investment Company Act of 1940, as amended ("1940 Act"). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific

security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

- 4 -

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the California Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

#### Performance

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

#### Portfolio Management

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

#### Purchase and Sale of Fund Shares

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

Market Vectors Massachusetts Municipal Index ETF

Investment Objective

Market Vectors Massachusetts Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Massachusetts Municipal Index (the “Massachusetts Index”).

Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup> “Other Expenses” are based on estimated amounts for the current fiscal year.

Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

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The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

**YEAR EXPENSES**

1	\$26
3	\$80

Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

## Principal Investment Strategies

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Massachusetts Index. The Massachusetts Index is comprised of publicly traded Massachusetts municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the Massachusetts Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the Massachusetts Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Massachusetts Index, the Fund does not purchase all of the securities in the Massachusetts Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Massachusetts Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Massachusetts Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Massachusetts Index concentrates in an industry or group of industries.

## Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their

obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also

- 7 -

adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*Massachusetts Specific Risk.* The Fund concentrates its investments in Massachusetts municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Massachusetts and their ability to pay principal and interest on their obligations. Massachusetts is a densely populated state with a well educated population, comparatively high income levels and a relatively diversified economy. In April 2006, Massachusetts passed legislation essentially mandating healthcare insurance for all residents. Those residents unable to secure insurance on their own will have their premiums subsidized by the Commonwealth. Firms with more than 10 workers will be required to provide insurance to their employees or pay a fee to the Commonwealth. It is unknown at this time whether this new legislation will ultimately reduce or increase healthcare costs to the Commonwealth and its employers. Though impacted more severely than most states during the recent recession, the Commonwealth has taken steps to improve its financial profile on an ongoing basis. Changes in the way school construction and the Massachusetts Bay Transportation Authority are funded should create more budgetary certainty. The Commonwealth's Budget Stabilization Fund ended fiscal year 2007 with a balance of \$2.3 billion. The Budget Stabilization Fund is projected to remain at \$2.1 billion at the end of fiscal year 2008.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the



Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Massachusetts Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if

- 8 -

the Fund held all of the securities in the Massachusetts Index. Conversely, a positive development relating to an issuer of securities in the Massachusetts Index that is not held by the Fund could cause the Fund to underperform the Massachusetts Index. To the extent the assets in the Fund are smaller, these risks will be greater.

*Index Tracking Risk.* The Fund's return may not match the return of the Massachusetts Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Massachusetts Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Massachusetts Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Massachusetts Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Massachusetts Index as would be the case if the Fund purchased all of the securities in the Massachusetts Index in the proportions in which they are represented in the Massachusetts Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Massachusetts Index is based on securities' closing prices (*i.e.*, the value of the Massachusetts Index is not based on fair value prices), the Fund's ability to track the Massachusetts Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by the Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income tax or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the 1940 Act. Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio

assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

- 9 -

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Massachusetts Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

#### Performance

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

#### Portfolio Management

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

#### Purchase and Sale of Fund Shares

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

Market Vectors New Jersey Municipal Index ETF

Investment Objective

Market Vectors New Jersey Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free New Jersey Municipal Index (the “New Jersey Index”).

Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup> “Other Expenses” are based on estimated amounts for the current fiscal year.

Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

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The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

**YEAR EXPENSES**

1	\$26
3	\$80

Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

- 11 -

## Principal Investment Strategies

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the New Jersey Index. The New Jersey Index is comprised of publicly traded New Jersey municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the New Jersey Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the New Jersey Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the New Jersey Index, the Fund does not purchase all of the securities in the New Jersey Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the New Jersey Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the New Jersey Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the New Jersey Index concentrates in an industry or group of industries.

## Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their

obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also

- 12 -



adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*New Jersey Specific Risk.* The Fund concentrates its investments in New Jersey municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in New Jersey and their ability to pay principal and interest on their obligations. New Jersey's economy is closely tied to New York City's economy and has benefited from an influx of jobs from New York City. The State's high cost nature and slow population growth are often cited as impediments to higher economic growth. The State and its various subdivisions may also face increasing financial pressure from costs relating to pensions and other post employment benefits. New Jersey's debt burden has increased substantially in the past decade and is high by any number of measurements. This may reduce financial flexibility in the future.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the New Jersey Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the New Jersey Index. Conversely, a positive development relating to an issuer of securities in the New Jersey Index that is not held by the Fund could cause the Fund to underperform the New Jersey Index. To the extent the assets in the Fund are smaller, these risks will be greater.

- 13 -

*Index Tracking Risk.* The Fund's return may not match the return of the New Jersey Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the New Jersey Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the New Jersey Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the New Jersey Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the New Jersey Index as would be the case if the Fund purchased all of the securities in the New Jersey Index in the proportions in which they are represented in the New Jersey Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the New Jersey Index is based on securities' closing prices (*i.e.*, the value of the New Jersey Index is not based on fair value prices), the Fund's ability to track the New Jersey Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the 1940 Act. Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the New Jersey Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

- 14 -

**Performance**

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Portfolio Management**

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

**Purchase and Sale of Fund Shares**

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

## Market Vectors New York Long Municipal Index ETF

## Investment Objective

Market Vectors New York Long Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free New York Long Municipal Index (the “New York Index”).

## Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup> “Other Expenses” are based on estimated amounts for the current fiscal year.

## Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

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The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

**YEAR EXPENSES**

1	\$26
3	\$80

Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

- 16 -

## Principal Investment Strategies

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the New York Index. The New York Index is comprised of publicly traded New York municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the New York Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the New York Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the New York Index, the Fund does not purchase all of the securities in the New York Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the New York Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the New York Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the New York Index concentrates in an industry or group of industries.

## Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their



obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also

- 17 -

adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*New York Specific Risk.* The Fund concentrates its investments in New York municipal bonds and, therefore, will have greater exposure to negative political, economic, regulatory or other factors within the State of New York, including the financial condition of its public authorities and political subdivisions, than a fund that invests in a broader base of securities. Unfavorable developments in any economic sector may have a substantial impact on the overall New York municipal market. Certain issuers of New York municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain New York issuers to pay principal or interest on their obligations.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the New York Index. As a result, an adverse development respecting an issuer of securities held

by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the New York Index. Conversely, a positive development relating to an issuer of securities in the New York Index that is not held by the Fund could cause the Fund to underperform the New York Index. To the extent the assets in the Fund are smaller, these risks will be greater.

*Index Tracking Risk.* The Fund's return may not match the return of the New York Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the New York

Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the New York Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the New York Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the New York Index as would be the case if the Fund purchased all of the securities in the New York Index in the proportions in which they are represented in the New York Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the New York Index is based on securities' closing prices (*i.e.*, the value of the New York Index is not based on fair value prices), the Fund's ability to track the New York Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the 1940 Act. Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the New York Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

- 19 -

**Performance**

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

**Portfolio Management**

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

**Purchase and Sale of Fund Shares**

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

- 20 -

Market Vectors Ohio Municipal Index ETF

Investment Objective

Market Vectors Ohio Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Ohio Municipal Index (the “Ohio Index”).

Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup>“Other Expenses” are based on estimated amounts for the current fiscal year.

Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

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The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

### **YEAR EXPENSES**

1	\$26
3	\$80

### Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

### **Principal Investment Strategies**

- 21 -



The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Ohio Index. The Ohio Index is comprised of publicly traded Ohio municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the Ohio Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the Ohio Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Ohio Index, the Fund does not purchase all of the securities in the Ohio Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Ohio Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Ohio Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Ohio Index concentrates in an industry or group of industries.

#### Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual

municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

- 22 -

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*Ohio Specific Risk.* The Fund concentrates its investments in Ohio municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Ohio and their ability to pay principal and interest on their obligations. According to Economy.com, Ohio's economy is growing slowly and is one of the weakest in the nation. Population growth remains very low and Ohio is one of the four slowest growing states in the nation. Ohio's large exposure to the auto industry has been a drag on its economy as the industry continues to struggle. Ohio ranks among the nation's highest for personal bankruptcy filings, mortgage foreclosures and mortgage delinquency rates according to FDIC. The State continues to cut services in order to accommodate the reduction of revenue. In addition, the State and its various subdivisions may face increasing financial pressure from costs relating to pensions and other post employment benefits.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Ohio Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Ohio Index. Conversely, a positive development relating to an issuer of securities in the Ohio Index that is not held by the Fund could cause the Fund to underperform the Ohio Index. To the extent the assets in the Fund are smaller, these

risks will be greater.

*Index Tracking Risk.* The Fund's return may not match the return of the Ohio Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Ohio Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's

- 23 -

securities holdings to reflect changes in the composition of the Ohio Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Ohio Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Ohio Index as would be the case if the Fund purchased all of the securities in the Ohio Index in the proportions in which they are represented in the Ohio Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Ohio Index is based on securities' closing prices (*i.e.*, the value of the Ohio Index is not based on fair value prices), the Fund's ability to track the Ohio Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the 1940 Act. Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Ohio Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

**Performance**

- 24 -

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The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

### Portfolio Management

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

Name	Title with Adviser	Date Began Managing the Fund
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

### Purchase and Sale of Fund Shares

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

- 25 -

**Market Vectors Pennsylvania Municipal Index ETF**

## Investment Objective

Market Vectors Pennsylvania Municipal Index ETF (the “Fund”) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Barclays AMT-Free Pennsylvania Municipal Index (the “Pennsylvania Index”).

## Fund Fees and Expenses

The following tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund (“Shares”).

<b>Shareholder Fees</b> (fees paid directly from your investment)	None
<b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.25 %
Other Expenses <sup>(a)(b)</sup>	0.00 %
Total Annual Fund Operating Expenses <sup>(a)</sup>	0.25 %

The Investment Management Agreement between Market Vectors ETF Trust (the “Trust”) and Van Eck Associates Corporation (the “Adviser”) provides that the Adviser will pay all expenses of the Fund, except for the fee payment <sup>(a)</sup> under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses.

<sup>(b)</sup> “Other Expenses” are based on estimated amounts for the current fiscal year.

## Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the



Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

**YEAR EXPENSES**

1	\$26
3	\$80

Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or "turns over" its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund's performance. Because the Fund has not yet commenced investment operations, no portfolio turnover figures are available.

Principal Investment Strategies

- 26 -

The Fund normally invests at least 80% of its total assets in fixed income securities that comprise the Pennsylvania Index. The Pennsylvania Index is comprised of publicly traded Pennsylvania municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. This 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days' prior written notice to shareholders.

The Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term "assets" means net assets plus the amount of any borrowings for investment purposes. This percentage limitation applies at the time of the investment. The Board of Trustees of the Trust may change the Fund's investment strategy, index and other policies without shareholder approval, except as otherwise indicated.

The Fund, using a "passive" or indexing investment approach, attempts to approximate the investment performance of the Pennsylvania Index. The Adviser expects that, over time, the correlation between the Fund's performance and that of the Pennsylvania Index before fees and expenses will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Pennsylvania Index, the Fund does not purchase all of the securities in the Pennsylvania Index. Instead, the Adviser utilizes a "sampling" methodology in seeking to achieve the Fund's objective. As such, the Fund may purchase a subset of the bonds in the Pennsylvania Index in an effort to hold a portfolio of bonds with generally the same risk and return characteristics of the Pennsylvania Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Pennsylvania Index concentrates in an industry or group of industries.

#### Principal Risks of Investing in the Fund

**Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund, each of which could significantly and adversely affect the value of an investment in the Fund.**

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in

those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. The market for municipal bonds may be less liquid than for taxable bonds. The value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. There may be less

- 27 -

information available on the financial condition of issuers of municipal securities than for public corporations.

*Credit Risk.* Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase or the perception of an issuer's credit worthiness may decline, which may adversely affect the value of the security. The Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. The Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest rate changes, usually making them more volatile than bonds with shorter durations.

*Call Risk.* The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund's net investment income.

*Pennsylvania Specific Risk.* The Fund concentrates its investments in Pennsylvania municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Pennsylvania and their ability to pay principal and interest on their obligations. The Pennsylvania economy is exhibiting stable, albeit below average, growth. Though decreasing, manufacturing continues to play a large role in Pennsylvania's economy, representing 11.4% of total employment in 2007, versus 10.1% nationally. Losses in manufacturing have been offset to a great extent by growth in the service industry. Services now represent the largest sector of total employment for Pennsylvania at 41.5%. Slow population growth and aging infrastructure is expected to keep Pennsylvania's economic growth below national levels for the foreseeable future.

*Market Risk.* The prices of the securities in the Fund are subject to the risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

*Sampling Risk.* The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the Pennsylvania Index. As a result, an adverse development respecting an issuer of securities

held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Pennsylvania Index. Conversely, a positive development relating to an issuer of securities in the Pennsylvania Index that is not held by the Fund could cause the Fund to underperform the Pennsylvania Index. To the extent the assets in the Fund are smaller, these risks will be greater.

*Index Tracking Risk.* The Fund's return may not match the return of the Pennsylvania Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the

- 28 -

Pennsylvania Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Pennsylvania Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). The Fund also bears the costs and risks associated with buying and selling securities while such costs and risks are not factored into the return of the Pennsylvania Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to pay expenses or meet redemptions. In addition, the Fund's use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Pennsylvania Index as would be the case if the Fund purchased all of the securities in the Pennsylvania Index in the proportions in which they are represented in the Pennsylvania Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Pennsylvania Index is based on securities' closing prices (*i.e.*, the value of the Pennsylvania Index is not based on fair value prices), the Fund's ability to track the Pennsylvania Index may be adversely affected.

*Risks of Cash Transactions.* Unlike other exchange-traded funds ("ETFs"), the Fund expects to effect creations and redemptions for cash, rather than in-kind securities. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

*Tax Risk.* There is no guarantee that the Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after the Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance.

*Non-Diversified Risk.* The Fund is classified as a "non-diversified" investment company under the 1940 Act. Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund's NAV and may make the Fund more volatile than more diversified funds.

*Replication Management Risk.* An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not "actively" managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. Therefore, the Fund's performance could be lower than funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

*Premium/Discount Risk.* Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

*Concentration Risk.* The Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Pennsylvania Index concentrates in a particular sector or sectors or industry or group of industries. To the extent that the Fund's investments are concentrated in a particular sector or industry, the Fund will be susceptible to loss due to adverse occurrences affecting that sector or industry.

- 29 -

## Performance

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund's performance information will be accessible on the Fund's website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

## Portfolio Management

*Investment Adviser.* Van Eck Associates Corporation.

*Portfolio Managers.* The following individuals are jointly and primarily responsible for the day-to-day management of the Fund's portfolio:

<b>Name</b>	<b>Title with Adviser</b>	<b>Date Began Managing the Fund</b>
James T. Colby III	Portfolio Manager	Since inception
Michael F. Mazier	Portfolio Manager	Since inception

## Purchase and Sale of Fund Shares

For important information about the purchase and sale of Fund Shares and tax information, please turn to "Summary Information about Purchases and Sales of Fund Shares and Taxes" on page 31 of this Prospectus.

- 30 -



Summary Information About Purchases and Sales of Fund Shares and Taxes

Purchase and Sale of Fund Shares

The Funds issue and redeem Shares at NAV only in a large specified number of Shares, each called a “Creation Unit,” or multiples thereof. A Creation Unit consists of 100,000 Shares.

Individual Shares of a Fund may only be purchased and sold in secondary market transactions through brokers. Shares of the Funds are listed on NYSE Arca, Inc. (“NYSE Arca”) and because Shares trade at market prices rather than NAV, Shares of the Funds may trade at a price greater than or less than NAV.

Tax Information

The Funds expect to distribute net investment income at least monthly, and any net realized long-term or short-term capital gains annually. The Funds may also pay a special distribution at any time to comply with U.S. federal tax requirements. Dividends paid by the Funds that are properly designated as exempt-interest dividends will not be subject to regular U.S. federal income tax. The Funds intend to invest their assets in a manner such that a significant portion of their dividend distributions to shareholders will generally be exempt from U.S. federal income taxes, including the federal alternative minimum tax for noncorporate shareholders.

Distributions from a Fund’s net investment income (other than net tax-exempt income), including any net short-term capital gains, if any, are taxable to you as ordinary income.

Additional Information About the Funds' Investment Strategies and Risks

Principal Investment Strategies

Each Fund uses a sampling approach in seeking to achieve its investment objective. Sampling means that the Adviser uses quantitative analysis to select a representative sample of securities that the Adviser believes collectively have an investment profile similar to the underlying Index. The Adviser seeks to select securities that will have, in the aggregate, investment characteristics (such as return variability, duration, maturity or credit ratings and yield) and liquidity measures similar to those of the Index. The quantity of holdings in a Fund will be based on a number of factors, including asset size of such Fund. The Adviser generally expects a Fund to hold less than the total number of securities in its Index, but reserves the right to hold as many securities as it believes necessary to achieve the Fund's investment objective. In addition, from time to time, securities are added to or removed from the applicable Index. Each Fund may sell securities that are represented in its Index, or purchase securities that are not yet represented in its Index, in anticipation of their removal from or addition to such Index. Further, the Adviser may choose to underweight or overweight a security, purchase or sell securities not in an Index, or utilize various combinations of other available investment techniques, in seeking to track the Index.

Additional Investment Strategies

Each Fund may invest in securities not included in its respective Index, money market instruments, including repurchase agreements or other funds which invest exclusively in money market instruments, convertible securities, structured notes (notes on which the amount of principal repayment and interest payments are based on the movement of one or more specified factors, such as the movement of a particular stock or stock index), and certain derivatives, which the Adviser believes will help a Fund track the Index. Convertible securities, depositary receipts and floating rate bonds not included in a Fund's Index may be used by a Fund in seeking performance that corresponds to its respective Index, and in managing cash flows, and may count towards compliance with a Fund's 80% policy. Each Fund may also invest, to the extent permitted by the 1940 Act, in other affiliated and unaffiliated funds, such as open-end or closed-end management investment companies, including other ETFs. A Fund will not, however, invest in money market instruments as part of a temporary defensive strategy to protect against potential securities market declines

An authorized participant (*i.e.*, a person eligible to place orders with the Distributor (defined below) to create or redeem Creation Units of a Fund) that is not a "qualified institutional buyer," as such term is defined under Rule 144A under the Securities Act of 1933, as amended ("Securities Act"), will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

Borrowing Money

Each Fund may borrow money from a bank up to a limit of one-third of the market value of its assets. To the extent that a Fund borrows money, it will be leveraged; at such times, the Fund will appreciate or depreciate in value more rapidly than its benchmark Index.

#### Fundamental and Non-Fundamental Policies

Each Fund's investment objective and each of its other investment policies are non-fundamental policies that may be changed by the Board of Trustees without shareholder approval, except as noted in this Prospectus or the Statement of Additional Information ("SAI") under the section entitled "Investment Policies and Restrictions—Investment Restrictions."

- 32 -

## Lending Portfolio Securities

Each Fund may lend its portfolio securities to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions and for other purposes. In connection with such loans, a Fund receives liquid collateral equal to at least 102% of the value of the portfolio securities being loaned. This collateral is marked-to-market on a daily basis. Although a Fund will receive collateral in connection with all loans of its securities holdings, the Fund would be exposed to a risk of loss should a borrower fail to return the borrowed securities (e.g., the Fund would have to buy replacement securities and the loaned securities may have appreciated beyond the value of the collateral held by the Fund) or become insolvent. The Fund may pay fees to the party arranging the loan of securities. In addition, a Fund will bear the risk of loss of any cash collateral that it invests.

## Risks of Investing in the Funds

The following section provides additional information regarding the principal risks identified under “Principal Risks of Investing in the Fund” in each Fund’s “Summary Information” section followed by additional risk information. The risks listed below are applicable to each Fund unless otherwise noted.

**Investors in a Fund should be willing to accept a high degree of volatility in the price of the Fund’s Shares and the possibility of significant losses. An investment in a Fund involves a substantial degree of risk. An investment in a Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in a Fund, each of which could significantly and adversely affect the value of an investment in a Fund.**

*Credit Risk.* Debt securities such as bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt or otherwise honor its obligations. Debt securities are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a debt security may be downgraded after purchase or the perception of an issuer’s credit worthiness may decline, which may adversely affect the value of the security. A Fund may hold securities that are insured by a bond insurer. A downgrade of the credit rating of such bond insurer may cause the value of the insured security to decline.

*Interest Rate Risk.* Debt securities such as bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up. The historically low interest rate environment increases the risk associated with rising interest rates, including the potential for periods of volatility and increased redemptions. A Fund may face a heightened level of interest rate risk, since the U.S. Federal Reserve Board has begun tapering its quantitative easing program and may begin to raise rates. In addition, bonds with longer durations tend to be more sensitive to interest

rate changes, usually making them more volatile than bonds with shorter durations.

*Municipal Securities Risk.* Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. In addition, there is a risk that, as a result of the current economic crisis, the ability of any issuer to pay, when due, the principal or interest on its municipal bonds may be materially affected. Certain municipalities may have difficulty meeting their obligations due to, among other reasons, changes in underlying demographics.

- 33 -

Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer. Municipal securities backed by current or anticipated revenues from a specific project or specific assets can be negatively affected by the discontinuance of the taxation supporting the project or assets or the inability to collect revenues for the project or from the assets.

If the Internal Revenue Service (“IRS”) determines that an issuer of a municipal security has not complied with applicable tax requirements, interest from the security could become taxable and the security could decline significantly in value.

The market for municipal bonds may be less liquid than for taxable bonds. There may also be less information available on the financial condition of issuers of municipal securities than for public corporations. This means that it may be harder to buy and sell municipal securities, especially on short notice, and municipal securities may be more difficult for a Fund to value accurately than securities of public corporations. Since the Funds invest a significant portion of their portfolio in municipal securities, each Fund’s portfolio may have greater exposure to liquidity risk than a fund that invests in non-municipal securities. In addition, the value and liquidity of many municipal securities have decreased as a result of the recent financial crisis, which has also adversely affected many municipal securities issuers and may continue to do so. The markets for many credit instruments, including municipal securities, have experienced periods of illiquidity and extreme volatility since the latter half of 2007. In response to the global economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. In addition, issuers of municipal securities may seek protection under the bankruptcy laws. Many state and local governments that issue municipal securities are currently under significant economic and financial stress and may not be able to satisfy their obligations. The taxing power of any governmental entity may be limited and an entity’s credit may depend on factors which are beyond the entity’s control.

*Call Risk.* A Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities will “call” (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during or following a period of declining interest rates, a Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease a Fund’s net investment income.

*Market Risk.* The prices of securities in each Fund are subject to risks associated with investing in municipal securities, including general economic conditions and sudden and unpredictable drops in value. Overall securities values could decline generally or could underperform other investments. An investment in a Fund may lose money.

*California Specific Risk.* Investors in the Market Vectors California Long Municipal Index ETF will be exposed to risks associated with the unique aspects of the State of California's economy, political system and government financing structures. Unfavorable developments in any economic sector may have a substantial impact on the overall California municipal market. Provisions of the California Constitution and state statutes that limit the taxing and spending authority of California governmental entities may

- 34 -

impair the ability of California issuers to pay principal and/or interest on their obligations. Payments of certain municipal obligations may also be structurally subordinated to other obligations as a matter of California law.

The deterioration of California's fiscal situation as a result of the recent economic downturn increases the risk of investing in California municipal securities, including the risk of potential issuer default, and also heightens the risk that the prices of California municipal securities, and the Fund's NAV, will experience greater volatility. On November 18, 2009, the Office of the Legislative Analyst released a report entitled "The 2010-11 Budget: California's Fiscal Outlook" ("Report") which forecasted a potential budget deficit of \$20.7 billion, consisting of a \$6.3 billion projected deficit for 2009-10 and a \$14.4 billion deficit for 2010-11. The budget deficit and disruptions in the worldwide credit markets have contributed to serious problems with California's state government cash flows. In addition, California has experienced a dramatic downturn in the housing industry and a significant increase in the unemployment rate. If problems persist with the State's cash flow obligations, it may become difficult for the State to make timely debt service payments. Moreover, there can be no assurance that there will not be a further decline in economic conditions or that those particular California municipal securities in the Fund's portfolio will not be adversely affected by any such decline.

While California's economy is broad, it does have major concentrations in high technology, aerospace and defense-related manufacturing, trade, entertainment, real estate and financial services, and may be sensitive to economic problems affecting those industries. In addition, further downgrades of California's general obligation bond rating could result in a reduction in the market value of the California municipal securities held by the Fund, which could negatively impact the Fund's net NAV and/or the distributions paid by the Fund. Future political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of issuers of California municipal securities.

*Massachusetts Specific Risk.* The Market Vectors Massachusetts Municipal Index ETF concentrates its investments in Massachusetts municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Massachusetts and their ability to pay principal and interest on their obligations. Massachusetts is a densely populated state with a well educated population, comparatively high income levels and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty five years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in the next twenty five years. Just as the working age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a consistently lower poverty rate and, with the exception of the recession of the early 1990s and the current slow recovery period, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The Commonwealth is now recovering from the recession of 2001, but is lagging behind the nation in many indicators, particularly employment levels and rates of unemployment.

In April 2006, Massachusetts passed legislation essentially mandating healthcare insurance for all residents. Those residents unable to secure insurance on their own will have their premiums subsidized by the Commonwealth. Firms with more than 10 workers will be required to provide insurance to their employees or pay a fee to the



Commonwealth. It is unknown at this time whether this new legislation will ultimately reduce or increase healthcare costs to the Commonwealth and its employers.

- 35 -

Though impacted more severely than most states during the recent recession, the Commonwealth has taken steps to improve its financial profile on an ongoing basis. Changes in the way school construction and the Massachusetts Bay Transportation Authority are funded should create more budgetary certainty. The Commonwealth's Budget Stabilization Fund ended fiscal year 2007 with a balance of \$2.3 billion. The Budget Stabilization Fund is projected to remain at \$2.1 billion at the end of fiscal year 2008.

The Central Artery/Ted Williams Tunnel Project (the "Big Dig"), which involved replacing an elevated roadway in central Boston with a new underground expressway, was substantially completed in January 2006 after 14½ years of construction. However, a series of events have raised concerns relating to the quality of the construction on the project. A number of leaks have developed and, on July 10, 2006, a ceiling panel in one of the tunnels dislodged and fell, killing an automobile passenger. While the Commonwealth anticipates that all costs associated with repairs will be recovered from contractors or insurance proceeds, the amount of recovery is unknown at this time and cannot be guaranteed.

*New Jersey Specific Risk.* The Market Vectors New Jersey Municipal Index ETF concentrates its investments in New Jersey municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in New Jersey and their ability to pay principal and interest on their obligations. New Jersey's economy is closely tied to New York City's economy and has benefited from an influx of jobs from New York City. New Jersey ranks third in financial services jobs, behind New York and Massachusetts. The Port of Elizabeth/Newark is the East Coast's largest seaport and handles about one third of the nation's ocean going trade. Despite weakness in the State's important pharmaceutical and telecommunications industries, unemployment in New Jersey remains below the national average (4.3% as of May 2007 versus the national average of 4.5%). The State's high cost nature and slow population growth are often cited as impediments to higher economic growth.

Better than expected tax collections and more conservative budgeting have improved the State's financial profile in the past two years. However structural imbalance in the budget remains as a \$2.5 billion gap is projected for fiscal year 2009. The State and its various subdivisions may also face increasing financial pressure from costs relating to pensions and other post employment benefits. New Jersey's debt burden has increased substantially in the past decade and is high by any number of measurements. This may reduce financial flexibility in the future.

*New York Specific Risk.* The Market Vectors New York Long Municipal Index ETF concentrates its investments in New York municipal bonds and, therefore, will have greater exposure to negative political, economic, regulatory or other factors within the State of New York, including the financial condition of its public authorities and political subdivisions, than a fund that invests in a broader base of securities. Unfavorable developments in any economic sector may have a substantial impact on the overall New York municipal market. Certain issuers of New York municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain New York issuers to pay principal or interest on their obligations. The financial health of New York City affects that of the state, and when New York City experiences financial difficulty, it may have an adverse affect on New York municipal bonds held by the Fund. The growth rate of New York has at times been somewhat slower than the nation overall. The economic and financial condition of New York also may be affected by various financial, social, economic and political factors, including the outcome of pending litigation including the state or its localities.

*Ohio Specific Risk.* The Market Vectors Ohio Municipal Index ETF concentrates its investments in Ohio municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Ohio and their ability to pay principal and interest on their obligations. According to Economy.com, Ohio's economy is growing slowly and is one of the weakest in the nation. Population growth remains very low and Ohio is one of the four slowest growing states in the nation.

- 36 -

Recent census data indicates that in 2005 Ohio suffered the largest outflow of population since 1998. Ohio's large exposure to the auto industry has been a drag on its economy as the industry continues to struggle. The last recession was more pronounced in Ohio, and the State has still not made a full economic recovery. Ohio ranks among the nation's highest for personal bankruptcy filings, mortgage foreclosures and mortgage delinquency rates according to FDIC.

While Ohio's 2005-2007 biennial budget was structurally balanced, two thirds of the State's general fund supported agencies will receive flat or reduced funding. Medicaid received no increase in fiscal year 2006 and 4% for fiscal year 2007. This was made possible by freezing nursing home, hospital, hospice and in home care at 2005 levels. Also, cost saving was available by moving to managed care, implementing co pay for prescription drugs and emergency room visits and reducing medical disability assistance. The State continues to cut services in order to accommodate the reduction of revenue. In addition, the State and its various subdivisions may face increasing financial pressure from costs relating to pensions and other post employment benefits.

*Pennsylvania Specific Risk.* The Market Vectors Pennsylvania Municipal Index ETF concentrates its investments in Pennsylvania municipal bonds and, therefore, may be significantly impacted by political, economic or regulatory developments that affect issuers in Pennsylvania and their ability to pay principal and interest on their obligations. The Pennsylvania economy is exhibiting stable, albeit below average, growth. Though decreasing, manufacturing continues to play a large role in Pennsylvania's economy, representing 11.4% of total employment in 2007, versus 10.1% nationally. Losses in manufacturing have been offset to a great extent by growth in the service industry. Services now represent the largest sector of total employment for Pennsylvania at 41.5%. Slow population growth and aging infrastructure is expected to keep Pennsylvania's economic growth below national levels for the foreseeable future.

Each Fund's Index may contain bonds from the following industries/sectors:

*Electric Utilities Bond Risk.* The electric utilities industry has been experiencing, and will continue to experience, increased competitive pressures. Federal legislation may open transmission access to any electricity supplier, although it is not presently known to what extent competition will evolve. Other risks include: (a) the availability and cost of fuel; (b) the availability and cost of capital; (c) the effects of conservation on energy demand; (d) the effects of rapidly changing environmental, safety and licensing requirements, and other federal, state and local regulations, (e) timely and sufficient rate increases and governmental limitations on rates charged to customers; (f) the effects of opposition to nuclear power; (h) increases in operating costs; and (i) obsolescence of existing equipment, facilities and products.

*Industrial Development Bond Risk.* These revenue bonds are issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. Payment of interest on and repayment of principal of such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which

relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

- 37 -

*Transportation Bond Risk.* Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

*Education Bond Risk.* In general, there are two types of education related bonds: those issued to finance projects for public and private colleges and universities, and those representing pooled interests in student loans. Bonds issued to supply educational institutions with funds are subject to the risk of unanticipated revenue decline, primarily the result of decreasing student enrollment or decreasing state and federal funding. Among the factors that may lead to declining or insufficient revenues are restrictions on students' ability to pay tuition, availability of state and federal funding and general economic conditions. Student loan revenue bonds are generally offered by state (or substate) authorities or commissions and are backed by pools of student loans. Underlying student loans may be guaranteed by state guarantee agencies and may be subject to reimbursement by the United States Department of Education through its guaranteed student loan program. Others may be private, uninsured loans made to parents or students which are supported by reserves or other forms of credit enhancement. Recoveries of principal due to loan defaults may be applied to redemption of bonds or may be used to re-lend, depending on program latitude and demand for loans. Cash flows supporting student loan revenue bonds are impacted by numerous factors, including the rate of student loan defaults, seasoning of the loan portfolio and student repayment deferral periods of forbearance. Other risks associated with student loan revenue bonds include potential changes in federal legislation regarding student loan revenue bonds, state guarantee agency reimbursement and continued federal interest and other program subsidies currently in effect.

*Water and Sewer Bond Risk.* Water and sewer revenue bonds are often considered to have relatively secure credit as a result of their issuer's importance, monopoly status and generally unimpeded ability to raise rates. Despite this, lack of water supply due to insufficient rain, run off or snow pack is a concern that has led to past defaults. Further, public resistance to rate increases, costly environmental litigation and federal environmental mandates are challenges faced by issuers of water and sewer bonds.

*Resource Recovery Bond Risk.* Resource recovery bonds are a type of revenue bond issued to build facilities such as solid waste incinerators or waste-to-energy plants. Typically, a private corporation is involved, at least during the construction phase, and the revenue stream is secured by fees or rents paid by municipalities for use of the facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax receipts. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. The viability of a resource recovery

project, environmental protection regulations, and project operator tax incentives may affect the value and credit quality of resource recovery bonds.

*Lease Obligations Risk.* Lease obligations may have risks not normally associated with general obligation or other revenue bonds. Leases and installment purchase or conditional sale contracts (which may provide for title to the leased asset to pass eventually to the issuer) have developed as a means for governmental issuers to acquire property and equipment without the necessity of complying with the constitutional statutory requirements generally applicable for the issuance of debt.

Certain lease obligations contain “non appropriation” clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for that purpose by the appropriate legislative body on an annual or other periodic basis. Consequently, continued lease payments on those lease obligations containing “non appropriation” clauses are dependent on future legislative actions. If these legislative actions do not occur, the holders of the lease obligation may experience difficulty in exercising their rights, including disposition of the property. In such circumstances, a Fund might not recover the full principal amount of the obligation.

*Special Tax Bond Risk.* Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of a Fund’s portfolio.

*Health Care Bond Risk.* The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. In the future, the following elements may adversely affect health care facility operations: implementation of a national health insurance program; other state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; and efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services.

*Tobacco Bond Risk.* Tobacco settlement revenue bonds are generally neither general nor legal obligations of a state or any of its political subdivisions and neither the full faith and credit nor the taxing power nor any other assets or revenues of a state or of any political subdivision will be pledged to the payment of any such bonds. In addition, tobacco companies’ profits from the sale of tobacco products are inherently variable and difficult to estimate. There can be no guarantee that tobacco companies will earn enough revenues to cover the payments due under tobacco bonds.





*Housing Bond Risk.* Housing revenue bonds are generally issued by a state, county, city, local housing authority or other public agency. They generally are secured by the revenues derived from mortgages purchased with the proceeds of the bond issue. It is extremely difficult to predict the supply of available mortgages to be purchased with the proceeds of an issue or the future cash flow from the underlying mortgages. Consequently, there are risks that proceeds will exceed supply, resulting in early retirement of bonds, or that homeowner repayments will create an irregular cash flow. Many factors may affect the financing of multi family housing projects, including acceptable completion of construction, proper management, occupancy and rent levels, economic conditions and changes to current laws and regulations.

*Sampling Risk.* A Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in its respective Index. As a result, an adverse development respecting an issuer of securities held by a Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Index. Conversely, a positive development relating to an issuer of securities in an Index that is not held by the Fund could cause the Fund to underperform its respective Index. To the extent the assets in a Fund are smaller, these risks will be greater.

*Index Tracking Risk.* Each Fund's return may not match the return of its Index for a number of reasons. For example, a Fund incurs a number of operating expenses not applicable to its Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of its Index and (to the extent creations and redemptions are effected in cash) raising cash to meet redemptions or deploying cash in connection with newly created Creation Units. In addition, a Fund's use of a representative sampling approach may cause the Fund's returns to not be as well correlated with the return of its Index as would be the case if the Fund purchased all of the securities in its Index in the proportions in which they are represented in such Index and can be expected to result in greater tracking error than if the Fund used a replication indexing strategy. A Fund also bears the costs and risks associated with buying and selling securities, while such costs and risks are not factored into the return of its Index. Each Fund may not be fully invested at times as a result of (to the extent creations and redemptions are effected in cash) cash flows into the Fund or reserves of cash held by the Fund to pay expenses and (to the extent creations and redemptions are effected in cash) meet redemptions. In addition, a Fund may not be able to invest in certain securities included in its Index, or invest in them in the exact proportions in which they are represented in its Index, due to legal restrictions or limitations imposed by the governments of certain countries or a lack of liquidity on stock exchanges in which such securities trade. Moreover, a Fund may be delayed in purchasing or selling securities included in its Index. Any issues a Fund encounters with regard to currency convertibility (including the cost of borrowing funds, if any) and repatriation may also increase the index tracking risk.

Each Fund is expected to fair value certain of the securities it holds. To the extent a Fund calculates its NAV based on fair value prices or on the prices that differ from those used in calculating a Fund's respective Index, the Fund's ability to track its Index may be adversely affected. The need to comply with the tax diversification and other requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") and/or the 1940 Act may also impact the Fund's ability to replicate the performance of its Index. In addition, if a Fund utilizes derivative instruments, its return may not correlate as well with the return of its Index as would be the case if the Fund purchased all the securities in the Index directly.

*Replication Management Risk.* Unlike many investment companies, the Funds are not “actively” managed. Therefore, unless a specific security is removed from its Index, a Fund generally would not sell a security because the security’s issuer is in financial trouble. If a specific security is removed from a Fund’s Index, the Fund may be forced to sell such security at an inopportune time or for prices other than

- 40 -

at current market values. An investment in a Fund involves risks similar to those of investing in any municipal bond fund, such as market fluctuations caused by such factors as economic and political developments and changes in interest rates. Each Fund's Index may not contain the appropriate or a diversified mix of securities for any particular economic cycle. The timing of changes in a Fund from one type of security to another in seeking to replicate its Index could have a negative effect on the Fund. Unlike with an actively managed fund, the Adviser does not use techniques or defensive strategies designed to lessen the effects of market volatility or to reduce the impact of periods of market decline. This means that, based on market and economic conditions, a Fund's performance could be lower than other types of funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

*Risks of Cash Transactions.* Unlike other ETFs, the Funds may effect creations and redemptions for cash, rather than in-kind securities. As a result, an investment in a Fund may be less tax-efficient than an investment in a more conventional ETF. Other ETFs generally are able to make in-kind redemptions and avoid realizing gains in connection with transactions designed to raise cash to meet redemption requests. Because the Funds may effect redemptions for cash, rather than in-kind distributions, they may be required to sell portfolio securities in order to obtain the cash needed to distribute redemption proceeds, which involves transaction costs. If a Fund recognizes gain on these sales, this generally will cause the Fund to recognize gain it might not otherwise have recognized if it were to distribute portfolio securities in-kind, or to recognize such gain sooner than would otherwise be required. Each Fund generally intends to distribute these gains to shareholders to avoid being taxed on this gain at the Fund level and otherwise comply with the special tax rules that apply to it. This strategy may cause shareholders to be subject to tax on gains they would not otherwise be subject to, or at an earlier date than, if they had made an investment in a different ETF.

*Tax Risk.* There is no guarantee that a Fund's income will be exempt from U.S. federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after a Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by a Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income tax or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

*Non-Diversified Risk.* Each Fund is a separate investment portfolio of Market Vectors ETF Trust (the "Trust"), which is an open-end investment company registered under the 1940 Act. Each Fund is classified as a "non-diversified" investment company under the 1940 Act. As a result, each Fund is subject to the risk that it will be more volatile than a diversified fund because the Fund may invest its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on a Fund's NAV and may make the Fund more volatile than more diversified funds.

*Concentration Risk.* A Fund's assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent that its respective Index concentrates in a particular sector or sectors or industry or group of industries. The securities of many or all of the companies in the same sector or industry may decline in value due to developments adversely affecting such sector or industry. By concentrating its assets in a particular sector or sectors or industry or group of industries, a Fund is subject to the risk that economic, political or other conditions that have a negative effect on that sector or industry will negatively impact the Fund to a greater extent than if the Fund's assets

were invested in a wider variety of sectors or industries.

- 41 -

*Additional Risks*

*Risk of Investing in Derivatives.* Derivatives are financial instruments, such as swaps, options, warrants, futures contracts, currency forwards and participation notes, whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate or index. A Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if a Fund invested directly in the underlying securities.

Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or, in the case of "over-the-counter" derivatives, as a result of the counterparty's credit quality and the risk that a derivative transaction may not have the effect the Adviser anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can create investment leverage, may be highly volatile, and a Fund could lose more than the amount it invests. The use of derivatives may increase the amount and affect the timing and character of taxes payable by shareholders of a Fund.

Many derivative transactions are entered into "over-the-counter" (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of a Fund's counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, a Fund's contractual remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the Fund's rights as a creditor (*e.g.*, the Fund may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for a Fund's derivative positions at any time.

*Leverage Risk.* To the extent that a Fund borrows money or utilizes certain derivatives, it will be leveraged. Leveraging generally exaggerates the effect on NAV of any increase or decrease in the market value of a Fund's portfolio securities.

*No Guarantee of Active Trading Market.* The Funds are recently organized series of an investment company and have no operating history. While each Fund's Shares are expected to be listed on NYSE Arca, there can be no assurance that active trading markets for the Shares will develop or be maintained. Van Eck Securities Corporation, the distributor of each Fund's Shares (the "Distributor"), does not maintain a secondary market in the Shares.

*Trading Issues.* Trading in Shares on NYSE Arca may be halted due to market conditions or for reasons that, in the view of NYSE Arca, make trading in Shares inadvisable. In addition, trading in Shares on NYSE Arca is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Arca's "circuit breaker" rules. There can be no assurance that the requirements of NYSE Arca necessary to maintain the listing of a Fund will continue to be met or will remain unchanged.

## Portfolio Holdings

A description of each Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's SAI.

## Management of the Funds

*Board of Trustees.* The Board of Trustees of the Trust has responsibility for the general oversight of the management of the Funds, including general supervision of the Adviser and other service providers, but is

- 42 -

not involved in the day-to-day management of the Trust. A list of the Trustees and the Trust officers, and their present positions and principal occupations, is provided in the Funds' SAI.

*Investment Adviser.* Under the terms of an investment management agreement between the Trust and Van Eck Associates Corporation with respect to the Funds (the "Investment Management Agreement"), Van Eck Associates Corporation serves as the adviser to each Fund and, subject to the supervision of the Board of Trustees, is responsible for the day-to-day investment management of each Fund. As of June 30, 2014, the Adviser managed approximately \$34.45 billion in assets. The Adviser has been an investment adviser since 1955 and also acts as adviser or sub-adviser to other mutual funds, ETFs, other pooled investment vehicles and separate accounts. The Adviser's principal business address is 335 Madison Avenue, 19th Floor, New York, New York 10017. A discussion regarding the Board of Trustees' approval of the Investment Management Agreement is available in the Trust's semi-annual report for the period ended October 31, 2013.

Pursuant to the Investment Management Agreement, the Adviser is responsible for all expenses of the Funds, including the costs of transfer agency, custody, fund administration, legal, audit and other services, except for the fee payment under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses. For its services to each Fund, each Fund has agreed to pay the Adviser an annual unitary management fee equal to 0.25% of its average daily net assets. Offering costs excluded from the annual unitary management are: (a) legal fees pertaining to a Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Fund to be listed on an exchange.

*Administrator, Custodian and Transfer Agent.* Van Eck Associates Corporation is the administrator for the Funds (the "Administrator"), and The Bank of New York Mellon is the custodian of each Fund's assets and provides transfer agency and fund accounting services to the Funds. The Administrator is responsible for certain clerical, recordkeeping and/or bookkeeping services which are provided pursuant to the Investment Management Agreement.

*Distributor.* Van Eck Securities Corporation is the distributor of the Shares. The Distributor will not distribute Shares in less than Creation Units, and does not maintain a secondary market in the Shares. The Shares will be traded in the secondary market.

#### Portfolio Managers

The portfolio managers who currently share joint responsibility for the day-to-day management of each Fund's portfolio are James T. Colby III and Michael F. Mazier. Mr. Colby has been employed by the Adviser since September 2007. Prior to joining the Adviser, Mr. Colby served as Senior Portfolio Manager and Director of Municipal High Yield for Lord Abbett as well as Director and Senior Portfolio Manager for Municipal Fixed Income at the John Hancock Funds in Boston. Mr. Colby graduated from Brown University in 1972 with a Bachelor of Arts in Economics and International Relations; and from Hofstra University in 1979 with a Masters of Business Administration in Finance. Mr. Mazier has been employed by the Adviser since August 2007. Prior to joining the

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Adviser, Mr. Mazier served as a bond analyst in the Fixed Income Research Department of Morgan Stanley. He was also Vice President at Merrill Lynch Global Research Department, where he covered closed-end funds. Mr. Mazier graduated from Syracuse University in 1983 with a Bachelor of Science majoring in Electrical Engineering; graduated from Villanova University in 1986 with a Master of Science in Computer Engineering; and graduated from Columbia Business School in 1990 with a Master of Business Administration. Messrs. Mazier and Colby serve as portfolio managers of five other funds of the Trust. Mr. Mazier also serves as a portfolio manager for certain other investment companies advised by the Adviser. Messrs. Mazier and Colby have served as the portfolio managers of each Fund since its inception. See the Funds' SAI for

- 43 -



additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and their respective ownership of Shares of the Funds.

## Shareholder Information

### Determination of NAV

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of each Fund's portfolio securities are based on the securities' closing prices on their local principal markets, where available. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time a Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust's valuation policies and procedures approved by the Board of Trustees. Each Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund's portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate a Fund's NAV and the prices used by the Fund's respective Index. This may adversely affect a Fund's ability to track its respective Index.

### Buying and Selling Exchange-Traded Shares

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The Shares of the Funds are listed on NYSE Arca. If you buy or sell Shares in the secondary market, you will incur customary brokerage commissions and charges and may pay some or all of the spread between the bid and the offered price in the secondary market on each leg of a round trip (purchase and sale) transaction. In times of severe market disruption or low trading volume in a Fund's Shares, this spread can increase significantly. It is anticipated that the Shares will trade in the secondary market at prices that may differ to varying degrees from the NAV of the Shares. During periods of disruptions to creations and redemptions or the existence of extreme market volatility, the market prices of Shares are more likely to differ significantly from the Shares' NAV.

The Depository Trust Company ("DTC") serves as securities depository for the Shares. (The Shares may be held only in book-entry form; stock certificates will not be issued.) DTC, or its nominee, is the record or registered owner of all outstanding Shares. Beneficial ownership of Shares will be shown on the

- 44 -

records of DTC or its participants (described below). Beneficial owners of Shares are not entitled to have Shares registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and are not considered the registered holder thereof. Accordingly, to exercise any rights of a holder of Shares, each beneficial owner must rely on the procedures of: (i) DTC; (ii) "DTC Participants," i.e., securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC; and (iii) "Indirect Participants," i.e., brokers, dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, through which such beneficial owner holds its interests. The Trust understands that under existing industry practice, in the event the Trust requests any action of holders of Shares, or a beneficial owner desires to take any action that DTC, as the record owner of all outstanding Shares, is entitled to take, DTC would authorize the DTC Participants to take such action and that the DTC Participants would authorize the Indirect Participants and beneficial owners acting through such DTC Participants to take such action and would otherwise act upon the instructions of beneficial owners owning through them. As described above, the Trust recognizes DTC or its nominee as the owner of all Shares for all purposes. For more information, see the section entitled "Book Entry Only System" in the Funds' SAI.

The NYSE Arca is open for trading Monday through Friday and is closed on weekends and the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Because non-U.S. exchanges may be open on days when a Fund does not price its Shares, the value of the securities in the Fund's portfolio may change on days when shareholders will not be able to purchase or sell the Fund's Shares.

*Market Timing and Related Matters.* The Funds impose no restrictions on the frequency of purchases and redemptions. The Board of Trustees considered the nature of each Fund (i.e., a fund whose shares are expected to trade intra-day), that the Adviser monitors the trading activity of authorized participants for patterns of abusive trading, that the Funds reserve the right to reject orders that may be disruptive to the management of or otherwise not in the Funds' best interests, and that each Fund may fair value certain of its securities. Given this structure, the Board of Trustees determined that it is not necessary to impose restrictions on the frequency of purchases and redemptions for the Funds at the present time.

## Distributions

*Net Investment Income and Capital Gains.* As a shareholder of a Fund, you are entitled to your share of such Fund's distributions of net investment income and net realized capital gains on its investments. Each Fund pays out substantially all of its net earnings to its shareholders as "distributions."

Each Fund typically earns income from interest on municipal securities. These amounts, net of expenses, are typically passed along to Fund shareholders as dividends from net investment income. Each Fund generally realizes capital gains or losses whenever it sells securities. Net capital gains are distributed to shareholders as "capital gain distributions." Dividends paid by the Funds that are properly designated as exempt-interest dividends will not be subject to regular federal income tax. Distributions from a Fund's net investment income (other than net tax exempt income), including any net short term capital gains, if any, are taxable to you as ordinary income. Any long-term

capital gains distributions you receive from a Fund are taxable as long-term capital gains.

Net investment income, if any, is typically distributed to shareholders monthly while capital gains, if any, are typically distributed to shareholders at least annually. Dividends may be declared and paid more frequently to improve index tracking or to comply with the distribution requirements of the Internal Revenue Code. In addition, the Funds may determine to distribute at least annually amounts representing the full dividend yield net of expenses on the underlying investment securities, as if the Funds owned the

- 45 -

underlying investment securities for the entire dividend period in which case some portion of each distribution may result in a return of capital, which, for tax purposes, is treated as a return of your investment in Shares.

Distributions in cash may be reinvested automatically in additional Shares of your Fund only if the broker through which you purchased Shares makes such option available.

## Tax Information

As with any investment, you should consider how your Fund investment will be taxed. The tax information in this Prospectus is provided as general information. You should consult your own tax professional about the tax consequences of an investment in the Funds, including the possible application of foreign, state and local taxes. Unless your investment in a Fund is through a tax exempt entity or tax-deferred retirement account, such as a 401(k) plan, you need to be aware of the possible tax consequences when: (i) a Fund makes distributions; (ii) you sell Shares in the secondary market or (iii) you create or redeem Creation Units.

*Taxes on Distributions.* As noted above, each Fund expects to distribute net investment income, if any, annually, and any net realized long-term or short-term capital gains, if any, annually. Each Fund may also pay a special distribution at any time to comply with U.S. federal tax requirements.

Dividends paid by the Funds that are properly designated as exempt-interest dividends will not be subject to regular U.S. federal income tax. The Funds intend to invest their assets in a manner such that a significant portion of their dividend distributions to shareholders will generally be exempt from U.S. federal income taxes, including the federal alternative minimum tax for non-corporate shareholders. Corporate shareholders should note that income that is generally exempt from the federal alternative minimum tax may in certain situations nonetheless be relevant in determining their federal alternative minimum tax liability, if any. Depending on a shareholder's state of residence, exempt-interest dividends from interest earned on municipal securities of a state or its political subdivisions may be exempt in the hands of such shareholder from income tax in that state. However, income from municipal securities of states other than the shareholder's state of residence generally will not qualify for tax-free treatment for such shareholder.

In general, your non-tax-exempt distributions are subject to U.S. federal income tax when they are paid, whether you take them in cash or reinvest them in the Fund. Distributions from a Fund's net investment income (other than net tax exempt income), including any net short term capital gains, if any, are taxable to you as ordinary income. Whether distributions of capital gains represent long-term or short-term capital gains is determined by how long the Fund owned the investments that generated them, rather than how long you have owned your Shares. Distributions of net short-term capital gains in excess of net long-term capital losses, if any, are generally taxable as ordinary income. Distributions of net long-term capital gains in excess of net short-term capital losses, if any, that are properly reported as capital gain dividends are generally taxable as long-term capital gains. After 2012, long-term capital gains of a non-corporate shareholder are generally taxable at a maximum rate of 15% or 20%, depending on whether the

shareholder's income exceeds certain threshold amounts. The Funds do not expect that any of their distributions will be qualified dividends eligible for lower tax rates or for the corporate dividends received deduction.

Exempt-interest dividends from a Fund are taken into account in determining the taxable portion of any Social Security or railroad retirement benefits that you receive.

Distributions in excess of a Fund's current and accumulated earnings and profits are treated as a tax-free return of your investment to the extent of your basis in the Shares, and generally as capital gain thereafter.

- 46 -

A distribution will reduce a Fund's NAV per Share and may be taxable to you as ordinary income or capital gain even though, from an economic standpoint, the distribution may constitute a return of capital.

*Taxes on the Sale or Cash Redemption of Exchange Listed Shares.* Currently, any capital gain or loss realized upon a sale of Shares is generally treated as long term capital gain or loss if the Shares have been held for more than one year and as a short term capital gain or loss if held for one year or less. However, any capital loss on a sale of Shares held for six months or less may be disallowed to the extent any exempt-interest dividends were paid with respect to such Shares and any remaining loss is treated as long -term capital loss to the extent that capital gain dividends were paid with respect to such Shares. The ability to deduct capital losses may be limited. To the extent that a shareholder's Shares are redeemed for cash, this is normally treated as a sale for tax purposes.

*Taxes on Creations and Redemptions of Creation Units.* A person who exchanges securities for Creation Units generally will recognize a gain or loss. The gain or loss will be equal to the difference between the market value of the Creation Units at the time of exchange and the sum of the exchanger's aggregate basis in the securities surrendered and the amount of any cash paid for such Creation Units. A person who exchanges Creation Units for securities will generally recognize a gain or loss equal to the difference between the exchanger's basis in the Creation Units and the sum of the aggregate market value of the securities received. The Internal Revenue Service, however, may assert that a loss realized upon an exchange of primarily securities for Creation Units cannot be deducted currently under the rules governing "wash sales," or on the basis that there has been no significant change in economic position. Persons exchanging securities for Creation Units or redeeming Creation Units should consult their own tax adviser with respect to whether wash sale rules apply and when a loss might be deductible and the tax treatment of any creation or redemption transaction.

Under current U.S. federal income tax laws, any capital gain or loss realized upon a redemption (or creation) of Creation Units is generally treated as long-term capital gain or loss if the Shares (or securities surrendered) have been held for more than one year and as a short-term capital gain or loss if the Shares (or securities surrendered) have been held for one year or less.

If you create or redeem Creation Units, you will be sent a confirmation statement showing how many Shares you created or sold and at what price.

*Medicare Tax.* An additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts.

*Non-U.S. Shareholders.* If you are not a citizen or resident alien of the United States or if you are a non-U.S. entity, a Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject

to a 30% U.S. withholding tax, unless a lower treaty rate applies or unless such income is effectively connected with a U.S. trade or business.

As part of the Foreign Account Tax Compliance Act, (“FATCA”), a Fund may be required to impose a 30% withholding tax on certain types of U.S. sourced income (e.g., dividends, interest, and other types of passive income) paid effective July 1, 2014, and proceeds from the sale or other disposition of property producing U.S. sourced income paid effective January 1, 2017 to (i) foreign financial institutions (“FFI’s”), including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service (“IRS”) information regarding their direct and indirect U.S. account holders and (ii) certain nonfinancial foreign entities (“NFFE’s”), unless they certify certain information regarding their

- 47 -



direct and indirect U.S. owners. To avoid possible withholding, FFI's will need to enter into agreements with the IRS which state that they will provide the IRS information, including the names, account numbers and balances, addresses and taxpayer identification numbers of U.S. account holders and comply with due diligence procedures with respect to the identification of U.S. accounts as well as agree to withhold tax on certain types of withholdable payments made to non-compliant foreign financial institutions or to applicable foreign account holders who fail to provide the required information to the IRS, or similar account information and required documentation to a local revenue authority, should an applicable intergovernmental agreement be implemented. NFFE's will need to provide certain information regarding each substantial U.S. owner or certifications of no substantial U.S. ownership, unless certain exceptions apply, or agree to provide certain information to the IRS.

While final FATCA rules have not been finalized, a Fund may be subject to the FATCA withholding obligation, and also will be required to perform due diligence reviews to classify foreign entity investors for FATCA purposes. Investors are required to agree to provide information necessary to allow a Fund to comply with the FATCA rules. If a Fund is required to withhold amounts from payments pursuant to FATCA, investors will receive distributions that are reduced by such withholding amounts.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Funds, including the possible applicability of the U.S. estate tax.

The foregoing discussion summarizes some of the consequences under current U.S. federal income tax law of an investment in a Fund. It is not a substitute for personal tax advice. Consult your own tax advisor about the potential tax consequences of an investment in a Fund under all applicable tax laws.

Index Provider

The Barclays AMT-Free California Long Municipal Index, Barclays AMT-Free Massachusetts Municipal Index, Barclays AMT-Free New Jersey Municipal Index, Barclays AMT-Free New York Long Municipal Index, Barclays AMT-Free Ohio Municipal Index and Barclays AMT-Free Pennsylvania Municipal Index are published by Barclays Inc. (the “Index Provider”). The Index Provider does not sponsor, endorse, or promote the Funds and bears no liability with respect to the Funds or any security.

- 49 -

Barclays AMT-Free California Long Municipal Index

The California Index is a market size weighted index comprised of publicly traded California municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The California Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, industrial development/pollution control revenue (“IDR/PCR”), transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the California Index, bonds must be rated Baa3/BBB- or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody’s, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB-. Potential California Index constituents must be issued by authorities within California, have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date after December 31, 1990 and have a nominal maturity of at least 22 years. The following types of bonds are excluded from the California Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives. The California Index is calculated using a market value weighting methodology.

The composition of the California Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the California Index without a reinvestment return until month end when they are removed from the California Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the California Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The California Index is calculated once a day.

### **Barclays AMT-Free Massachusetts Municipal Index**

The Massachusetts Index is a market size weighted index comprised of publicly traded Massachusetts municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Massachusetts Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the Massachusetts Index, bonds must be rated Baa3/BBB or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB. Potential Massachusetts Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date after December 31, 1990 and have a nominal maturity of one year or greater. The following types of bonds are excluded from the Massachusetts Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives.

The composition of the Massachusetts Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Massachusetts Index without a reinvestment return until month end when they are removed from the Massachusetts Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Massachusetts Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal and coupons received or accrued, expressed as a percentage of beginning market value. The Massachusetts Index is calculated and is available once a day.

Barclays AMT-Free New Jersey Municipal Index

The New Jersey Index is a market size weighted index comprised of publicly traded New Jersey municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The New Jersey Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the New Jersey Index, bonds must be rated Baa3/BBB or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB. Potential New Jersey Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date after December 31, 1990 and have a nominal maturity of one year or greater. The following types of bonds are excluded from the New Jersey Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives.

The composition of the New Jersey Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the New Jersey Index without a reinvestment return until month end when they are removed from the New Jersey Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the New Jersey Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal and coupons received or accrued, expressed as a percentage of beginning market value. The New Jersey Index is calculated and is available once a day.

Barclays AMT-Free New York Long Municipal Index

The New York Index is a market size weighted index comprised of publicly traded New York municipal bonds that cover the U.S. dollar denominated long-term tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The New York Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the New York Index, bonds must be rated Baa3/BBB- or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB-. Potential New York Index constituents must be issued by authorities within New York, have an outstanding par value of at least \$7 million, have a dated date after December 31, 1990 and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate and have a nominal maturity of at least 22 years. The following types of bonds are excluded from the New York Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives. The New York Index is calculated using a market value weighting methodology.

The composition of the New York Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the New York Index without a reinvestment return until month end when they are removed from the New York Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the New York Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The New York Index is calculated once a day.

Barclays AMT-Free Ohio Municipal Index

The Ohio Index is a market size weighted index comprised of publicly traded Ohio municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Ohio Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the Ohio Index, bonds must be rated Baa3/BBB or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB. Potential Ohio Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date after December 31, 1990 and have a nominal maturity of one year or greater. The following types of bonds are excluded from the Ohio Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives.

The composition of the Ohio Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Ohio Index without a reinvestment return until month end when they are removed from the Ohio Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Ohio Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal and coupons received or accrued, expressed as a percentage of beginning market value. The Ohio Index is calculated and is available once a day.

Barclays AMT-Free Pennsylvania Municipal Index

The Pennsylvania Index is a market size weighted index comprised of publicly traded Pennsylvania municipal bonds that cover the U.S. dollar denominated tax-exempt bond market. It is a total return benchmark designed for high quality and tax efficient investments. The Pennsylvania Index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The sectors of general obligation, insured and pre-refunded are further divided into sub-sectors based on the range of maturity. The revenue sector is divided into industry sectors that consist of electric, IDR/PCR, transportation, education, water & sewer, resource recovery, leasing and special tax.

To be included in the Pennsylvania Index, bonds must be rated Baa3/BBB or higher by at least two of the following ratings agencies if all three agencies rate the security: Moody's, S&P and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Baa3/BBB. Potential Pennsylvania Index constituents must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated date after December 31, 1990 and have a nominal maturity of one year or greater. The following types of bonds are excluded from the Pennsylvania Index: bonds subject to the alternative minimum tax, remarketed issues, taxable municipal bonds, floating rate bonds and derivatives.

The composition of the Pennsylvania Index is rebalanced monthly. Interest and principal payments earned by the component securities are held in the Pennsylvania Index without a reinvestment return until month end when they are removed from the Pennsylvania Index. Qualifying securities issued, but not necessarily settled, on or before the month end rebalancing date qualify for inclusion in the Pennsylvania Index in the following month.

Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal and coupons received or accrued, expressed as a percentage of beginning market value. The Pennsylvania Index is calculated and is available once a day.



License Agreements and Disclaimers

The Adviser has entered into a licensing agreement with the Index Provider to use each of the California Index, Massachusetts Index, New Jersey Index, New York Index, Ohio Index and Pennsylvania Index. Each Fund is entitled to use its respective Index pursuant to a sublicensing arrangement with the Adviser.

Barclays and Barclays Inc. are trademarks of the Index Provider and have been licensed for use in connection with the listing and trading of the Funds on NYSE Arca. The Funds are not sponsored by, endorsed, sold or promoted by the Index Provider and the Index Provider makes no representation regarding the advisability of investing in them.

The Adviser acknowledges and expressly agrees that the Funds are not sponsored, endorsed, sold or promoted by the Index Provider, and that the Index Provider makes no warranty, express or implied, as to the results to be obtained by any person or entity from the use of any Index, any opening, intra day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any exchange traded fund or option contract on exchange traded funds based thereon or for any other purpose. The Index Provider's only relationship to the Adviser with respect to the Funds is the licensing of certain trademarks and trade names of the Index Provider and the Indexes that are determined, composed and calculated by the Index Provider without regard to the Adviser or the Funds. The Index Provider has no obligation to take the needs of the Adviser or the owners of the Funds into consideration in determining, composing or calculating the Indexes. The Index Provider is not responsible for and has not participated in any determination or calculation made with respect to issuance of the Funds. The Index Provider has no obligation or liability in connection with the listing, trading, marketing or administration of the Funds.

THE INDEX PROVIDER DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE INDEXES, OR ANY OPENING, INTRA DAY OR CLOSING VALUE THEREFOR, OR ANY DATA INCLUDED THEREIN OR RELATED THERETO. THE INDEX PROVIDER MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY OWNERS OF THE FUNDS OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE INDEXES, ANY OPENING, INTRA DAY OR CLOSING VALUE THEREFOR, ANY DATA INCLUDED THEREIN OR RELATING THERETO, OR ANY EXCHANGE TRADED FUND OR OPTION CONTRACT ON EXCHANGE TRADED FUNDS BASED THEREON, IN CONNECTION WITH THE RIGHTS LICENSED OR FOR ANY OTHER USE. THE INDEX PROVIDER MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE INDEXES, ANY OPENING, INTRA-DAY OR CLOSING VALUE THEREFOR, ANY DATA INCLUDED THEREIN OR RELATING THERETO, OR ANY EXCHANGE TRADED FUND OR OPTION CONTRACT ON EXCHANGE TRADED FUNDS BASED THEREON. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL THE INDEX PROVIDER HAVE ANY LIABILITY FOR ANY DAMAGES, CLAIMS, LOSSES (INCLUDING ANY INDIRECT OR CONSEQUENTIAL LOSSES), EXPENSES OR DELAYS, WHETHER DIRECT OR INDIRECT, FORESEEN OR UNFORESEEN, SUFFERED BY ANY PERSON ARISING OUT OF ANY CIRCUMSTANCE OR OCCURRENCE RELATING TO THE PERSON'S USE OF ANY INDEX, ANY OPENING, INTRA DAY OR CLOSING VALUE THEREFOR, ANY DATA INCLUDED THEREIN OR RELATING THERETO, OR ANY EXCHANGE TRADED FUND OR OPTION CONTRACT ON EXCHANGE TRADED FUNDS BASED THEREON, OR ARISING OUT OF ANY ERRORS OR DELAYS IN CALCULATING OR DISSEMINATING SUCH INDEX.



Financial Highlights

The Funds have not yet commenced operations as of the date of this Prospectus and therefore do not have a financial history.

- 57 -

Premium/Discount Information

The Funds have not yet commenced operations and, therefore, do not have information about the differences between a Fund's daily market price on NYSE Arca and its NAV. Information regarding how often the Shares of a Fund traded on NYSE Arca at a price above (i.e., at a premium) or below (i.e., at a discount) the NAV of the Fund during the past four calendar quarters, as applicable, can be found at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com), when available.

- 58 -

## General Information

### Continuous Offering

The method by which Creation Units are created and traded may raise certain issues under applicable securities laws. Because new Creation Units are issued and sold by the Trust on an ongoing basis, a “distribution,” as such term is used in the Securities Act, may occur at any point. Broker dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery and liability provisions of the Securities Act.

For example, a broker dealer firm or its client may be deemed a statutory underwriter if it takes Creation Units after placing an order with the Distributor, breaks them down into constituent Shares, and sells such Shares directly to customers, or if it chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary market demand for Shares. A determination of whether one is an underwriter for purposes of the Securities Act must take into account all the facts and circumstances pertaining to the activities of the broker dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker dealers who are not “underwriters” but are participating in a distribution (as contrasted to ordinary secondary trading transactions), and thus dealing with Shares that are part of an “unsold allotment” within the meaning of Section 4(3)(C) of the Securities Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. This is because the prospectus delivery exemption in Section 4(3) of the Securities Act is not available in respect of such transactions as a result of Section 24(d) of the 1940 Act. As a result, broker dealer firms should note that dealers who are not underwriters but are participating in a distribution (as contrasted with ordinary secondary market transactions) and thus dealing with the Shares that are part of an overallotment within the meaning of Section 4(3)(A) of the Securities Act would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. Firms that incur a prospectus delivery obligation with respect to Shares are reminded that, under Rule 153 of the Securities Act, a prospectus delivery obligation under Section 5(b)(2) of the Securities Act owed to an exchange member in connection with a sale on NYSE Arca is satisfied by the fact that the prospectus is available at NYSE Arca upon request. The prospectus delivery mechanism provided in Rule 153 is only available with respect to transactions on an exchange.

In addition, certain affiliates of the Funds and the Adviser may purchase and resell Fund shares pursuant to this Prospectus.

### Other Information

The Trust was organized as a Delaware statutory trust on March 15, 2001. Its Declaration of Trust currently permits the Trust to issue an unlimited number of Shares of beneficial interest. If shareholders are required to vote on any matters, each Share outstanding would be entitled to one vote. Annual meetings of shareholders will not be held except as required by the 1940 Act and other applicable law. See the Funds' SAI for more information concerning the Trust's form of organization. Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies, including Shares of a Fund. Registered investment companies are permitted to invest in the Funds beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in an SEC exemptive order issued to the Trust, including that such investment companies enter into an agreement with the Funds.

Dechert LLP serves as counsel to the Trust, including the Funds. Ernst & Young LLP serves as the Trust's independent registered public accounting firm and will audit the Fund's financial statements annually.

- 60 -

Additional Information

This Prospectus does not contain all the information included in the Registration Statement filed with the SEC with respect to the Funds' Shares. Information about the Funds can be reviewed and copied at the SEC's Public Reference Room and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1.202.551.8090. The Funds' Registration Statement, including this Prospectus, the Funds' SAI and the exhibits may be examined at the offices of the SEC (100 F Street, NE, Washington, DC 20549) or on the EDGAR database at the SEC's website (<http://www.sec.gov>), and copies may be obtained, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-1520. These documents and other information concerning the Trust also may be inspected at the offices of NYSE Arca (20 Broad Street, New York, New York 10005).

The SAI for the Funds, which has been filed with the SEC, provides more information about the Funds. The SAI for the Funds is incorporated herein by reference and is legally part of this Prospectus. Additional information about the Funds' investments will be available in each Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. The SAI and the Funds' annual and semi-annual reports may be obtained without charge by writing to the Funds at Van Eck Securities Corporation, the Funds' distributor, at 335 Madison Avenue, New York, New York 10017 or by calling the distributor at the following number: Investor Information: 1.888.MKT.VCTR (658-8287).

Shareholder inquiries may be directed to the Funds in writing to 335 Madison Avenue, 19th Floor, New York, New York 10017 or by calling 1.888.MKT.VCTR (658-8287).

The Funds' SAI is available at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

(Investment Company Act file no. 811-10325)



## Edgar Filing: MARKET VECTORS ETF TRUST - Form 485BPOS

For more detailed information about the Funds, see the SAI dated September 1, 2014, which is incorporated by reference into this Prospectus. Additional information about each Fund's investments will be available in the Fund's annual and semi-annual reports to shareholders. In each Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

Call Van Eck at 888.MKT.VCTR to request, free of charge, the annual or semi-annual reports, when available, the SAI, or other information about a Fund or to make shareholder inquiries. You may also obtain the SAI or a Fund's annual or semi-annual reports, when available, by visiting the Van Eck website at [www.marketvectorsetfs.com](http://www.marketvectorsetfs.com).

Information about each Fund (including the SAI) can also be reviewed and copied at the SEC Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 202.551.8090.

Reports and other information about the Fund are available on the EDGAR Database on the SEC's internet site at <http://www.sec.gov>. In addition, copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, DC 20549-0102.

Transfer Agent: The Bank of New York Mellon **888.MKT.VCTR**  
SEC Registration Number: 333-123257  
1940 Act Registration Number: 811-10325 **marketvectorsetfs.com**

MARKET VECTORS ETF TRUST  
STATEMENT OF ADDITIONAL INFORMATION

**Dated September 1, 2014**

This Statement of Additional Information (“SAI”) is not a prospectus. It should be read in conjunction with the Prospectus dated September 1, 2014 (the “Prospectus”) for the Market Vectors ETF Trust (the “Trust”), relating to the series of the Trust listed below, as it may be revised from time to time.

<b>Fund</b>	<b>Principal U.S. Listing Exchange</b>	<b>Ticker</b>
Market Vectors California Long Municipal Index ETF	NYSE Arca, Inc.	MCC
Market Vectors Massachusetts Municipal Index ETF	NYSE Arca, Inc.	MMX
Market Vectors New Jersey Municipal Index ETF	NYSE Arca, Inc.	MNJ
Market Vectors New York Long Municipal Index ETF	NYSE Arca, Inc.	TFN
Market Vectors Ohio Municipal Index ETF	NYSE Arca, Inc.	OHF
Market Vectors Pennsylvania Municipal Index ETF	NYSE Arca, Inc.	PAM

A copy of the Prospectus may be obtained without charge by writing to the Trust or the Distributor. The Trust’s address is 335 Madison Avenue, 19th Floor, New York, New York 10017. Capitalized terms used herein that are not defined have the same meaning as in the Prospectus, unless otherwise noted.

**TABLE OF CONTENTS**

	<b>Page</b>
<u>GENERAL DESCRIPTION OF THE TRUST</u>	1
<u>INVESTMENT POLICIES AND RESTRICTIONS</u>	2
<u>Municipal Securities</u>	2
<u>Repurchase Agreements</u>	2
<u>Futures Contracts and Options</u>	2
<u>Swaps</u>	4
<u>Warrants and Subscription Rights</u>	5
<u>Currency Forwards</u>	6
<u>Convertible Securities</u>	6
<u>Structured Notes</u>	6
<u>Participation Notes</u>	6
<u>Future Developments</u>	7
<u>Investment Restrictions</u>	7
<u>SPECIAL CONSIDERATIONS AND RISKS</u>	8
<u>General</u>	9
<u>Municipal Securities Risk</u>	10
<u>Lease Obligations Risk</u>	11
<u>Tobacco Bond Risk</u>	11
<u>Education Bond Risk</u>	11
<u>Electric Utilities Bond Risk</u>	11
<u>Housing Bond Risk</u>	12
<u>Transportation Bond Risk</u>	12
<u>Water and Sewer Bond Risk</u>	12
<u>Industrial Development Bond Risk</u>	12
<u>Resource Recovery Risk</u>	12
<u>Special Tax Bond Risk</u>	13
<u>Health Care Bond Risk</u>	13
<u>Special Risk Considerations Regarding California</u>	13
<u>Special Considerations Regarding Massachusetts</u>	23
<u>Special Considerations Regarding New Jersey</u>	32
<u>Special Considerations Regarding New York</u>	40
<u>Special Considerations Regarding Ohio</u>	49
<u>Special Considerations Regarding Pennsylvania</u>	61
<u>Tax Risks</u>	65

<u>Municipal Market Disruption Risk</u>	65
<u>U.S. Federal Tax Treatment of Futures Contracts</u>	65
<u>EXCHANGE LISTING AND TRADING</u>	66
<u>BOARD OF TRUSTEES OF THE TRUST</u>	66
<u>Trustees and Officers of the Trust</u>	66
<u>Independent Trustees</u>	67
<u>Interested Trustee</u>	69
<u>Officer Information</u>	69
<u>Remuneration of Trustees</u>	73
<u>PORTFOLIO HOLDINGS DISCLOSURE</u>	73
<u>QUARTERLY PORTFOLIO SCHEDULE</u>	73
<u>CODE OF ETHICS</u>	74
<u>PROXY VOTING POLICIES AND PROCEDURES</u>	74
<u>MANAGEMENT</u>	74
<u>Investment Adviser</u>	74
<u>The Administrator</u>	75
<u>Custodian and Transfer Agent</u>	75
<u>The Distributor</u>	75
<u>Other Accounts Managed by the Portfolio Managers</u>	76
<u>Portfolio Manager Compensation</u>	77
<u>Portfolio Manager Share Ownership</u>	77
<u>BROKERAGE TRANSACTIONS</u>	77
<u>BOOK ENTRY ONLY SYSTEM</u>	77
<u>CREATION AND REDEMPTION OF CREATION UNITS</u>	78
<u>General</u>	78
<u>Fund Deposit</u>	79
<u>Procedures for Creation of Creation Units</u>	80
<u>Placement of Creation Orders</u>	81
<u>Acceptance of Creation Orders</u>	81
<u>Creation Transaction Fee</u>	81
<u>Redemption of Creation Units</u>	82
<u>Redemption Transaction Fee</u>	83
<u>Placement of Redemption Orders</u>	83
<u>DETERMINATION OF NET ASSET VALUE</u>	83
<u>DIVIDENDS AND DISTRIBUTIONS</u>	84
<u>General Policies</u>	84
<u>DIVIDEND REINVESTMENT SERVICE</u>	84

<u>CONTROL PERSONS AND PRINCIPAL</u>	85
<u>SHAREHOLDERS</u>	
<u>TAXES</u>	85
<u>Reportable Transactions</u>	88
<u>California State Tax Considerations</u>	88
<u>New Jersey State Tax Considerations</u>	89
<u>New York State and City Tax</u>	90
<u>Massachusetts State Tax Considerations</u>	90
<u>Ohio State and Local Tax Considerations</u>	90
<u>Pennsylvania State Tax Considerations</u>	91
<u>CAPITAL STOCK AND</u>	
<u>SHAREHOLDER REPORTS</u>	91
<u>COUNSEL AND INDEPENDENT</u>	
<u>REGISTERED PUBLIC ACCOUNTING</u>	92
<u>FIRM</u>	
<u>LICENSE AGREEMENT AND</u>	
<u>DISCLAIMERS</u>	93
<u>APPENDIX A VAN ECK GLOBAL</u>	
<u>PROXY VOTING POLICIES</u>	94

GENERAL DESCRIPTION OF THE TRUST

The Trust is an open-end management investment company. The Trust currently consists of 59 investment portfolios. This SAI relates to six investment portfolios, Market Vectors California Long Municipal Index ETF, Market Vectors Massachusetts Municipal Index ETF, Market Vectors New Jersey Municipal Index ETF, Market Vectors New York Long Municipal Index ETF, Market Vectors Ohio Municipal Index ETF and Market Vectors Pennsylvania Municipal Index ETF (each, a “Fund” and, together, the “Funds”). Each Fund is classified as non-diversified management investment companies under the Investment Company Act of 1940, as amended (“1940 Act”), and, as a result, is not required to meet certain diversification requirements under the 1940 Act. The Trust was organized as a Delaware statutory trust on March 15, 2001. The shares of each Fund are referred to herein as “Shares.”

The Funds offer and issue Shares at their net asset value (“NAV”) only in aggregations of a specified number of Shares (each, a “Creation Unit”). Similarly, Shares are redeemable by the Funds only in Creation Units for cash and/or in-kind for securities generally included in each Fund’s Index (defined herein). The Shares of the Funds are expected to be listed on NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) and will trade in the secondary market at market prices that may differ from the Shares’ NAV. A Creation Unit consists of 100,000 Shares of a Fund.

The Trust reserves the right to permit or require a “cash” option for creations and redemptions of Shares of a Fund (subject to applicable legal requirements) to the extent such Shares are not created and redeemed in cash.

## INVESTMENT POLICIES AND RESTRICTIONS

### Municipal Securities

The Funds may invest in securities issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. Municipal securities share the attributes of debt/fixed income securities in general, but are generally issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. The municipal securities which each Fund may purchase include general obligation bonds and limited obligation bonds (or revenue bonds), including industrial development bonds issued pursuant to former federal tax law. General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from such issuer's general revenues and not from any particular source. Limited obligation bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. Tax-exempt industrial development bonds generally are also revenue bonds and thus are not payable from the issuer's general revenues. The credit and quality of industrial development bonds are usually related to the credit of the corporate user of the facilities. Payment of interest on and repayment of principal of such bonds is the responsibility of the corporate user (and/or any guarantor). In addition, each Fund may invest in lease obligations. Lease obligations may take the form of a lease or an installment purchase contract issued by public authorities to acquire a wide variety of equipment and facilities.

### Repurchase Agreements

The Funds may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from their excess cash balances and to invest securities lending cash collateral. A repurchase agreement is an agreement under which a Fund acquires a money market instrument (generally a security issued by the U.S. Government or an agency thereof, a banker's acceptance or a certificate of deposit) from a seller, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. The resale price reflects an agreed upon interest rate effective for the period the instrument is held by a Fund and is unrelated to the interest rate on the underlying instrument.

In these repurchase agreement transactions, the securities acquired by a Fund (including accrued interest earned thereon) must have a total value at least equal to the value of the repurchase agreement and are held by the Trust's custodian bank until repurchased. In addition, the Trust's Board of Trustees ("Board" or "Trustees") has established guidelines and standards for review of the creditworthiness of any bank, broker or dealer counterparty to a repurchase agreement with each Fund. No more than an aggregate of 15% of each Fund's net assets will be invested in repurchase agreements having maturities longer than seven days.

The use of repurchase agreements involves certain risks. For example, if the other party to the agreement defaults on its obligation to repurchase the underlying security at a time when the value of the security has declined, the Funds

may incur a loss upon disposition of the security. If the other party to the agreement becomes insolvent and subject to liquidation or reorganization under the Bankruptcy Code or other laws, a court may determine that the underlying security is collateral not within the control of the Fund and, therefore, the Fund may incur delays in disposing of the security and/or may not be able to substantiate its interest in the underlying security and may be deemed an unsecured creditor of the other party to the agreement.

#### Futures Contracts and Options

Futures contracts generally provide for the future sale by one party and purchase by another party of a specified instrument, index or commodity at a specified future time and at a specified price. Bond index futures contracts are settled daily with a payment by one party to the other of a cash amount based on the difference between the level of the bond index specified in the contract from one day to the next. Futures contracts are standardized as to maturity date and underlying instrument and are traded on futures exchanges. The Funds may use futures contracts and options on futures contracts based on other indexes or combinations of indexes that Van Eck Associates Corporation (the “Adviser”) believes to be representative of each Fund’s respective benchmark index (each, an “Index”).



An option is a contract that provides the holder the right to buy or sell shares at a fixed price, within a specified period of time. An American call option gives the option holder the right to buy the underlying security from the option writer at the option exercise price at any time prior to the expiration of the option. A European call option gives the option holder the right to buy the underlying security from the option writer only on the option expiration date. An American put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price at any time prior to the expiration of the option. A European put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price only on the option expiration date.

Although futures contracts (other than cash settled futures contracts including most bond index futures contracts) by their terms call for actual delivery or acceptance of the underlying instrument or commodity, in most cases the contracts are closed out before the maturity date without the making or taking of delivery. Closing out an open futures position is done by taking an opposite position (“buying” a contract which has previously been “sold” or “selling” a contract previously “purchased”) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract position is opened or closed.

Futures traders are required to make a good faith margin deposit in cash or government securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying instrument or commodity or payment of the cash settlement amount) if it is not terminated prior to the specified delivery date. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin deposits which may range upward from less than 5% of the value of the contract being traded.

After a futures contract position is opened, the value of the contract is marked-to-market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional “variation” margin will be required.

Conversely, a change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Funds expect to earn interest income on their margin deposits.

The Funds may use futures contracts and options thereon, together with positions in cash and money market instruments, to simulate full investment in each Fund’s respective Index. Under such circumstances, the Adviser may seek to utilize other instruments that it believes to be correlated to each Fund’s respective Index components or a subset of the components. Liquid futures contracts may not be currently available for the Index of each Fund.

Positions in futures contracts and options may be closed out only on an exchange that provides a secondary market therefor. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract or option at any specific time. Thus, it may not be possible to close a futures or options position. In the event of adverse price movements, the Funds would continue to be required to make daily cash payments to maintain its

required margin. In such situations, if a Fund has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, the Funds may be required to make delivery of the instruments underlying futures contracts they have sold.

The Funds will seek to minimize the risk that they will be unable to close out a futures or options contract by only entering into futures and options for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts or uncovered call options in some strategies (e.g., selling uncovered bond index futures contracts) is potentially unlimited. The Funds do not plan to use futures and options contracts in this way. The risk of a futures position may still be large as traditionally measured due to the low margin deposits required. In many cases, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor relative to the size of a required margin deposit.

Utilization of futures transactions by the Funds involves the risk of imperfect or even negative correlation to each Fund's respective Index if the index underlying the futures contracts differs from the Index. There is also the risk of loss by the Funds of margin deposits in the event of bankruptcy of a broker with whom a Fund has an open position in the futures contract or option.

Certain financial futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

Except as otherwise specified in the Funds' Prospectus or this SAI, there are no limitations on the extent to which the Funds may engage in transactions involving futures and options thereon. The Funds will take steps to prevent their futures positions from "leveraging" their securities holdings. When a Fund has a long futures position, it will maintain with its custodian bank, cash or liquid securities having a value equal to the notional value of the contract (less any margin deposited in connection with the position). When a Fund has a short futures position, as part of a complex bond replication strategy the Fund will maintain with its custodian bank assets substantially identical to those underlying the contract or cash and liquid securities (or a combination of the foregoing) having a value equal to the net obligation of the Fund under the contract (less the value of any margin deposits in connection with the position).

## Swaps

Over-the-counter swap ("OTC") agreements are contracts between parties in which one party agrees to make payments to the other party based on the change in market value or level of a specified index or asset. In return, the other party agrees to make payments to the first party based on the return of a different specified index or asset. Although over-the-counter swap agreements entail the risk that a party will default on its payment obligations thereunder, each Fund seeks to reduce this risk by entering into agreements that involve payments no less frequently than quarterly. The net amount of the excess, if any, of a Fund's obligations over its entitlements with respect to each swap is accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess is maintained in an account at the Trust's custodian bank.

Certain Funds may enter into interest rate swaps and credit default swaps. Interest rate swaps are bilateral contracts in which each party agrees to make periodic payments to the other party based on different referenced interest rates (e.g., a fixed rate and a floating rate) applied to a specified notional amount. A credit default swap is a bilateral contract that enables an investor to buy or sell protection against a defined-issuer credit event. Certain Funds may enter into credit default swap agreements either as a buyer or a seller. A Fund may buy protection to attempt to mitigate the risk of default or credit quality deterioration in one or more of its individual holdings or in a segment of the fixed income securities market to which it has exposure, or to take a "short" position in individual bonds or market segments which it

does not own. A Fund may sell protection in an attempt to gain exposure to the credit quality characteristics of particular bonds or market segments without investing directly in those bonds or market segments. As the protection seller in a credit default swap, a Fund effectively adds economic leverage to its portfolio because, in addition to being subject to investment exposure on its total net assets, the Fund is subject to investment exposure on the notional amount of the swap

The use of such swap agreements involves certain risks. For example, if the counterparty, under a swap agreement, defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, the Funds may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related regulatory developments require the eventual clearing and exchange-trading of many standardized OTC derivative instruments that the Commodity Futures Trading Commission (“CFTC”) and Securities and Exchange Commission

(“SEC”) recently defined as “swaps” and “security-based swaps,” respectively. Mandatory exchange-trading and clearing is occurring on a phased-in basis based on the type of market participant and CFTC approval of contracts for central clearing and exchange trading. In a cleared swap, a Fund’s ultimate counterparty is a central clearinghouse rather than a brokerage firm, bank or other financial institution. A Fund initially will enter into cleared swaps through an executing broker. Such transactions will then be submitted for clearing and, if cleared, will be held at regulated futures commission merchants (“FCMs”) that are members of the clearinghouse that serves as the central counterparty. When a Fund enters into a cleared swap, it must deliver to the central counterparty (via an FCM) an amount referred to as “initial margin.” Initial margin requirements are determined by the central counterparty, but an FCM may require additional initial margin above the amount required by the central counterparty. During the term of the swap agreement, a “variation margin” amount may also be required to be paid by a Fund or may be received by the Fund in accordance with margin controls set for such accounts, depending upon changes in the price of the underlying reference asset subject to the swap agreement. At the conclusion of the term of the swap agreement, if a Fund has a loss equal to or greater than the margin amount, the margin amount is paid to the FCM along with any loss in excess of the margin amount. If a Fund has a loss of less than the margin amount, the excess margin is returned to the Fund. If a Fund has a gain, the full margin amount and the amount of the gain is paid to the Fund.

Central clearing is designed to reduce counterparty credit risk compared to uncleared swaps because central clearing interposes the central clearinghouse as the counterparty to each participant’s swap, but it does not eliminate those risks completely. There is also a risk of loss by a Fund of the initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. The assets of a Fund may not be fully protected in the event of the bankruptcy of the FCM or central counterparty because the Fund might be limited to recovering only a pro rata share of all available funds and margin segregated on behalf of an FCM’s customers or central counterparty’s clearing members. If the FCM does not provide accurate reporting, a Fund is also subject to the risk that the FCM could use the Fund’s assets, which are held in an omnibus account with assets belonging to the FCM’s other customers, to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. Certain swaps have begun trading on exchanges called swap execution facilities. Exchange-trading is expected to increase liquidity of swaps trading.

In addition, with respect to cleared swaps, a Fund may not be able to obtain as favorable terms as it would be able to negotiate for an uncleared swap. In addition, an FCM may unilaterally impose position limits or additional margin requirements for certain types of swaps in which a Fund may invest. Central counterparties and FCMs generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement. Margin requirements for cleared swaps vary on a number of factors, and the margin required under the rules of the clearinghouse and FCM may be in excess of the collateral required to be posted by a Fund to support its obligations under a similar uncleared swap. However, regulators are expected to adopt rules imposing certain margin requirements, including minimums, on uncleared swaps in the near future, which could change this comparison.

The Funds are also subject to the risk that, after entering into a cleared swap with an executing broker, no FCM or central counterparty is willing or able to clear the transaction. In such an event, the central counterparty would void the trade. Before a Fund can enter into a new trade, market conditions may become less favorable to the Fund.

The Adviser will continue to monitor developments regarding trading and execution of cleared swaps on exchanges, particularly to the extent regulatory changes affect a Fund's ability to enter into swap agreements and the costs and risks associated with such investments.

#### Warrants and Subscription Rights

Warrants are equity securities in the form of options issued by a corporation which give the holder the right, but not the obligation, to purchase stock, usually at a price that is higher than the market price at the time the warrant is issued. A purchaser takes the risk that the warrant may expire worthless because the market price of the common stock fails to rise above the price set by the warrant.

- 5 -

## Currency Forwards

A currency forward transaction is a contract to buy or sell a specified quantity of currency at a specified date in the future at a specified price which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. Currency forward contracts may be used to increase or reduce exposure to currency price movements.

The use of currency forward transactions involves certain risks. For example, if the counterparty under the contract defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, a Fund may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

## Convertible Securities

A convertible security is a bond, debenture, note, preferred stock, right, warrant or other security that may be converted into or exchanged for a prescribed amount of common stock or other security of the same or a different issuer or into cash within a particular period of time at a specified price or formula. A convertible security generally entitles the holder to receive interest paid or accrued on debt securities or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities generally have characteristics similar to both debt and equity securities. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuations in the market value of the underlying securities. Convertible securities ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities generally rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities although the market prices of convertible securities may be affected by any dividend changes or other changes in the underlying securities.

## Structured Notes

A structured note is a derivative security for which the amount of principal repayment and/or interest payments is based on the movement of one or more "factors." These factors include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. Investments in structured notes involve risks including interest rate risk, credit risk and market risk. Depending on the factor(s) used and the use of multipliers or deflators, changes in interest rates and movement of such factor(s) may cause significant price fluctuations. Structured notes may be less liquid than other types of securities and more volatile than the reference factor underlying the note.

## Participation Notes

Participation notes (“P-Notes”) are issued by banks or broker-dealers and are designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes can have the characteristics or take the form of various instruments, including, but not limited to, certificates or warrants. The holder of a P-Note that is linked to a particular underlying security is entitled to receive any dividends paid in connection with the underlying security. However, the holder of a P-Note generally does not receive voting rights as it would if it directly owned the underlying security. P-Notes constitute direct, general and unsecured contractual obligations of the banks or broker-dealers that issue them, which therefore subject a Fund to counterparty risk, as discussed below. Investments in P-Notes involve certain risks in addition to those associated with a direct investment in the underlying foreign securities or foreign securities markets whose return they seek to replicate. For instance, there can be no assurance that the trading price of a P-Note will equal the value of the underlying foreign security or foreign securities market that it seeks to replicate. As the purchaser of a P-Note, a Fund is relying on the creditworthiness of the counterparty issuing the P-Note and has no rights under a P-Note against the issuer of the underlying security. Therefore, if such counterparty were to become insolvent, a Fund would lose its investment. The risk that a Fund may lose its investments due to the insolvency of a single counterparty may be amplified to the extent the Fund purchases P-Notes issued by one issuer or a small number of issuers. P-Notes also include transaction costs in addition to those applicable to a direct investment in securities. In addition, a Fund’s use of P-



Notes may cause the Fund's performance to deviate from the performance of the portion of the Index to which the Fund is gaining exposure through the use of P-Notes.

Due to liquidity and transfer restrictions, the secondary markets on which P-Notes are traded may be less liquid than the markets for other securities, which may lead to the absence of readily available market quotations for securities in a Fund's portfolio and may cause the value of the P-Notes to decline. The ability of a Fund to value its securities becomes more difficult and the Adviser's judgment in the application of fair value procedures may play a greater role in the valuation of a Fund's securities due to reduced availability of reliable objective pricing data. Consequently, while such determinations will be made in good faith, it may nevertheless be more difficult for a Fund to accurately assign a daily value to such securities.

#### Future Developments

The Funds may take advantage of opportunities in the area of options, futures contracts, options on futures contracts, options on the Funds, warrants, swaps and any other investments which are not presently contemplated for use or which are not currently available, but which may be developed, to the extent such investments are considered suitable for a Fund by the Adviser.

#### Investment Restrictions

The Trust has adopted the following investment restrictions as fundamental policies with respect to each Fund. These restrictions cannot be changed without the approval of the holders of a majority of each Fund's outstanding voting securities. For purposes of the 1940 Act, a majority of the outstanding voting securities of a Fund means the vote, at an annual or a special meeting of the security holders of the Trust, of the lesser of (1) 67% or more of the voting securities of the Fund present at such meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy, or (2) more than 50% of the outstanding voting securities of the Fund. Under these restrictions:

Each Fund may not make loans, except that a Fund may (i) lend portfolio securities, (ii) enter into repurchase agreements, (iii) purchase all or a portion of an issue of debt securities, bank loan or participation interests, bank certificates of deposit, bankers' acceptances, debentures or other securities, whether or not the purchase is made upon the original issuance of the securities and (iv) participate in an interfund lending program with other registered investment companies;

2. Each Fund may not borrow money, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

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3. Each Fund may not issue senior securities except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

4. Each Fund may not purchase or sell real estate, except that a Fund may (i) invest in securities of issuers that invest in real estate or interests therein; (ii) invest in mortgage-related securities and other securities that are secured by real estate or interests therein; and (iii) hold and sell real estate acquired by the Fund as a result of the ownership of securities;

5. Each Fund may not engage in the business of underwriting securities issued by others, except to the extent that a Fund may be considered an underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), in the disposition of restricted securities or in connection with its investments in other investment companies;

6. Each Fund may not purchase or sell commodities, unless acquired as a result of owning securities or other instruments, but it may purchase, sell or enter into financial options and futures, forward and spot currency contracts, swap transactions and other financial contracts or derivative instruments and may invest in securities or other instruments backed by commodities; and

- 7 -

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Each Fund may not purchase any security if, as a result of that purchase, 25% or more of its total assets would be invested in securities of issuers having their principal business activities in the same industry, except that the Fund may invest 25% or more of the value of its total assets in securities of issuers in any one industry or group of industries if the index that the Fund replicates concentrates in an industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

In addition, each Fund has adopted a fundamental investment policy to invest at least 80% of its assets in investments suggested by its name. For purposes of this policy, the term “assets” means net assets plus the amount of borrowings for investment purposes.

In addition to the investment restrictions and policy adopted as fundamental policies as set forth above, each Fund observes the following restrictions, which may be changed by the Board without a shareholder vote. Each Fund will not:

1. Invest in securities which are “illiquid” securities, including repurchase agreements maturing in more than seven days and options traded over-the-counter, if the result is that more than 15% of a Fund’s net assets would be invested in such securities.

2. Make short sales of securities.

3. Purchase any security on margin, except for such short-term loans as are necessary for clearance of securities transactions. The deposit or payment by a Fund or initial or variation margin in connection with futures contracts or related options thereon is not considered the purchase of a security on margin.

4. Participate in a joint or joint-and-several basis in any trading account in securities, although transactions for the Funds and any other account under common or affiliated management may be combined or allocated between a Fund and such account.

5. Purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act, although the Fund may not acquire any securities of registered open-end investment companies or registered unit investment trusts in reliance on Sections 12(d)(1)(F) or 12(d)(1)(G) of the 1940 Act.

If a percentage limitation is adhered to at the time of investment or contract, a later increase or decrease in percentage resulting from any change in value or total or net assets will not result in a violation of such restriction, except that the percentage limitations with respect to the borrowing of money and illiquid securities will be continuously complied with.

Each Fund may invest its remaining assets in securities not included in its respective Index, money market instruments or funds which reinvest exclusively in money market instruments, in municipal bonds that are in the relevant market

but not the Fund's respective Index, and/or in combinations of certain bond index futures contracts, options on such futures contracts, bond options, bond index options, options on the Shares, and bond index swaps and swaptions, each with a view towards providing each Fund with exposure to the securities in its respective Index. These investments may be made to invest uncommitted cash balances or, in limited circumstances, to assist in meeting shareholder redemptions of Creation Units. Each Fund also will not invest in money market instruments as part of a temporary defensive strategy to protect against potential bond market declines.

#### SPECIAL CONSIDERATIONS AND RISKS

A discussion of the risks associated with an investment in each Fund is contained in the Funds' Prospectus under the headings "Summary Information—Principal Risks of Investing in the Fund" with respect to the applicable Fund, and "Additional Information About the Funds' Investment Strategies and Risks—Risks of Investing in the

Funds.” The discussion below supplements, and should be read in conjunction with, such sections of the Funds’ Prospectus.

## General

Investment in each Fund should be made with an understanding that the value of the Fund’s portfolio securities may fluctuate in accordance with changes in the financial condition of the issuers of the portfolio securities, the value of municipal securities generally and other factors.

An investment in each Fund should also be made with an understanding of the risks inherent in an investment in municipal securities. An issuer may have the right to redeem or “call” a bond before maturity, in which case the investor may have to reinvest the proceeds at lower market rates. Most bonds bear interest income at a “coupon” rate that is fixed for the life of the bond. The value of a fixed rate bond usually rises when market interest rates fall, and falls when market interest rates rise. Accordingly, a fixed rate bond’s yield (income as a percent of the bond’s current value) may differ from its coupon rate as its value rises or falls. Other types of bonds bear income at an interest rate that is adjusted periodically. Because of their adjustable interest rates, the values of “floating-rate” or “variable-rate” bonds generally fluctuate less in response to market interest rate movements than the value of similar fixed rate bonds. The Funds may treat some of these bonds as having a shorter maturity for purposes of calculating the weighted average maturity of its investment portfolio. Generally, prices of higher quality issues tend to fluctuate more with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues. Bonds may be senior or subordinated obligations. Senior obligations generally have the first claim on a corporation’s earnings and assets and, in the event of liquidation, are paid before subordinated obligations. Bonds may be unsecured (backed only by the issuer’s general creditworthiness) or secured (also backed by specified collateral).

The Funds are not actively managed by traditional methods, and therefore the adverse financial condition of any one issuer will not result in the elimination of its securities from the securities held by a Fund unless the securities of such issuer are removed from its respective Index.

An investment in each Fund should also be made with an understanding that the Fund will not be able to replicate exactly the performance of its respective Index because the total return generated by the securities will be reduced by transaction costs incurred in adjusting the actual balance of the securities and other Fund expenses, whereas such transaction costs and expenses are not included in the calculation of its respective Index. In addition, each Fund’s use of a representative sampling approach may cause each such Fund to not be as well correlated with the return of its respective Index as would be the case if the Fund purchased all of the securities in its respective Index in the proportions represented in such Index. The risk of non-correlation may be higher than other exchange-traded funds which utilize a sampling approach to the extent that a Fund invests a portion of its assets in securities that have economic characteristics that are substantially identical to the securities comprising its respective Index, but which are not included in such Index. It is also possible that for periods of time, a Fund may not fully replicate the performance of its respective Index due to the temporary unavailability of certain Index securities in the secondary market or due to other extraordinary circumstances. Such events are unlikely to continue for an extended period of time because a Fund

is required to correct such imbalances by means of adjusting the composition of the securities. It is also possible that the composition of each Fund may not exactly replicate the composition of its respective Index if the Fund has to adjust its portfolio holdings in order to continue to qualify as a “regulated investment company” under the U.S. Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”).

Regulatory developments affecting the exchange-traded and OTC derivatives markets may impair each Fund’s ability to manage or hedge its investment portfolio through the use of derivatives. The Dodd-Frank Act and the rules promulgated thereunder may limit the ability of a Fund to enter into one or more exchange-traded or OTC derivatives transactions.

The Trust, on behalf of the Funds, has filed a notice of eligibility with the National Futures Association claiming an exclusion from the definition of the term “commodity pool operator” (“CPO”) pursuant to CFTC Regulation 4.5, as promulgated under the Commodity Exchange Act (“CEA”), with respect to the Funds’ operations. Therefore, neither the Funds nor the Adviser (with respect to the Funds) is subject to registration or regulation as a

commodity pool or CPO under the CEA. If a Fund becomes subject to these requirements, a Fund may incur additional compliance and other expenses.

Each Fund's use of derivatives may also be limited by the requirements of the Internal Revenue Code for qualification as a regulated investment company for U.S. federal income tax purposes.

With respect to investments in swap transactions, commodity futures, commodity options or certain other derivatives used for purposes other than bona fide hedging purposes, an investment company must meet one of the following tests under the amended regulations in order to claim an exemption from being considered a "commodity pool" or CPO. First, the aggregate initial margin and premiums required to establish an investment company's positions in such investments may not exceed five percent (5%) of the liquidation value of the investment company's portfolio (after accounting for unrealized profits and unrealized losses on any such investments). Alternatively, the aggregate net notional value of such instruments, determined at the time of the most recent position established, may not exceed one hundred percent (100%) of the liquidation value of the investment company's portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, the investment company may not market itself as a commodity pool or otherwise as a vehicle for trading in the commodity futures, commodity options or swaps and derivatives markets. In the event that the Adviser is required to register as a CPO, the disclosure and operations of the Funds would need to comply with all applicable CFTC regulations. Compliance with these additional registration and regulatory requirements would increase operational expenses. Other potentially adverse regulatory initiatives could also develop.

Each Fund's use of derivatives may also be limited by the requirements of the Internal Revenue Code, for qualification as a regulated investment company for U.S. federal income tax purposes.

#### Municipal Securities Risk

The market for municipal bonds may be less liquid than for taxable bonds. There may also be less information available on the financial condition of issuers of municipal securities than for public corporations. This means that it may be harder to buy and sell municipal securities, especially on short notice, and municipal securities may be more difficult for each Fund to value accurately than securities of public corporations. Since each Fund invests a significant portion of its portfolio in municipal securities, each Fund's portfolio may have greater exposure to liquidity risk than a fund that invests in non-municipal securities.

Municipal securities may include revenue bonds, which are generally backed by revenue from a specific project or tax. The issuer of a revenue bond makes interest and principal payments from revenues generated from a particular source or facility, such as a tax on particular property or revenues generated from a municipal water or sewer utility or an airport. Revenue bonds generally are not backed by the full faith and credit and general taxing power of the issuer.

Some longer-term municipal securities give the investor the right to “put” or sell the security at par (face value) within a specified number of days following the investor’s request – usually one to seven days. This demand feature enhances a security’s liquidity by shortening its effective maturity and enables it to trade at a price equal to or very close to par. If a demand feature terminates prior to being exercised, a Fund would hold the longer-term security, which could experience substantially more volatility.

Municipal securities are subject to credit and market risk. Generally, prices of higher quality issues tend to fluctuate more with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues.

Prices and yields on municipal securities are dependent on a variety of factors, including general money-market conditions, the financial condition of the issuer, general conditions of the municipal securities market, the size of a particular offering, the maturity of the obligation and the rating of the issue. A number of these factors, including the ratings of particular issues, are subject to change from time to time. Available information about the financial condition of an issuer of municipal securities may not be as extensive as that which is made



available by corporations whose securities are publicly traded. As a result, municipal securities may be more difficult to value than securities of public corporations.

#### Lease Obligations Risk

Lease obligations may have risks not normally associated with general obligation or other revenue bonds. Leases and installment purchase or conditional sale contracts (which may provide for title to the leased asset to pass eventually to the issuer) have developed as a means for governmental issuers to acquire property and equipment without the necessity of complying with the constitutional statutory requirements generally applicable for the issuance of debt. Certain lease obligations contain “non-appropriation” clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for that purpose by the appropriate legislative body on an annual or other periodic basis. Consequently, continued lease payments on those lease obligations containing “nonappropriation” clauses are dependent on future legislative actions. If these legislative actions do not occur, the holders of the lease obligation may experience difficulty in exercising their rights, including disposition of the property. In such circumstances, a Fund might not recover the full principal amount of the obligation.

#### Tobacco Bond Risk

Tobacco settlement revenue bonds are generally neither general nor legal obligations of a state or any of its political subdivisions and neither the full faith and credit nor the taxing power nor any other assets or revenues of a state or of any political subdivision will be pledged to the payment of any such bonds. In addition, tobacco companies’ profits from the sale of tobacco products are inherently variable and difficult to estimate. There can be no guarantee that tobacco companies will earn enough revenues to cover the payments due under tobacco bonds. The revenues of tobacco companies may be adversely affected by the adoption of new legislation and/or by litigation.

#### Education Bond Risk

In general, there are two types of education-related bonds: those issued to finance projects for public and private colleges and universities, and those representing pooled interests in student loans. Bonds issued to supply educational institutions with funds are subject to the risk of unanticipated revenue decline, primarily the result of decreasing student enrollment or decreasing state and federal funding. Among the factors that may lead to declining or insufficient revenues are restrictions on students’ ability to pay tuition, availability of state and federal funding, and general economic conditions. Student loan revenue bonds are generally offered by state (or sub-state) authorities or commissions and are backed by pools of student loans. Underlying student loans may be guaranteed by state guarantee agencies and may be subject to reimbursement by the United States Department of Education through its guaranteed student loan program. Others may be private, uninsured loans made to parents or students which are supported by reserves or other forms of credit enhancement. Recoveries of principal due to loan defaults may be applied to redemption of bonds or may be used to re-lend, depending on program latitude and demand for loans. Cash

flows supporting student loan revenue bonds are impacted by numerous factors, including the rate of student loan defaults, seasoning of the loan portfolio and student repayment deferral periods of forbearance. Other risks associated with student loan revenue bonds include potential changes in federal legislation regarding student loan revenue bonds, state guarantee agency reimbursement and continued federal interest and other program subsidies currently in effect.

#### Electric Utilities Bond Risk

The electric utilities industry has been experiencing, and will continue to experience, increased competitive pressures. Federal legislation may open transmission access to any electricity supplier, although it is not presently known to what extent competition will evolve. Other risks include: (a) the availability and cost of fuel; (b) the availability and cost of capital; (c) the effects of conservation on energy demand; (d) the effects of rapidly changing environmental, safety and licensing requirements, and other federal, state and local regulations, (e) timely and sufficient rate increases and governmental limitations on rates charged to customers; (f) the effects of opposition to nuclear power; (h) increases in operating costs; and (i) obsolescence of existing equipment, facilities and products.

- 11 -

### Housing Bond Risk

Housing revenue bonds are generally issued by a state, county, city, local housing authority or other public agency. They generally are secured by the revenues derived from mortgages purchased with the proceeds of the bond issue. It is extremely difficult to predict the supply of available mortgages to be purchased with the proceeds of an issue or the future cash flow from the underlying mortgages. Consequently, there are risks that proceeds will exceed supply, resulting in early retirement of bonds, or that homeowner repayments will create an irregular cash flow. Many factors may affect the financing of multi-family housing projects, including acceptable completion of construction, proper management, occupancy and rent levels, economic conditions and changes to current laws and regulations.

### Transportation Bond Risk

Transportation debt may be issued to finance the construction of airports, toll roads, highways or other transit facilities. Airport bonds are dependent on the general stability of the airline industry and on the stability of a specific carrier who uses the airport as a hub. Air traffic generally follows broader economic trends and is also affected by the price and availability of fuel. Toll road bonds are also affected by the cost and availability of fuel as well as toll levels, the presence of competing roads and the general economic health of an area. Fuel costs and availability also affect other transportation-related securities, as do the presence of alternate forms of transportation, such as public transportation. Municipal securities that are issued to finance a particular transportation project often depend solely on revenues from that project to make principal and interest payments. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities.

### Water and Sewer Bond Risk

Water and sewer revenue bonds are often considered to have relatively secure credit as a result of their issuer's importance, monopoly status and generally unimpeded ability to raise rates. Despite this, lack of water supply due to insufficient rain, run-off or snow pack is a concern that has led to past defaults. Further, public resistance to rate increases, costly environmental litigation, and federal environmental mandates are challenges faced by issuers of water and sewer bonds.

### Industrial Development Bond Risk

Industrial developments bonds are revenue bonds issued by or on behalf of public authorities to obtain funds to finance various public and/or privately operated facilities, including those for business and manufacturing, housing, sports, pollution control, airport, mass transit, port and parking facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax payments. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to

meet its financial obligations. Payment of interest on and repayment of principal of such bonds are the responsibility of the user and/or any guarantor. These bonds are subject to a wide variety of risks, many of which relate to the nature of the specific project. Generally, the value and credit quality of these bonds are sensitive to the risks related to an economic slowdown.

#### Resource Recovery Risk

Resource recovery bonds are a type of revenue bond issued to build facilities such as solid waste incinerators or waste-to-energy plants. Typically, a private corporation is involved, at least during the construction phase, and the revenue stream is secured by fees or rents paid by municipalities for use of the facilities. These bonds are normally secured only by the revenues from the project and not by state or local government tax receipts. Consequently, the credit quality of these securities is dependent upon the ability of the user of the facilities financed by the bonds and any guarantor to meet its financial obligations. The viability of a resource recovery project, environmental protection regulations, and project operator tax incentives may affect the value and credit quality of resource recovery bonds.

- 12 -

### Special Tax Bond Risk

Special tax bonds are usually backed and payable through a single tax, or series of special taxes such as incremental property taxes. The failure of the tax levy to generate adequate revenue to pay the debt service on the bonds may cause the value of the bonds to decline. Adverse conditions and developments affecting a particular project may result in lower revenues to the issuer of the municipal securities, which may adversely affect the value of a Fund's portfolio.

### Health Care Bond Risk

The health care industry is subject to regulatory action by a number of private and governmental agencies, including federal, state and local governmental agencies. A major source of revenues for the health care industry is payments from Medicare and Medicaid programs. As a result, the industry is sensitive to legislative changes and reductions in governmental spending for such programs. Numerous other factors may also affect the industry and the value and credit quality of health care bonds, such as general and local economic conditions, demand for services, expenses (including malpractice insurance premiums) and competition among health care providers. The following elements may adversely affect health care facility operations: the implementation of national and/or state-specific health insurance exchanges; other national, state or local health care reform measures; medical and technological advances which dramatically alter the need for health services or the way in which such services are delivered; changes in medical coverage which alter the traditional fee-for-service revenue stream; efforts by employers, insurers, and governmental agencies to reduce the costs of health insurance and health care services; and increases and decreases in the cost and availability of medical products.

### Special Risk Considerations Regarding California

As described in the Prospectus, under normal circumstances, the Market Vectors California Long Municipal Index ETF will invest at least 80% of its assets in California municipal securities. The portfolio of the Fund may include securities issued by the State of California, by its various public bodies (the "Agencies") and/or by other municipal entities located within the State of California (securities of all such entities are referred to herein as "California municipal securities"). In addition, the specific California municipal securities in which the Fund will invest will change from time to time. The Fund is therefore susceptible to political, economic, regulatory or other factors affecting issuers of California municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of California municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of California municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of California municipal securities, as well as from other publicly available documents. Such an official statement, together with any updates or supplements thereto, generally may be obtained upon request to the Treasurer's office of the State of California. Such information has not been independently verified by the Fund and the Fund assumes no responsibility for the completeness or accuracy of such information. The summary below does not include all of the information pertaining to the budget, receipts and disbursements of the State of California that would ordinarily be included in various public documents issued thereby, such as an official statement prepared in connection with the issuance of general obligation bonds of the State of California. Additionally, many factors, including national, economic, social

and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. The Fund cannot predict whether or to what extent such factors or other factors may affect the issuers of California municipal securities, the market value or marketability of such securities or the ability of the respective issuers of such securities acquired by the Fund to pay interest on or principal of such securities. The creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and there is no assurance on the part of the State of California to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within the State of California, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of California municipal securities.

- 13 -

*General Economic Conditions.* The State of California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. The State of California, like the rest of the nation, has experienced a severe economic downturn. Both the California economy and the national economy have remained weak in the first half of 2009 and it is difficult to determine when they will recover. The May Revision to the 2009 Budget Act (the "2009 May Revision") forecasts that the State and national economies should begin to grow in the second half of 2009, but the recovery will be slow at first, with payroll employment continuing to fall and unemployment remaining high. The 2009 May Revision outlook for both the national and California economies is for negative growth in 2009 and weak growth in 2010. The California Legislative Analyst's Office ("LAO") forecasts that both the state and national economies will experience a sluggish recovery in 2010 and 2011.

The economic downturn has been particularly severe in California due to its sizable housing market and construction and mortgage industries. The State's unemployment rate rose to 12.5 percent in October 2009. This was among the highest state unemployment rates in the country and was the highest unemployment rate in California since February 1983. The slowdown in the State's job growth, which was initially concentrated in the housing and financial markets, has reached all sectors and industries. From July 2007 through October 2009, nonfarm job losses in California totaled 1,003,400 (6.6 percent), for an average loss of 37,200 jobs a month. The national unemployment rate in October 2009 was 10.2 percent.

The housing slump has been deeper in California than most states, and declining prices and increasing subprime mortgage rates have led to record mortgage delinquencies and home foreclosures in California. Upward resets of subprime mortgage rates have made payments unaffordable for many borrowers in the State, and several large financial institutions have reported substantial losses on subprime mortgages and securities backed by these mortgages. In addition, uncertainty about the mortgage market and increased financial market volatility have prompted lenders to tighten credit standards.

Nonetheless, the State's housing sector may be showing signs of reduced slowing as residential permits appear to be stabilizing at low levels and monthly job construction losses have become smaller. Sales of existing homes have picked up considerably, although distressed properties account for a significant portion of those sales. By June 2009, existing home prices had risen for four consecutive months and the pace of existing home sales during the first six months of 2009 accelerated over 55% from the first half of 2008. These trends were also reflected in inventory readings: by June 2009 the inventory of unsold homes decreased to 4.1 months and the average number of days needed to sell a home had dropped to 44.3 days, nearly a 10% improvement from a year earlier.

*State Government.* The State of California's Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amending the Constitution and local government charters. In addition, the State of California's voters may directly influence the State of California's government through the initiative, referendum and recall processes.

*Local Governments.* The primary units of local government in California are the 58 counties, which range in population from approximately 1,100 in Alpine County to approximately 10 million in Los Angeles County. Counties

are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 480 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments has been constrained since Proposition 13, which added Article XIII A to the State Constitution, was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Proposition 218, another constitutional amendment enacted by initiative in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. Counties, in particular, have had fewer options to raise revenues than many other local government entities, while they have been required to maintain many services.

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities

- 14 -



and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A in 2004 dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the “state-local agreement”) in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee (“VLF”) rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. This arrangement continues without change in the 2009 Budget Act.

Pursuant to statutory changes made in conjunction with the 2009 Budget Act, the VLF rate increased from 0.65 percent to 1.15 percent effective May 19, 2009. Of this 0.50 percent increase, 0.35 percent will flow to the General Fund, and 0.15 percent will support various law enforcement programs previously funded by the state General Fund. This increased VLF rate will be effective through the 2012-13 fiscal year if various budget-reform proposals are approved by the electorate at the May, 19 2009 special election. If those reform proposals are not approved, the increased VLF rate will be effective only through the 2010-11 fiscal year.

As part of the state-local agreement, voters at the November, 2004 election approved Proposition 1A (“Proposition 1A of 2004”). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the state’s access to local governments’ property, sales, and VLF revenues as of November 3, 2004. Beginning with fiscal year 2008-09, the state may borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe state fiscal hardship and two-thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The state also may not borrow from local property tax revenues for more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the state cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A of 2004 also prohibits the state from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates. Beginning in fiscal year 2005-06, if the state does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. In addition, Proposition 1A of 2004 expanded the definition of what constitutes a mandate to encompass state action that transfers to cities, counties, and special districts financial responsibility for a required program for which the state previously had partial or complete responsibility. The state mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

*State Finances.* The moneys of the State of California are segregated into the General Fund and over 900 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State of California Treasury and is not required by law to be credited to any fund and earnings from the investment of State of California

moneys not allocable to another Fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the State of California.

The following is a summary of the State's major revenue sources:

· *Personal Income Tax.* The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 percent to 9.3 percent. The personal income tax is adjusted annually by the change in the consumer price index. Personal, dependent, and other credits are allowed against the gross tax liability. Taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT.

- 15 -

In addition, Proposition 63, approved by the voters in the November, 2004 election, imposes a 1 percent surtax on taxable income over \$1 million in addition to the 9.3 percent rate. The surtax became effective January 1, 2005. The proceeds of the tax surcharge are required to be used to expand county mental health programs.

Taxes on capital gains realizations, which are largely linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. Capital gains tax receipts accounted for as much as 14.8 percent and as little as 4.5 percent of General Fund revenues over the past 10 years. The 2009 Budget Act estimates that capital gains will account for 5.6 percent of General Fund revenues and transfers in 2008-09 and 4.7 percent in 2009-10.

· *Sales Tax.* The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft. As of January 1, 2009, the breakdown of the state and local sales tax rates is as follows: 5% imposed as a State of California General Fund tax; 0.5% dedicated to local government for health and welfare program realignment (Local Revenue Fund); 0.5% dedicated to local governments for public safety services (Local Public Safety Fund); up to 1% local tax imposed by city and county ordinance for general-purpose use; 0.25% dedicated to county transportation purposes and 0.75% for city and county general-purpose use; 0.25% deposited into the Economic Recovery Fund to repay the State of California's economic recovery bonds; and up to 2.0% for local transactions and use taxes. Senate Constitutional Amendment No. 4, approved by the voters as Proposition 1A in the November 2004 election, amended the State of California's Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by restricting the State of California from lowering the local sales tax rate or changing the allocation of local sales tax revenues without meeting certain conditions.

· *Corporation Tax.* The State of California's corporate tax revenue is derived from franchise tax, corporate income tax, additional taxes on banks and other financial corporations, an AMT similar to the federal AMT and a tax on the profits of Sub-Chapter S corporations.

· *Insurance Tax.* The majority of insurance written in the State of California, subject to certain exceptions, is subject to a 2.35% gross premium tax.

· *Estate Tax; Other Taxes.* The State of California estate tax is based on the State of California death tax credit allowed against the federal estate tax and is designed to pick up the maximum credit allowed against the federal estate tax return. The State of California estate tax was eliminated beginning in 2005 in conjunction with the phase out of the federal estate tax. After December 31, 2010 the federal estate tax will be reinstated along with the State of California estate tax, unless future federal legislation is enacted to make the provisions eliminating the tax permanent. Other sources of General Fund revenue include inheritance and gift taxes, cigarette taxes, alcoholic beverage taxes, horse racing license fees and trailer coach license fees.

*State Budget Process.* The State of California's fiscal year begins on July 1st and ends on June 30th of the following year. Under the State of California Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure is the annual Budget Act as approved by the Legislature and signed by the Governor. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). State of California law requires the annual proposed Governor's Budget to provide for projected revenues equal to or in excess of projected expenditures for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. During late spring, usually in May, the Department of Finance submits revised revenue and expenditure estimates for both the current and budget years to the Legislature. This update process is referred to as the May Revision. The Budget Act, which follows the May Revision, must be approved by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. With limited exceptions, bills containing General Fund appropriations must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State of California's Constitution.

The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

The Balanced Budget Amendment (“Proposition 58”) requires the State of California to enact a balanced budget, establishes a special reserve in the General Fund, restricts future borrowings to cover budget deficits, and provides for mid-year budget adjustments in the event that the budget falls out of balance. The Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and fund balances at the time of passage and as set forth in the budget bill. As a result of the requirements of Proposition 58, the State of California would, in some cases, have to take more immediate actions to correct budgetary shortfalls. Proposition 58 also prohibits certain future borrowings to cover budget deficits. These restrictions apply to general obligation bonds, revenue bonds and certain other forms of long-term borrowings, but do not apply to certain short-term and inter-fund borrowings.

In addition to Proposition 58, a number of other laws and constitutional amendments have been enacted over the years, often through voter initiatives, which have made it more difficult to raise the State of California’s taxes, have restricted the use of the State of California’s General Fund or special fund revenues, or have otherwise limited the Legislature and Governor’s discretion in enacting budgets. Examples of constraints on the budget process include Proposition 13 (requiring a two-thirds vote in each House of the Legislature to change State of California taxes enacted for the purpose of increasing revenues collected), Proposition 98 (requiring a minimum percentage of General Fund revenues be spent on local education), Proposition 49 (requiring expanded State of California funding for before and after school programs), Proposition 10 (raising taxes on tobacco products but mandating the expenditure of such revenues) and Proposition 63 (imposing a 1% tax surcharge on taxpayers with annual taxable income of more than \$1 million in order to fund mental health services and limiting the Legislature or Governor from redirecting funds now used for mental health services).

*Current State Budget.* The 2009 Budget Act was signed by Governor Schwarzenegger on February 20, 2009, and contained measures designed to close an estimated \$41.6 billion budget deficit, the largest in the State’s history. The 2009 Budget Act forecasted \$97.7 billion in General Fund revenues and transfers and \$92.2 billion in expenditures. The \$5.5 billion difference between the General Fund revenues and expenditures was anticipated to eliminate the 2008-09 budget deficit of \$2.3 billion and end the 2009-10 fiscal year with a positive balance of \$3.2 billion. However, the 2009 Budget Act assumed voter approval of \$6 billion in budgetary measures, all of which were rejected by voters in the May 19, 2009 special election.

With the continued deterioration in the State’s economy and a dramatic reduction in the State tax revenues, the May Revision to the 2009 Budget Act (the “2009 May Revision”) reduced the revenue outlook for 2010-11 by \$15 billion, which, when combined with the voters’ rejection of the \$6 billion in budgetary measures at the special election, was expected to result in a \$21 billion deficit. The 2009 May Revision forecasted General Fund revenues and transfers of \$89.1 billion and General Fund expenditures of \$83.5 billion for the 2009-10 fiscal year. The 2009 May Revision proposed to close the \$21.3 billion deficit through major spending reductions, new borrowings and tax increases. Major spending reductions were proposed for public schools, social service programs, Medi-Cal and the prison system. The 2009 May Revision also proposed to finance \$5.5 billion of the deficit by issuing revenue anticipation warrants (“RAWs”). With the implementation of the proposed corrective solutions, the 2009 May Revision estimated a

\$4.5 billion reserve at the end of the 2009-10 fiscal year.

In order to address the further deterioration of the State's fiscal situation identified in the 2009 May Revision, on July 24, 2009, the Legislature passed amendments to the 2009 Budget Act ("2009 Budget Amendments"), along with a number of implementing measures. The 2009 Budget Amendments, which forecasted that the budget deficit would reach \$26.3 billion, included \$24 billion in proposed budget solutions, for a combined \$60 billion in proposed budget solutions adopted for the 2009-10 fiscal year. The proposed solutions to the budget deficit were wide-ranging, touching all three of the state's major revenue sources and cutting spending in virtually every state program that receives General Fund support. The 2009 Budget Amendments forecasted General Fund revenues and transfer of \$89.5 billion, and authorized total General Fund spending of \$84.6 billion. The 2009 Budget Amendments proposed \$4.8 billion in new budget solutions and adjusted the estimated available reserve at the end of 2009-10 fiscal year to \$1.1 billion.

- 17 -

In November 2009, the Legislative Analyst's Office ("LAO") provided an updated outlook of the 2009-10 General Fund which reflected revenue and expenditure forecasts based on the current economic circumstances. Even with the proposed solutions in the 2009 Budget Amendments, the LAO forecasts a persistent \$20.7 billion deficit consisting of a \$6.3 billion projected deficit for 2009-10 and a \$14.4 billion gap between projected revenues and spending in 2010-11. The LAO forecasts that General Fund spending obligations will be \$4.9 billion higher than budgeted in the 2009 Budget Amendments. Furthermore, the LAO expects that General Fund revenues and transfers will be \$83.6 billion in 2008-09 (\$496 million less than budgeted) and \$88.1 billion in 2009-10 (\$1.5 billion less than budgeted). The LAO forecasts that the \$20 billion budget problem will linger for several years to come, with an estimated \$18.4 billion deficit in 2014-15.

The Governor's proposed 2010-11 budget, released on January 8, 2010, projected that California will slowly emerge from the recession, although economic growth will be very modest and high unemployment will persist. Baseline revenues for the state fell by more than 20 percent from their peak and are not expected to recover rapidly. Forecasts project that, without corrective action, California faces a budget gap of \$19.9 billion in fiscal year 2010-11, consisting of a current year shortfall of \$6.6 billion, a budget year shortfall of \$12.3 billion, and a modest reserve of \$1 billion. The Governor proposed a combination of spending reductions, alternative funding, fund shifts and additional federal funds to close the budget gap. In order to implement many of the solutions proposed in the budget and to address the current year shortfall of \$6.6 billion, in January 2010 the Governor declared a fiscal emergency and called the Legislature into special session to adopt the 2010 Budget immediately.

The Governor also proposed structural changes in the state and federal relationship to address federal constraints on California's ability to effectively manage program costs within available resources, and proposed that California be reimbursed for money owed. These initiatives are expected to provide \$6.9 billion in solutions to address the 2010 Budget shortfall. These initiatives may not be successful and the State may be forced to develop alternative solutions to address this portion of the shortfall, including further program cuts or alternative revenue sources.

Recently, many municipal issuers either have been unable to issue bonds or access the market to sell their issues or, if able to access the market, have issued bonds at much higher rates. Should the State or municipalities fail to sell bonds when and at the rates projected, the State could experience significantly increased costs in the General Fund and a weakened overall cash position in the current fiscal year.

The deterioration of the State's fiscal situation increases the risk of investing in California municipal securities, including the risk of potential issuer default, and also heightens the risk that the prices of California municipal securities, and the Fund's net asset value, will experience greater volatility. In addition, several ratings agencies have recently downgraded California's general obligation bond rating. Further downgrades could result in a reduction in the market value of the California municipal securities held by the Fund, which could negatively impact the Fund's net asset value and/or the distributions paid by the Fund.

The above discussion of the fiscal year 2009-10 budget and the Governor's Budget for 2010-11 is based on estimates and projections of revenues and expenditures for the current fiscal year and must not be construed as statements of fact. These estimates and projections are based upon various assumptions, which may be affected by numerous

factors, including future economic conditions in the State of California and the nation, and there can be no assurance that the estimates will be achieved.

State Indebtedness and Other Obligations. The State Treasurer is responsible for the sale of debt obligations of the State and its various authorities and agencies. Current State debt obligations include:

· *General Obligation Bonds.* The State of California's Constitution prohibits the creation of general obligation indebtedness of the State of California unless a bond measure is approved by a majority of the electorate voting at a general election or direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund.

- 18 -



Under the State of California's Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds. As of February 1, 2009, the State had outstanding \$56.2 billion aggregate principal amount of long-term general obligation bonds, of which \$45.7 billion were payable primarily from the State's General Fund, and \$10.5 billion were self-liquidating bonds payable first from other special revenue funds. As of February 1, 2009, there were unused voter authorizations for the future issuance of \$68.7 billion of long-term general obligation bonds, some of which may first be issued as commercial paper notes. Of this unissued amount, \$1.4 billion is for veterans general obligation bonds payable first from other revenue sources.

The figures mentioned above for unissued bonds include three measures approved at the November, 2008 general election ballot, consisting of a \$9.95 billion bond measure to finance a portion of the cost of a high speed rail system connecting Northern and Southern California, a \$900 million bond measure for additional veterans general obligation bonds, and a \$980 million bond measure to provide funds for children's hospitals. These were in addition to \$42.7 billion of new bond approvals from the November 2006 election. The Administration has proposed a number of other new general obligation bonds for infrastructure development to be submitted to the voters in 2010.

S&P and Moody's assign ratings to California's long-term general obligation bonds. The ratings of S&P and Moody's represent their opinions as to the quality of the municipal bonds they rate. The ratings are general and not absolute standards of quality. Consequently, municipal bonds with the same maturity, coupon and rating may have different yields while obligations with the same maturity and coupon with different ratings may have the same yields. In 2009 and early 2010, California's general obligation bond ratings were significantly downgraded by Moody's and S&P. Moody's downgraded the State's general obligation credit rating to "Baa1" in July 2009, and in January 2010, S&P downgraded the credit rating to "A-." These credit ratings have not been this low since 2003 and 2004 and the State has one of the lowest bond ratings of any state.

There can be no assurance that such ratings will be maintained in the future. The State's credit rating, and any future revisions or withdrawal of a credit rating, could have a negative effect on the market price of the State's general obligation bonds, as well as notes and bonds issued by California's public authorities and local governments. Lower credit ratings make it more expensive for the State to raise revenue, and in some cases, could prevent the State from issuing general obligation bonds in the quantity otherwise desired. Further, downgrades can negatively impact the marketability and price of securities in the Fund's portfolio.

· *Commercial Paper Program.* Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may, in some cases, be issued as commercial paper notes. Commercial paper notes may be renewed or refunded by the issuance of long-term bonds. Commercial paper notes are deemed issued upon authorization by the respective finance committees, whether or not such notes are actually issued. Pursuant to the terms of the bank credit agreement presently in effect, the general obligation commercial paper program may have up to \$2.5 billion in aggregate principal amount at any time. This amount may be increased or decreased in the future. As of February 23, 2009, approximately \$1.33 billion aggregate principal of general obligation commercial paper notes had been issued and were outstanding.

· *Lease-Purchase Obligations.* The State of California builds and acquires facilities through the use of lease purchase borrowing, in addition to general obligation bonds. Under these arrangements, the State of California Public Works Board, another State of California or local agency or a joint powers authority issues bonds to pay for the construction of facilities, such as office buildings, university buildings or correctional institutions. These facilities are leased to a State of California agency or the University of California under a long-term lease that provides the source of payment of the debt service on the lease-purchase bonds. Certain of the lease-purchase financings are supported by special funds rather than the General Fund. The State had \$7.6 billion General Fund-supported lease-purchase obligations outstanding as of February 1, 2009. The State Public Works Board, which is authorized to sell lease revenue bonds, had \$11.6 billion authorized and unissued as of February 1, 2009. In addition, as of that date, certain joint powers authorities were authorized to issue approximately \$81 million of revenue bonds to be secured by state leases.

- 19 -

· *Non-Recourse Debt.* Certain State of California agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from State of California revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities, housing, health facilities and pollution control facilities. State agencies and authorities had approximately \$52 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of December 31, 2008.

· *Economic Recovery Bonds.* The California Economic Recovery Bond Act (“Proposition 57”) was approved by the voters on March 2, 2004. Proposition 57 authorizes the issuance of up to \$15 billion in economic recovery bonds (“ERBs”) to finance the negative General Fund reserve balance as of June 30, 2004 and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs is secured by a pledge of revenues from a one-quarter cent increase in the State’s sales and use tax starting July 1, 2004. In addition, as voter-approved general obligation bonds, the ERBs are secured by the State’s full faith and credit. However, moneys in the General Fund will only be used in the event the dedicated sales and use tax revenue is insufficient to repay the bonds. In May and June, 2004, the State issued \$10.9 billion principal amount of ERBs, resulting in the deposit of net proceeds to the General Fund of approximately \$11.3 billion (of which, for budgetary purposes, approximately \$9.2 billion was applied to the 2002-03 fiscal year and approximately \$2.0 billion was applied to offset fiscal year 2004-05 General Fund expenditures). In order to relieve cash flow and budgetary shortfalls identified in the 2008-09 Governor’s Budget, the State issued \$3.2 billion of ERBs on February 14, 2008, generating net proceeds of \$3.3 billion which were transferred to the General Fund. This represented the last ERBs which can be issued under Proposition 57, except for any refunding bonds which may be issued in the future. (The State of California Department of Finance had determined that the full \$15 billion voter authorization could not be issued because of the previous repayment of certain June 30, 2004 obligations eligible for financing pursuant to Proposition 57.).

Three different sources of funds are required to be applied to the early retirement (generally by purchase or redemption) of ERBs: (i) all proceeds from the dedicated quarter cent sales tax in excess of the amounts needed, on a semi-annual basis, to pay debt service and other required costs of the bonds, (ii) all proceeds from the sale of surplus State property, and (iii) fifty percent of each annual deposit, up to \$5 billion in the aggregate, of deposits in a Budget Stabilization Account (“BSA”) created by the California Balanced Budget Act. Funds from these sources have been or will be used for early retirement of approximately \$3.5 billion of bonds during fiscal years 2005-06, 2006-07 and 2007-08, including use of \$1.5 billion which was transferred from the BSA in 2006-07 (\$472 million) and 2007-08 (\$1.3 billion). The Governor suspended the 2008-09 BSA transfer and the 2009 Budget Act suspends the 2009-10 transfer due to the condition of the General Fund.

Due to the sharp reduction in taxable sales as a result of the current economic recession, the special sales tax revenues dedicated to repayment of the ERB debt have decreased to a level which provides very little coverage above the required debt service amounts. This caused the State to have to temporarily tap a reserve fund for the ERBs in the amount of \$13.3 million on December 24, 2008 to fill up a debt service account for January 1, 2009 (as required under the master indenture for the ERBs), though the reserve fund was replenished the next day with sales tax receipts that came in on that day. The reduced coverages and need to access the reserve fund have resulted in a lowering of the ratings of the ERBs by all three rating agencies. It is not yet known whether special sales tax revenues in the current period or future periods will be adequate to pay all debt service and related obligations of the ERBs without resort to the reserve fund.

· *Tobacco Settlement Revenue Bonds*. In 1998 the State of California signed a settlement agreement (the “Master Settlement Agreement” or “MSA”) with four major cigarette manufacturers (the “participating manufacturers” or “PMs”). Under the MSA, the participating manufacturers agreed to make payments to the State of California in perpetuity, such payments amounting to approximately \$25 billion over the first 25 years. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers will be paid to the State of California and half to local governments. The specific amount to be received by the State of California and local governments is subject to adjustment. The MSA allows reduction of the manufacturers’ payments for decreases in cigarette shipment volumes by the settling manufacturers, payments owed to certain “Previously Settled

- 20 -

States” and certain types of offsets for disputed payments, among other things. However, settlement payments are adjusted upward each year by at least 3% for inflation, compounded annually.

The Tobacco Securitization Law, enacted in 2002, authorized the establishment of a special purpose trust to purchase those assets. The bill also authorized that trust to issue revenue bonds secured by the tobacco settlement revenues received beginning in the 2003-04 fiscal year. An initial sale of 56.57% of the State of California’s tobacco settlement revenues producing \$2.5 billion in proceeds was completed in January 2003 (“Series 2003A”).

A second sale of the remaining 43.43% of the State of California’s tobacco settlement revenues, which produced \$2.3 billion in proceeds, was completed in September 2003 (“Series 2003B”). The Tobacco Securitization Law was amended in 2003 to require the Governor to request an appropriation in the annual Budget Act to pay debt service and other related costs of the tobacco settlement revenue bonds secured by the second (and only the second) sale of tobacco settlement revenues when such tobacco settlement revenues are insufficient therefor. The Legislature is not obligated to make any such requested appropriation. In August 2005 the Series 2003B Bonds were refinanced (“Series 2005A”), retaining substantially all of the covenants of the original issue, including the covenant regarding the request for a General Fund appropriation in the event tobacco revenues fall short. In return for providing this covenant, the State of California was paid a credit enhancement fee of \$525 million as part of the refinancing, which was deposited into the General Fund. On March 14, 2007, the State of California completed a refunding of all of the Series 2005A Bonds. This refunding generated additional proceeds of approximately \$1.3 billion which are intended to be used (i) to offset the General Fund cost for the initial years of a litigation settlement related to the 2004-05 suspension of the Proposition 98 guarantee and (ii) for other purposes, such as funding capital projects.

Under the MSA, each year an independent auditor calculates whether in a given calendar year the PMs have lost more than 2 percent of the market share they held in 1997 to the non-participating manufacturers (“NPMs”) and, if so, a nationally recognized firm of economic consultants determines whether the MSA was a significant factor that contributed to the loss in market share. If the nationally recognized economic consultants confirm the MSA was a significant factor, the PMs are then authorized to withhold up to three times the percentage of the market share loss above the 2 percent threshold for the specified calendar year payment.

The PMs made this assertion of market share loss in 2005, 2006, and 2007 for the calendar year 2003, 2004, and 2005 payments respectively. Each assertion was confirmed and the PMs were authorized to withhold the specified amount from that year’s scheduled payment. In 2006, 2007 and 2008, two of the three original PMs deposited their respective shares of the 2003, 2004 and 2005 NPM adjustments into the disputed payments account, and such funds were not disbursed to the states with the PMs’ annual payments for those years. As a result, the tobacco settlement revenues due to the State in April, 2006 were reduced by \$50.9 million, in April, 2007 by \$44 million, and in April, 2008 by \$33.9 million (which represented receipts from 2005, 2006 and 2007, respectively). Nevertheless, the amount of tobacco settlement revenues received in 2006, 2007 and 2008 were in excess of the required debt service payments. In February, 2009, the 2005 NPM adjustment was released from the disputed payments account to the states as part of an agreement reached by the states and the PMs relating to a multi-state arbitration for the 2003 NPM adjustment.

The State Attorney General is working in tandem with the other states' Attorneys General, under the terms of the MSA, to compel the PMs to pay the full amount scheduled, given that the State asserts that it has been diligently enforcing the statute governing the NPMs, as required in the MSA.

Tobacco settlement revenue bonds are neither general nor legal obligations of the State or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the State or of any political subdivision is or shall be pledged to the payment of any such bonds; provided that, in connection with the issuance of the Series 2005A Bonds, the State covenanted to request the legislature for a General Fund appropriation in the event tobacco settlement revenues fall short. Tobacco settlement revenues have been sufficient to pay debt service with respect to the tobacco settlement revenue bonds, and therefore the State's covenant to request an appropriation has never been invoked.

· *Flood Litigation Settlement.* In 2006, the State of California settled three related lawsuits arising from liability for past flood damages through stipulated judgments. The largest settlement, in the amount of \$428

- 21 -

million, provided for the State of California to make annual payments of \$42.8 million, plus interest, for ten years; the payments are subject to annual appropriation by the Legislature. The first year's payment was included in the 2005 Budget Act and each subsequent budget act has included the required installment. This matter is not treated as a "debt" of the State of California for any legal or constitutional purposes.

· *Cash Flow Borrowings.* As part of its cash management program, the state has regularly issued short-term obligations to meet cash flow needs. The state has issued revenue anticipation notes ("RANs" or "Notes") in 20 of the last 21 fiscal years to partially fund timing differences between receipts and disbursements, as the majority of General Fund revenues are received in the last part of the fiscal year. RANs mature prior to the end of the fiscal year of issuance. If additional external cash flow borrowings are required, the state has issued revenue anticipation warrants ("RAWs"), which can mature in a subsequent fiscal year. RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the state on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" are payments as and when due to: (i) support the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the State Constitution); (ii) pay principal of and interest on general obligation bonds and general obligation commercial paper notes of the state; (iii) provide reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (iv) pay state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease rentals to support lease revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the State Constitution to be paid with state warrants that can be cashed immediately. The State issued \$5.5 billion of RANs in fiscal year 2008-09 as part of its cash management program. The State is seeking to sell up to \$1.5 billion of additional RANs for the 2009-10 fiscal year.

Between November, 2006 and February, 2009, voters and the Legislature authorized more than \$60 billion of new general obligation bonds and lease revenue bonds, which are paid solely from the General Fund. This new authorization substantially increased the current amount of such General Fund-supported debt authorized and unissued to about \$78.9 billion as of February 1, 2009. In order to address the expenditure needs for these new authorizations, along with those which existed before 2006, the state has increased the volume of issuance of both of these categories of bonds substantially, compared to previous years, starting in fiscal year 2007-08. The amounts and timing of future issuance of general obligation and lease revenue bonds will depend on a variety of factors, including the actual timing of expenditure needs for the various programs for which such bonds are to be issued, the amount and timing of interim financing provided to the programs, the interest rate and other market conditions at the time of issuance, and the timing and amounts of additional general obligation bonds or lease revenue bonds that may be approved. The Governor has proposed substantial additional general obligation bond programs. Because of the uncertainties presently associated with the above factors, it is not possible to provide specific projections of issuance amounts for the current fiscal year and the next several years, but the State Treasurer's Office anticipates the level of issuance will increase over the averages of the past several years in order to address the backlog of authorized bonds.

Based on the current Department of Finance projections of program expenditure needs, without taking into account any future authorizations which may occur, the aggregate amount of outstanding general obligation and lease revenue bonds is estimated to be approximately \$100 billion by the middle of the next decade, compared to the current total outstanding amount of about \$63.7 billion. The annual debt service costs on this amount of debt is estimated to be approximately \$8.7 billion, compared to about \$5.1 billion budgeted in fiscal year 2008-09. (These estimates do not include ERBs, described above, nor do they take into account potential benefits from future refunding opportunities.)

*Litigation.* The State of California is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State of California is involved in certain other legal proceedings (described in the State of California's recent financial statements) that, if decided against the State of California might require the State of California to make significant future expenditures or substantially impair future revenue sources. Certain legal proceedings are reflected as liabilities in the State of California's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. To the extent they existed, the following were accrued as a liability in the financial statements: legal proceedings that were decided against the State of California before June 30, 2007; legal proceedings that were in progress as of June 30, 2007, and were settled or decided against the State

- 22 -



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as of March 3, 2008; and legal proceedings having a high probability of resulting in a decision against the State as of March 3, 2008, and for which amounts could be estimated.

In addition, the State is involved in certain other legal proceedings that, if decided against the State of California, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the State of California's financial statements. The following are several of the more significant lawsuits pending against the State of California that are not reflected in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007:

· *Matter Seeking Reimbursement for Care of Medically Indigent Adults.* A test claim was filed on behalf of all California counties with the Commission on State Mandates, based on a precedential County of San Diego case, regarding certain unreimbursed costs for the care of medically indigent adults ("MIAs"). Although certain estimates of the annual cost of services rendered by all counties to MIAs exceed \$4.0 billion, the test claim was withdrawn by the claimant and subsequently dismissed by the Commission in May 2007.

· *Matter Seeking to Void Fee Imposed on Limited Liability Companies.* The State of California is a defendant in three cases regarding the constitutionality of a fee imposed on limited liability companies. In the Northwest Energetic Services, LLC v. Franchise Tax Board, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff, and in Ventas Finance I, LLC v. Franchise Tax Board, the trial court found the fee also to be unconstitutional as applied to the plaintiff in that case. The Ventas case is currently on appeal. The trial for the third case, Bakersfield Mall, LLC v. Franchise Tax Board, has been postponed, and a new trial date has not been set. If the courts were to rule against the State in all three cases, the potential refunds would be \$1.3 billion. However, because a recently enacted Revenue and Taxation code section implements a statutory remedy in the event the fee is finally adjudged to be unconstitutional, the State Department of Finance believes the refunds would be limited to approximately \$300 million.

· *Litigation Matter Against University of California and Other State Agencies.* The University of California ("UC"), the State Compensation Insurance Fund ("SCIF"), the California Housing Finance Agency ("CalHFA") and non-major discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of UC, SCIF, and CalHFA are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

### Special Considerations Regarding Massachusetts

*Summary.* The information summarized below describes some of the more significant factors that could affect the Market Vectors—Massachusetts Municipal Index ETF or the ability of the obligors to pay debt service. The sources of such information are the official statements of the Commonwealth of Massachusetts (the "Commonwealth"), as well as other publicly available documents and statements of public information contained in such statements and documents.

The Adviser is not aware of facts which would render such information taken as a whole inaccurate in any material respect.

*Fiscal Matters.* The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with U.S. generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board ("GASB"). The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non bond and non federal grant revenues of the Commonwealth. These funds are referred to herein as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited.

The Commonwealth's budgeted operating funds for fiscal 2004, 2005, 2006 and 2007 showed an excess (deficiency) of revenues and other sources over expenditures and other uses of \$1.140 billion, \$594 million, \$721 million and \$(307.1) million and positive fund balances of \$1.893 billion, \$2.487 billion, \$3.208 billion and

- 23 -

\$2.901 billion, respectively. Over the same period, budgeted expenditures and other uses were approximately \$22.848 billion, \$23.779 billion, \$25.585 billion and \$28.923 billion, respectively.

The Commonwealth's fiscal 2008 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. The Executive Office of Administration and Finance estimates fiscal 2008 budgeted expenditures and other uses will total approximately \$31.821 billion, and budgeted revenues and other sources will total approximately \$30.713 billion.

*Massachusetts State Taxes.* The major components of state taxes are the income tax, the sales and use tax, and the corporations and other business and excise taxes.

*Income Tax.* The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12% and the tax rate on gains from the sale of capital assets owned more than one year is 5.3%. Interest on obligations of the United States and the Commonwealth and its political subdivisions is exempt from taxation.

On April 6, 2004, the Supreme Judicial Court held that the effective date of an act amending the capital gains tax statute violates amendment article 44 of the Massachusetts Constitution. Legislation adopted on December 8, 2005 delays the effective date of the 2002 capital gains tax rate increase in a manner that complies with the Supreme Judicial Court decision. Pursuant to the legislation, the rate increase will now be effective for tax years beginning on or after January 1, 2003. As a result of the legislation, certain taxpayers with capital gains transactions in the portion of the 2002 tax year after April 30, 2002 may be entitled to refunds. The Department of Revenue has estimated that the amount of such refunds will be approximately \$60.5 million in each year from fiscal 2007 through 2009.

*Sales and Use Tax.* The Commonwealth imposes a 5% sales tax on retail sales of certain tangible properties (including retail sales of meals) transacted in the Commonwealth and a corresponding 5% use tax on the storage, use or other consumption of like tangible properties brought into the Commonwealth. However, food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries, and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

Beginning January 1, 1998, sales tax receipts from establishments that first opened on or after July 1, 1997, which are located near the building site of the Boston Convention and Exhibition Center, and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997, are required to be credited to the Boston Convention and Exhibition Center Fund.

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Beginning July 1, 2000, pursuant to “forward funding” legislation contained in the fiscal 2000 budget, a portion of the Commonwealth’s receipts from the sales tax, generally the amount raised by a 1% sales tax, not including meals taxes, with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority under a trust fund.

Beginning July 1, 2004, pursuant to legislation adopted in June 2004, a portion of the Commonwealth’s receipts from the sales tax, totaling \$395.7 million in fiscal 2005 and specified percentages in each fiscal year thereafter, increasing in fiscal 2010 and thereafter to one percent of the Commonwealth’s sales tax, subject to certain exclusions and minimums, is dedicated to the Massachusetts School Building Authority to fund school building assistance.

*Limitations on Tax Revenues.* Chapter 62F of the General Laws, which was enacted by the voters in November 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. The growth limit is used to calculate “allowable

state tax revenue” for each fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then-current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that “although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems, and payment of principal and interest on debt and other obligations of the Commonwealth.” Tax revenues in fiscal 2003 through 2007 were lower than the “allowable state tax revenue limit” set by Chapter 62F and are expected to be lower than the allowable limit in fiscal 2008.

Chapter 62F was amended by the fiscal 2003 budget and the fiscal 2004 budget to establish an additional tax revenue limitation. The fiscal 2003 budget created a quarterly cumulative “permissible tax revenue” limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a temporary holding account to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year will be held in the temporary holding account pending disposition by the Comptroller. The Comptroller is required to first use any funds in the temporary holding account to reimburse the Commonwealth Stabilization Fund for any amounts expended from the Stabilization Fund during the fiscal year. The general law amendments in the fiscal 2004 budget required that at the end of each fiscal year, the Comptroller must transfer remaining excess revenue from the holding account back to the General Fund for inclusion in consolidated net surplus.

In fiscal 2006, cumulative net state tax revenues used to calculate the Commonwealth’s state tax revenue growth limit, as established in Chapter 62F, were \$18.592 billion, exceeding the “permissible tax revenue” limit of \$18.540 billion by \$52.2 million. The excess amount was transferred to the Commonwealth’s Temporary Holding Fund and subsequently transferred to the Stabilization Fund pursuant to Chapter 62F.

As of December 31, 2007, actual state tax revenue has not exceeded the “permissible state tax revenue” limit set by Chapter 62F.

*Property Tax Limits.* In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2 1/2, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2 1/2 is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2 1/2, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein and (ii)

2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2 1/2 also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2 1/2 was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2007, the aggregate property tax levy grew from \$3.347 billion to \$10.489 billion, a compound annual growth rate of 4.44%.

Many communities have responded to the limitation imposed by Proposition 2 1/2 through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service or exclusion of capital expenditures) that permit communities to exceed the limits of Proposition 2 1/2.

*Local Aid; Commonwealth Financial Support for Local Governments.* The Commonwealth makes substantial payments to its cities, towns and regional school districts (“Local Aid”) to mitigate the impact of local property tax limits on local programs and services. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so called “cherry sheet” prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds. In fiscal 2008, approximately 17.5% of the Commonwealth’s projected budget is allocated to direct local aid.

As a result of comprehensive education reform legislation enacted in June 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth’s poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. For fiscal 2008, the Commonwealth will provide a total of \$3.726 billion through the program. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Several specific programs are also funded through direct Local Aid, such as public libraries, police education incentives, and property tax abatement for certain elderly or disabled residents. Until fiscal 2005, the state’s share of school building construction costs was also included in direct Local Aid. The Lottery and Additional Assistance programs, which comprise the other major components of direct Local Aid, provide unrestricted funds for municipal use.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, funding for road construction and the costs of courts and district attorneys that formerly had been paid by the counties.

#### Commonwealth Expenditures

*Budgeted Expenditures.* Fiscal 2004 budgeted expenditures were \$22.848 billion. Fiscal 2005 expenditures were \$23.779 billion. Fiscal 2006 budgeted expenditures were \$25.584 billion. Fiscal 2007 budgeted expenditures were \$28.923 billion.

In addition to spending in the budgeted operating funds, the Commonwealth had significant “off budget” expenditures in fiscal year 2007 of dedicated sales taxes transferred to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority, in the amounts of \$734 million and \$557.4 million, respectively, and \$359.4 million of off-budget expenditures in the Medicaid program.

*Commonwealth Pension Obligations.* Almost all non-federal public employees in Massachusetts participate in defined benefit pension plans administered pursuant to state law by 106 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. The Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2 1/2. However, in 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems and providing that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and teachers' retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment

- 26 -



of assets. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index on the first \$12,000 of benefits for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States Consumer Price Index is less than 3%.

*Employee Contributions.* The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996, and 9% for those hired on or after July 1, 1996, plus an additional 2% of compensation above \$30,000 per year for all those members hired on or after January 1, 1979. Employee contributions are 12% of compensation for members of the state police hired on or after January 1, 1996. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the teachers' retirement system and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate. Approximately 45,000 active teachers joined the enhanced benefit program and will retire under the terms of the program over the next 30 years.

*Unfunded Actuarial Accrued Liability.* The retirement systems were originally established as “pay-as-you go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation was approved in January 1988 to require the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability. Under current law, such unfunded liability is required to be amortized to zero by June 30, 2023.

The Secretary of Administration and Finance is required by law to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2023, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

The current funding schedule approved for fiscal 2005, is based upon a January 1, 2004 actuarial valuation. The assumptions underlying the new funding schedule retain the 2023 date for fully amortizing the unfunded liability and utilize an amortization growth rate of 4.5% per year. The schedule is as follows:

Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2005	\$1,216,936	2015	\$1,936,059
2006	1,274,675	2016	2,028,266
2007	1,335,176	2017	2,124,903
2008	1,398,573	2018	2,226,183
2009	1,465,004	2019	2,332,332

- 27 -

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Fiscal Year	Payments	Fiscal Year	Payments
2010	1,534,617	2020	2,443,587
2011	1,607,565	2021	2,560,194
2012	1,684,010	2022	2,682,414
2013	1,764,121	2023	2,810,519
2014	1,848,075		

It is expected that the next funding schedule will be submitted in January 2008 for use in connection with the fiscal 2009 budget.

*Valuation of Pension Obligation.* On August 24, 2007, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2007. The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$13.349 billion, including approximately \$3.226 billion for the State Employees' Retirement System, \$8.5 billion for the Massachusetts Teachers' Retirement System, \$1.221 billion for Boston Teachers and \$402.0 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2007 to be approximately \$53.761 billion (comprised of \$21.671 billion for state employees, \$29.321 billion for state teachers, \$2.368 billion for Boston Teachers and \$402.0 million for cost-of-living increases). Total assets were valued at approximately \$40.412 billion based on a five-year average valuation method, which equaled 90.0% of the January 1, 2007 total asset market value. The valuation method was the same as the method used in the 2006 valuation, except that the actuarial value of assets was determined so as not to be less than 90% or greater than 110% of market value. In prior valuations, the asset corridor was 85% to 115% of the market value.

*Commonwealth Post Employment Obligations Other Than Pensions.* New accounting standards will require the Commonwealth to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the June 2006 report, assuming no pre-funding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 is \$13.287 billion. If pre-funding is assumed, the actuarial accrued liability is reduced to \$7.562 billion. This difference is solely attributable to the standards requirement that a lower discount rate must be used without pre-funding. Under pre-funding, the annual required contribution was calculated in June, 2006 to commence at \$702.9 million for fiscal 2006 and projected to increase to \$1.205 billion for fiscal 2016. The independent actuarial firm updated these projections on January 24, 2007 for the purpose of providing estimates for the Governor's fiscal 2008 budget recommendations. If pre-funding is assumed, the annual required contribution was calculated to be \$763.1 million in fiscal 2008, increasing to \$1.223 billion in fiscal 2016.

Should the Commonwealth not fully fund the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution will be reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability will increase or decrease each year depending on

the amount funded, investment return and changes in amortization and assumptions. This change in liability will be reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. The January 24, 2007 update reported that if no pre-funding is assumed, the Commonwealth will be required to record a projected \$1.203 billion expense in fiscal 2008, increasing to \$2.818 billion in fiscal 2016.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% and declining to 5% after ten years and continuation of current benefit levels and current retiree contribution requirements.

The independent actuarial report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the

- 28 -

Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of pre-funded and non-pre-funded OPEB liabilities is due to the discount rate used in the calculation. In the absence of pre-funding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of pre-funding, the discount rate would increase to a standard return on long-term investments, estimated at 8.25% for the purpose of this study. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth would have to enact legislation providing for the escrowing of annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

### Commonwealth Long-Term Liabilities

*Commonwealth Debt.* The Commonwealth is authorized to issue three types of debt directly: general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Convention Center Fund. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements.

*Other Long-Term Liabilities.* The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as either (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities.

As of January 2, 2008, the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities was \$19.298 billion, consisting of approximately \$16.423 billion of general obligation debt, \$1.273 billion of special obligation debt, and \$1.602 billion of federal grant anticipation notes. In addition to the long-term liabilities described above, the Commonwealth also has contingent liabilities for certain bonds and notes of the Massachusetts Bay Transportation Authority, 15 regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and two higher education building authorities.

### Commonwealth Capital Spending

*Capital Investment Plan.* The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by the Commonwealth's debt obligations, operating revenues, third-party payments and federal reimbursements. The

Executive Office for Administration and Finance sets an annual administrative limit on certain types of capital expenditures by state agencies. This annual administrative limit was \$1.5 billion in fiscal 2008. In addition to capital expenditures subject to the annual administrative limit, the Commonwealth has also invested significant monies to fund the construction of the Central Artery/Ted Williams Tunnel Project (the "CA/T Project"), the Boston and Springfield convention centers and other projects.

*Central Artery/Ted Williams Tunnel Project.* The largest single component of the Commonwealth's capital program in recent years has been the CA/T Project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the "Central Artery"), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the "Ted Williams Tunnel") to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. The CA/T Project is administered by the Massachusetts Turnpike Authority ("Turnpike Authority").

The CA/T project was substantially completed in January 2006, with all major ramps, roadway and streets open for public use and most major contracts in the closeout phase. The major components of the work remaining for final completion of the CA/T project include reconstruction of the downtown surface street system, completion

of the traffic management system and construction of certain parks. Remaining work is expected to be completed by 2008, except for one park and certain other project elements, which are expected to be completed in 2010.

On May 23, 2007 the Massachusetts Turnpike Authority filed a finance plan update with the Federal Highway Administration. The May, 2007 finance plan update included an updated cost estimate of \$14.798 billion, exclusive of certain cost recoveries, insurance payments and credits received or to be received thereafter. This increased cost estimate reflected changes in scope and the cost of delay in completion of the project, including delays and increased costs attributable to redeployment of CA/T project staff and contractors to address the remediation of the July, 2006 incident described below.

Based on the updated cost estimate and certain other cash flow adjustments reflected in the May, 2007 updated finance plan, \$210 million of additional funding was needed for the project. Pursuant to an agreement between the Commonwealth and the Turnpike Authority, the Commonwealth agreed to cover the \$210 million funding shortfall from the following two sources: (a) at least \$140 million projected to be available in the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF) through June 30, 2009; and (b) up to \$70 million of Commonwealth bond proceeds. This commitment by the Commonwealth to cover the funding shortfall is subject to the following conditions: (i) the Turnpike Authority must cover any future shortfalls in Turnpike Authority funding to complete the project and any costs in excess of \$14.798 billion; (ii) all cost recoveries, insurance proceeds and, until the amounts advanced to the project by the Commonwealth described in (a) and (b) above are recovered, proceeds of the sale of certain real property of the Turnpike Authority related to the project that are received by the Turnpike Authority or the Commonwealth shall be deposited into the TIF to pay project costs in lieu of the additional amounts committed by the Commonwealth or to reimburse the Commonwealth for project costs already paid; (iii) to the extent that, by June 30, 2010, the amounts described in clause (ii) above received by or paid to the Commonwealth have aggregated less than the portion of the \$210 million funding shortfall paid from Commonwealth bonds, the Turnpike Authority will pay the difference to the Commonwealth by not later than January 1, 2011; and (iv) to the extent legally and practically feasible, the Turnpike Authority must comply with new reporting and accounting requirements to improve the transparency of project financing matters to the Commonwealth.

The revised project cost estimates reflected in the May, 2007 updated finance plan were based on assumptions concerning the resolution of claims, liquidated damages and back charges to the Turnpike Authority that the Turnpike Authority believed to be reasonable. The actual resolution of such amounts could vary from those assumptions. The order of magnitude of the additional exposure related to such claims, liquidated damages and back charges was estimated to be \$160 million as of May, 2007.

The federal government has not yet approved the May, 2007 updated finance plan for the project. In connection with its review of the May, 2007 updated finance plan, the federal government has raised a number of questions that the Turnpike Authority and the Commonwealth have been working to address. The May, 2007 updated finance plan included certain assumptions as to the timing of the availability of surplus funds in the owner-controlled insurance program (OCIP) trust to pay costs of the project, which assumptions were questioned by the federal government. Since the May, 2007 submission, the Turnpike Authority has obtained written approval from the OCIP trust insurer, AIG, for the withdrawal of approximately \$43 million in OCIP trust funds to meet project cash flow needs.

The Turnpike Authority expects to file an updated finance plan with the federal government to reflect the impact of AIG's recent commitment to release excess funds from the OCIP trust on the project cash flow and to formally address all of the other issues raised by the federal government with respect to the May, 2007 finance plan update. The Commonwealth and the Turnpike Authority expect the updated finance plan will satisfy the requirements for federal approval and will result in the release of the withheld federal funds for the project.

On January 23, 2008, the United States Attorney General and the Massachusetts Attorney General entered into a global resolution of criminal and civil claims with the joint venture of Bechtel/Parsons Brinckerhoff, Bechtel Infrastructure Corp. and PB Americas, Inc., f/k/a Parsons Brinckerhoff Quade and Douglas, Inc. ("Bechtel/Parsons Brinckerhoff"), the management consultant to the CA/T project. Bechtel/Parsons Brinckerhoff agreed to pay over \$407 million to resolve its criminal and civil liabilities in connection with the collapse of part of the I-90 Connector Tunnel ceiling (described below) and defects in the slurry walls of the Tip O'Neill Tunnel. In addition, 24 section

- 30 -



design consultants, other contractors who worked on various parts of the project, agreed to pay an additional \$51 million to resolve certain cost-recovery issues associated with the design of the CA/T project. In total, the United States and the Commonwealth will recover \$458 million, including interest. The Commonwealth has received \$404.2 million to date. This settlement does not release the defendants from future catastrophic events having an aggregate cost of greater than \$50 million, but the liability of Bechtel/Parsons Brinckerhoff for such a future catastrophic event is capped at \$100 million.

The settlement agreement and recently passed legislation require that the settlement amounts and certain other cost recovery amounts be deposited in a trust fund and dedicated to non-routine maintenance of the CA/T project and reimbursement of certain costs incurred by the Commonwealth and the Turnpike Authority to repair components of the project. All other cost recoveries, insurance proceeds and certain real estate proceeds will be deposited in the TIF for purposes of paying costs of the CA/T project or reimbursing the Commonwealth for payment of such costs. Of the \$404.2 million received to date, \$17 million has been deposited in the TIF. The Turnpike Authority and the Commonwealth are currently negotiating an amendment to the May, 2007 agreement described above to reflect, among other things, these recent developments with respect to cost recoveries and the application of such cost recoveries.

On July 10, 2006, concrete ceiling panels in the eastbound portal of the I-90 Seaport Access Tunnel (Seaport Tunnel) that leads to the Ted Williams Tunnel came loose and fell on a traveling automobile and the roadway, causing bodily injury and the death of the passenger in the automobile, and extensive property damage to the Seaport Tunnel (the "Accident"). On July 10, 2007, the National Transportation Safety Board released its findings pertaining to the Accident. The Board's assessment was that the proximate cause of the failure was the use of a fast-setting epoxy anchoring system which was susceptible to "creep," *i.e.*, the tendency for slippage or elongation with the application of sustained tensile loads. Repairs and other work related to the Accident and included in the May, 2007 finance plan update are estimated to cost \$54 million. These costs are currently being borne by the Commonwealth. The Commonwealth and the Turnpike Authority anticipate that all such costs, and certain other project costs incurred by the Commonwealth and the Turnpike Authority, are eligible for reimbursement from the settlement amounts deposited in the CA/T trust fund described above.

Following the Accident and pursuant to a new state law enacted in response to the Accident, the Executive Office of Transportation and Public Works assumed oversight and responsibility for the inspection and remediation of the Seaport Tunnel. In addition, the Commonwealth instituted a comprehensive safety audit of all tunnels that are part of the Metropolitan Highway System, including the tunnels that are part of the CA/T project (the so-called "stem-to-stern" review). The Legislature appropriated \$20 million to fund the audit. Phase I of the safety audit addressed the most safety-critical elements of the CA/T project, including the tunnel components, as well as ceiling systems of the Sumner, Callahan and Central Artery North Area tunnels. Phase IA of the safety review responded to comments and Phase I recommendations and developed a scope and work plan for Phase II. Phase II of the safety review includes follow-up services related to the findings of Phase I and review of structural and life safety systems in other elements of the Metropolitan Highway System. As a result of the Phase I review, the epoxy anchors securing the ceiling panels in the Seaport Tunnel were replaced, and the tunnel was subsequently reopened. The Phase I review of the Ted Williams Tunnel ceiling panel anchors showed some evidence of distress and/or pull-out. Repairs were made at those locations that concerned inspectors and further study was conducted during Phase IA. Phases I and IA of the safety review have been completed. Phase II is expected to be completed in June, 2008. The Phase I report noted that the Authority has been responsive to the "stem-to-stern" recommendations. An implementation plan has been developed based on coordination between the Authority and the stem-to-stern team. The Phase I review concluded that "[o]verall,

structural systems were conservatively designed and fundamentally robust, but not without some areas of concern. Phase I identified immediate and near-term concerns mainly related to falling hazards from unsound concrete, loose tunnel fixtures, and damaged metal poles, as well as loose anchorages of precast curtain walls at abutments. All immediate and near-term concerns have been addressed.”

In late August and early September 2006, the Securities and Exchange Commission (SEC) sent letters to certain departments and instrumentalities of the Commonwealth requesting voluntary provision of documents and information regarding safety reviews of the CA/T project during the period January 1, 2004 to the present and related disclosures. On January 8, 2008, the SEC notified the Commonwealth that the SEC did not intend to pursue any enforcement action, thus closing the inquiry.

- 31 -

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*Recent Developments.* As of June 3, 2008, approximately \$249.8 million in supplemental appropriations have been approved in fiscal 2008, with another \$113.3 million pending in the Legislature. Based on historical trends and fiscal 2008 spending to date, the Executive Office for Administration and Finance is currently anticipating approximately \$206.5 million in reversions in fiscal 2008 (\$45.4 million of which are anticipated to be carried forward into fiscal 2009) and approximately \$146.6 million in deficiencies.

On May 23, 2008, the Governor filed legislation requesting new supplemental appropriations totaling \$113.3 million, including \$36 million for MassHealth caseload, payment rate and utilization increases that cannot be absorbed through savings in other areas within the MassHealth program, \$29.4 million for the Group Insurance Commission to address increased costs for state employee health created by unanticipated utilization, \$14.9 million for County Corrections to address deficiencies in the offices of six County Sheriffs, \$10 million for increased caseloads at the Department of Social Services (DSS) and the Department of Transitional Assistance (DTA) and \$2.4 million for the Department of State Police to address a cruiser fuel deficiency and overtime pay obligations.

On May 30, 2008, the Governor approved \$84.3 million in supplemental appropriations, including \$25.5 million to address the increasing welfare caseloads at the Department of Transitional Assistance and Department of Early Education and Care, \$17.7 million for the Committee for Public Counsel Services, \$10.3 million for incurred snow and ice removal costs at the Massachusetts Highway Department and the Department of Conservation and Recreation and \$10.1 million for County Corrections. The supplemental bill also authorizes the transfer of an additional \$187.3 million to the Commonwealth Care Trust Fund, of which \$153.1 million would be for the Commonwealth Care Program and \$15.7 million would be for the Health Safety Net Trust Fund. The bill also authorizes the transfer of \$11.5 million to the State Retiree Benefits Trust Fund to support utilization of health care and other non-pension benefits for retired members of the system. The Commonwealth anticipates it will receive an additional \$92.3 million in federal reimbursement due to the increased spending.

Tax revenue collections for the first eleven months of fiscal 2008, ended May 31, 2008, totaled \$18.617 billion, an increase of \$1.174 billion, or 7.2%, over the same period in fiscal 2007. The year-to-date tax revenue increase of \$1.174 billion (through May, 2008) over the same period in the prior year is attributable in large part to an increase of approximately \$435.7 million, or 5.5%, in withholding collections, an increase of approximately \$340.6 million, or 20.9%, in income tax estimated payments, an increase of approximately \$316.8 million, or 16.5%, in income tax payments with returns and extensions, an increase of approximately \$24 million, or 0.6%, in sales and use tax collections, and an increase of \$91.3 million, or 4.7%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date fiscal year 2008 collections (through May) were \$632 million above the benchmark estimate for the corresponding period, which was based on the fiscal 2008 consensus tax estimate of \$20.225 billion adjusted for subsequent tax law changes. Of this above-benchmark performance in revenues, \$218 million was mainly due to large one-time payments of corporate and business taxes received in February and March.

*Other Factors.* Many factors affect the financial condition of the Commonwealth, including many social, environmental, and economic conditions, which are beyond the control of the Commonwealth.

Special Considerations Regarding New Jersey

*New Jersey Economic Information and Trends.* New Jersey's economic base is diversified, consisting of a variety of manufacturing, construction and service industries, supplemented by rural areas with selective commercial agriculture.

New Jersey's economy continued to expand during in 2007, but at a slower pace compared to the steady economic recovery in 2006. New Jersey's payroll employment increased at an average rate of 0.6% in 2007 after growing at rates of 0.9% in 2006 and 1.0% in 2005. The monthly unemployment rate for New Jersey in December 2007 was 4.5% and remains below the national unemployment rate. According to the United States Commerce Department, Bureau of Economic Analysis, in a release dated December 21, 2007, the preliminary growth rate for New Jersey's personal income of 6.4% for the third quarter of 2007 was above the revised 5.1% rate for the second quarter 2007. However, given the general economic slowdown in the national economy, the average annual growth in personal income for New Jersey is expected to show growth of less than 5.0% in 2008. The rate of inflation in New Jersey is expected to remain under control; however, higher energy prices are a concern. Low interest rate

have supported spending on housing and other consumer durables in New Jersey. New Jersey's economy is expected to follow the national trend in 2008. New Jersey and the nation are expected to continue to experience moderating near term economic growth in 2008. The latest New Jersey economic forecasts from Global Insight, Moody's Economy.com, and Rutgers University expect continued economic growth at a moderate pace, while also indicating that economic growth may slow down due to the subprime mortgage crisis and a slowing housing sector. New Jersey and the nation may experience further near-term slow growth, and the expected pace of economic expansion may stall further if consumers, investors, and businesses become more concerned about geopolitical tensions, energy prices, the subprime mortgages crises and other financial market turmoil. To a large extent, the future direction of economic expansion nationally and in New Jersey hinges on the assumptions regarding economic recession, stable energy prices and financial markets. With the passage of the federal economic stimulus package along with supportive monetary and fiscal policies, the long run prospects for economic growth of New Jersey are expected to remain stable in 2008 and beyond.

#### New Jersey's Budget and Appropriation System – Current Operating Expenses.

*The General Fund.* New Jersey operates on a fiscal year ending on June 30. The General Fund is the fund into which all New Jersey revenues, not otherwise restricted by statute, are deposited and from which appropriations are made. The largest part of the total financial operations of New Jersey is accounted for in the General Fund. The New Jersey Legislature enacts an appropriations act on an annual basis which provides the basic framework for the operation of the General Fund. The undesignated General Fund balance at year end for fiscal year 2005 was \$461.7 million, for fiscal year 2006 was \$1,216.7 million and for fiscal year 2007 was \$1,410.4. For fiscal year 2008 and 2009, the balance in the undesignated General Fund is estimated to be \$951.1 and \$118.7 million, respectively. The fund balances are available for appropriation in succeeding fiscal years.

*Tax and Revenue Anticipation Notes.* In fiscal year 1992, New Jersey initiated a program under which it issued tax and revenue anticipation notes to aid in providing effective cash flow management to fund imbalances which occur in the collection and disbursement of General Fund revenues and Property Tax Relief Fund revenues. New Jersey has authorized the issuance of up to \$2,500,000,000 of such notes for fiscal 2008. New Jersey has issued notes in the amount of \$2,000,000,000 on September 13, 2007. The notes shall be payable on June 24, 2008. Such tax and revenue anticipation notes do not constitute a general obligation of New Jersey or a debt or liability within the meaning of the New Jersey Constitution. Such notes constitute special obligations of New Jersey payable solely from monies on deposit in the General Fund and Property Tax Relief Fund that are legally available for such payment.

#### New Jersey Capital Project Financings

*General Obligation Bonds.* New Jersey finances certain capital projects through the sale of its general obligation bonds. These bonds are backed by the full faith and credit of New Jersey. Certain New Jersey tax revenues and certain other fees are pledged to meet the principal payments, interest payments and redemption premium payments, if any, required to fully pay the bonds. The aggregate outstanding general obligation bonded indebtedness of New Jersey as of June 30, 2007 was \$2,832,059,928. The appropriation for the debt service obligation on outstanding projected indebtedness is \$405.9 million for fiscal 2009.

*Pay-As-You-Go.* In addition to payment from bond proceeds, capital projects can also be funded by appropriation of current revenues on a pay-as-you-go basis. In fiscal 2008, the amount appropriated for this purpose is \$1,280.6 million. The recommended appropriation for such purpose for fiscal year 2009 as contained in the Governor's Fiscal Year 2009 Budget Message is \$1,196.0.

#### Other Long Term Debt Obligations of New Jersey

*"Moral Obligation" Bonds.* The authorizing legislation for certain New Jersey entities provides for specific budgetary procedures with respect to certain obligations issued by such entities. Pursuant to such legislation, a designated official is required to certify any deficiency in a debt service reserve fund maintained to meet the payments of principal of and interest on the obligations and a New Jersey appropriation in the amount of the deficiency is to be made. However, the New Jersey Legislature is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are sometimes referred to as "moral

obligation” bonds. Those New Jersey authorities and instrumentalities that issue bonds that constitute a “moral obligation” of New Jersey include: (i) New Jersey Housing and Mortgage Finance Agency; (ii) South Jersey Port Corporation; and (iii) New Jersey Higher Education Student Assistance Authority. There is no statutory limitation on the amount of “moral obligation” bonds which may be issued by eligible New Jersey entities. As of June 30, 2007, outstanding “moral obligation” bonded indebtedness issued by New Jersey entities total \$1,764,685,000 and fiscal 2008 debt service subject to “moral obligation” is \$82,212,057.

*Obligations Supported by New Jersey Revenue Subject to Annual Appropriation.* New Jersey has entered into a number of leases and contracts described below (collectively, the “Agreements” and each an “Agreement”) with several governmental authorities to secure the financing of various New Jersey projects. Under the terms of the Agreements, New Jersey has agreed to make payments equal to the debt service on, and other costs related to, the obligations sold to finance the projects, including payments on swap agreements defined below. New Jersey’s obligations to make payments with respect to certain financings includes payments related to interest rate exchange agreements described below (“swap agreements”) entered into with respect to such financings. Under such swap agreements, the issuer is required to pay a fixed rate to the swap counterparty and the swap counterparty is required to pay the issuer a variable rate in accordance with the swap agreement. If the swap agreement is terminated prior to its stated termination date, either the issuer or the swap counterparty may be required to make a termination payment to the other party. If the payments to an issuer under a swap agreement are not sufficient to pay the interest on the issuer’s related obligation, the issuer must pay such deficiency. New Jersey’s obligation to make payments under the Agreements is subject to and dependent upon annual appropriations being made by the New Jersey Legislature for such purposes. The New Jersey Legislature has no legal obligation to enact such appropriations, but has done so to date for all such obligations. Below is a discussion of those financings pursuant to which State authorities and instrumentalities have entered into Agreements with New Jersey to secure the financing of various State projects.

*New Jersey Economic Development Authority.* The New Jersey Economic Development Authority (“NJEDA”) issues bonds secured by Agreements pursuant to, among others, the following legislative programs: (i) Economic Recovery Bonds issued to finance various economic development purposes (with payments made by New Jersey pursuant to an Agreement being equivalent to payments due to New Jersey under an agreement with the Port Authority of New York and New Jersey, subject to appropriation by the New Jersey Legislature); (ii) Pension Bonds issued for the purpose of financing the unfunded accrued pension liability for New Jersey’s retirement system; (iii) Market Transition Facility Bonds issued to pay current and anticipated liabilities and expenses of the Market Transition Facility, which issued private passenger automobile insurance policies for drivers who could not be insured by private insurance companies on a voluntary basis; (iv) the School Facility Construction Bonds (the principal amount of bonds authorized to be issued is \$6 billion for the “Abbott” districts, \$2.5 billion for all other districts and \$100 million for county vocational school district projects), pursuant to which the NJEDA issues bonds to finance New Jersey’s share of costs for school facility construction projects and debt service on the bonds is paid pursuant to a contract between the NJEDA and the New Jersey Treasurer; (v) pursuant to the Motor Vehicle Security and Customer Service Act, the NJEDA is authorized to issue bonds to pay the costs of capital improvements for the New Jersey Motor Vehicle Commission facilities (authorized in an amount not exceeding \$160 million); (vi) pursuant to the Municipal Rehabilitation and Economic Recovery Act the NJEDA is authorized to issue bond for the purpose of making loans and grants to sustain economic activity in qualified municipalities; (vii) pursuant to the Business Employment Incentive Program Act, the NJEDA is authorized to issue bonds to provide funds for the payment of, among other things, certain business employment incentive grants in consideration of the attainment of certain employment promotion targets; (viii) the lease financing program through which certain real property, office buildings and equipment are financed with NJEDA bonds (secured by Agreements between the New Jersey Treasurer and NJEDA); and (ix) pursuant to the Cigarette Tax Securitization Act of 2004, the NJEDA is authorized to issue bonds payable, and secured by, a portion, \$0.0325 per cigarette, of the cigarette tax imposed pursuant to N.J.S.A. 54:40A-1 et seq.

*New Jersey Educational Facilities Authority.* The New Jersey Educational Facilities Authority (“NJEFA”) issues bonds secured by Agreements pursuant to seven separate legislative programs to finance (i) the purchase of equipment to be leased to institutions of higher learning; (ii) grants to New Jersey’s public and private institutions of higher education for the development, construction and improvement of instructional, laboratory, communication and research facilities; (iii) grants to public and private institutions of higher education to develop a technology infrastructure within and among New Jersey’s institutions of higher education; (iv) capital projects at county colleges; (v) grants to public and private institutions of higher education to finance and refinance eligible

- 34 -



educational facilities; (vi) grants to public libraries to finance the acquisition, expansion and rehabilitation of buildings to be used as public library facilities; and (vii) loans to public and private institutions of higher education and public and private secondary schools, military schools and boarding schools located within New Jersey to install automatic fire suppression systems.

*New Jersey Transportation Trust Fund Authority.* In July 1984, New Jersey created the New Jersey Transportation Trust Fund Authority (the “NJTTFA”) for the purpose of funding a portion of New Jersey’s share of the cost of improvements to its transportation system. The principal amount of the NJTTFA’s bonds, notes or other obligations which may be issued in any fiscal year commencing with the fiscal year commencing July 1, 2006 and ending with the fiscal year beginning July 1, 2010, generally may not exceed \$1,600,000,000 in any fiscal year, as such amount shall be reduced in each of those fiscal years by the amount by which the appropriation of New Jersey funds to the Transportation Trust Fund Account for that fiscal year shall exceed \$895,000,000; *provided, however*, that if a portion of that permitted amount of debt, less any reduction as provided above, is not incurred in a fiscal year, an amount not greater than the unused portion may be incurred in a subsequent fiscal year in addition to the amount otherwise permitted, subject to the approval of the Joint Budget Oversight Committee of the New Jersey Legislature. The obligations issued by the NJTTFA are special obligations of the NJTTFA payable from a contract among the NJTTFA, the New Jersey Treasurer and the Commissioner of Transportation, subject to appropriation by the New Jersey Legislature.

*New Jersey Building Authority.* The New Jersey Building Authority (“NJBA”) issues bonds for the acquisition, construction, renovation and rehabilitation of various New Jersey office buildings, historic buildings, and correctional facilities. Pursuant to a lease agreement, New Jersey makes rental payments to NJBA in amounts sufficient to pay debt service on the NJBA bonds, subject to appropriation by the New Jersey Legislature.

*New Jersey Sports and Exposition Authority.* Legislation enacted in 1992 authorizes the New Jersey Sports and Exposition Authority (the “NJSEA”) to issue bonds for various purposes payable from a contract between the NJSEA and the New Jersey Treasurer. Pursuant to such contract, the NJSEA undertakes certain projects and the New Jersey Treasurer credits to the NJSEA amounts from the General Fund sufficient to pay debt service and other costs related to the bonds, subject to appropriation by the New Jersey Legislature.

*Garden State Preservation Trust.* In July 1999, New Jersey established the Garden State Preservation Trust (“GSPT”) for the purpose of preserving, as open space, farmland and historic properties. Pursuant to the enabling act of the GSPT, the principal amount of bonds, notes or other obligations which may be issued prior to July 1, 2009, other than refunding bonds, cannot exceed \$1.15 billion. After July 1, 2009, only refunding bonds can be issued. The obligations to be issued by the GSPT will be special obligations of the GSPT payable from amounts paid to it under a contract between GSPT and the New Jersey Treasurer, subject to appropriation by the New Jersey Legislature.

*New Jersey Health Care Facilities Financing Authority.* Pursuant to Legislation, the New Jersey Health Care Facilities Financing Authority (“NJHCFFA”) is authorized to acquire, construct and lease a project to the New Jersey Department of Human Services (“DHS”) and to issue bonds to finance each project, the debt service on which shall be paid by DHS, subject to appropriation by the New Jersey Legislature. Under the Hospital Asset Transformation

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Program, NJHCFFA is authorized to issue bonds to provide funds to any nonprofit health care organization in order to, among other things, satisfy the outstanding indebtedness of a hospital, pay the costs of transitioning or terminating the provision of hospital acute care services at a specific location, including the costs of construction, renovation, equipment, information technology and working capital, and pay the costs associated with the closure or acquisition of a general hospital. Such bonds are special obligations of NJHCFFA payable from amounts paid to it under a contract between HCFFA and the New Jersey Treasurer, subject to appropriation by the New Jersey Legislature.

Each of the NJEDA, the NJBA, the NJSEA and the NJTTFA have entered into a number of swap agreements with respect to certain bond issues. In each case, the outstanding aggregate principal amount of the bonds is equal to the aggregate notional amount of the swap agreements related thereto. The State's obligation to make payments under the swap agreements is subject to appropriation by the New Jersey Legislature.

- 35 -

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*New Jersey Certificates of Participation.* New Jersey, acting through the Director of the Division of Purchase and Property, has entered into a series of lease purchase agreements which provide for the acquisition of equipment, services and real property to be used by various departments and agencies of New Jersey. Certificates of Participation in such lease purchase agreements have been issued. A Certificate of Participation represents a proportionate interest of the owner thereof in the lease payments to be made by New Jersey under the terms of the lease purchase agreement, subject to appropriation by the New Jersey legislature.

*New Jersey Supported School and County College Bonds.* Legislation provides for future appropriations for New Jersey aid to local school districts equal to a portion of the debt service on bonds issued by such local school districts for construction and renovation of school facilities (P.L. 1968, c. 177; P.L. 1971, c. 10; and P.L. 1978, c. 74) and for New Jersey aid to counties equal to a portion of the debt service on bonds issued by or on behalf of counties for construction of county college facilities (P.L. 1971, c. 12, as amended). The New Jersey Legislature has no legal obligation to make such appropriations, but has done so to date for all obligations issued under these laws. The NJEFA is also authorized to issue its obligations to finance county college capital facilities which are secured in whole or in part by an agreement with the New Jersey Treasurer, subject to appropriation by the New Jersey Legislature.

*Department of Human Services Programs.* The NJEDA issues revenue bonds from time to time on behalf of non-profit community services providers. The payment of debt service on these bonds as well as the payment of certain other provider expenses is made by New Jersey pursuant to service contracts between DHS and these providers, subject to appropriation by the New Jersey legislature.

*Conduit Indebtedness of New Jersey Authorities and Instrumentalities.* Certain State authorities and instrumentalities are authorized to issue debt on behalf of various private and governmental entities on a conduit basis. Under such circumstances, neither the New Jersey authority or instrumentality acting as a conduit issuer nor the State of New Jersey is responsible for the repayment of such debt. The payment obligations with respect to such debt are solely that of the entity on whose behalf the debt was issued. Those State authorities and instrumentalities that issue debt on behalf of private and governmental entities on a conduit basis include: (i) the New Jersey Economic Development Authority; (ii) the New Jersey Health Care Facilities Financing Authority; (iii) the New Jersey Education Facilities Authority; (iv) the New Jersey Housing and Mortgage Finance Agency; (v) the New Jersey Environmental Infrastructure Trust; and (vi) the New Jersey Redevelopment Agency.

### Counties and Municipalities

*Regulation of County and Municipal Finance.* New Jersey's county and municipal finance system is regulated by various statutes designed to assure that all county and municipal governments and their issuing authorities remain on a sound financial basis. Regulatory and remedial statutes are enforced by the Division of Local Government Services (the "Division") in the New Jersey Department of Community Affairs.

The Local Budget Law (N.J.S.A. 40A:4-1 et seq.) (the “Local Budget Law”) imposes specific budgetary procedures upon counties and municipalities (“local units”). Every local unit must adopt an operating budget which is balanced on a cash basis, and items of revenue and appropriation must be examined by the Director of the Division (the “Director”). The accounts of each local unit must be independently audited by a registered municipal accountant. New Jersey law provides that budgets must be submitted in a form promulgated by the Division. The Division reviews all local unit annual budgets prior to adoption for compliance with the Local Budget Law. The Director is empowered (i) to require changes for compliance with law as a condition of approval; (ii) to disapprove budgets not in accordance with law; and (iii) to prepare the budget of a local unit, within the limits of the adopted budget of the previous year with suitable adjustments for legal compliance, if the local unit fails to adopt a budget in accordance with law. This process insures that every local unit annually adopts a budget balanced on a cash basis, within limitations on appropriations or tax levies, respectively, and making adequate provision for (i) principal of and interest on indebtedness falling due in the fiscal year, (ii) deferred charges and (iii) other statutory expenditure requirements. The Director also oversees changes to local budgets after adoption as permitted by law, and enforces regulations pertaining to execution of adopted budgets and financial administration. In addition to the exercise of regulatory and oversight functions, the Division offers expert technical assistance to local units in all aspects of financial administration, including revenue collection and cash management procedures, contracting procedures, debt management and administrative analysis.

The Local Government Cap Law (N.J.S.A. 40A:4-45.1 et seq.) (the “Cap Law”) limits the year-to-year increase of the total appropriations of any local unit to either 2.5% or a cost-of-living adjustment determined annually by the Director, whichever is less. However, where the cost-of-living adjustment is less than 2.5%, the Cap Law also permits the governing body of any local unit to approve the use of a higher percentage rate up to 3.5%. Regardless of the rate utilized, certain exceptions exist to the Cap Law’s limitation on increases in appropriations. The principal exceptions to these limitations are: (i) municipal and county appropriations to pay debt service requirements; (ii) requirements to comply with certain other New Jersey or federal mandates; (iii) appropriations of private and public dedicated funds; (iv) amounts approved by referendum; and (v) in the case of municipalities only, to fund the preceding year’s cash deficit or to reserve for shortfalls in tax collections, and amounts required pursuant to contractual obligations for specified services. The Cap Law was re-enacted in 1990 with amendments and made a permanent part of the municipal finance system.

Additionally, new legislation constituting P.L. 2007, c.62, effective April 3, 2007, imposed a 4% cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The exclusions from the limit include increases required to be raised for debt service on the local unit’s bonds and notes, increases to replace certain lost state aid, increases in certain pension contributions, increases in the reserve for uncollected taxes required for municipalities, and certain increases in health care costs over 4%. The Division may approve waivers for certain extraordinary costs identified by statute, and voters may approve increases over 4% not otherwise permitted by a vote of 60% of the voters voting on a public question.

*Regulation of the Issuance of Bonds by Counties and Municipalities.* New Jersey law also regulates the issuance of debt by local units. The Local Budget Law limits the amount of tax anticipation notes that may be issued by local units and requires the repayment of such notes within 120 days of the end of the fiscal year (six months in the case of the counties) in which issued. The Local Bond Law (N.J.S.A. 40A:2-1 et seq.) governs the issuance of bonds and notes by the local units. No local unit is permitted to issue bonds for the payment of current expenses (other than fiscal year adjustment bonds). Local units may not issue bonds to pay outstanding bonds, except for refunding purposes, and then, with certain exceptions, only with the approval of the Local Finance Board. Local units may issue bond anticipation notes for temporary periods not exceeding in the aggregate approximately ten years from the date of issue. The debt that any local unit may authorize is limited to a percentage of its equalized valuation basis. In the calculation of debt capacity, the Local Bond Law and certain other statutes permit the deduction of certain classes of debt (“statutory deduction”) from all authorized debt of the local unit in computing whether a local unit has exceeded its statutory debt limit. The Local Bond Law permits the issuance of certain obligations, including obligations issued for certain emergency or self liquidating purposes, notwithstanding the statutory debt limitation described above, but, with certain exceptions, it is then necessary to obtain the approval of the Local Finance Board.

#### School Districts

*Regulation of School District Finance.* All New Jersey school districts are coterminous with the boundaries of one or more municipalities. They are characterized by the manner in which the board of education, the governing body of the school districts, takes office. Type I school districts, most commonly found in cities, have a board of education, appointed by the mayor or the chief executive officer of the municipality, constituting the school district. In a Type II school district, the board of education is elected by the voters of the district. Nearly all regional and consolidated school districts are Type II school districts. The New Jersey Department of Education has been empowered with

authority to abolish an existing school board and create a State-operated school district where the existing school board has failed or is unable to take the corrective actions necessary to provide a thorough and efficient system of education in that school district pursuant to N.J.S.A. 18A:7A-15 et seq. (the "School Intervention Act"). The State-operated school district, under the direction of a New Jersey appointed superintendent, has all of the powers and authority of the local board of education and of the local district superintendent.

New Jersey's school districts operate under the same comprehensive review and regulation as do its counties and municipalities, including, without limitation, the new legislation constituting P.L. 2007, c.62, effective April 3, 2007, discussed above. Certain exceptions and differences are provided, but New Jersey's supervision of school finance closely parallels that of local governments.

- 37 -

*Regulation of the Issuance of Bonds by School Districts.* School district bonds and temporary notes are issued in conformity with N.J.S.A. 18A:24-1 et seq. (the “School Bond Law”), which closely parallels the Local Bond Law (for further information relating to the Local Bond Law, see “Counties and Municipalities – Regulation of the Issuance of Bonds by Counties and Municipalities” herein). Although school districts are exempted from the 5 percent down payment provision generally applied to bonds issued by local units, they are subject to debt limits (which vary depending on the type of school system) and to New Jersey regulation of their borrowing.

School bonds are authorized by (i) an ordinance adopted by the governing body of a municipality within a Type I school district; (ii) adoption of a proposal by resolution by the board of education of a Type II school district having a board of school estimate; (iii) adoption of a proposal by resolution by the board of education and approval of the proposal by the legal voters of any other Type II school district; or (iv) adoption of a proposal by resolution by a capital project control board for projects in a State-operated school district.

If school bonds of a Type II school district will exceed the school district borrowing capacity, a school district (other than a regional school district) may use the balance of the municipal borrowing capacity. If the total amount of debt exceeds the school district’s borrowing capacity, the Commissioner and the Local Finance Board must approve the proposed authorization before it is submitted to the voters. All authorizations of debt in a Type II school district without a board of school estimate require an approving referendum, except where, after hearing, the Commissioner and the New Jersey Department of Education determine that the issuance of such debt is necessary to meet the constitutional obligation to provide a thorough and efficient system of public schools. When such obligations are issued, they are issued by, and in the name of, the school district.

In Type I and II school districts with a board of school estimate, that board examines the capital proposal of the board of education and certifies the amount of bonds to be authorized. When it is necessary to exceed the borrowing capacity of the municipality, the approval of a majority of the legally qualified voters of the municipality is required, together with the approval of the Commissioner and the Local Finance Board. When such bonds are issued by a Type I school district, they are issued by the municipality and identified as school bonds. When bonds are issued by a Type II school district having a board of school estimate, they are issued by, and in the name of, the school district.

*School District Lease Purchase Financings.* School districts are permitted to enter into lease purchase agreements for the acquisition of equipment, for the acquisition of land and school buildings and for the construction or the improvement of the school buildings. Generally, lease purchase agreements cannot exceed five years except for certain energy saving equipment which may be leased for up to 15 years if paid from energy savings. Lease purchase agreements for school facilities for a term of five years or less (longer leases for such purposes are no longer permitted) must be approved by the Commissioner, the voters or the board of school estimate, as applicable. The payment of rent on an equipment lease and on a five year and under facilities lease purchase agreement is treated as a current expense and is within the cap on the school district’s budget. Under the Comprehensive Education Improvement and Financing Act, lease purchase payments on leases in excess of five years issued under prior law, will be treated as debt service payments and therefore receive debt service aid if the school district is entitled and will be outside the school district’s spending limitation of the General Fund.

*New Jersey School Bond Reserve Act.* The New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 et seq.) establishes a school bond reserve within the constitutionally dedicated fund for the support of free public schools (the “Fund”). Amendments to the Act provide that the Fund will be divided into two school bond reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a school bond reserve account funded in an amount equal to 1-1/2% of the aggregate amount of issued and outstanding bonded indebtedness of New Jersey counties, municipalities or school districts for school purposes issued prior to July 1, 2003 and all bonds issued on or after July 1, 2003 shall be benefited by a school bond reserve account equal to 1% of the aggregate amount of issued and outstanding bonded indebtedness of New Jersey counties, municipalities or school districts for school purposes issued on or after July 1, 2003, provided in each case, that such amounts do not exceed the moneys available in the applicable account. If a municipality, county or school district is unable to meet payment of the principal of or interest on any of its school bonds, the trustee of the school bond reserve will purchase such bonds at the face amount thereof or pay the holders thereof the interest due or to become due. There has never been an occasion to call upon this Fund.



## Local Financing Authorities

*Regulation of Local Financing Authorities.* The Local Authorities Fiscal Control Law (N.J.S.A. 40A:5A-1 et seq.) provides for State supervision of the fiscal operations and debt issuance practices of independent local authorities and special taxing districts by the New Jersey Department of Community Affairs. The Local Authorities Fiscal Control Law applies to all autonomous public bodies, created by local units, which are empowered (i) to issue bonds, (ii) to impose facility or service charges, or (iii) to levy taxes in their districts. This encompasses most autonomous local authorities (sewerage, municipal utilities, parking, pollution control, improvement, etc.) and special taxing districts (fire, water, etc.). Authorities which are subject to differing New Jersey or federal financial restrictions are exempted, but only to the extent of that difference.

Financial control responsibilities over local authorities and special districts are assigned to the Local Finance Board and the Director. The Local Finance Board exercises approval over creation of new authorities and special districts as well as their dissolution. The Local Finance Board prescribes minimum audit requirements to be followed by authorities and special districts in the conduct of their annual audits. The Director of the Division reviews and approves annual budgets of authorities and special districts.

*Regulation of the Issuance of Bonds by Local Financing Authorities.* Certain local authorities are authorized to issue debt on behalf of various entities on a conduit basis. Under such circumstances, none of the local authority acting as a conduit issuer, the local unit creating such local authority nor the State of New Jersey is responsible for the repayment of such debt. The payment obligations with respect to such debt is solely that of the entity on whose behalf the debt was issued. The Local Finance Board reviews, conducts public hearings, and issues findings and recommendations on any proposed project financing of an authority or district, and on any proposed financing agreement between a local unit and an authority or special district.

*Pollution Control Bonds.* In the 1970s, the New Jersey Legislature initiated a comprehensive statutory mechanism for the management of solid waste disposal within New Jersey that required each county to develop a plan for county-wide controlled flow of solid waste to a franchised location. The controlled flow of solid waste to a franchised location enabled the imposition of above-market-rate disposal fees. Most counties created independent local authorities or utilized existing local authorities in order to finance, with the proceeds of bonds, the technically complex and expensive infrastructure required to implement this statutory mechanism. Typically, the primary security for the amortization of the bonds was the above-market-rate disposal fees, although some bonds were further secured by a guaranty of the respective county. On May 1, 1997, in *Atlantic Coast Demolition & Recycling, Inc. v. Board of Chosen Freeholders of Atlantic County*, 112 F.3d 652 (3d Cir. 1997), the United States Court of Appeals for the Third Circuit held that New Jersey's system of controlled flow of solid waste to franchised locations unconstitutionally discriminated against out-of-State operators of waste disposal facilities and, therefore, violated the Commerce Clause of the United States Constitution. Subsequently, the United States Supreme Court denied a petition for writ of certiorari. This decision has terminated controlled flow of solid waste to franchised locations within New Jersey. In the absence of controlled flow, franchisees facing competition from other operators of waste disposal facilities are unable to charge above-market-rate disposal fees. The reduction of such fees to competitive levels has reduced correspondingly the primary source of security for the outstanding bonds of the local authorities. The facts relevant to each local authority within New Jersey remain unique. Some local authorities have successfully implemented refunding and workout financings. Other local authorities have eliminated revenue shortfalls through the imposition of

special waste disposal taxes. In other cases, revenue shortfalls continue, but bond payment defaults by such local authorities have been avoided as a result of a New Jersey program by which New Jersey to date has voluntarily provided financial assistance to qualifying local authorities to satisfy bond payment obligations on a given bond payment date. However, no assurance can be given that such New Jersey subsidies will be made available to such local authorities in the future (or that sufficient funds will be made available to New Jersey for such purpose), particularly given recent New Jersey budget reductions.

*Qualified Bonds.* In 1976, legislation was enacted (P.L. 1976, c. 38 and c. 39) which provides for the issuance by municipalities and school districts of “qualified bonds.” Whenever a local board of education or the governing body of a municipality determines to issue bonds, it may file an application with the Local Finance Board, and, in the case of a local board of education, the Commissioner of Education of New Jersey, to qualify bonds pursuant to P.L. 1976 c. 38 or c. 39. Upon approval of such an application, the New Jersey Treasurer shall withhold from certain New Jersey revenues or other New Jersey aid payable to the municipalities, or from New

Jersey school aid payable to the school district, as appropriate, an amount sufficient to pay debt service on such bonds. These “qualified bonds” are not direct, guaranteed or moral obligations of New Jersey, and debt service on such bonds will be provided by New Jersey only if the above mentioned appropriations are made by New Jersey.

#### Litigation of the State of New Jersey

*General.* At any given time, there are various numbers of claims and cases pending against the State of New Jersey, State agencies and State employees, seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 *et seq.*). New Jersey does not formally estimate its reserve representing potential exposure for these claims and cases. New Jersey is unable to estimate its exposure for these claims and cases.

New Jersey routinely receives notices of claim seeking substantial sums of money. The majority of these claims have historically proven to be of substantially less value than the amount originally claimed. Under the New Jersey Tort Claims Act, any tort litigation against New Jersey must be preceded by a notice of claim, which affords New Jersey the opportunity for a six-month investigation prior to the filing of any suit against it. In addition, at any given time, there are various numbers of contract and other claims against New Jersey and New Jersey agencies, including environmental claims asserted against New Jersey, among other parties, arising from the alleged disposal of hazardous waste. Claimants in such matters are seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. New Jersey is unable to estimate its exposure for these claims.

At any given time, there are various numbers of claims and cases pending against the University of Medicine and Dentistry of New Jersey and its employees, seeking recovery of monetary damages that are primarily paid out of the Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act. An independent study estimated an aggregate potential exposure of \$148,600,000 for tort and medical malpractice claims pending as of December 31, 2007. In addition, at any given time, there are various numbers of contract and other claims against the University of Medicine and Dentistry of New Jersey, seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. New Jersey is unable to estimate its exposure for these claims.

Lawsuits currently pending or threatened in which New Jersey has the potential for either a significant loss of revenue or a significant unanticipated expenditure are described in official statements relating to securities offerings of New Jersey municipal obligations available as of the date of this SAI.

#### Special Considerations Regarding New York

As described in the Prospectus, under normal circumstances, the Market Vectors New York Long Municipal Index ETF will invest at least 80% of its assets in New York municipal securities. In addition, the specific New York

municipal securities in which the Fund will invest will change from time to time. The Fund is therefore susceptible to political, economic, regulatory or other factors affecting issuers of New York municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of New York municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of New York municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of New York municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Fund, and the Fund assumes no responsibility for the completeness or accuracy of such information. The summary below does not include all of the information pertaining to the budget, receipts and disbursements of the State of New York (“New York” or the “State”) that would ordinarily be included in various public documents issued thereby, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Such an official statement, together with any updates or supplements thereto, may generally be obtained upon request to the Division of Budget of the State of New York (“DOB”). More detailed information about the State is available on the DOB’s website, [www.budget.state.ny.us](http://www.budget.state.ny.us).

*The New York State Economy.* New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State’s economy is diverse, with a comparatively large share of the nation’s financial activities, information, education, and health services employment, and a very small share of the nation’s

farming and mining activity. The State's location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy.

Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing, and an increasing proportion engaged in service industries. The financial activities sector share of total wages is particularly large for the State relative to the nation. The State is likely to be less affected than the nation as a whole during an economic recession that is concentrated in manufacturing and construction, but likely to be more affected by any economic downturn that is concentrated in the services sector. Important industry sectors in the State include the following:

· *Services.* The services industry includes professional and business services, private education and healthcare, leisure and hospitality services, and other services. These industries account for more than four of every 10 nonagricultural jobs in New York, and, except for leisure and hospitality, each account for a higher proportion of total jobs than the rest of the nation.

· *Manufacturing.* Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate region, which hosts high concentrations of manufacturers of transportation and other types of equipment.

· *Trade, Transportation & Utilities.* The trade, transportation, and utilities supersector accounts for the second largest component of State nonagricultural employment, but only the fifth largest when measured by wage share. This sector accounts for slightly less employment and wages for the State than for the nation.

· *Financial Activities.* New York City is the nation's leading center of banking and finance and, as a result, this is a far more important sector in the State than in the nation as a whole. Although this sector accounts for under one-tenth of all nonagricultural jobs in the State, it contributes more than one-fifth of total wages.

· *Agriculture.* Farming is an important part of the economy in rural areas, although it constitutes only about 0.2% of total State output. Principal agricultural products of the State include milk and dairy products, greenhouse and nursery products, fruits and vegetables. New York ranks among the nation's leaders in the production of these commodities.

· *Government.* Federal, State and local governments together comprise the third largest sector in terms of nonagricultural jobs, with the bulk of the employment accounted for by local governments. Public education is the source of nearly one-half of total State and local government employment.

*The State's Fund Structure.* The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds, All Government Funds, which includes both State and Federal Funds, comprise five major fund types, and provides the most comprehensive views of the financial operations of the State. It includes:

· *The General Fund.* The General Fund is the major operating fund of the State and receives all receipts that are not required by law to be deposited in another fund, including most State tax receipts and certain fees, transfers from other funds and miscellaneous receipts from other sources.

· *Special Revenue Funds.* Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), that are legally restricted to specified purposes.

· *Federal Special Revenue Funds.* Federal Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), that are legally restricted to specified purposes.

· *Capital Projects Funds.* Capital Projects Funds, account for financial resources of the State to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Funds, Proprietary Funds and Fiduciary Funds).

· *Debt Service Funds.* Debt Service Funds account for the accumulation of resources (including receipts from certain taxes, transfers from other funds and miscellaneous revenues, such as dormitory room rental fees, which are dedicated by statute for payment of lease-purchase rentals) for the payment of general long-term debt service and related costs and payments under lease-purchase and contractual-obligation financing arrangements.

The State Constitution requires the Governor to submit an Executive Budget that is balanced in the General Fund which receives the majority of State taxes.

*State Finances.* The following is a summary of the State's major revenue sources.

· *Personal Income Tax.* Personal income taxes are imposed on the New York source income of individuals, estates and trusts. Personal income taxes are projected to account for roughly 61% of estimated All Funds tax receipts during the State's 2009-10 fiscal year. The State tax adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications. Receipts from this tax are sensitive to changes in economic conditions in the State.

· *Sales and Use Tax.* User taxes and fees consist of several taxes on consumption, the largest of which is the State sales and compensating use tax. The sales and use tax is imposed, in general, on the receipts from the sale of all tangible personal property. Certain charges for meals, admissions, hotel and motel occupancy and dues are also subject to the tax. The current State sales tax rate is 4.0%, of which 3.0% is deposited in the General Fund and 1.0% is deposited in the Local Government Assistance Tax Fund to meet debt service obligations. Receipts in excess of debt service requirements are transferred to the General Fund. Although there are numerous exemptions, the most significant are: food; clothing and footwear costing less than \$110; drugs; medicine and medical supplies; residential energy; capital improvements and installation charges; machinery and equipment used in manufacturing; trade-in allowances; and goods sold to Federal, state or local governments.

· *Business Taxes.* Business taxes include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, certain transportation and transmission companies, and a cents-per-gallon-based levy on businesses engaged in the sale or importation for sale of various petroleum products. The corporation franchise tax is the largest of the business taxes, and the State's third largest source of revenue. It is imposed on all domestic general business corporations and foreign general business corporations which do business or conduct certain other activities in the State. The tax is imposed, generally, at a rate of 7.1% of taxable income allocated to New York. Taxable income is defined as Federal taxable income with certain modifications.

· *Other Taxes.* Other tax revenues include taxes on legalized gambling, the estate tax, taxes on real estate transfers, certain other minor taxes and residual receipts following the repeal of the real property gains tax and the gift tax.

*State Budget Process.* The State budget process begins with the Governor's submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. In acting on the bills submitted by the Governor, the Legislature has certain powers to alter the recommended appropriations and proposed changes to existing law. The Legislature may strike out or reduce an item of appropriation recommended by the Governor. The Legislature may add items of appropriation, provided such additions are stated separately. These additional items are then subject to line-item veto by the Governor. If the Governor vetoes an appropriation or a bill (or a portion thereof) related to the budget, these items can be considered in accordance with the rules of each house of the Legislature. If approved by two-thirds of the members of each house, such items will become law notwithstanding the Governor's veto. Once the appropriation bills and other bills become law, the "DOB" revises the State Financial Plan to reflect the Legislature's actions, and begins the process of implementing the budget.



*2009-10 Enacted Budget.* The 2009-10 Enacted Budget (defined below) closes the largest budget gap ever faced by the State. The combined “current services budget gap” (which includes projected and current deficits) for fiscal years 2008-09 and 2009-10 totaled \$20.1 billion before the gap-closing actions approved by the Governor and Legislature and the receipt of extraordinary Federal aid. The combined current services gap for 2008-09 and 2009-10 grew steadily over the past year, increasing four-fold since May 2008. The \$15 billion increase in the combined gap, to \$20.1 billion, was due almost exclusively to the precipitous decline in projected receipts, reflecting the severity of the current economic downturn and dislocation in the financial markets. The current recession has been characterized by a loss of vast sums of wealth from depressed equity and real estate markets. This is expected to have a substantial impact on taxable income and, by extension, State tax receipts. State adjusted gross income is expected to fall by \$52 billion in 2008-09 and \$53 billion in 2009-10, which, if these expectations are met, would be more than twice the losses seen in the 2001-2002 recession.

The gap-closing plan for 2008-09 and 2009-10 was enacted in two parts. First, in early February 2009, the Governor and Legislature approved a deficit reduction plan (“DRP”) for 2008-09. The DRP provided approximately \$2.4 billion in savings over the two-year period, reducing the combined gap from \$20.1 to \$17.7 billion. Second, in March 2009, the Governor and Legislature reached final agreement on a budget for 2009-10, with the Legislature completing action on all appropriations and enabling legislation to implement the budget on April 3, 2009 (“2009-10 Enacted Budget”). All debt service appropriations for 2009-10 were enacted on March 5, 2009.

The 2009-10 Enacted Budget contains a total of \$13.9 billion in gap-closing actions, including \$6.5 billion in actions to restrain spending, \$5.4 billion in actions to increase receipts, and \$2 billion in non-recurring actions (more than half of which were used in 2008-09 to close a gap that opened in the last half of the fiscal year). The most significant actions include: freezing the foundation aid and Universal Pre-Kindergarten education aid programs at 2008-09 levels; eliminating certain property tax rebates; instituting Medicaid cost-containment; reducing the size of the State workforce; and increasing personal income tax rates on high-income earners.

In addition, the gap-closing plan includes \$6.2 billion in direct fiscal relief that the Federal government is providing to the State under the American Recovery and Reinvestment Act of 2009 (“ARRA”) to stabilize State finances and help prevent reductions in essential services. This extraordinary aid consists of \$5 billion in reimbursements to the Medicaid State from the Federal government and \$1.15 billion in Federal aid provided by the ARRA State Fiscal Stabilization Fund (“SFSF”), of which \$624 million was used to eliminate the 2008-09 gap, and \$675 million was applied to close a portion of the 2009-10 gap.

The State projects new issuance of \$599 million in general obligation bonds, \$577 million in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation, \$520 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities, \$100 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories, and \$4.1 billion in State Personal Income Tax (“PIT”) Revenue Bonds to finance various capital programs.

When the 2009-2010 Enacted Budget was implemented, DOB estimated that, after gap-closing actions and Federal aid, the General Fund for 2009-2010 was balanced, and projected budget gaps of \$2.2 billion in fiscal year 2010-2011, \$8.8 billion in fiscal year 2011-2012 and \$13.7 billion in 2012-2013. After accounting for the DRP and the forecast revisions, as of February 15, 2010 the General Fund has an estimated shortfall of \$1.4 billion remaining in the current fiscal year. Rather than proposing additional gap-closing measures in the current fiscal year, when the range of options for achieving recurring savings is increasingly limited, the State expects to carry the budget shortfall forward into 2010-11, and address it in the Executive Budget as part of a multi-year plan that emphasizes recurring savings (see “2010-11 Executive Budget,” below). As required by law, the State ended the 2008-09 fiscal year in balance in the General Fund.

Overall, tax receipts growth in the two fiscal years following 2009-10 is expected to grow within a range of 2-8%. This reflects an economic forecast of a national recovery beginning in the third quarter of 2009 with many aspects of the State’s recovery lagging into 2010. This growth is supported significantly by revenue actions in the Enacted Budget, including the three-year temporary increase in PIT rates. Tax receipts in 2012-2013 are expected to decline slightly, primarily due to the expiration of the temporary rate increase.

In January 2007, the State created a new statutory Rainy Day Reserve that has an authorized balance of 3% of General Fund spending. The Rainy Day Reserve may be used to respond to an economic downturn or catastrophic event. The State made its first deposit of \$175 million in 2007-2008.

The Debt Reduction Reserve Fund (“DRRF”) was created in 1998 to set aside resources that could be used to reduce State-supported indebtedness either through the use of DRRF as a cash financing source, to reduce debt service costs, or to defease outstanding debt. The 2009-10 Enacted Budget authorizes up to \$250 million for the DRRF to deal with uncertain market conditions. This appropriation will only be funded if resources become available, and would give the State the flexibility to react to market conditions and apply additional resources to mitigate risks in the State’s debt portfolio. This appropriation could be used to fund swap termination costs, capital projects, cost of issuance, or to defease high cost debt.

State Indebtedness and Other Obligations. State-related debt includes State-supported debt, where the state, subject to an appropriation is directly responsible for paying debt service, as well as State-guaranteed debt (to which the full faith and credit of the State has been pledged), moral obligation financings and certain contingent contractual obligation financings, where debt service is expected to be paid from other sources and State appropriations are contingent in that they may be made and used only under certain circumstances. “State-supported debt” is a subset of State-related debt. It includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where the State’s legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature. Since May 2002, the State has financed its capital program, previously financed through lease-purchase and contractual obligations of public authorities, with State PIT Revenue Bonds.

· *Limitations on State-Supported Debt.* Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake a long-term (i.e., for more than one year) general obligation borrowing unless the borrowing is authorized in a definite amount for a specific purpose by the Legislature and approved by the voters. There is no constitutional limitation on the amount of long-term general obligation debt that may be so authorized and subsequently incurred by the State. Under State law, the use of debt is limited to capital works and purposes only, with a maximum term of 30 years. New State-supported debt outstanding was limited to 0.75% of State personal income in 2000-2001 and will gradually increase until it is fully phased-in at 4% of State personal income in 2010-2011. Similarly, new State-supported debt service costs were limited to 0.75% of total governmental funds receipts in 2000-2001 and this limit gradually increase until it is fully phased in at 5% in the 2013-2014 fiscal year. State-related debt outstanding is expected to increase slightly in 2009-10 to 6.0% of personal income from 5.6% in 2008-2009.

Limitations on the issuance of State-supported debt and debt service costs must be calculated by October 31 of each year and reported in the quarterly Financial Plan Update most proximate to such date. If the calculations for permitted new State-supported debt outstanding and debt service costs are less than the State-supported debt outstanding and debt service costs, new State-supported debt may continue to be issued. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from contracting new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limitations. The prohibition on issuing new State-supported debt if the caps are met or exceeded provides a significant incentive to treat the debt caps as absolute limits that should not be reached, and therefore DOB intends to manage subsequent capital plans and issuance schedules under these limits.

Current projections estimate that debt outstanding and debt service costs will continue to remain below limits imposed by State law throughout the next several years. However, the State has entered into a period of significantly declining debt capacity. Available cap room, in regards to debt outstanding, is expected to decline from 0.74% (\$6.8 billion) in 2009-2010 to only 0.08% (\$763 million) in 2011-2012, a decrease of 88% or \$6 billion. In addition, debt outstanding is projected to exceed the cap by 0.03% (\$314 million) in 2012-2013 and by 0.04% (\$384 million) in 2013-2014. The State plans to take actions in future budget cycles before fiscal year 2012-13 in order to stay within the statutory debt limits.

The State has also enacted statutory limits on the amount of variable rate obligations and interest rate exchange agreements that authorized issuers of State-supported debt may enter into. The statute limits the use of

- 44 -

debt instruments which result in a variable rate exposure (e.g., variable rate obligations and interest rate exchange agreements) to no more than 20% of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 20% of total outstanding State-supported debt.

· *General Obligation Bonds.* General obligation debt is currently authorized for transportation, environment and housing purposes. Transportation-related bonds are issued for State and local highway and bridge improvements, aviation, mass transportation, rail, canal, port and waterway programs and projects. Environmental bonds are issued to fund environmentally-sensitive land acquisitions, air and water quality improvements, municipal non-hazardous waste landfill closures and hazardous waste site cleanup projects. The amount of general obligation bonds issued in the 2008-2009 fiscal year (excluding refunding bonds) was \$455 million, and as of March 31, 2009, the total amount of general obligation debt outstanding was \$3.3 billion. Approximately \$599 million in general obligation bonds are expected to be issued in the 2009-2010 fiscal year.

· *Short-Term Borrowings.* Under the State Constitution, the State may undertake short-term borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing tax and revenue anticipation notes (“TRANS”), and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes (“BANs”). TRANS must mature within one year from their date of issuance and cannot be refunded or refinanced beyond such period. However, since 1990, the State’s ability to issue TRANS has been limited due to the enactment of the fiscal reform program which created the Local Government Assistance Corporation. BANs may only be issued for the purposes and within the amounts for which bonds may be issued pursuant to voter authorizations, and must be paid from the proceeds of the sale of bonds in anticipation of which they were issued or from other sources within two years of the date of issuance or, in the case of BANs for housing purposes, within five years of the date of issuance. In order to provide flexibility within these maximum term limits, the State had previously utilized the BANs authorization to conduct a commercial paper program to fund disbursements eligible for general obligation bond financing.

· *Personal Income Tax Revenue Bonds.* Legislation enacted in 2001 provided for the issuance of State PIT Revenue Bonds by the Dormitory Authority of the State of New York (“DASNY”), the New York State Environmental Facilities Corporation, the Housing Finance Agency (“HFA”), the New York State Thruway Authority (“Thruway Authority”) and the Urban Development Corporation (“UDC”) (collectively, the “Authorized Issuers”). The legislation provides that 25% of State PIT receipts, excluding refunds owed to taxpayers, be deposited to the Revenue Bond Tax Fund (“RBTF”) for purposes of making debt service payments on State PIT Revenue Bonds, with excess amounts returned to the General Fund. In the event that: (i) the Legislature fails to appropriate amounts required to make all debt service payments on the State PIT Revenue Bonds; or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the State PIT Revenue Bonds, the legislation requires that PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of 25% of annual PIT receipts or \$6 billion.

State PIT Revenue Bonds are expected to continue to be the primary financing vehicle for a broad range of existing or new State-supported debt programs authorized to be secured by service contract or lease-purchase payments. As of March 31, 2009, approximately \$13.7 billion of State PIT Revenue Bonds were outstanding. The 2009-10 Enacted Budget projects that \$4.1 billion of State PIT Revenue Bonds will be issued in 2009-10.

· *Interest Rate Exchange Agreements.* As of March 31, 2009 five issuers, DASNY, UDC, HFA, Local Government Assistance Corporation (“LGAC”) and the Thruway Authority have entered into a notional amount of \$4.0 billion of interest rate exchange agreements that are subject to the interest rate exchange agreement cap, which is equal to 8.5% of total debt outstanding.

The State is currently repositioning its swaps portfolio to mitigate the negative effects of the ongoing credit crisis in the global markets. From March 2008 through March 2009, the State terminated a notional amount of swaps totaling approximately \$2.0 billion. Of this amount, the bankruptcy of Lehman Brothers Holdings, Inc. resulted in the automatic termination of a notional amount of swaps totaling approximately \$565 million. Given the current dislocations in the underlying variable rate markets and recent experience with the existing portfolio of swaps, the State has no plans to increase its swap exposure, and may take further actions to reduce swap exposures

- 45 -

commensurate with variable rate restructuring efforts. As of March 31, 2009, the net mark-to-market value of all the outstanding swaps (the aggregate termination amount) was approximately \$577 million, which represents the total amount the State would pay to the respective counterparties should all the swaps be terminated. The mark-to-market value of the outstanding interest rate exchange agreements fluctuates with interest rates and other market conditions. Generally, if interest rates rise from levels that existed in March 2009, it is expected the State's termination amounts would decline. The State plans to continue to monitor and manage counterparty risk on a monthly basis.

· *Net Variable Rate Obligations.* As of March 31, 2009 the State had about \$1.8 billion of outstanding variable rate debt instruments that are subject to the net variable rate exposure cap or 3.8% of total debt outstanding. That amount includes \$1.7 billion of unhedged variable rate obligations and \$128 million of synthetic variable rate obligations. The State also has \$2.4 billion of fixed rate obligations that may convert to variable rate obligations in the future. This includes \$1.8 billion in State-supported convertible rate bonds currently outstanding. These bonds bear a fixed rate until future mandatory tender dates in 2011, 2012 and 2013 at which time they can convert to either a fixed or variable rate. Legislation enacted in 2005 amended the State Finance Law to clarify that convertible bonds, synthetic variable obligations and similar obligations that were issued on or before July 1, 2005 and which result in the State paying a fixed rate in a fiscal year do not count under the variable rate cap until the fiscal year in which the State may pay a variable rate.

· *Contingent Contractual-Obligation Financing.* The State may also enter into statutorily authorized contingent contractual-obligation financings under which the State may enter into service contracts obligating it to pay debt service on bonds, subject to annual appropriation, in the event there are shortfalls in revenues from other non-State resources pledged or otherwise available, to pay the debt service on the bonds. The State has never been required to make any payments, and does not expect to make payments, under this financing arrangement in the 2009-10 fiscal year.

· *Moral Obligation Financings.* Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue-producing project or other activity. The debt is secured by project revenues and includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. There has never been a payment default on any moral obligation debt of any public authority. The State does not intend to increase statutory authorizations for moral obligation bond programs. The State has not been called upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2009-10 fiscal year.

· *State-Guaranteed Financings.* Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. The only current authorization provides for the State guarantee of the repayment of certain borrowings for designated projects of the New York State Job Development Authority. The State has never been called upon to make any direct payments pursuant to any such guarantees. Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State.

· *State-Supported Lease-Purchase and Contractual-Obligation Financings.* The State utilizes certain long-term financing mechanisms, lease-purchase and contractual-obligation financings, which involve obligations of public

authorities or municipalities where debt service is payable by the State, but are not general obligations of the State. Under these financing arrangements, certain public authorities and municipalities have issued obligations to finance certain payments to local governments, various capital programs, including those which finance the State's highway and bridge program, SUNY and CUNY educational facilities, health and mental hygiene facilities, prison construction and rehabilitation, economic development projects, State buildings and housing programs, and equipment acquisitions, and expect to meet their debt service requirements through the receipt of rental or other contractual payments made by the State. Debt service payable to certain public authorities from State appropriations for such lease-purchase and contractual obligation financings may be paid from general resources of the State or from dedicated tax and other sources (e.g., State personal income taxes, motor vehicle and motor fuel related-taxes, dormitory facility rentals, and patient charges). Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments.

- 46 -



The State has never defaulted on any of its general obligation indebtedness or its obligations under lease purchase or contractual obligation financing arrangements and has never been called upon to make any direct payments pursuant to its guarantees.

*Public Authorities.* The fiscal stability of the State is related in part to the fiscal stability of its public authorities, namely public benefit corporations, created pursuant to State law, other than local authorities. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if certain of its public authorities were to default on their respective obligations, particularly those using State-supported or State-related debt financings. As of December 31, 2008, there were 19 public authorities that had outstanding debt of \$100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was approximately \$140 billion, only a portion of which constitutes State-supported or State-related debt.

*New York City.* The fiscal demands on the State may be affected by the fiscal condition of the New York City (the "City"), which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets.

*Other Localities.* Certain localities outside the City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the Federal government may reduce (or in some cases eliminate) Federal funding of some local programs or disallow certain claims which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that New York City, other localities, or any of their respective public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

*2010-11 Executive Budget.* On January 19, 2010, the Governor presented his Executive Budget for 2010-11 to the Legislature. The Executive Budget Financial Plan (the "Initial Executive Budget Financial Plan" or "Initial Plan") reflected recommendations to eliminate a General Fund budget gap in 2010-11 that was then estimated at approximately \$7.4 billion. The budget gap included an estimated budget shortfall of \$500 million in 2009-10 (the current fiscal year) that was expected to be carried forward into 2010-11.

On February 9, 2010, the Governor submitted amendments to the Executive Budget (together with the Initial Plan, the "Updated Financial Plan"). The Updated Financial Plan reflects the (a) impact of the Governor's amendments and (b)

substantive forecast revisions to the multi-year projections of receipts and disbursements that were set forth in the Initial Plan, based on updated information through January 2010.

The Updated Financial Plan projects that the budget gap that must be addressed in 2010-11 increased by \$750 million to \$8.2 billion. The increase from the Initial Plan was due to downward revisions to the PIT forecast based on January 2010 results, and higher expected spending for Medicaid. The revisions increased the current-year budget shortfall that is expected to be carried into 2010-11 to \$1.4 billion, an increase of \$880 million from the Initial Plan.

The Updated Financial Plan identifies additional gap-closing resources and actions to fully eliminate the additional General Fund gap (including the 2009-10 budget shortfall) and maintain a balanced Executive Budget proposal, as required by law.

The most significant new gap-closing resource is an anticipated six-month extension of a higher Federal Medical Assistance Percentage ("FMAP") for eligible State Medicaid expenditures. On February 1, 2010, President

Obama released his Executive Budget for Fiscal Year 2011. The President's Budget recommends a six-month extension of the temporary increase in the FMAP that was authorized in the American Recovery and Reinvestment Act ("ARRA"). Under the ARRA, the higher FMAP for eligible Medicaid expenditures currently in effect would expire on December 31, 2010. DOB estimates that, if approved, the extension of higher FMAP through June 30, 2011 would provide approximately \$1.1 billion in Financial Plan savings in both the 2010-11 and 2011-12 fiscal years. If the extension of FMAP were not approved, the State would be required to take an additional \$575 million in gap-closing actions, as well as eliminate the resources reserved for fiscal uncertainties.

The Updated Financial Plan would fully eliminate the 2010-11 budget gap of \$8.2 billion (which includes the \$1.4 billion shortfall carried forward from 2009-10), and reduce the projected gap in 2011-12 from \$14.5 billion to \$5.4 billion. The Updated Financial Plan would, if enacted in its entirety:

- Provide over \$8.7 billion in gap-closing actions and resources, which, if approved, would permit the State to set aside nearly \$500 million in resources above what is needed to balance the 2010-11 budget to deal with fiscal uncertainties;
- Reduce spending from the current-services forecast by approximately \$5.0 billion in 2010-11, in both the General Fund and in State Operating Funds;
- Hold spending on all measures at well below the rate of inflation, excluding the impact of payment deferrals that artificially lower spending in 2009-10 and increase it in 2010-11; and
- Maintain the State's rainy day reserves at \$1.2 billion.

The Updated Financial Plan does not advance any proposals to close the budget gaps with deficit borrowing, which would likely have an immediate adverse impact on the State's credit rating and add to the long-term budget imbalance. Under the Updated Financial Plan, the combined four-year gap (2010-11 through 2013-14) is reduced by more than half, declining from \$62 billion to \$28 billion.

Reductions to current-services spending total approximately \$5 billion in the State Operating Funds (\$5.9 billion in the General Fund) and constitute 68% of the Updated Financial Plan. The proposed reductions affect nearly every activity financed by State government, ranging from aid to public schools to agency operations to capital expenditures.

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The Updated Financial Plan includes \$1.2 billion in tax and fee increases. These include a new excise tax on syrup used in soft drinks and other beverages (\$465 million), a franchise fee paid by grocery stores to allow the sale of wine (\$254 million), a \$1 per pack increase in the cigarette tax (\$210 million), and an assessment on health care providers (\$216 million), all of which are earmarked to help pay for existing health care expenses. In addition, audit and compliance activities are expected to increase the tax base by approximately \$221 million annually.

Non-recurring resources, which comprise 7% of the actions proposed in the Updated Financial Plan, total \$565 million. Importantly, this is less than the annual growth in savings achieved by recurring gap-closing actions which grow in value by approximately \$1.4 billion from 2010-11 to 2011-12.<sup>8</sup> As a result, the non-recurring actions will not increase the budget gap in 2011-12.

Anticipated Federal aid accounts for the balance of the Updated Financial Plan.

DOB believes that the Updated Financial Plan would, if enacted in its entirety, provide for balanced operations in the General Fund in 2010-11. The budget gap for 2011-12 would be reduced by more than half, declining from \$14.5 billion to \$5.4 billion. Future budget gaps would total \$10.7 billion in 2012-13 (a reduction of \$7.8 billion from projected current-services levels) and \$12.4 billion in 2013-14 (a reduction of \$8.5 billion from current-services levels).

These budget gaps, which remain relatively high by historical standards even after the substantial reductions recommended in the gap-closing plan, are significantly affected by the expected end of extraordinary

Federal stimulus aid for Medicaid, education, and other governmental purposes. Governor Paterson has asked Lieutenant Governor Ravitch to develop a plan to eliminate the structural imbalance within four years. The Lieutenant Governor has assembled a working group of fiscal experts to develop and evaluate options to help bring the long-term growth in spending in line with receipts.

DOB estimates the State will end 2009-10 with a General Fund balance of \$1.4 billion, including \$1.2 billion in the rainy day reserves. This assumes that the shortfall for 2009-10 is carried forward into 2010-11 and that the DRP actions planned for the current year are achieved in their entirety.

After gap-closing actions, the year-end balance for 2010-11 would total \$1.9 billion, an increase of \$533 million from 2009-10. The State's principal reserve funds are expected to remain unchanged, but approximately \$485 million in additional General Fund resources would be expected to be available if (a) the Executive Budget was enacted in its entirety and (b) the Congress were to approve a six month extension for FMAP at the levels expected in the Updated Financial Plan. In addition, the balance in the Community Projects Fund, which finances discretionary ("member item") grants allocated by the Legislature and Governor, is expected to increase by \$48 million from 2009-10.

*Other New York Risk Factors.* When compared with the average ratings among other states of full faith and credit state debt obligations, the credit risk associated with obligations of the State and its agencies and authorities, including general obligation and revenue bonds, "moral obligation" bonds, lease debt, appropriation debt and notes is somewhat higher than average. Moreover, the credit quality of such obligations may be more volatile insofar as the State's credit rating has historically been upgraded and downgraded much more frequently than most other states.

The combined state and local taxes of residents of the State, and particularly of residents of the City, are among the highest in the country, which may limit the ability of the State and its localities to raise additional revenue. In addition, combined State and local debt per capita in the State is significantly above the national average and debt service expenditures have represented an increasing claim on State and local budgets.

Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial conditions of such issuers. The Fund cannot predict whether or to what extent such factors or other factors may affect the issuers of New York municipal securities, the market value or marketability of such securities or the ability of the respective issuers of such securities acquired by the Fund to pay interest on or principal of such securities. The creditworthiness of obligations issued by local New York issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no responsibility on the part of the State to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within New York, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth above is intended only as a general summary and not a discussion of any specific factors that may affect any particular issuer of New York municipal securities.

Special Considerations Regarding Ohio

The following information constitutes only a brief summary of some of the many complex factors that may have an effect. The information does not apply to “conduit” obligations on which the public issuer itself has no financial responsibility. This information is derived from official statements of certain Ohio issuers published in connection with their issuance of securities and from other publicly available information, and is believed to be accurate. No independent verification has been made of any of the following information.

Generally, the creditworthiness of Ohio Obligations of local issuers is unrelated to that of obligations of the State itself, and the State has no responsibility to make payments on those local obligations.

There may be specific factors that at particular times apply in connection with investment in particular Ohio Obligations or in those obligations of particular Ohio issuers. It is possible that the investment may be in particular Ohio Obligations, or in those of particular issuers, as to which those factors apply. However, the

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information below is intended only as a general summary, and is not intended as a discussion of any specific factors that may affect any particular obligation or issuer.

Much of this information is as of May 1, 2008, particularly debt figures and other statistics.

Ohio is the seventh most populous state. The Census count for 2000 was 11,353,100, up from 10,847,100 in 1990.

While diversifying more into the service and other non-manufacturing areas, the Ohio economy continues to rely in part on durable goods manufacturing largely concentrated in motor vehicles and machinery, including electrical machinery. As a result, general economic activity, as in many other industrially-developed states, tends to be more cyclical than in some other states and in the nation as a whole. Agriculture is an important segment of the economy, with over half the State's area devoted to farming and a significant portion of total employment in agribusiness.

In earlier years, the State's overall unemployment rate was commonly somewhat higher than the national figure. For example, the reported 1990 average monthly State rate was 5.7%, compared to the 5.5% national figure. However, then through 1998 the annual State rates were below the national rates (4.3% vs. 4.5% in 1998), were again slightly higher in 1999 (4.3% vs. 4.2%) and 2000 (4.0% vs. 4.0%), lower in 2001 (4.4% vs. 4.7%) and in 2002 (5.7% vs. 5.8%) and higher in 2003 (6.2% vs. 6.0%), in 2004 (6.1% vs. 5.5%), in 2005 (5.9% vs. 5.1%), in 2006 (5.5% vs. 4.6%) and in 2007 (5.6% vs. 4.6%). In March 2008, the State unemployment rate was higher than the national rate (5.7% vs. 5.1%). The unemployment rate and its effects vary among geographic areas of the State.

There can be no assurance that future national, regional or state-wide economic difficulties, and the resulting impact on State or local government finances generally, will not adversely affect the market value of Ohio Obligations held in the Market Vectors—Ohio Municipal Index ETF or the ability of particular obligors to make timely payments of debt service on (or lease payments relating to) those Obligations.

The State operates on the basis of a fiscal biennium for its appropriations and expenditures, and is effectively precluded by law from ending its July 1 to June 30 Fiscal Year (FY) or fiscal biennium in a deficit position. Most State operations are financed through the General Revenue Fund (GRF), for which the personal income and sales-use taxes are the major sources. Growth and depletion of GRF ending fund balances show a consistent pattern related to national economic conditions, with the ending FY balance reduced during less favorable and increased during more favorable economic periods. The State has well-established procedures for, and has timely taken, necessary actions to ensure resource/expenditure balances during less favorable economic periods such as the current fiscal biennium. Those procedures include general and selected reductions in appropriations spending.

The GRF ending fund balance for Fiscal Year 2007 was \$215,534,000.

Recent biennium ending GRF balances were:

Biennium	Cash Balance	Fund Balance <sup>(a)</sup>	Fund Balance less Designated Transfers <sup>(b)</sup>
1996-97	\$1,367,750,000	\$834,933,000	\$149,033,000
1998-99	1,512,528,000	976,778,000	221,519,000
2000-01	817,069,000	219,414,000	206,310,000
2002-03	396,539,000	52,338,000	52,338,000
2004-05	1,209,200,000	682,632,000	127,800,000
2006-07	1,432,925,000	215,534,000	215,534,000

(a) Reflects the ending cash balance less amounts encumbered to cover financial commitments made prior to the end of the Fiscal Year year.

(b) Reflects the ending fund balance less any amounts designated for transfer to other funds, including the BSF.

Actions have been and may be taken by the State during less favorable economic periods to ensure resource/expenditure balance (particularly in the GRF), some of which are described below. None of those actions were or are being applied to appropriations or expenditures needed for debt service or lease payments relating to any State obligations.



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The appropriations acts for the 2008-09 biennium include all necessary appropriations for debt service on State obligations and for lease payments relating to lease rental obligations issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission.

The following is a selective general discussion of State finances, particularly GRF receipts and expenditures, for recent and the current bienniums.

*1996-97.* From a higher than forecasted mid-biennium GRF fund balance, \$100,000,000 was transferred for elementary and secondary school computer network purposes and \$30,000,000 to a new State transportation infrastructure fund. Approximately \$400,800,000 served as a basis for temporary 1996 personal income tax reductions aggregating that amount. Of the GRF biennium-ending fund balance, \$250,000,000 was directed to school buildings, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, \$34,400,000 to the BSF, and \$262,900,000 to the State Income Tax Reduction Fund (ITRF).

*1998-99.* GRF appropriations of approximately \$36 billion provided for significant increases in funding for primary and secondary education. Of the first Fiscal Year (ended on June 30, 1998) ending fund balance of over \$1.08 billion, approximately \$701,400,000 was transferred to the ITRF, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. Of the GRF biennium-ending fund balance, \$325,700,000 was transferred to school building assistance, \$293,185,000 to the ITRF, \$85,400,000 to SchoolNet (a program to supply computers for classrooms), \$4,600,000 to interactive video distance learning, and \$46,374,000 to the BSF.

*2000-01.* The State's financial situation varied substantially in the 2000-01 biennium. The first Fiscal Year of the biennium ended with a GRF cash balance of \$1,506,211,000 and a fund balance of \$855,845,000. A transfer of \$49,200,000 from that balance increased the BSF to \$1,002,491,000 (or 5% of GRF revenue for the preceding Fiscal Year). An additional \$610,400,000 was transferred to the ITRF.

In the middle of the second year of the biennium, the State enacted supplemental appropriations of \$645,300,000 to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was \$247,600,000, with \$125,000,000 coming from Fiscal Year 2001 GRF spending reductions and the remainder from available GRF moneys. The reductions were implemented by OBM prior to March 1, 2001 applying a 1 to 2% cut to most State departments and agencies. Expressly excluded from the reductions were debt service and lease rental payments relating to State obligations, and elementary and secondary education.

In March 2001, new lowered revenue estimates for Fiscal Year 2001 and for Fiscal Year 2002 and 2003 were announced. Based on indications that the Ohio economy continued to be affected by the national economic downturn, GRF revenue estimates for Fiscal Year 2001 were reduced by \$288,000,000. In addition, OBM projected higher than previously anticipated Medicaid expenditures. Among the more significant steps taken to ensure the positive GRF ending fund balance at June 30, 2001 were further spending reductions (with the same exceptions noted above for debt

service and education) and authorization to transfer from the BSF to the GRF amounts necessary to ensure an ending GRF fund balance of \$188,200,000. The State ended Fiscal Year 2001 with a GRF fund balance of \$219,414,000, making that transfer unnecessary.

*2002-03.* Ongoing and rigorous consideration was given by the Governor and the General Assembly to revenues and expenditures throughout Fiscal Year 2002-03, primarily as a result of continuing weak economic conditions with budgetary pressures during this period primarily due to lower than anticipated levels of receipts from certain major revenue sources.

Consideration came in four general time frames – the June 2001 biennial appropriation act, late fall/early winter 2001, late spring and summer 2002 and late winter/spring 2003. Significant remedial steps included authorization to draw down and use the entire BSF balance, increased cigarette taxes, and use of tobacco settlement moneys previously earmarked for other purposes.

The biennial GRF appropriations act passed in June 2001 provided for biennial GRF expenditures of approximately \$45.1 billion without increases in any major State taxes. That Act and the separate appropriations

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acts for the biennium included all necessary debt service and lease rental payments related to State obligations. That original appropriations act also provided for transfers to the GRF of \$160,000,000 from the BSF and \$100,000,000 from the Family Services Stabilization Fund aimed at achieving Fiscal Year year and biennium ending positive GRF fund balances, based on then current estimates and projections.

The Ohio economy continued to be negatively affected by the national economic downturn and by national and international events, and in October 2001 OBM lowered its GRF revenue estimates and projected GRF revenue shortfalls of \$709,000,000 for Fiscal Year 2002 and \$763,000,000 for Fiscal Year 2003. Executive and legislative actions taken to address those shortfalls included:

Spending reductions and limits on hiring and major purchases. Governor ordered spending reductions were at the annual rate of 6% for most State agencies, with lesser reductions for correctional and other institutional agencies, and with exemptions for debt service related payments, primary and secondary education and the adjutant general.

December 2001 legislation, the more significant aspects of which included authorizing the additional transfer of up to \$248,000,000 from the BSF to the GRF during the current biennium thereby reducing the estimated BSF balance to \$607,000,000; reallocating to the GRF a \$260,000,000 portion of tobacco settlement receipts in Fiscal Year 2002 and 2003; and authorizing Ohio's participation in a multi-state lottery game estimated to generate approximately \$40,000,000 annually beginning in Fiscal Year 2003.

Continuing weak economic conditions and lower than anticipated personal income and corporate franchise tax receipts then led OBM in the spring of 2002 to project higher estimated GRF revenue shortfalls of approximately \$763,000,000 in Fiscal Year 2002 and \$1.15 billion in Fiscal Year 2003. Further executive and legislative actions were taken to ensure positive GRF fund balances for Fiscal Year 2002 and the biennium. In addition to further appropriation reductions for certain departments and other management steps, those actions included legislation providing for: additional transfers to the GRF of the then remaining BSF balance (\$607,000,000) as needed in Fiscal Year 2002 and 2003, and of \$50,800,000 of unclaimed funds; a \$50,000,000 reduction in the Fiscal Year 2002 ending GFR balance to \$100,000,000; increased cigarette tax by 31¢ per pack (to a total of 55¢ per pack) estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003; additional transfers to the GRF of \$345,000,000 from tobacco settlement moneys received in Fiscal Year 2002 and 2003 previously earmarked for construction of elementary and secondary school facilities and replacing the moneys for that purpose with authorized general obligation bonds; and extension of the State income tax to Ohio-based trusts and "decoupling" certain Ohio business taxes from federal tax law economic stimulus changes affecting business equipment depreciation schedules to produce approximately \$283,000,000 in Fiscal Year 2003.

Fiscal Year 2002 ended with positive GRF balances of \$108,306,000 (fund) and \$619,217,000 (cash) based on the remedial steps described above, including transfers of \$289,600,000 from tobacco settlement moneys and \$534,300,000 from the BSF (leaving a Fiscal Year 2002 ending BSF balance \$427,904,000, with that entire balance appropriated for GRF use if needed in Fiscal Year 2003).

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On July 1, 2002, the Governor issued an executive order directing a total of approximately \$375,000,000 in GRF spending cutbacks for Fiscal Year 2003 reflecting prior budget balancing discussions with the General Assembly. Excluded from those department and agency cutbacks ranging up to 15% were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded were debt service and lease rental payments relating to State obligations, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending, OBM in late January 2003 announced an additional Fiscal Year 2003 GRF shortfall of \$720,000,000. The Governor ordered immediate additional reductions in spending intended to generate an estimated \$121,600,000 of GRF savings through the end of the Fiscal Year (expressly excepted were appropriations for or relating to debt service on State obligations).

- 52 -

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The Governor also proposed and the General Assembly enacted by March 1, 2003, the following additional revenue enhancements, transfers and expenditure reductions for Fiscal Year 2003 to achieve a positive GRF fund balance at June 30, 2003 as then estimated by OBM: An additional 2.5% reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated \$30,000,000 savings; transfers of \$56,400,000 to the GRF from unclaimed funds and various rotary funds and a one-month acceleration in sales tax collections by vendors filing electronically, to produce \$286,000,000.

To offset the General Assembly's enactment of legislation that did not include proposed additional taxes on cigarettes and liquor, beer and wine, the Governor on March 25 ordered additional reductions in GRF appropriations spending aggregating \$142.5 million for the balance of Fiscal Year 2003. Included were reductions (generally at an annualized rate of 2.5%) of \$90.6 million in State foundation and parity aid to school districts and an additional \$9.3 million in Department of Education administration spending, \$39.2 million in instructional support to higher education institutions, and other selected reductions totaling \$3.4 million. The Governor also identified approximately \$20 million in excess food stamp administration funds available to offset the need for further expenditure reductions. Expressly excepted from those reductions were appropriations for or relating to debt service on State obligations.

Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2004-05 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2003. Those estimates revised Fiscal Year 2003 revenues downward by an additional \$200,000,000 from OBM's January 2003 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. The Governor and OBM addressed this additional Fiscal Year 2003 revenue shortfall through additional expenditure controls and by drawing upon \$193,030,000 of federal block grant aid made available to the State prior to June 30 under a federal law effective on May 28, 2003.

The State ended the 2002-03 biennium with a GRF fund and cash balances of \$52,338,000 and \$396,539,000, respectively, and a balance in the BSF of \$180,705,000.

Additional appropriations actions during the 2002-03 biennium, affecting most subdivisions and local libraries in the State, relate to the various local government assistance funds. The original appropriations act capped the amount to be distributed in Fiscal Year 2002 and 2003 to essentially the equivalent monthly payment amounts in Fiscal Year 2000 and 2001. Subsequent legislation amended the level to the lesser of those prior Fiscal Year amounts or the amount that would have been distributed under the standard formula.

*2004-05.* The GRF appropriations act for the 2004-05 biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor in June 2003. The Act provided for total GRF biennial revenue of approximately \$48.95 billion and total GRF biennial expenditures of approximately \$48.79 billion. That Act and the separate appropriations acts for the biennium included all necessary debt service and lease-rental payments related to State obligations.

Among other expenditure controls, the Act included Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185% to 150% of the federal poverty level and freezing certain reimbursement rates; no compensation increases for most State employees in Fiscal Year 2004 and limited one-time increases in Fiscal Year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in Fiscal Year 2003 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the 2004-05 biennium reflected and were supported by revenue enhancement actions contained in the Act including:

A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005), projected to generate approximately \$1.25 billion in each Fiscal Year year.

- 53 -

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Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television, projected in the aggregate to produce approximately \$69,000,000 annually. (The inclusion of satellite television in the sales tax base, projected to produce approximately \$36,000,000 annually, is subject to an ongoing legal challenge.)

Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected to produce approximately \$29,000,000 annually.

Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected to produce approximately \$64,000,000 annually.

Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax, projected in the aggregate to produce approximately \$35,000,000 annually.

The Act also authorized and OBM on June 30, 2004 transferred \$234,700,000 of proceeds received from the national tobacco settlement into the GRF. In addition, the Act authorized the draw down during the biennium of federal block grant and Medicaid assistance aid made available to the State under a federal law effective May 28, 2003. OBM drew down \$211,600,000 and \$316,800,000 of those federal monies in Fiscal Years 2004 and 2005, respectively.

Based on regular monitoring of revenues and expenditures, OBM in March 2004 announced revised GRF revenue projections for Fiscal Year Years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. In response to OBM reducing its GRF revenue projection by \$247,100,000 (1.02%) for Fiscal Year Year 2004 and by \$372,700,000 (1.48%) for Fiscal Year Year 2005, the Governor ordered Fiscal Year Year 2004 expenditure reductions of approximately \$100,000,000. On July 1, the Governor ordered additional Fiscal Year Year 2005 expenditure cuts of approximately \$118,000,000 and a reduction of \$50,000,000 in State spending on Medicaid reflecting an increased Federal share of certain Medicaid services. Expressly excluded from those reductions were debt service and lease rental payments relating to State obligations, State basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors and certain job creation programs. The balance of those revenue reductions were offset by GRF expenditure lapses and, for Fiscal Year Year 2005, elimination of an anticipated \$100,000,000 year-end transfer to the BSF while maintaining a one-half percent year-end GRF fund balance.

The State ended Fiscal Year Year 2004 with a GRF fund balance of \$157,509,000. Improving economic conditions had a positive effect on revenue in Fiscal Year 2005. With GRF revenue receipts modestly outperforming estimates for much of the Fiscal Year, OBM in June 2005 increased its GRF revenue estimates by \$470,700,000. Final Fiscal Year 2005 GRF revenue came in \$67,400,000 above that revised estimate. With Fiscal Year 2005 spending close to original estimates, the State made the following Fiscal Year end allocations and transfers: \$60,000,000 to address a prior-year liability in the Temporary Assistance to Needy Families program; \$40,000,000 to a disaster services contingency fund; \$50,000,000 to the State's share of the school facilities construction program; and \$394,200,000 to the BSF. After these and certain smaller transfers, the State ended Fiscal Year 2005 and the biennium with a GRF fund balance of \$127,800,000 and a BSF balance of \$574,205,000.

2006-07. Consistent with State law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the 2006-07 biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2005. That Act provided for total GRF biennial revenue of approximately \$51.5 billion (a 3.8% increase over the 2004-05 biennial revenue) and total GRF biennial appropriations of approximately \$51.3 billion (a 5.0% increase over the 2004-05 – 26 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures were: 5.8% for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 3.4% for higher education; 4.2% for elementary and secondary education; 5.5% for corrections and youth services; and 4.8% for mental health and mental retardation.

- 54 -



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The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The GRF expenditure authorizations for the 2006-07 biennium reflected and were supported by a significant restructuring of major State taxes, including:

- A 21% reduction in State personal income tax rates phased in at 4.2% per year over the 2005 through 2009 tax years.

- Phased elimination of the State corporate franchise tax at a rate of approximately 20% per year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).

- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that phased in over the 2006 through 2010 Fiscal Years. When fully phased in, the CAT will be levied at a rate of 0.26% on gross receipts in excess of \$1,000,000. (The permissibility of the inclusion in the tax base of wholesale and retail food sales for off-premise consumption, projected to produce approximately \$188,000,000 annually once the CAT is fully phased-in, is subject to an ongoing legal challenge.)

- A 5.5% State sales and use tax (decreased from the 6.0% rate for the 2004-05 biennium).

- An increase in the cigarette tax from \$0.55 per pack (of 20 cigarettes) to \$1.25 per pack.

The then Governor signed into law on June 5, 2006 legislation enacted by the General Assembly imposing a limitation on most GRF appropriations commencing with the 2008-09 biennium. This statutory limitation initially uses Fiscal Year 2007 GRF appropriations as a baseline and then applies an annual growth factor of the greater of 3.5% or the sum of the inflation rates and rate of State population change. Every fourth fiscal year thereafter becomes a new base year. GRF appropriations for State debt service payments are expressly excepted from this statutory limitation. This legislation was enacted as an alternative to a proposed "tax and expenditure limitation" (TEL) amendment to the Ohio Constitution that was withdrawn from the November 2006 general election ballot.

The State ended Fiscal Year 2006 with a GRF cash balance of \$1,528,812,000 and a GRF fund balance of \$1,025,967,000. Of that ending GRF fund balance, the State carried forward \$631,933,000 to cover the expected and planned for variance of Fiscal Year 2007 GRF appropriations over estimated revenue, to offset the one-time cost of accelerating the phase-in of reductions in State personal income tax withholding rates, and to maintain 0.5% of Fiscal Year 2007 GRF revenue as an ending fund balance. The remaining \$394,034,000 was deposited into the BSF increasing its balance to \$1,012,289,000 (which includes \$40,045,000 in receipts collected from a broad tax amnesty initiative and deposited in June 2006). The State ended Fiscal Year 2007 with a GRF cash balance of \$1,432,925,000 and a GRF fund balance of \$215,534,000.

*Current Biennium.* Consistent with State law, the Governor's Executive Budget for the 2008-09 biennium was released in March 2007 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2007. Reflecting the continued implementation of the restructuring of State taxes commenced in 2006-07, that Act was based upon then estimated total GRF biennial revenues of approximately \$53.5 billion (a 3.9% increase over the 2006-07 biennial revenue) and total GRF biennial appropriations of approximately \$52.4 billion (a 2.1% increase over the 2006-07 biennial expenditures). Spending increases for major program categories over the 2006-07 actual expenditures were: 2.2% for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 13.2% for higher education; 5.25% for elementary and secondary education; 4.92% for corrections and youth services; and 4.7% for mental health and mental retardation. The Executive Budget and the GRF appropriations Act complied with the law discussed above under 2006-07 limiting appropriations for the 2008-09 biennium. The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

- 55 -

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The original GRF expenditure authorizations for the 2008-09 biennium reflected and were supported by tax law changes contained in the Act, including:

Restructuring nonresident tax exemption for Ohio motor vehicle purchases projected to produce approximately \$54.0 million for the biennium.

Restoring local government fund support by committing a set percent of all tax revenues deposited into the GRF. Local governments will receive 3.7% of total GRF tax revenues annually and local libraries will receive 2.22% of total GRF tax revenues annually.

Eliminating the \$300 per month cigarette and tobacco product importation exemption projected to produce approximately \$25.0 million annually.

The GRF appropriations Act also created the Buckeye Tobacco Settlement Financing Authority to securitize tobacco settlement receipts payable to the State under the November 1998 national tobacco settlement. On October 29, 2007, the Authority issued its \$5.53 billion Tobacco Settlement Asset-Backed Bonds 2007 to fund capital expenditures for higher education (\$938,000,000) and common school (\$4,112,000,000) purposes over three years in lieu of the State issuing GRF-backed general obligation bonds to fund those capital expenditures. The resulting debt service savings to the GRF is funding the expansion of the homestead exemption property tax relief program in the Act. The Act reprograms all prior General Assembly allocations of anticipated tobacco settlement receipts to enable the pledge of 100% of those receipts to the payment of debt service on the Authority's obligations. The State had previously enacted legislation allocating its anticipated share of those receipts through Fiscal Year 2012 and making a partial allocation thereafter through Fiscal Year 2025. Except for Fiscal Years 2002 through 2004, none of the receipts were applied to existing operating programs of the State. (See Recent and Current Finances for a discussion of a portion of those receipts used to offset a portion of GRF revenue shortfalls in Fiscal Years 2002 through 2004). Under those previously enacted allocations, the largest amount was to be applied to elementary and secondary school capital expenditures, with other amounts allocated for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

With the Ohio economy expected to be negatively affected by the national economic downturn, OBM has been closely monitoring the State's major revenue sources (particularly the sales, personal and corporate income taxes) and in January 2008 reduced its original GRF revenue projections by \$172,600,000 for Fiscal Year 2008 and \$385,100,000 for Fiscal Year 2009. Based on those lower GRF revenue estimates and increased costs associated with rising Medicaid caseloads, OBM projected a budgetary shortfall for the current biennium of \$733,000,000.

Executive and legislative actions were taken based on the new OBM estimates, including:

The Governor, on January 31, 2008, issued an executive order directing expenditure reductions and spending controls totaling approximately \$509,100,000 for the biennium as well as limitations on major purchases, hiring and travel, which amount has since been reduced to \$383,800,000 based primarily on the transfers of unspent agency

appropriations and the June 2008 action described below. Allocation of those reductions has been determined by the OBM Director in consultation with the affected agencies and departments, with annual expenditure reductions ranging up to 10%. An employee reduction plan was also announced aimed at reducing the State's workforce by up to 2,700 through selective elimination of positions, attrition, unfilled vacancies and an early retirement incentive program. Expressly excluded from the cutbacks are appropriations for or relating to debt service on State obligations, State higher education instructional support, foundation formula support for primary and secondary education, Medicaid entitlement programs, and ad valorem property tax relief payments.

Transfer of unspent agency appropriations totaling \$120,200,000 in Fiscal Year 2008 and \$78,000,000 in Fiscal Year 2009.

Authorizing expansion of the State-run lottery system to include "keno" games currently projected to generate \$65,000,000 in Fiscal Year 2009.

In June 2008, the General Assembly also passed legislation that provides for, among other things, transfers to the GRF (after a selective line-item veto) of up to \$63,333,000 from the BSF for State's share of increased Medicaid costs, \$55,000,000 from rotary funds and \$25,000,000 in uncommitted interest earnings from proceeds of the State's Tobacco Settlement Asset-Backed Bonds.

Based on the expenditure reductions, spending controls and other measures identified above, OBM is currently projecting a positive GRF fund balance at June 30, 2008 and at the end of the current biennium. As discussed

above, the State is effectively precluded by its Constitution from ending a Fiscal Year or a biennium in a “deficit” position. The Governor and OBM will continue to closely monitor revenues and expenditures and work with the General Assembly to ensure these positive GRF ending fund balances.

In March 2008, in response to the national economic downturn, the Governor proposed a \$1.7 billion economic stimulus plan to stimulate the Ohio economy through investments in logistics and distribution, bio-products and bio-medical research, advanced and renewable energy, local government infrastructure, conservation projects and brownfield revitalization projects. These investments were to be funded primarily through new GRF bond-backed capital appropriations. After extensive hearings and review, the General Assembly in June passed a \$1.57 billion economic stimulus package that mirrored the purposes proposed by the Governor and added funding for higher education workforce programs and expanded the State’s historic preservation tax credits. That legislation reconfigured the sources of funding for the stimulus plan to include in addition to GRF-backed bonds, \$230,000,000 of cash from the Ohio Tobacco Prevention Foundation, \$370,000,000 in GRF operating appropriations to be made over the next five fiscal years, and \$184,000,000 in bonds backed by net profit from the State’s liquor enterprise, and directs the OBM Director to transfer \$200,000,000 from the BSF for funding of certain local government infrastructure road and bridge projects. The Governor line item-vetoed the July 1, 2008 deadline by which the OBM Director must make that BSF transfer, emphasizing GRF budget stabilization as the proper first priority for utilization of BSF moneys and allowing time to explore other funding options for this local government infrastructure portion of the economic stimulus plan. While it is not possible at this time to determine the extent to which this BSF transfer will be needed, the available balance in the BSF would be reduced to \$748,956,000 should this transfer occur in addition to the above \$63,333,000 BSF transfer for increased Medicaid costs.

OBM prepares a financial report summarizing its analyses at the end of each month. The most recent Monthly Financial Reports are accessible via OBM’s home page on the Internet at <http://www.obm.ohio.gov/finrep>, and copies are available upon request to OBM.

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the State Constitution. The State may incur debt to cover casual deficits or to address failures in revenues or to meet expenses not otherwise provided for, but limited in amount to \$750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that “Except the debts above specified no debt whatever shall hereafter be created by, or on behalf of the state.”

By 18 constitutional amendments approved from 1921 to present, Ohio voters have authorized the incurrence of State general obligation (GO) debt and the pledge of taxes or excises to its payment, all related to the financing of capital facilities, except for three that funded bonuses for veterans, one that funded coal technology research and development, and one for research and development activities. Currently, tax supported general obligation debt of the State is authorized to be incurred for the following purposes: highways, local infrastructure, coal development, natural resources, higher education, common schools, conservation, research and development, and site development. Although supported by the general obligation pledge, highway debt is also backed by a pledge of and has always been paid from the State’s motor fuel taxes and other highway user receipts that are constitutionally restricted in use to highway related purposes.

A 1999 constitutional amendment provides an annual debt service “cap” applicable to most future issuances of State general obligations and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, and except for the additional \$650,000,000 of general obligation debt approved by the voters at the November 8, 2005 election for research and development and the development of sites and facilities, new obligations may not be issued if future Fiscal Year debt service on those new and the then outstanding obligations of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Those direct obligations of the State include, for example, special obligation bonds that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts. Pursuant to the amendment and implementing legislation, the Governor has designated the OBM Director as the State official to make the 5% determinations and certifications. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments.

- 57 -

In addition to its issuance of highway bonds, the State has financed selected highway infrastructure projects by issuing bonds and entering into agreements that call for debt service payments to be made from federal transportation funds allocated to the State, subject to biennial appropriations by the General Assembly. The highest annual State payment under those agreements in the current or any future Fiscal Year is \$114,535,618 in Fiscal Year 2009. In the event of any insufficiency in the anticipated federal allocations to make payments on State bonds, the payments are to be made from any lawfully available moneys appropriated to ODOT for the purpose.

State agencies also have participated in buildings and equipment, information systems and non-highway transportation projects that have local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of Participation (COPs) have been issued in connection with those agreements that represent fractionalized interests in and are payable from the State's anticipated payments. Including the Series 2008 Certificates, the maximum annual payment under those agreements from GRF appropriations is \$25,370,759 in Fiscal Year 2017 and the total GRF-supported principal amount outstanding is \$212,450,000. Payments by the State are subject to biennial appropriations by the General Assembly with the lease terms subject to renewal if appropriations are made. The OBM Director's approval of such agreements is required if COPs are to be publicly-offered in connection with those agreements.

A statewide economic development program assists the financing of facilities and equipment for industry, commerce, research and distribution, including technology innovation, by providing loans and loan guarantees. The law authorizes the issuance of State bonds and notes secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these obligations with a maximum of \$630,000,000 to be outstanding at any one time, of which not more than \$84,000,000 may be issued for eligible advanced energy projects and not more than \$100,000,000 may be issued for eligible logistics and distribution projects. The aggregate amount of net liquor profit to be used in any Fiscal Year in connection with these bonds may not exceed \$63,000,000. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$800,000,000. Pursuant to a 2000 constitutional amendment the State has issued \$150,000,000 of bonds for revitalization purposes that are also payable from State liquor profits. The maximum annual debt service on all state bonds payable from State liquor profits is \$45,323,257 in Fiscal Year 2009.

Certain State agencies issue revenue bonds that are payable from revenues from or relating to revenue producing facilities, such as those issued by the Ohio Turnpike Commission. By judicial interpretation, such revenue bonds do not constitute "debt" under the constitutional provisions described above. The Constitution authorizes State bonds for certain housing purposes (issued by the Ohio Housing Finance Agency) to which tax moneys may not be obligated or pledged.

Litigation was commenced in the Ohio courts in 1991 questioning the constitutionality of Ohio's system of school funding and compliance with the constitutional requirement that the State provide a "thorough and efficient system of common schools." On December 11, 2002, the Ohio Supreme Court, in a 4-3 decision on a motion to reconsider its own decision rendered in September 2001, concluded (as it had in its 1997 and 2000 opinions in that litigation) that the State did not comply with that requirement, even after again noting and crediting significant State steps in recent years.

In its prior decisions, the Ohio Supreme Court stated as general base threshold requirements that every school district have enough funds to operate, an ample number of teachers, sound and safe buildings, and equipment sufficient for all students to be afforded an educational opportunity.

With particular respect to funding sources, the Court concluded in 1997 and 2000 decisions that property taxes no longer may be the primary means of school funding in Ohio.

On March 4, 2003, the plaintiffs filed with the original trial court a motion to schedule and conduct a conference to address compliance with the orders of the court in that case, the State petitioned the Ohio Supreme Court to issue a writ prohibiting that conference on compliance, and the trial court subsequently petitioned the Ohio Supreme Court for guidance as to the proper course to follow. On May 16, 2003, the Ohio Supreme Court granted that writ and ordered the dismissal of the motion before the trial court. On October 20, 2003 the United States Supreme Court declined to accept the plaintiffs' subsequent petition requesting further review of the case.



The General Assembly has taken several steps, including significantly increasing State funding for public schools. In addition, at the November 1999 election electors approved a constitutional amendment authorizing the issuance of State general obligation debt for school buildings and for higher education facilities. December 2000 legislation addressed certain mandated programs and reserves, characterized by the plaintiffs and the Court as “unfunded mandates.”

Under the current financial structure, Ohio’s 613 public school districts and 49 joint vocational school districts receive a major portion (but less than 50%) of their operating moneys from State subsidy appropriations (the primary portion of which is known as the Foundation Program) distributed in accordance with statutory formulae that take into account both local needs and local taxing capacity. The Foundation Program amounts have steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase (without further vote of the local electorate) in voted property tax collections that would otherwise result from increased assessed valuations, some school districts have expressed varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements.

The State’s present school subsidy formulas are structured to encourage both program quality and local taxing effort. Until the late 1970’s, although there were some temporary school closings, most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures. For more than 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which in any case are prohibited by current law.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates (and effective July 1, 2005, municipal income taxes that may be shared with school districts). Many districts have submitted the question, and income taxes are currently approved in 145 districts.

Original State basic aid appropriations for the 1992-93 biennium of \$9.5 billion provided for 1.5% and 4.8% increases in the two Fiscal Years of the biennium over appropriations in the preceding biennium which were subject to State spending reductions for Fiscal Year 1992 of 2.5% of annual Foundation Program appropriations. There were no reductions for the 172 districts with the lowest per pupil tax valuations, and the reductions were in varying amounts with varying effects for the other districts. Foundation payments were excluded from the then Governor’s spending reduction order for Fiscal Year 1993.

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Biennial school funding State appropriations from the GRF and Lottery Profits Education Fund (but excluding federal and other special revenue funds) for recent biennia were:

- 1996-97 – \$10.1 billion representing a 13.6% increase over the preceding biennium total.
- 1998-99 – \$11.6 billion (18.3% over the previous biennium).
- 2000-01 – \$13.3 billion (15% over the previous biennium).
- 2002-03 – \$15.2 billion (17% over the previous biennium before the expenditure reductions).
- 2004-05 – \$15.7 billion (3.3% over the previous biennium before the expenditure reductions).
- 2006-07 – \$16.4 billion (4.5% over the previous biennium before the expenditure reductions).

- 59 -

State appropriations for the purpose made for the 2008-09 biennium are \$17.2 billion (4.9% over the previous biennium), representing an increase of 1.7% in Fiscal Year 2008 over 2007 and 3.8% in Fiscal Year 2009 over 2008.

Those total State 2008-09 biennial appropriations exclude non-GRF and federal appropriations, but include appropriations from the GRF and the lottery profits education fund (LPEF). The amount of lottery profits transferred to the LPEF totaled \$648,106,000 in Fiscal Year 2004, \$645,137,000 in Fiscal Year 2005, \$646,276,000 in Fiscal Year 2006 (which excludes \$5,820,000 transferred to the Deferred Prize Trust Fund) and \$669,327,000 in Fiscal Year 2007. Ohio's participation in the multi-state lottery commenced in May 2002. A constitutional provision requires that net lottery profits be paid into LPEF to be used solely for the support of elementary, secondary, vocational and special education purposes, including application to debt service on general obligation bonds to finance common school facilities.

In response to the 1997 Ohio Supreme Court decision holding certain provisions for local school district borrowing unconstitutional, the General Assembly created the school district solvency assistance program. Beginning in Fiscal Year 1999, local school districts in fiscal emergency status as certified by the Auditor of State could apply for an advancement of future year Foundation Program distributions. The amount advanced was then deducted, interest free, from the district's foundation payments over the following two-year period. Six school districts received a total of approximately \$12,100,000 in solvency assistance advancements during Fiscal Year 1999, with another six districts receiving a total of approximately \$8,657,000 in Fiscal Year 2000. This solvency assistance program was held to be not in compliance with the Constitution by the Supreme Court. In Fiscal Year 2001 four districts received approximately \$3,800,000 under a restructured solvency assistance program. The program was further modified in December 2000 to allow districts that experience an unforeseen catastrophic event to apply for a grant. In Fiscal Year 2006, no districts received catastrophic grants and one district received a solvency advance in the amount of \$41,000. In Fiscal Year 2007, two districts received solvency advances in the amount of \$16,937,000 and no district received catastrophic grants.

Legislation was enacted in 1996 to address school districts in financial straits. It is similar to that for municipal "fiscal emergencies" and "fiscal watch", but is particularly tailored to certain school districts and their then existing or potential fiscal problems. There are currently seven school districts in fiscal emergency status and ten in fiscal watch status. New legislation has created a third, more preliminary, category of "fiscal caution." A current listing of school districts in each status is on the Internet at <http://www.auditor.state.oh.us>.

Ohio's 943 incorporated cities and villages rely primarily on property and municipal income taxes to finance their operations. With other subdivisions, they also receive local government support and property tax relief moneys from State resources.

Federal courts have ruled that the State shared joint liability with the local school districts for segregation in Cincinnati, Cleveland, Columbus, Dayton and Lorain. Subsequent trial court orders directed that some remedial costs be shared by the State and the respective local districts. For that purpose, recent appropriations, decreasing in each biennium were \$100,800,000 in 1998-99, \$23,700,000 in 2000-01, and \$1,000,000 in 2002-03. All cases were settled prior to the end of Fiscal Year 2003 and there is no further State liability.

For those few municipalities and school districts that on occasion have faced significant financial problems, there are statutory procedures for a commission composed of State and local officials, and private sector members experienced in business and finance appointed by the Governor to monitor the fiscal affairs and for development of a financial plan to eliminate deficits and cure any defaults. (Similar procedures have recently been extended to counties and townships.) Thirteen municipalities and two townships are in “fiscal emergency” status and six municipalities in preliminary “fiscal watch” status.

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy without a vote or charter provision to 10 mills per \$1 of assessed valuation — commonly referred to in the context of Ohio local government finance as the “ten-mill limitation.”

- 60 -

Special Considerations Regarding Pennsylvania

This section briefly describes current economic trends in Pennsylvania, as described in the Preliminary Official Statement, dated May 9, 2008, relating to the Commonwealth of Pennsylvania General Obligation Bonds, First Series of 2008 and First Refunding Series of 2008.

Pennsylvania has historically been dependent on heavy industry, although the past thirty years have witnessed declines in the coal, steel and railroad industries. Recent sources of economic growth in Pennsylvania have led to diversification of the Commonwealth's economy. Relative growth has been experienced in the service sector, including trade, medical and health services, education and financial institutions. Agriculture continues to be an important component of the Commonwealth's economic structure, with nearly one-third of the Commonwealth's total land area devoted to cropland, pasture and farm woodlands.

The population of Pennsylvania experienced a slight increase in the period 1998 through 2007. Persons 65 or older comprise 15.1% of Pennsylvania's population, compared with 12.7% of the United States population. The Commonwealth is highly urbanized, with 79% of the Commonwealth's 2007 mid-year population estimate residing in metropolitan statistical areas. The two largest metropolitan statistical areas, those containing the Cities of Philadelphia and Pittsburgh, together comprise almost 44% of the Commonwealth's total population.

The Commonwealth utilizes the fund method of accounting, and over 150 funds have been established for purposes of recording receipts and disbursements of the Commonwealth, of which the General Fund is the largest. Most of the Commonwealth's operating and administrative expenses are payable from the General Fund. The major tax sources for the General Fund are the sales tax, the personal income tax, the corporate net income tax and the capital stock and franchise tax. Major expenditures of the Commonwealth include funding for education, public health and welfare and transportation.

The constitution of the Commonwealth provides that operating budget appropriations of the Commonwealth may not exceed the actual and estimated revenues and available surplus in the fiscal year for which funds are appropriated. Annual budgets are enacted for the General Fund (the principal operating fund of the Commonwealth) and for certain special revenue funds which together represent the majority of expenditures of the Commonwealth.

The following financial information is based on the Commonwealth's budgetary basis financial data.

During fiscal year 2006, revenues to the Commonwealth exceeded the certified estimate by \$864.6 million or nearly 3.5 percent. Final Commonwealth General Fund revenues for the fiscal year totaled \$25,854.1 million.

Total fiscal year 2006 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled \$25,700.9 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, was \$25,380.3 million. As result of Commonwealth financial operations during the fiscal year, the preliminary unappropriated surplus balance, prior to the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund, increased to \$685.4 million, including the beginning balance from the prior year of operations. Accordingly, 25 percent of this preliminary balance or \$171.4 million was transferred to the Budget Stabilization Reserve Fund. The final fiscal year 2006 unappropriated surplus balance was \$514.1 million as of June 30, 2006.

Revenues available to the Commonwealth, including intergovernmental transfers and additional sources, increased 5.3 percent. Fiscal year 2006 revenues (all sources) totaled \$25,700.9 million, an increase of \$1,295.3 million over fiscal year 2005. Intergovernmental transfer proceeds increased \$3,819 million or 5.5 percent, while funding from additional sources decreased \$253.3 million or 63 percent, primarily due to the expiration of the previously available one-time federal fiscal relief that had been made available to the various states. General Fund revenues grew \$1,563 million or 6.3 percent during fiscal year 2006 when measured on a year-over-year basis. Corporate tax receipts grew \$425.8 million over estimate, an 8.9 percent surplus to the year-to-date estimate. Personal income taxes were \$342.6 million over the estimate, a surplus of 3.7 percent versus the year-to-date estimate. Sales and use taxes were essentially at estimate as actual receipts were \$65.2 million above estimate, a

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difference of 0.8 percent from the fiscal year estimate. Realty transfer tax revenues also exceeded the estimate by \$61.4 million or 12.5 percent based in part on continuation of a strong housing market within the Commonwealth. Non-tax revenues of the Commonwealth were below estimate for fiscal year 2006 by \$61.4 million or 11.3 percent, due primarily to lower than projected earnings from the Commonwealth's escheats program. Reserves for tax refunds in fiscal year 2006 were \$1,035 million, an increase of 3.5 percent from the fiscal year 2005 reserves. At the end of fiscal year 2006, approximately \$103 million of reserves were available for making tax refunds in the following fiscal year.

In July 2005, the General Assembly approved and the Governor signed into law Act 45 of 2005, which authorized the issuance of up to \$625 million in debt of the Commonwealth to support programs commonly referred to as "Growing Greener II." The enactment of Act 45 implements the Governor's major environmental initiative in the fiscal year 2006 budget. The Growing Greener II program will provide bond funding for the maintenance and protection of the environment, open space and farmland preservation, watershed protection, abandoned mine reclamation, acid mine drainage remediation and other environmental initiatives. Additionally, Act 45 of 2005 authorizes the Governor to direct up to \$60 million in existing Growing Greener fees, that are otherwise directed into the Commonwealth's Environmental Stewardship Fund, to support General Fund debt service for the authorized Growing Greener II bond issuances.

Fiscal year 2006 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled \$24,664.6, an increase of 7.4 percent from fiscal year 2005 expenditures. A total of \$181.8 million in appropriations were lapsed in fiscal year 2006, and the fiscal year 2006 budget continued to utilize an enhanced level of intergovernmental transfers for a portion of medical assistance costs. Intergovernmental transfers replaced \$735.7 million of General Fund medical assistance costs in fiscal year 2006, compared to \$697.9 million in fiscal year 2005. In addition, approximately \$145.9 million in additional funds were appropriated in fiscal year 2006 to fund expenditures normally funded from Commonwealth revenues, a decrease from \$399 million in fiscal year 2005. The ending unappropriated balance was \$514.1 million for fiscal year 2006.

General fund revenues of the Commonwealth exceeded the certified estimate by \$649.6 million or 2.4 percent during fiscal year 2007. Final Commonwealth General Fund revenues for the fiscal year totaled \$27,449.1 million. Total fiscal year 2007 revenues, net of reserves for tax refunds and including intergovernmental transfers and additional resources, totaled \$27,193.7 million. Total expenditures, net of appropriation lapses and including intergovernmental transfers and expenditures from additional sources, were \$27,007.9 million. As a result of Commonwealth financial operations during the fiscal year, the preliminary unappropriated surplus balance, prior to the statutorily required 25 percent transfer to the Budget Stabilization Reserve Fund, increased to \$707.9 million, including the beginning balance from the prior year of operations. Accordingly, 25 percent of this preliminary balance or \$176.9 million was transferred to the Budget Stabilization Reserve Fund. The final fiscal year 2007 unappropriated surplus was \$530.9 million as of June 30, 2007.

Revenues available to the Commonwealth, including intergovernmental transfers and additional sources, increased 5.8 percent. Fiscal year 2007 revenues (all sources) totaled \$27,193.7 million, an increase of \$1,492.8 million over fiscal year 2006. Intergovernmental transfer proceeds decreased \$199 million or 27 percent, primarily due to the continued phase-out of intergovernmental transfers. Funding from additional sources increased \$111.8 million or 76 percent, primarily due to increased transfers from other state funds. General Fund revenues grew \$1,595 million or 6.2 percent

during fiscal year 2007 when measured on a year-over-year basis. Corporate tax receipts were \$286.2 million, or 5.6 percent over estimate for the fiscal year. Year-over-year growth in corporate taxes were 5.6 percent during fiscal year 2007 as corporate net income tax collections grew 8.3 percent and gross receipts tax collections grew 12.4 percent but receipts from the capital stock and franchise tax declined 7.5 percent on a year-over-year basis. The decline in capital stock and franchise tax receipts was due to the continued phase-out of this tax. Personal income taxes were \$301.6 million over the estimate, a surplus of 3.0 percent versus the year-to-date estimate, while year-over year growth in personal income tax receipts was 7.7 percent. Sales and use taxes were essentially at estimate as actual receipts were \$14.9 million below estimate, a difference of 0.17 percent from the fiscal year estimate. Sales tax collections grew 3.1 percent during fiscal year 2007. A softening in the housing market led to realty transfer tax revenues growing by only 3.4 percent during fiscal year 2007. Non-tax revenues of the Commonwealth grew by 58 percent during the fiscal year, led by increased liquor store profits and earnings on the investment of Commonwealth funds. Reserves for tax refunds in fiscal year 2007 were

- 62 -



\$1,050 million, an increase of 1.4 percent from the fiscal year 2006 reserves. At the end of fiscal year 2006, approximately \$114 million of reserves were available for making tax refunds in the following fiscal year.

Fiscal year 2007 appropriations from Commonwealth revenues, including supplemental appropriations and net of appropriation lapses, totaled \$26,298.1 million, an increase of 6.6 percent from fiscal year 2006 expenditures. A total of \$105.4 million in appropriations were lapsed in fiscal year 2007, and the fiscal year 2007 budget contained a slightly reduced level of intergovernmental transfers for a portion of medical assistance costs. Intergovernmental transfers replaced \$536.7 million of General Fund medical assistance costs in fiscal year 2007, compared to \$735.7 million in fiscal year 2006, a decrease of 27 percent. In addition, approximately \$257.7 million in additional funds were appropriated in fiscal year 2007 to fund expenditures normally funded from Commonwealth revenues, an increase from \$145.9 million in fiscal year 2006. The ending unappropriated balance was \$530.9 million for fiscal year 2007.

The adopted fiscal year 2008 budget provides appropriations and executive authorizations totaling \$27,195.7 million of Commonwealth funds against estimated revenues, net of tax refunds and proposed tax reductions, of \$27,118.1 million. The \$77.6 million difference between estimated revenues and budgeted appropriations is expected to be funded by a draw down of the \$530.9 million beginning – 36 balance. The year ending unappropriated balance is currently estimated to be \$400.0 million for fiscal year 2008.

The fiscal year 2008 revenue estimate for the Commonwealth is based upon an economic forecast of 2.4 percent growth in gross domestic product from the start of the third quarter of 2007 to the end of the second quarter of 2008. Trends in the Commonwealth's economy are expected to maintain their close association with national economic trends. Personal income growth in Pennsylvania is projected to remain slightly below that of the United States, while the Pennsylvania unemployment rate is anticipated to be close to the national rate. The tax revenue component of Commonwealth General Fund receipts is expected to increase by \$435 million or approximately 1.2 percent prior to reserves for funds. The below average growth that is projected for fiscal year 2008 tax revenue is attributable to several legislative changes affecting certain tax receipts. The continued phase-out of the capital stock and franchise tax led to a reduction in fiscal year 2008 projected receipts by approximately \$241 million. Further, Act 44, which was enacted on July 18, 2007, altered the funding of public mass transit systems in the Commonwealth. Act 44 dedicates 4.4 percent of all sales and use tax receipts and transfers these funds to the newly created Public Transportation Trust Fund. It is estimated that \$321 million in sales tax receipts that formerly were deposited into the General Fund will now be deposited into the Public Transportation Trust Fund. Finally, the enacted budget for fiscal year 2008 provided miscellaneous tax reductions totaling \$63 million. Fiscal year 2008 Commonwealth revenues from the personal income tax are forecasted to increase by 4.8 percent, while receipts from the sales and use tax and the corporate net income tax are estimated to decrease by 0.7 and 0.6 percent respectively. Projected decreases in these two taxes are the result of the aforementioned legislative changes recently enacted.

A proposed fiscal year 2009 budget was submitted by the Governor to the General Assembly on February 5, 2008. The proposed budget recommends appropriations totaling \$28,336.8 million of Commonwealth funds against estimated revenues, net of tax refunds and proposed tax reductions, of \$27,939.6 million. The \$397.2 million difference between estimated revenues and recommended appropriations is to be funded by a draw down of the anticipated \$400.0 million beginning balance. The fiscal year 2009 proposed budget represents a 4.2 percent (\$1,141.1 million) increase over the fiscal year 2008 budget. More than forty percent of the year-over-year increase in

appropriations (\$476 million) would be dedicated to increased education funding. The proposed budget reduces spending by 2.1 percent in all areas other than education, welfare, corrections and probation and parole. The proposed fiscal year 2009 budget includes the beginning of property tax cuts for all Pennsylvania homeowners, which are funded from the proceeds of expanded gaming in the Commonwealth. In February 2008, the Pennsylvania General Assembly began appropriations committee hearings for the fiscal year 2009 budget. Further legislative debate is anticipated before both houses adopt the General Appropriation Bill.

The achievement of the budgeted results may be adversely affected by a number of trends or events, including developments in the national and state economy.

General obligation debt of the Commonwealth outstanding as of June 30, 2007 totaled approximately \$7.83 billion.

- 63 -

The Commonwealth maintains two contributory benefit pension plans. The State Employees' Retirement System ("SERS") covers all state employees and employees of certain state-related organizations. The Public School Employees' Retirement System ("PSERS") covers all public school employees. Membership in the applicable retirement system is generally mandatory for the covered employees. Employers and employees contribute jointly to these retirement programs. Annual actuarial valuations are required by state law. The employer's contribution rate is computed to fully amortize the unfunded actuarial accrued liability of the respective plan as determined by its actuary. The unfunded actuarial accrued liability measures the present value of benefits estimated to be due in the future for current employees based on assumptions relating to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits based on assumptions of normal cost, supplemental annuity amortization, and employer and member contributions. At the close of fiscal year 2003, the unfunded actuarial accrued liability was (\$1,286) million for SERS and (\$1,543) million for PSERS. At the close of fiscal year 2006, the unfunded actuarial accrued liability for SERS was \$2,216 million and for PSERS was \$12,163 million.

Certain litigation is pending against the Commonwealth that could adversely affect the ability of the Commonwealth to pay debt service on its obligations, including the following:

In 1978, the General Assembly approved a limited waiver of sovereign immunity. Damages for any loss are limited to \$250,000 for each person and \$1,000,000 for each – 37 accident. The Supreme Court of Pennsylvania has held that this limitation is constitutional. Approximately 3,150 suits against the Commonwealth remain open. The Commonwealth also represents and indemnifies employees who have been sued under federal civil rights statutes for actions taken in good faith in carrying out their employment responsibilities.

In 1987, the Supreme Court of Pennsylvania held that the statutory scheme for county funding of the judicial system is in conflict with the Pennsylvania Constitution, but stayed its judgment to afford the General Assembly an opportunity to enact appropriate funding legislation consistent with its opinion and ordered that the prior system of county funding shall remain in place until this is done.

Dozens of cases have been brought challenging the Department of Revenue's assessment of insurance companies to provide funds to provide the funds due to Pennsylvania residents insured by insurance companies which have become insolvent or are otherwise in default to their insureds.

A civil rights action brought against two state troopers for the shooting of a twelve year-old boy.

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created by Commonwealth legislation in 1991 to assist the City of Philadelphia, the Commonwealth's largest city, in remedying its fiscal emergencies. PICA is authorized to provide assistance through the issuance of funding debt and to make factual findings and recommendations to Philadelphia concerning its budgetary and fiscal affairs. This financial assistance has included grants used by the City for defeasance of certain City general obligation bonds, funding of capital projects and the liquidation of the cumulative general fund balance deficit of the City of Philadelphia as of June 30, 1992, of \$224.9 million. At this time, Philadelphia is operating under a five-year fiscal plan approved by PICA on July 26, 2007.

No further bonds may be issued by PICA for the purpose of either financing capital projects or a deficit, as the authority for such bond issuance expired December 31, 1994. PICA's authority to issue debt for the purpose of financing a cash flow deficit expired on December 31, 1995. Its ability to refund existing outstanding debt is

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unrestricted. PICA had \$622.5 million in special tax revenue bonds outstanding as of June 30, 2007. Neither the taxing power nor the credit of the Commonwealth is pledged to pay debt service on PICA's bonds.

As reported on bloomberg.com, as of May 20, 2008, Moody's rated the long-term general obligation bonds of the Commonwealth "Aa2," Standard & Poor's rated such bonds "AA" and Fitch rated such bonds "AA." There can be no assurance that the economic conditions on which these ratings are based will continue or that particular bond issues may not be adversely affected by changes in economic or political conditions.

- 64 -

## Tax Risks

As with any investment, you should consider how your investment in Shares of a Fund will be taxed. The tax information in the Prospectus and SAI is provided as general information. You should consult your own tax professional about the tax consequences of an investment in Shares of a Fund.

There is no guarantee that a Fund's income will be exempt from federal or state income taxes. Events occurring after the date of issuance of a municipal bond or after a Fund's acquisition of a municipal bond may result in a determination that interest on that bond is includible in gross income for U.S. federal income tax purposes retroactively to its date of issuance. Such a determination may cause a portion of prior distributions by a Fund to its shareholders to be taxable to those shareholders in the year of receipt. Federal or state changes in income or alternative minimum tax rates or in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to lose value.

## Municipal Market Disruption Risk

The value of municipal securities may be affected by uncertainties in the municipal market related to legislation or litigation involving the taxation of municipal securities or the rights of municipal securities holders in the event of a bankruptcy. Proposals to restrict or eliminate the federal income tax exemption for interest on municipal securities are introduced before Congress from time to time. Proposals also may be introduced before state legislatures that would affect the state tax treatment of a municipal fund's distributions. If such proposals were enacted, the availability of municipal securities and the value of a municipal fund's holdings would be affected. Municipal bankruptcies are relatively rare, and certain provisions of the U.S. Bankruptcy Code governing such bankruptcies are unclear and remain untested. Further, the application of state law to municipal issuers could produce varying results among the states or among municipal securities issuers within a state. These legal uncertainties could affect the municipal securities market generally, certain specific segments of the market, or the relative credit quality of particular securities. There is also the possibility that as a result of litigation or other conditions, the power or ability of issuers to meet their obligations for the payment of interest and principal on their municipal securities may be materially affected or their obligations may be found to be invalid or unenforceable. Such litigation or conditions may from time to time have the effect of introducing uncertainties in the market for municipal securities or certain segments thereof, or of materially affecting the credit risk with respect to particular bonds. Adverse economic, business, legal or political developments might affect all or a substantial portion of the Funds' municipal securities in the same manner. Any of these effects could have a significant impact on the prices of some or all of the municipal securities held by a Fund.

## U.S. Federal Tax Treatment of Futures Contracts

Each Fund may be required for federal income tax purposes to mark-to-market and recognize as income for each taxable year their net unrealized gains and losses on certain futures contracts as of the end of the year as well as those

actually realized during the year. Gain or loss from futures contracts required to be marked-to-market will be 60% long-term and 40% short-term capital gain or loss. Application of this rule may alter the timing and character of distributions to shareholders. Each Fund may be required to defer the recognition of losses on futures contracts to the extent of any unrecognized gains on related positions held by the Fund.

In order for a Fund to continue to qualify for U.S. federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income, *i.e.*, dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Fund's business of investing in securities. It is anticipated that any net gain realized from the closing out of futures contracts will be considered gain from the sale of securities and therefore will be qualifying income for purposes of the 90% requirement.

Each Fund distributes to shareholders annually any net capital gains which have been recognized for U.S. federal income tax purposes (including unrealized gains at the end of the Fund's fiscal year) on futures transactions. Such distributions are combined with distributions of capital gains realized on each Fund's other investments and shareholders are advised on the nature of the distributions.

## EXCHANGE LISTING AND TRADING

A discussion of exchange listing and trading matters associated with an investment in each Fund is contained in each Fund's Prospectus under the headings "Summary Information—Principal Risks of Investing in the Fund" with respect to the applicable Fund, "Additional Information About the Funds' Investment Strategies and Risks—Risks of Investing in the Funds," "Shareholder Information—Determination of NAV" and "Shareholder Information—Buying and Selling Exchange-Traded Shares." The discussion below supplements, and should be read in conjunction with, such sections of the Funds' Prospectus.

The Funds anticipate that their Shares will be traded in the secondary market at prices that may differ to some degree from their NAV. The Exchange may but is not required to remove the Shares of the Funds from listing if: (1) following the initial twelve-month period beginning upon the commencement of trading of the Funds, there are fewer than 50 beneficial holders of the Shares for 30 or more consecutive trading days, (2) the value of each Fund's respective Index or portfolio of securities on which a Fund is based is no longer calculated or available or (3) such other event shall occur or condition exists that, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable. In addition, the Exchange will remove the Shares from listing and trading upon termination of the Trust. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of Shares of the Funds will continue to be met.

As in the case of other securities traded on the Exchange, brokers' commissions on transactions will be based on negotiated commission rates at customary levels.

In order to provide investors with a basis to gauge whether the market price of the Shares on the Exchange is approximately consistent with the current value of the assets of a Fund on a per Share basis, an updated Intra-Day Optimized Portfolio Value is disseminated intra-day through the facilities of the Consolidated Tape Association's Network B Intra-Day Optimized Portfolio Values are disseminated every 15 seconds during regular Exchange trading hours based on the most recently reported prices of Fund Securities. The Funds are not involved in or responsible for the calculation or dissemination of the Intra-Day Optimized Portfolio Value and make no warranty as to the accuracy of the Intra-Day Optimized Portfolio Value.

The Intra-Day Optimized Portfolio Value has a net other assets value component, each of which are summed and divided by the total estimated Fund Shares outstanding, including Shares expected to be issued by each Fund on that day, to arrive at an Intra-Day Optimized Portfolio Value. The net other assets value component consists of estimates of all other assets and liabilities of a Fund including, among others, current day estimates of interest income and expense accruals.

## BOARD OF TRUSTEES OF THE TRUST

Trustees and Officers of the Trust

The Board of the Trust consists of five Trustees, four of whom are not “interested persons” (as defined in the 1940 Act), of the Trust (the “Independent Trustees”). Mr. David H. Chow, an Independent Trustee, serves as Chairman of the Board. The Board is responsible for overseeing the management and operations of the Trust, including general supervision of the duties performed by the Adviser and other service providers to the Trust. The Adviser is responsible for the day-to-day administration and business affairs of the Trust.

The Board believes that each Trustee’s experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees lead to the conclusion that the Board possesses the requisite skills and attributes to carry out its oversight responsibilities with respect to the Trust. The Board believes that the Trustees’ ability to review, critically evaluate, question and discuss information provided to them, to interact effectively with the Adviser, other service providers, counsel and independent auditors, and to exercise effective business judgment in the performance of their duties, support this conclusion. The Board also has considered the following experience, qualifications, attributes and/or skills, among others, of its members in reaching its conclusion: such person’s character and integrity; length of service as a board member of the Trust; such person’s willingness to serve and willingness and ability to commit the time necessary to perform the duties of a Trustee; and



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as to each Trustee other than Mr. van Eck, his status as not being an “interested person” (as defined in the 1940 Act) of the Trust. In addition, the following specific experience, qualifications, attributes and/or skills apply as to each Trustee: Mr. Chow, significant business and financial experience, particularly in the investment management industry, experience with trading and markets through his involvement with the Pacific Stock Exchange, and service as a chief executive officer, board member, partner or executive officer of various businesses and non-profit organizations; Mr. Short, business and financial experience, particularly in the investment management industry, and service as a president, board member or executive officer of various businesses; Mr. Sidebottom, business and financial experience, particularly in the investment management industry, and service as partner and/or executive officer of various businesses; Mr. Stamberger, business and financial experience and service as the president and chief executive officer of SmartBrief Inc., a media company; and Mr. van Eck, business and financial experience, particularly in the investment management industry, and service as a president, executive officer and/or board member of various businesses, including the Adviser, Van Eck Securities Corporation, and Van Eck Absolute Return Advisers Corporation. References to the experience, qualifications, attributes and skills of Trustees are pursuant to requirements of the SEC, do not constitute holding out of the Board or any Trustee as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

The Trustees of the Trust, their addresses, positions with the Trust, ages, term of office and length of time served, principal occupations during the past five years, the number of portfolios in the Fund Complex overseen by each Trustee and other directorships, if any, held by the Trustees, are set forth below.

Independent Trustees

<b>Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Number of Portfolios in Fund Complex<sup>3</sup> Overseen</b>	<b>Other Directorships Held By Trustee During Past Five Years</b>
David H. Chow, 56*†	Chairman Trustee	Since 2008 Since 2006	Founder and CEO, DanCourt Management LLC (financial/strategy consulting firm and Registered Investment Adviser), March 1999 to present.	59	Director, Forward Management LLC and Audit Committee Chairman, January 2008 to present; Trustee, Berea College of Kentucky and Vice-Chairman of the Investment Committee, May 2009 to present; Member of the Governing Council of the Independent Directors Council, October 2012 to present; President, July 2013 to present;

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Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex <sup>3</sup> Overseen	Other Directorships Held By Trustee During Past Five Years
					Secretary and Board Member of the CFA Society of Stamford, July 2009 to present.
R. Alastair Short, 61*†	Trustee	Since 2006	President, Apex Capital Corporation (personal investment vehicle), January 1988 to present; Vice Chairman, W.P. Stewart & Co., Inc. (asset management firm), September 2007 to September 2008; and Managing Director, The GlenRock Group, LLC (private equity investment firm), May 2004 to September 2007.		Chairman and Independent Director, EULAV Asset Management, January 2011 to present; Independent Director, Tremont offshore funds, June 2009 to present; Director, Kenyon Review.
Peter J. Sidebottom, 51*†	Trustee	Since 2012	Independent business adviser, January 2014 to present; Partner, Bain & Company (management consulting firm), April 2012 to December 2013; Executive Vice President and Senior Operating Committee Member, TD Ameritrade (on-line brokerage firm), February 2009 to January 2012; Executive Vice President, Wachovia Corporation (financial services firm), December 2004 to February 2009.	59	Board Member, Special Olympics, New Jersey, November 2011 to September 2013; Director, The Charlotte Research Institute, December 2000 to present; Board Member, Social Capital Institute, University of North Carolina Charlotte, November 2004 to January 2012.
Richard D. Stamberger, 55*†	Trustee	Since 2006	Director, President and CEO, SmartBrief, Inc. (media company).	70	Director, Food and Friends, Inc., 2013 to present.

<sup>1</sup>The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

<sup>2</sup>Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.

- 68 -

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<sup>3</sup>The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.

\*Member of the Audit Committee.

†Member of the Nominating and Corporate Governance Committee.

Interested Trustee

<b>Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Number of Portfolios in Fund Complex<sup>3</sup> Overseen</b>	<b>Other Directorships Held By Trustee During Past Five Years</b>
Jan F. van Eck, 50 <sup>4</sup>	Trustee, President and Chief Executive Officer	Trustee (Since 2006); President and Chief Executive Officer (Since 2009)	Director, President and Owner of the Adviser, Van Eck Associates Corporation; Director and President, Van Eck Securities Corporation (“VESC”); Director and President, Van Eck Absolute Return Advisers Corp. (“VEARA”).	59	Director, National Committee on US-China Relations.

<sup>1</sup>The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

<sup>2</sup>Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.

<sup>3</sup>The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.

<sup>4</sup>“Interested person” of the Trust within the meaning of the 1940 Act. Mr. van Eck is an officer of the Adviser.

Officer Information

The Officers of the Trust, their addresses, positions with the Trust, ages and principal occupations during the past five years are set forth below.

<b>Officer’s Name, Address<sup>1</sup> and Age</b>	<b>Position(s) Held and with the Trust</b>	<b>Term of Office<sup>2</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During The Past Five Years</b>
Russell G. Brennan, 49	Assistant Vice President and	Since 2008	Assistant Vice President and Assistant Treasurer of the Adviser (Since 2008); Manager (Portfolio Administration) of

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	Assistant Treasurer		the Adviser (September 2005-October 2008); Officer of other investment companies advised by the Adviser.
Charles T. Cameron, 54	Vice President	Since 2006	Director of Trading (Since 1995) and Portfolio Manager (Since 1997) for the Adviser; Officer of other investment companies advised by the Adviser.
Simon Chen, 42	Assistant Vice President	Since 2012	Greater China Director of the Adviser (Since January 2012); General Manager, SinoMarkets Ltd. (June 2007 to December 2011).
John J. Crimmins, 57	Vice President, Treasurer, Chief Financial Officer and Principal	Vice President, Chief Financial	Vice President of Portfolio Administration of the Adviser (Since 2009); Vice President of VESC and VEARA (Since 2009); Chief Financial, Operating and Compliance Officer, Kern Capital

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Officer's Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During The Past Five Years
	Accounting Officer	Officer and Principal Accounting Officer (Since 2012); Treasurer (Since 2009)	Management LLC (September 1997-February 2009); Officer of other investment companies advised by the Adviser.
Eduardo Escario, 38	Vice President	Since 2012	Regional Director, Business Development/Sales for Southern Europe and South America of the Adviser (Since July 2008); Regional Director (Spain, Portugal, South America and Africa) of Dow Jones Indexes and STOXX Ltd. (May 2001-July 2008).
Lars Hamich, 45	Vice President	Since 2012	Managing Director and Chief Executive Officer of Van Eck Global (Europe) GmbH (Since 2009); Chief Executive Officer of Market Vectors Index Solutions GmbH ("MVIS") (Since June 2011); Managing Director of STOXX Limited (Until 2008).
Wu-Kwan Kit, 33	Assistant Vice President and Assistant Secretary	Since 2011	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (Since 2011); Associate, Schulte Roth & Zabel (September 2007- 2011); University of Pennsylvania Law School (August 2004 – May 2007).
Susan C. Lashley, 59	Vice President	Since 2006	Vice President of the Adviser and VESC; Officer of other investment companies advised by the Adviser.
Laura I. Martínez, 34	Assistant Vice President and Assistant Secretary	Since 2008	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (Since 2008); Associate, Davis Polk & Wardwell (October 2005-June 2008); Officer of other investment companies advised by the Adviser.
Ferat Oeztuerk, 31	Assistant Vice President	Since 2012	Sales Associate, Van Eck Global (Europe) GmbH (since November 2011); Account Manager, Vodafone Global Enterprise Limited (January 2011 to October 2011).
James Parker, 45	Assistant Treasurer	Since June 2014	Manager (Portfolio Administration) of the Adviser (Since June 2010); Vice President of JPMorgan Chase & Co. (April 1999 to January 2010).
Jonathan R. Simon, 40	Vice President, Secretary and Chief Legal Officer	Vice President (Since 2006) and Secretary and Chief Legal Officer (Since 2014)	Vice President (since 2006), General Counsel and Secretary (since 2014) of the Adviser, VESC and VEARA; Officer of other investment companies advised by the Adviser.

Bruce J.  
Smith, 59

Senior Vice

Since 2006

Senior Vice President, Chief Financial Officer,

- 70 -

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Officer's Name, Address <sup>1</sup> and Age	Position(s) Held with the Trust	Term of Office <sup>2</sup> and Length of Time Served	Principal Occupation(s) During The Past Five Years
	President		Treasurer and Controller of the Adviser, VESC and VEARA (Since 1997); Director of the Adviser, VESC and VEARA (Since October 2010); Officer of other investment companies advised by the Adviser.
Janet Squitieri, 52	Chief Compliance Officer	Since September 2013	Vice President, Global Head of Compliance of the Adviser, VESC and VEARA (since September 2013); Chief Compliance Officer and Senior Vice President North America of HSBC Global Asset Management NA (August 2010 – September 2013); Chief Compliance Officer North America of Babcock & Brown LP (July 2008 – June 2010).

<sup>1</sup>The address for each Officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.

<sup>2</sup>Officers are elected yearly by the Trustees.

The Board of the Trust met six times during the fiscal year ended April 30, 2014.

The Board has an Audit Committee consisting of four Trustees who are Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Audit Committee and each of Messrs. Chow, Short and Stamberger have been designated as an “audit committee financial expert” as defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Mr. Short is the Chairman of the Audit Committee. The Audit Committee has the responsibility, among other things, to: (i) oversee the accounting and financial reporting processes of the Trust and its internal control over financial reporting; (ii) oversee the quality and integrity of the Trust’s financial statements and the independent audit thereof; (iii) oversee or, as appropriate, assist the Board’s oversight of the Trust’s compliance with legal and regulatory requirements that relate to the Trust’s accounting and financial reporting, internal control over financial reporting and independent audit; (iv) approve prior to appointment the engagement of the Trust’s independent registered public accounting firm and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Trust’s independent registered public accounting firm; and (v) act as a liaison between the Trust’s independent registered public accounting firm and the full Board. The Audit Committee met four times during the fiscal year ended April 30, 2014.

The Board also has a Nominating and Corporate Governance Committee consisting of four Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Nominating and Corporate Governance Committee. Mr. Stamberger is the Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has the responsibility, among other things, to: (i) evaluate, as necessary, the composition of the Board, its committees and sub-committees and make such recommendations to the Board as deemed appropriate by the Committee; (ii) review and define Independent Trustee qualifications; (iii) review the qualifications of individuals serving as Trustees on the Board and its committees; (iv) evaluate, recommend and

nominate qualified individuals for election or appointment as members of the Board and recommend the appointment of members and chairs of each Board committee and subcommittee; and (v) review and assess, from time to time, the performance of the committees and subcommittees of the Board and report the results to the Board. The Nominating and Corporate Governance Committee did not meet during the fiscal year ended April 30, 2014.

The Board has determined that its leadership structure is appropriate given the business and nature of the Trust. In connection with its determination, the Board considered that the Chairman of the Board is an Independent Trustee. The Chairman of the Board can play an important role in setting the agenda of the Board and also serves as a key point person for dealings between management and the other Independent Trustees. The Independent Trustees believe that the Chairman's independence facilitates meaningful dialogue between the Adviser and the Independent Trustees. The Board also considered that the Chairman of each Board committee is an Independent

- 71 -



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Trustee, which yields similar benefits with respect to the functions and activities of the various Board committees. The Independent Trustees also regularly meet outside the presence of management and are advised by independent legal counsel. The Board has determined that its committees help ensure that the Trust has effective and independent governance and oversight. The Board also believes that its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from management of the Trust, including the Adviser. The Board reviews its structure on an annual basis.

As an integral part of its responsibility for oversight of the Trust in the interests of shareholders, the Board, as a general matter, oversees risk management of the Trust's investment programs and business affairs. The function of the Board with respect to risk management is one of oversight and not active involvement in, or coordination of, day-to-day risk management activities for the Trust. The Board recognizes that not all risks that may affect the Trust can be identified, that it may not be practical or cost-effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment-related risks) to achieve the Trust's goals, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. Moreover, reports received by the Trustees that may relate to risk management matters are typically summaries of the relevant information.

The Board exercises oversight of the risk management process primarily through the Audit Committee, and through oversight by the Board itself. The Trust faces a number of risks, such as investment-related and compliance risks. The Adviser's personnel seek to identify and address risks, i.e., events or circumstances that could have material adverse effects on the business, operations, shareholder services, investment performance or reputation of the Trust. Under the overall supervision of the Board or the applicable Committee of the Board, the Trust, the Adviser, and the affiliates of the Adviser employ a variety of processes, procedures and controls to identify such possible events or circumstances, to lessen the probability of their occurrence and/or to mitigate the effects of such events or circumstances if they do occur. Different processes, procedures and controls are employed with respect to different types of risks. Various personnel, including the Trust's Chief Compliance Officer, as well as various personnel of the Adviser and other service providers such as the Trust's independent accountants, may report to the Audit Committee and/or to the Board with respect to various aspects of risk management, as well as events and circumstances that have arisen and responses thereto.

The officers and Trustees of the Trust, in the aggregate, own less than 1% of the Shares of each Fund as of September 1, 2014.

For each Trustee, the dollar range of equity securities beneficially owned (including ownership through the Trust's Deferred Compensation Plan) by the Trustee in the Trust and in all registered investment companies advised by the Adviser ("Family of Investment Companies") that are overseen by the Trustee is shown below.

<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in Market Vectors California Long Municipal Index ETF (As</b>	<b>Dollar Range of Equity Securities in Market Vectors Massachusetts Municipal Index</b>	<b>Dollar Range of Equity Securities in Market Vectors New Jersey Municipal Index ETF</b>
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	<b>of December 31, 2013)</b>	<b>ETF (As of December 31, 2013)</b>	<b>(As of December 31, 2013)</b>
David H. Chow	None	None	None
R. Alastair Short	None	None	None
Peter J. Sidebottom	None	None	None
Richard D. Stamberger	None	None	None
Jan F. van Eck	None	None	None

<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in Market Vectors New York Long Municipal Index ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Ohio Municipal Index ETF (As of December 31, 2013)</b>	<b>Dollar Range of Equity Securities in Market Vectors Pennsylvania Municipal Index ETF (As of December 31, 2013)</b>	<b>Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen By Trustee In Family of Investment Companies (As of December 31, 2013)</b>
David H. Chow	None	None	None	Over \$100,000
R. Alastair Short	None	None	None	Over \$100,000
Peter J. Sidebottom	None	None	None	None

Name of Trustee	Dollar Range of Equity Securities in Market Vectors New York Long Municipal Index ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Ohio Municipal Index ETF (As of December 31, 2013)	Dollar Range of Equity Securities in Market Vectors Pennsylvania Municipal Index ETF (As of December 31, 2013)	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen By Trustee In Family of Investment Companies (As of December 31, 2013)
Richard D. Stamberger	None	None	None	Over \$100,000
Jan F. van Eck	None	None	None	Over \$100,000

As to each Independent Trustee and his immediate family members, no person owned beneficially or of record securities in an investment manager or principal underwriter of the Funds, or a person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with the investment manager or principal underwriter of the Funds.

#### Remuneration of Trustees

The Trust pays each Independent Trustee an annual retainer of \$80,000, a per meeting fee of \$15,000 for scheduled quarterly meetings of the Board and each special meeting of the Board and a per meeting fee of \$7,500 for telephonic meetings. The Trust pays the Chairman of the Board an annual retainer of \$45,500, the Chairman of the Audit Committee an annual retainer of \$19,500 and the Chairman of the Governance Committee an annual retainer of \$13,000. The Trust also reimburses each Trustee for travel and other out-of-pocket expenses incurred in attending such meetings. No pension or retirement benefits are accrued as part of Trustee compensation.

The table below shows the compensation paid to the Trustees by the Trust for the calendar year ended December 31, 2013. Annual Trustee fees may be reviewed periodically and changed by the Trust's Board.

Name of Trustee	Aggregate Compensation From the Trust	Deferred Compensation From the Trust	Pension or Retirement Benefits Accrued as Part of the Trust's Expenses <sup>(2)</sup>	Estimated Annual Benefits Upon Retirement	Total Compensation From the Trust and the Fund Complex <sup>(1)</sup> Paid to Trustee <sup>(2)</sup>
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David H. Chow	\$ 230,500	\$ 230,500	N/A	N/A	\$ 230,500
R. Alastair Short	\$ 189,500	\$ 0	N/A	N/A	\$ 319,500
Peter J. Sidebottom	\$ 170,000	\$ 0	N/A	N/A	\$ 170,000
Richard D. Stamberger	\$ 183,000	\$ 91,500	N/A	N/A	\$ 323,000
Jan F. van Eck <sup>(3)</sup>	\$ 0	\$ 0	N/A	N/A	\$ 0

(1) The “Fund Complex” consists of Van Eck Funds, Van Eck VIP Trust and the Trust.

(2) Because the funds of the Fund Complex have different fiscal year ends, the amounts shown are presented on a calendar year basis.

(3) “Interested person” under the 1940 Act.

PORTFOLIO HOLDINGS DISCLOSURE

Each Fund’s portfolio holdings are publicly disseminated each day the Fund is open for business through financial reporting and news services, including publicly accessible Internet web sites. In addition, a basket composition file, which includes the security names and share quantities to deliver in exchange for Creation Units, together with estimates and actual cash components is publicly disseminated daily prior to the opening of the Exchange via the National Securities Clearing Corporation (the “NSCC”), a clearing agency that is registered with the SEC. The basket represents one Creation Unit of each Fund. The Trust, Adviser, Custodian and Distributor will not disseminate non-public information concerning the Trust.

QUARTERLY PORTFOLIO SCHEDULE

The Trust is required to disclose, after its first and third fiscal quarters, the complete schedule of the Funds’ portfolio holdings with the SEC on Form N-Q. Form N-Q for the Funds is available on the SEC’s website at <http://www.sec.gov>. The Funds’ Form N-Q may also be reviewed and copied at the SEC’s Public Reference Room

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in Washington, D.C. and information on the operation of the Public Reference Room may be obtained by calling 202.551.8090. The Funds' Form N-Q is available through the Funds' website, at [www.vaneck.com](http://www.vaneck.com) or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017.

### CODE OF ETHICS

The Funds, the Adviser and the Distributor have each adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act, designed to monitor personal securities transactions by their personnel (the "Personnel"). The Code of Ethics requires that all trading in securities that are being purchased or sold, or are being considered for purchase or sale, by the Funds must be approved in advance by the Head of Trading, the Director of Research and the Chief Compliance Officer of the Adviser. Approval will be granted if the security has not been purchased or sold or recommended for purchase or sale for a Fund on the day that the Personnel of the Adviser requests pre-clearance, or otherwise if it is determined that the personal trading activity will not have a negative or appreciable impact on the price or market of the security, or is of such a nature that it does not present the dangers or potential for abuses that are likely to result in harm or detriment to the Funds. At the end of each calendar quarter, all Personnel must file a report of all transactions entered into during the quarter. These reports are reviewed by a senior officer of the Adviser.

Generally, all Personnel must obtain approval prior to conducting any transaction in securities. Independent Trustees, however, are not required to obtain prior approval of personal securities transactions. Personnel may purchase securities in an initial public offering or private placement, *provided* that he or she obtains preclearance of the purchase and makes certain representations.

### PROXY VOTING POLICIES AND PROCEDURES

The Funds' proxy voting record is available upon request and on the SEC's website at <http://www.sec.gov>. Proxies for each Fund's portfolio securities are voted in accordance with the Adviser's proxy voting policies and procedures, which are set forth in Appendix A to this SAI.

The Trust is required to disclose annually each Fund's complete proxy voting record on Form N-PX covering the period July 1 through June 30 and file it with the SEC no later than August 31. Form N-PX for the Funds is available through the Funds' website, at [www.vaneck.com](http://www.vaneck.com), or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017. The Funds' Form N-PX is also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

### MANAGEMENT

The following information supplements and should be read in conjunction with the section in the Funds' Prospectus entitled "Management of the Funds."

#### Investment Adviser

Van Eck Associates Corporation acts as investment adviser to the Trust and, subject to the general supervision of the Board, is responsible for the day-to-day investment management of the Funds. The Adviser is a private company with headquarters in New York and manages other mutual funds and separate accounts.

The Adviser serves as investment adviser to the Funds pursuant to the investment management agreement between the Trust and the Adviser (the "Investment Management Agreement"). Under the Investment Management Agreement, the Adviser, subject to the supervision of the Board and in conformity with the stated investment policies of each Fund, manages the investment of the Funds' assets. The Adviser is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of the Funds.

Pursuant to the Investment Management Agreement, the Trust has agreed to indemnify the Adviser for certain liabilities, including certain liabilities arising under the federal securities laws, unless such loss or liability

results from willful misfeasance, bad faith or gross negligence in the performance of its duties or the reckless disregard of its obligations and duties.

*Compensation.* Pursuant to the Investment Management Agreement, the Adviser is responsible for all expenses of the Funds, including the costs of transfer agency, custody, fund administration, legal, audit and other services, except for the fee payment under the Investment Management Agreement, interest expense, offering costs, trading expenses, taxes and extraordinary expenses. For its services to each Fund, each Fund has agreed to pay the Adviser an annual unitary management fee equal to 0.25% of its average daily net assets. Offering costs excluded from the annual unitary management fee are: (a) legal fees pertaining to a Fund's Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of a Fund to be listed on an exchange.

As of September 1, 2014, the Funds have not yet commenced operations and therefore do not have figures to report with respect to management fees paid and expenses waived and/or assumed by the Adviser since the commencement of operations of the Funds.

*Term.* The Investment Management Agreement is subject to annual approval by (1) the Board or (2) a vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of each Fund, *provided* that in either event such continuance also is approved by a majority of the Board who are not interested persons (as defined in the 1940 Act) of the Trust by a vote cast in person at a meeting called for the purpose of voting on such approval. The Investment Management Agreement is terminable without penalty, on 60 days' notice, by the Board or by a vote of the holders of a majority (as defined in the 1940 Act) of a Fund's outstanding voting securities. The Investment Management Agreement is also terminable upon 60 days' notice by the Adviser and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

#### The Administrator

Van Eck Associates Corporation also serves as administrator for the Trust pursuant to the Investment Management Agreement. Under the Investment Management Agreement, the Adviser is obligated on a continuous basis to provide such administrative services as the Board of the Trust reasonably deems necessary for the proper administration of the Trust and the Funds. The Adviser will generally assist in all aspects of the Trust's and the Funds' operations; supply and maintain office facilities, statistical and research data, data processing services, clerical, bookkeeping and record keeping services (including without limitation the maintenance of such books and records as are required under the 1940 Act and the rules thereunder, except as maintained by other agents), internal auditing, executive and administrative services, and stationery and office supplies; prepare reports to shareholders or investors; prepare and file tax returns; supply financial information and supporting data for reports to and filings with the SEC and various state Blue Sky authorities; supply supporting documentation for meetings of the Board; provide monitoring reports and assistance regarding compliance with the Declaration of Trust, by-laws, investment objectives and policies and with federal and state securities laws; arrange for appropriate insurance coverage; calculate NAVs, net income and realized capital gains or losses; and negotiate arrangements with, and supervise and coordinate the activities of, agents and others to supply services.

#### Custodian and Transfer Agent

The Bank of New York Mellon (“The Bank of New York”), located at 101 Barclay Street, New York, NY, 10286, serves as custodian for the Funds pursuant to a Custodian Agreement. As Custodian, The Bank of New York holds the Funds’ assets. The Bank of New York serves as the Funds’ transfer agent pursuant to a Transfer Agency Agreement. The Bank of New York may be reimbursed by the Adviser for its out-of-pocket expenses. In addition, The Bank of New York provides various accounting services to each of the Funds pursuant to a fund accounting agreement.

#### The Distributor

Van Eck Securities Corporation (the “Distributor”) is the principal underwriter and distributor of Shares. Its principal address is 335 Madison Avenue, New York, New York 10017 and investor information can be obtained by calling 1-888-MKT-VCTR. The Distributor has entered into an agreement with the Trust which will continue

- 75 -



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from its effective date unless terminated by either party upon 60 days' prior written notice to the other party by the Trust and the Adviser, or by the Distributor, or until termination of the Trust or each Fund offering its Shares, and which is renewable annually thereafter (the "Distribution Agreement"), pursuant to which it distributes Shares. Shares will be continuously offered for sale by the Trust through the Distributor only in Creation Units, as described below under "Creation and Redemption of Creation Units—Procedures for Creation of Creation Units." Shares in less than Creation Units are not distributed by the Distributor. The Distributor will deliver a prospectus to persons purchasing Shares in Creation Units and will maintain records of both orders placed with it and confirmations of acceptance furnished by it. The Distributor is a broker-dealer registered under the Exchange Act and a member of the Financial Industry Regulatory Authority ("FINRA"). The Distributor has no role in determining the investment policies of the Trust or which securities are to be purchased or sold by the Trust.

The Distributor may also enter into sales and investor services agreements with broker-dealers or other persons that are Participating Parties and DTC Participants (as defined below) to provide distribution assistance, including broker-dealer and shareholder support and educational and promotional services but must pay such broker-dealers or other persons, out of its own assets.

The Distribution Agreement provides that it may be terminated at any time, without the payment of any penalty: (i) by vote of a majority of the Independent Trustees or (ii) by vote of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Funds, on at least 60 days' written notice to the Distributor. The Distribution Agreement is also terminable upon 60 days' notice by the Distributor and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

Other Accounts Managed by the Portfolio Managers

As of the date indicated below, Messrs. Colby and Mazier managed the following other accounts:

Name of Portfolio Manager	Other Accounts Managed (As of April 30, 2014)			Accounts with respect to which the advisory fee is based on the performance of the account	
	Category of Account	Number of Accounts in Category	Total Assets in Accounts in Category	Number of Accounts in Category	Total Assets in Accounts in Category
James T. Colby III	Registered investment companies	6	\$1,984 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0

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	Other accounts	0	\$0	0	\$0
Michael F. Mazier	Registered investment companies	15	\$3,770 million	0	\$0
	Other pooled investment vehicles	0	\$0	0	\$0
	Other accounts	0	\$0	0	\$0

Although the funds in the Trust that are managed by Messrs. Colby and Mazier may have different investment strategies, each has an investment objective of seeking to replicate, before fees and expenses, its respective underlying index. The Adviser does not believe that management of the various accounts presents a material conflict of interest for Messrs. Colby and Mazier or the Adviser.

- 76 -

### Portfolio Manager Compensation

The portfolio managers are paid a fixed base salary and a bonus. The bonus is based upon the quality of investment analysis and the management of the funds. The quality of management of the funds includes issues of replication, rebalancing, portfolio monitoring and efficient operation, among other factors. Portfolio managers who oversee accounts with significantly different fee structures are generally compensated by discretionary bonus rather than a set formula to help reduce potential conflicts of interest. At times, the Adviser and its affiliates manage accounts with incentive fees.

### Portfolio Manager Share Ownership

As of April 30, 2014, Messrs. Colby and Mazier did not beneficially own any Shares of the Funds.

### BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio securities, the Adviser looks for prompt execution of the order at a favorable price. Generally, the Adviser works with recognized dealers in these securities, except when a better price and execution of the order can be obtained elsewhere. The Funds will not deal with affiliates in principal transactions unless permitted by exemptive order or applicable rule or regulation. The Adviser owes a duty to its clients to seek best execution on trades effected. Since the investment objective of each Fund is investment performance that corresponds to that of an Index, the Adviser does not intend to select brokers and dealers for the purpose of receiving research services in addition to a favorable price and prompt execution either from that broker or an unaffiliated third party.

The Adviser assumes general supervision over placing orders on behalf of the Trust for the purchase or sale of portfolio securities. If purchases or sales of portfolio securities of the Trust and one or more other investment companies or clients supervised by the Adviser are considered at or about the same time, transactions in such securities are allocated among the several investment companies and clients in a manner deemed equitable to all by the Adviser. In some cases, this procedure could have a detrimental effect on the price or volume of the security so far as the Trust is concerned. However, in other cases, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Trust. The primary consideration is best execution.

Portfolio turnover may vary from year to year, as well as within a year. High turnover rates are likely to result in comparatively greater brokerage expenses and taxable distributions. The overall reasonableness of brokerage commissions is evaluated by the Adviser based upon its knowledge of available information as to the general level of commissions paid by other institutional investors for comparable services.

As of April 30, 2013, the Funds have not yet commenced operations and therefore do not have figures to report with respect to aggregate brokerage commissions paid by each Fund since the commencement of operations of the Funds.

#### BOOK ENTRY ONLY SYSTEM

The following information supplements and should be read in conjunction with the section in the Funds' Prospectus entitled "Shareholder Information—Buying and Selling Exchange-Traded Shares."

The Depository Trust Company ("DTC") acts as securities depository for the Shares. Shares of the Funds are represented by securities registered in the name of DTC or its nominee and deposited with, or on behalf of, DTC. Certificates will not be issued for Shares.

DTC, a limited-purpose trust company, was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among the DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC

- 77 -

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Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. More specifically, DTC is owned by a number of its DTC Participants and by the New York Stock Exchange (“NYSE”) and FINRA. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the “Indirect Participants”).

Beneficial ownership of Shares is limited to DTC Participants, Indirect Participants and persons holding interests through DTC Participants and Indirect Participants. Ownership of beneficial interests in Shares (owners of such beneficial interests are referred to herein as “Beneficial Owners”) is shown on, and the transfer of ownership is effected only through, records maintained by DTC (with respect to DTC Participants) and on the records of DTC Participants (with respect to Indirect Participants and Beneficial Owners that are not DTC Participants). Beneficial Owners will receive from or through the DTC Participant a written confirmation relating to their purchase of Shares.

Conveyance of all notices, statements and other communications to Beneficial Owners is effected as follows. Pursuant to the Depositary Agreement between the Trust and DTC, DTC is required to make available to the Trust upon request and for a fee to be charged to the Trust a listing of the Shares holdings of each DTC Participant. The Trust shall inquire of each such DTC Participant as to the number of Beneficial Owners holding Shares, directly or indirectly, through such DTC Participant. The Trust shall provide each such DTC Participant with copies of such notice, statement or other communication, in such form, number and at such place as such DTC Participant may reasonably request, in order that such notice, statement or communication may be transmitted by such DTC Participant, directly or indirectly, to such Beneficial Owners. In addition, the Trust shall pay to each such DTC Participant a fair and reasonable amount as reimbursement for the expenses attendant to such transmittal, all subject to applicable statutory and regulatory requirements.

Share distributions shall be made to DTC or its nominee, Cede & Co., as the registered holder of all Shares. DTC or its nominee, upon receipt of any such distributions, shall credit immediately DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in Shares as shown on the records of DTC or its nominee. Payments by DTC Participants to Indirect Participants and Beneficial Owners of Shares held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in a “street name,” and will be the responsibility of such DTC Participants.

The Trust has no responsibility or liability for any aspects of the records relating to or notices to Beneficial Owners, or payments made on account of beneficial ownership interests in such Shares, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and the DTC Participants or the relationship between such DTC Participants and the Indirect Participants and Beneficial Owners owning through such DTC Participants.

DTC may determine to discontinue providing its service with respect to the Shares at any time by giving reasonable notice to the Trust and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Trust shall take action either to find a replacement for DTC to perform its functions at a

comparable cost or, if such a replacement is unavailable, to issue and deliver printed certificates representing ownership of Shares, unless the Trust makes other arrangements with respect thereto satisfactory to the Exchange.

## CREATION AND REDEMPTION OF CREATION UNITS

### General

The Funds issue and sell Shares only in Creation Units on a continuous basis through the Distributor, without an initial sales load, at their NAV next determined after receipt, on any Business Day (as defined herein), of an order in proper form. An Authorized Participant (defined below) that is not a “qualified institutional buyer,” as such term is defined under Rule 144A of the Securities Act of 1933, will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

- 78 -

A “Business Day” with respect to the Funds is any day on which the NYSE is open for business. As of the date of the Prospectus, the NYSE observes the following holidays: New Year’s Day, Martin Luther King, Jr. Day, President’s Day (Washington’s Birthday), Good Friday, Memorial Day (observed), Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

#### Fund Deposit

The consideration for a purchase of Creation Units consists of cash and/or the in-kind deposit of a designated portfolio of fixed income securities (the “Deposit Securities”) that comprise the Fund’s Index and an amount of cash computed as described below (the “Cash Component”). The Cash Component together with the Deposit Securities, as applicable, are referred to as the “Fund Deposit,” which represents the minimum initial and subsequent investment amount for Shares. The specified Deposit Securities generally will correspond, pro rata, to the extent practicable, to the component securities of a Fund. The Cash Component represents the difference between the NAV of a Creation Unit and the market value of Deposit Securities and may include a Dividend Equivalent Payment. The “Dividend Equivalent Payment” enables each Fund to make a complete distribution of dividends on the next dividend payment date, and is an amount equal, on a per Creation Unit basis, to the dividends on all the securities held by the Fund (“Fund Securities”) with ex-dividend dates within the accumulation period for such distribution (the “Accumulation Period”), net of expenses and liabilities for such period, as if all of the Fund Securities had been held by the Trust for the entire Accumulation Period. The Accumulation Period begins on the ex-dividend date for each Fund and ends on the next ex-dividend date.

The Administrator, through the NSCC, makes available on each Business Day, immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time), the list of the names and the required principal amounts of each Deposit Security to be included in the current Fund Deposit (based on information at the end of the previous Business Day) as well as the Cash Component for each Fund. Such Fund Deposit is applicable, subject to any adjustments as described below, in order to effect creations of Creation Units of each Fund until such time as the next-announced Fund Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for a Fund Deposit for each Fund changes as rebalancing adjustments and corporate action events are reflected from time to time by the Adviser with a view to the investment objective of the applicable Fund. The composition of the Deposit Securities may also change in response to adjustments to the weighting or composition of the securities constituting each Fund’s respective Index. In addition, the Trust reserves the right to accept a basket of securities or cash that differs from Deposit Securities or to permit or require the substitution of an amount of cash (i.e., a “cash in lieu” amount) to be added to the Cash Component to replace any Deposit Security which may, among other reasons, not be available in sufficient quantity for delivery, not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention or which may not be eligible for transfer through the Clearing Process (described below), or which may not be eligible for trading by a Participating Party (defined below). In light of the foregoing, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase the Deposit Securities represented by the cash in lieu amount in the secondary market (“Market Purchases”). In such cases where the Trust makes Market Purchases because a Deposit Security may not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities were

purchased by the Trust and the cash in lieu amount (which amount, at the Adviser's discretion, may be capped), applicable registration fees and taxes. Brokerage commissions incurred in connection with the Trust's acquisition of Deposit Securities will be at the expense of each Fund and will affect the value of all Shares of the Fund; but the Adviser may adjust the transaction fee to the extent the composition of the Deposit Securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. The adjustments described above will reflect changes, known to the Adviser on the date of announcement to be in effect by the time of delivery of the Fund Deposit, in the composition of the relevant Index or resulting from stock splits and other corporate actions.

Pursuant to a patent pending process, and subject to the receipt of appropriate regulatory relief, the Funds may in the future divide the daily list of Deposit Securities into different "categories," based on various risk and return characteristics that may include (but not be limited to): (1) credit rating; (2) sector (e.g., revenue, pre-refunded or insured bonds); (3) issuer (or state of issuer); (4) call date; (5) maturity; and (6) coupon yield. With

- 79 -



respect to each category, an Authorized Participant (as defined below) would be required, pursuant to rules established by the Fund, to contribute one bond from each category in-kind as a Deposit Security in a Fund Deposit. There is no assurance that such relief will be granted.

In addition to the list of names and numbers of securities constituting the current Deposit Securities of a Fund Deposit, the Administrator, through the NSCC, also makes available (i) on each Business Day, the Dividend Equivalent Payment, if any, and the estimated Cash Component effective through and including the previous Business Day, per outstanding Shares of the Fund, and (ii) on a continuous basis throughout the day, the Indicative Per Share Portfolio Value.

#### Procedures for Creation of Creation Units

To be eligible to place orders with the Distributor to create Creation Units of the Funds, an entity or person either must be (1) a “Participating Party,” *i.e.*, a broker-dealer or other participant through the Continuous Net Settlement System of the NSCC; or (2) a DTC Participant (see “Book Entry Only System”); and, in either case, must have executed an agreement with the Trust and with the Distributor with respect to creations and redemptions of Creation Units (“Participant Agreement”) (discussed below). A Participating Party and DTC Participant are collectively referred to as an “Authorized Participant.” All Creation Units of the Funds, however created, will be entered on the records of the Depository in the name of Cede & Co. for the account of a DTC Participant.

All orders to create Creation Units must be placed in multiples of 100,000 Shares (*i.e.*, a Creation Unit). All orders to create Creation Units must be received by the Distributor no later than the closing time of the regular trading session on NYSE Arca (“Closing Time”) (ordinarily 4:00 p.m. Eastern time) on the date such order is placed in order for creation of Creation Units to be effected based on the NAV of the Funds as determined on such date. A “Custom Order” may be placed by an Authorized Participant in the event that the Trust permits or requires the substitution of an amount of cash to be added to the Cash Component to replace any Deposit Security which may not be available in sufficient quantity for delivery or which may not be eligible for trading by such Authorized Participant or the investor for which it is acting, or other relevant reason. The date on which a creation order (or order to redeem as discussed below) is placed is herein referred to as the “Transmittal Date.” Orders must be transmitted by telephone or other transmission method acceptable to the Distributor pursuant to procedures set forth in the Participant Agreement, as described below (see “—Placement of Creation Orders”). Severe economic or market disruptions or changes, or telephone or other communication failure, may impede the ability to reach the Distributor, a Participating Party or a DTC Participant.

Creation Units may be created in advance of the receipt by the Trust of all or a portion of the Fund Deposit. In such cases, the Participating Party will remain liable for the full deposit of the missing portion(s) of the Fund Deposit and will be required to post collateral with the Trust consisting of cash at least equal to a percentage of the marked-to-market value of such missing portion(s) that is specified in the Participant Agreement. The Trust may use such collateral to buy the missing portion(s) of the Fund Deposit at any time and will subject such Participating Party to liability for any shortfall between the cost to the Trust of purchasing such securities and the value of such collateral. The Trust will have no liability for any such shortfall. The Trust will return any unused portion of the collateral to the

Participating Party once the entire Fund Deposit has been properly received by the Distributor and deposited into the Trust.

Orders to create Creation Units of the Funds shall be placed with a Participating Party or DTC Participant, as applicable, in the form required by such Participating Party or DTC Participant. Investors should be aware that their particular broker may not have executed a Participant Agreement, and that, therefore, orders to create Creation Units of the Funds may have to be placed by the investor's broker through a Participating Party or a DTC Participant who has executed a Participant Agreement. At any given time there may be only a limited number of broker-dealers that have executed a Participant Agreement. Those placing orders to create Creation Units of the Funds should afford sufficient time to permit proper submission of the order to the Distributor prior to the Closing Time on the Transmittal Date.

Additional transaction fees may be imposed with respect to transactions effected outside the Clearing Process (through a DTC participant) and in circumstances in which any cash can be used in lieu of Deposit Securities to create Creation Units. (See the "Creation Transaction Fee" section below.)

- 80 -

## Placement of Creation Orders

Fund Deposits must be delivered through a DTC Participant that has executed a Participant Agreement with the Distributor and with the Trust. A DTC Participant who wishes to place an order creating Creation Units of the Funds need not be a Participating Party, but such orders must state that the creation of Creation Units will be effected through a transfer of securities and cash. The Fund Deposit transfer must be ordered by the DTC Participant in a timely fashion so as to ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Trust by no later than 4:00 p.m. Eastern time, on the Settlement Date. The "Settlement Date" for each Fund is generally the third Business Day following the Transmittal Date. All questions as to the number of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Trust, whose determination shall be final and binding. The cash equal to the Cash Component must be transferred directly to the Distributor through the Federal Reserve wire system in a timely manner so as to be received by the Distributor no later than 4:00 p.m. Eastern time, on the next Business Day immediately following the Transmittal Date. An order to create Creation Units of the Fund is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date; and (ii) all other procedures set forth in the Participant Agreement are properly followed. Upon written notice to the Distributor, such cancelled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the current NAV of the applicable Fund. The delivery of Creation Units so created will occur no later than the third (3<sup>rd</sup>) Business Day following the day on which the creation order is deemed received by the Distributor.

## Acceptance of Creation Orders

The Trust reserves the absolute right to reject a creation order transmitted to it by the Distributor if, for any reason, (a) the order is not in proper form; (b) the creator or creators, upon obtaining the Shares would own 80% or more of the currently outstanding Shares of the Funds; (c) the Deposit Securities delivered are not as specified by the Administrator, as described above; (d) the acceptance of the Deposit Securities would have certain adverse tax consequences to the Funds; (e) the acceptance of the Fund Deposit would, in the opinion of counsel, be unlawful; (f) the acceptance of the Fund Deposit would otherwise, in the discretion of the Trust or the Adviser, have an adverse effect on the Trust or the rights of beneficial owners; or (g) in the event that circumstances outside the control of the Trust, the Distributor and the Adviser make it for all practical purposes impossible to process creation orders. Examples of such circumstances include, without limitation, acts of God or public service or utility problems such as earthquakes, fires, floods, extreme weather conditions and power outages resulting in telephone, telecopy and computer failures; wars; civil or military disturbances, including acts of civil or military authority or governmental actions; terrorism; sabotage; epidemics; riots; labor disputes; market conditions or activities causing trading halts; systems failures involving computer or other information systems affecting the Trust, the Adviser, the Distributor, DTC, the NSCC or any other participant in the creation process, and similar extraordinary events. The Trust shall notify a prospective creator of its rejection of the order of such person. The Trust and the Distributor are under no duty, however, to give notification of any defects or irregularities in the delivery of Fund Deposits nor shall either of them incur any liability for the failure to give any such notification.

All questions as to the number of shares of each security in the Deposit Securities and the validity, form, eligibility and acceptance for deposit of any securities to be delivered shall be determined by the Trust, and the Trust's

determination shall be final and binding.

#### Creation Transaction Fee

A fixed creation transaction fee of \$500 payable to the Custodian is imposed on each creation transaction regardless of the number of Creation Units purchased in the transaction. In addition, a variable charge for cash creations or for creations outside the Clearing Process currently of up to four times the basic creation transaction fee will be imposed. In the case of cash creations or where the Trust permits or requires a creator to substitute cash in lieu of depositing a portion of the Deposit Securities, the creator may be assessed an additional variable charge to compensate the Funds for the costs associated with purchasing the applicable securities. (See “Fund Deposit” section above.). As a result, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase, in the secondary market or otherwise gain exposure to, the portfolio securities that could have been delivered as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons

- 81 -

(“Market Purchases”). In such cases where the Trust makes Market Purchases, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities and/or financial instruments were purchased by the Trust and the cash in lieu amount (which amount, at the Adviser’s discretion, may be capped), applicable registration fees, brokerage commissions and certain taxes. The Adviser may adjust the transaction fee to the extent the composition of the creation securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. Creators of Creation Units are responsible for the costs of transferring the securities constituting the Deposit Securities to the account of the Trust.

## Redemption of Creation Units

Shares may be redeemed only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Distributor, only on a Business Day and only through a Participating Party or DTC Participant who has executed a Participant Agreement. The Trust will not redeem Shares in amounts less than Creation Units. Beneficial Owners also may sell Shares in the secondary market, but must accumulate enough Shares to constitute a Creation Unit in order to have such Shares redeemed by the Trust. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit assembly of a Creation Unit. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Shares to constitute a redeemable Creation Unit. See with respect to each Fund the section entitled “Summary Information—Principal Risks of Investing in the Fund” and “Additional Information About the Funds’ Investment Strategies and Risks—Risks of Investing in the Funds” in the Prospectus.

The Administrator, through NSCC, makes available immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time) on each day that the Exchange is open for business, the Fund Securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day. The Fund Securities generally will correspond, pro rata, to the extent practicable, to the component securities of a Fund’s portfolio. If the Trust determines, based on information available to the Trust when a redemption request is submitted by an Authorized Participant, that (i) the short interest of the Fund in the marketplace is greater than or equal to 100% and (ii) the orders in the aggregate from all Authorized Participants redeeming Fund Shares on a Business Day represent 25% or more of the outstanding Shares of the Fund, such Authorized Participant will be required to verify to the Trust the accuracy of its representations that are deemed to have been made by submitting a request for redemption. If, after receiving notice of the verification requirement, the Authorized Participant does not verify the accuracy of its representations that are deemed to have been made by submitting a request for redemption in accordance with this requirement, its redemption request will be considered not to have been received in proper form.

As with respect to the purchase of Creation Units, pursuant to a patent pending process, the Funds may, in the future, subject to the receipt of appropriate regulatory relief, divide the daily list of Fund Securities into different “categories,” based on similar criteria set forth above regarding the division of each Fund’s Deposit Securities into categories. In determining the Fund Securities and the order in which they are listed within each category, the Adviser would seek to construct a redemption basket that will reflect the general characteristics of the Fund’s portfolio. Upon each request for a redemption of Creation Units, the Custodian, acting on behalf of the Adviser, would allocate the first bond on the list from each category (as of the time such redemption request is received by the Transfer Agent) to such redeemer to receive in-kind. There is no assurance that such relief will be granted.

Unless cash redemptions are permitted or required for a Fund, the redemption proceeds for a Creation Unit generally consist of Fund Securities as announced by the Administrator on the Business Day of the request for redemption, plus cash in an amount equal to the difference between the NAV of the Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities, less the redemption transaction fee and variable fees described below. Should the Fund Securities have a value greater than the NAV of the Shares being redeemed, a compensating cash payment to the Trust equal to the differential plus the applicable redemption transaction fee will be required to be arranged for by or on behalf of the redeeming shareholder. Each Fund reserves the right to honor a redemption request by delivering a basket of securities or cash that differs from the Fund Securities.

- 82 -

## Redemption Transaction Fee

The basic redemption transaction fee of \$500 is the same no matter how many Creation Units are being redeemed pursuant to any one redemption request. An additional charge up to four times the redemption transaction fee will be charged with respect to cash redemptions or redemptions outside of the Clearing Process. An additional variable charge for cash redemptions or partial cash redemptions (when cash redemptions are permitted or required for a Fund) may also be imposed to compensate the Funds for the costs associated with selling the applicable securities. As a result, in order to seek to replicate the in-kind redemption order process, the Trust expects to sell, in the secondary market, the portfolio securities or settle any financial instruments that may not be permitted to be re-registered in the name of the Participating Party as a result of an in-kind redemption order pursuant to local law or market convention, or for other reasons (“Market Sales”). In such cases where the Trust makes Market Sales, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities and/or financial instruments were sold or settled by the Trust and the cash in lieu amount (which amount, at the Adviser’s discretion, may be capped), applicable registration fees, brokerage commissions and certain taxes (“Transaction Costs”). The Adviser may adjust the transaction fee to the extent the composition of the redemption securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. In no event will fees charged by a Fund in connection with a redemption exceed 2% of the value of each Creation Unit. Investors who use the services of a broker or other such intermediary may be charged a fee for such services. To the extent a Fund cannot recoup the amount of Transaction Costs incurred in connection with a redemption from the redeeming shareholder because of the 2% cap or otherwise, those Transaction Costs will be borne by the Fund’s remaining shareholders and negatively affect the Fund’s performance.

## Placement of Redemption Orders

Orders to redeem Creation Units of the Funds must be delivered through a DTC Participant that has executed the Participant Agreement with the Distributor and with the Trust. A DTC Participant who wishes to place an order for redemption of Creation Units of the Funds to be effected need not be a Participating Party, but such orders must state that redemption of Creation Units of the Funds will instead be effected through transfer of Creation Units of the Funds directly through DTC. An order to redeem Creation Units of the Funds is deemed received by the Administrator on the Transmittal Date if (i) such order is received by the Administrator not later than 4:00 p.m. Eastern time on such Transmittal Date; (ii) such order is preceded or accompanied by the requisite number of Shares of Creation Units specified in such order, which delivery must be made through DTC to the Administrator no later than 11:00 a.m. Eastern time, on such Transmittal Date (the “DTC Cut-Off-Time”); and (iii) all other procedures set forth in the Participant Agreement are properly followed.

After the Administrator has deemed an order for redemption received, the Administrator will initiate procedures to transfer the requisite Fund Securities (or contracts to purchase such Fund Securities) which are expected to be delivered within three Business Days and the cash redemption payment to the redeeming Beneficial Owner by the third Business Day following the Transmittal Date on which such redemption order is deemed received by the Administrator.

DETERMINATION OF NET ASSET VALUE

The following information supplements and should be read in conjunction with the section in the Funds' Prospectus entitled "Shareholder Information—Determination of NAV."

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the NYSE. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of each Fund's portfolio securities are based on the securities' closing prices on their local principal markets, where available. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a



quotation reporting system, established market makers or by an outside independent pricing service. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time a Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust's valuation policies and procedures approved by the Board of Trustees. Each Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund's portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate a Fund's NAV and the prices used by the Fund's respective Index. This may adversely affect a Fund's ability to track its respective Index.

## DIVIDENDS AND DISTRIBUTIONS

The following information supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Distributions."

### General Policies

Dividends from net investment income, if any, are declared and paid at least monthly by each Fund. Distributions of net realized capital gains, if any, generally are declared and paid once a year, but the Trust may make distributions on a more frequent basis for each Fund to improve its Index tracking or to comply with the distribution requirements of the Internal Revenue Code, in all events in a manner consistent with the provisions of the 1940 Act. It is currently expected that each Fund will distribute virtually all of its net income (interest less expenses) monthly while capital gains distributions will generally occur annually in December. In addition, the Trust may distribute at least annually amounts representing the full dividend yield on the underlying portfolio securities of the Funds, net of expenses of the Funds, as if each Fund owned such underlying portfolio securities for the entire dividend period in which case some portion of each distribution may result in a return of capital for tax purposes for certain shareholders.

Dividends and other distributions on Shares are distributed, as described below, on a *pro rata* basis to Beneficial Owners of such Shares. Dividend payments are made through DTC Participants and Indirect Participants to Beneficial Owners then of record with proceeds received from the Trust. The Trust makes additional distributions to the minimum extent necessary (i) to distribute the entire annual taxable income and net-tax exempt interest income of the Trust, plus any net capital gains and (ii) to avoid imposition of the excise tax imposed by Section 4982 of the Internal

Revenue Code. Management of the Trust reserves the right to declare special dividends if, in its reasonable discretion, such action is necessary or advisable to preserve the status of each Fund as a regulated investment company (“RIC”) or to avoid imposition of income or excise taxes on undistributed income.

#### DIVIDEND REINVESTMENT SERVICE

No reinvestment service is provided by the Trust. Broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by Beneficial Owners of the Funds through DTC Participants for reinvestment of their dividend distributions. If this service is used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole Shares of the Funds. Beneficial Owners should contact their broker to determine the availability and costs of the service and the details of participation therein. Brokers may require Beneficial Owners to adhere to specific procedures and timetables.

- 84 -

## CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS

As of the date of this SAI, the Funds do not have any control persons.

## TAXES

The following information also supplements and should be read in conjunction with the section in each Fund's Prospectus entitled "Shareholder Information—Tax Information" and the section in this Statement of Additional Information entitled "Special Considerations and Risks." The following summary of certain relevant tax provisions is subject to change, and does not constitute legal or tax advice.

Each Fund intends to qualify for and to elect treatment as a RIC under Subchapter M of the Internal Revenue Code. As a RIC each Fund will not be subject to U.S. federal income tax on the portion of its taxable investment income and capital gains that it distributes to its shareholders. To qualify for treatment as a RIC, a company must annually distribute at least 90% of its net investment company taxable income (which includes dividends, interest and net short-term capital gains) and at least 90% of its net tax-exempt interest income, for each tax year, if any, to its shareholders and meet several other requirements relating to the nature of its income and the diversification of its assets, among others. If a Fund fails to qualify for any taxable year as a RIC, all of its taxable income will be subject to tax at regular corporate income tax rates without any deduction for distributions to shareholders, and such distributions generally will be taxable to shareholders as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits.

Each Fund will be subject to a 4% excise tax on certain undistributed income if it does not distribute to its shareholders in each calendar year at least 98% of its ordinary income for the calendar year, 98.2% of its capital gain net income for the twelve months ended October 31 of such year, and 100% of any undistributed amounts from the prior years. Each Fund intends to declare and distribute dividends and distributions in the amounts and at the times necessary to avoid the application of this 4% excise tax.

As a result of U.S. federal income tax requirements, the Trust on behalf of the Funds, has the right to reject an order for a creation of Shares if the creator (or group of creators) would, upon obtaining the Shares so ordered, own 80% or more of the outstanding Shares of a Fund and if, pursuant to Section 351 of the Internal Revenue Code, the Funds would have a basis in the Deposit Securities different from the market value of such securities on the date of deposit. The Trust also has the right to require information necessary to determine beneficial share ownership for purposes of the 80% determination. See "Creation and Redemption of Creation Units—Procedures for Creation of Creation Units."

Each Fund will report to shareholders annually the amounts of dividends received from ordinary income, tax-exempt income and the amount of distributions received from capital gains.

In general, a sale of Shares results in capital gain or loss, and for individual shareholders, is taxable at a federal rate dependent upon the length of time the Shares were held. A redemption of a shareholder's Fund Shares is normally treated as a sale for tax purposes. Fund Shares held for a period of one year or less at the time of such sale or redemption will, for tax purposes, generally result in short-term capital gains or losses, and those held for more than one year will generally result in long-term capital gains or losses. After 2012, the maximum tax rate on long-term capital gains available to a non-corporate shareholder generally is 15% or 20%, depending on whether the shareholder's income exceeds certain threshold amounts.

Special tax rules may change the normal treatment of gains and losses recognized by a Fund if and when a Fund invests in structured notes, swaps, options and futures transactions. Those special tax rules can, among other things, affect the treatment of capital gain or loss as long-term or short-term and may result in ordinary income or loss rather than capital gain or loss and may accelerate when a Fund has to take these items into account for U.S. federal income tax purposes. The application of these special rules would therefore also affect the timing and character of distributions made by a Fund. See "U.S. Federal Tax Treatment of Futures Contracts" for certain federal income tax rules regarding futures contracts.

- 85 -

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An additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceed certain threshold amounts.

If at the end of each quarter of the taxable year of a RIC, 50% or more of the assets, by value, of the RIC are state, municipal and other bonds that pay interest that is exempt from federal income tax, the RIC may designate a portion of its dividends as exempt-interest dividends. The Funds expect to be eligible to make such designations with respect to a substantial amount of the income it receives. The portion of the dividends that are designated as being exempt-interest dividends generally will be exempt from federal income tax and may be exempt from state and local taxation. Depending on a shareholder's state of residence, exempt-interest dividends paid by the Funds from interest earned on municipal securities of that state, or its political subdivision, may be exempt in the hands of such shareholder from income tax in that state and its localities. However, income from municipal securities of states other than the shareholder's state of residence generally will not qualify for this treatment.

Interest on indebtedness incurred by a shareholder to purchase or carry shares of the Funds will not be deductible for U.S. federal income tax purposes. In addition, the IRS may require a shareholder in a Fund that receives exempt-interest dividends to treat as taxable income a portion of certain otherwise non-taxable social security and railroad retirement benefit payments. In addition, the receipt of dividends and distributions from the Funds may affect a foreign corporate shareholder's federal "branch profits" tax liability and the federal "excess net passive income" tax liability of a shareholder of a Subchapter S corporation. Shareholders should consult their own tax advisers as to whether they are (i) "substantial users" with respect to a facility or "related" to such users within the meaning of the IRC or (ii) subject to the federal "branch profits" tax, or the deferral "excess net passive income" tax.

Shares of the Funds generally would not be suitable for tax-exempt institutions or tax- deferred retirement plans (e.g., plans qualified under Section 401 of the Internal Revenue Code, and individual retirement accounts). Such retirement plans would not gain any benefit from the tax-exempt nature of a Fund's dividends because such dividends would be ultimately taxable to beneficiaries when distributed to them.

Gain or loss on the sale or redemption of Fund Shares is measured by the difference between the amount of cash received (or the fair market value of any property received) and the adjusted tax basis of the Shares. Shareholders should keep records of investments made (including Shares acquired through reinvestment of dividends and distributions) so they can compute the tax basis of their Fund Shares. Legislation passed by Congress requires reporting of adjusted cost basis information for covered securities, which generally include shares of a regulated investment company acquired after January 1, 2012, to the Internal Revenue Service and to taxpayers. Shareholders should contact their financial intermediaries with respect to reporting of cost basis and available elections for their accounts.

A loss realized on a sale or exchange of Shares of a Fund may be disallowed if other Fund Shares (or substantially identical shares) are acquired (whether through the automatic reinvestment of dividends or otherwise) within a sixty-one (61) day period beginning thirty (30) days before and ending thirty (30) days after the date that the Shares

are disposed of. In such a case, the basis of the Shares acquired will be adjusted to reflect the disallowed loss. Any loss upon the sale or exchange of Shares held for six (6) months or less will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholders. Distribution of ordinary income and capital gains may also be subject to foreign, state and local taxes. If a shareholder receives exempt interest dividends with respect to any Share of the Funds and if the Share is held by the shareholder for six months or less, then any loss on the sale or exchange of the Share may, to the extent of the exempt interest dividends, be disallowed.

Each Fund may invest a portion of its assets in certain “private activity bonds.” As a result, a portion of the exempt-interest dividends paid by the Funds will be an item of tax preference to shareholders subject to the alternative minimum tax. Certain corporations which are subject to the alternative minimum tax may also have to include exempt-interest dividends in calculating their alternative minimum taxable income in situations where the “adjusted current earnings” of the corporation exceeds its alternative minimum taxable income. However, the alternative minimum tax consequences discussed in this paragraph do not apply with respect to interest paid on

- 86 -

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bonds issued after December 31, 2008 and before January 1, 2011 (including refunding bonds issued during that period to refund bonds originally issued after December 31, 2003 and before January 1, 2009).

Any market discount recognized on a bond is taxable as ordinary income. A market discount bond is a bond acquired in the secondary market at a price below redemption value or adjusted issue price if issued with original issue discount. Absent an election by the Funds to include the market discount in income as it accrues, gain on the Funds' disposition of such an obligation will be treated as ordinary income rather than capital gain to the extent of the accrued market discount.

A Fund may make investments in which it recognizes income or gain prior to receiving cash with respect to such investment. For example, under certain tax rules, a Fund may be required to accrue a portion of any discount at which certain securities are purchased as income each year even though the Fund receives no payments in cash on the security during the year. To the extent that a Fund makes such investments, it generally would be required to pay out such income or gain as a distribution in each year to avoid taxation at the Fund level.

Distributions reinvested in additional Fund Shares through the means of a dividend reinvestment service (see "Dividend Reinvestment Service") will nevertheless be taxable dividends to Beneficial Owners acquiring such additional Shares to the same extent as if such dividends had been received in cash.

Some shareholders may be subject to a withholding tax on distributions of ordinary income, capital gains and any cash received on redemption of Creation Units ("backup withholding"). The backup withholding rate for individuals is currently 28%. Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with a Fund or who, to the Fund's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld will be allowed as a credit against shareholders' U.S. federal income tax liabilities, and may entitle them to a refund, *provided* that the required information is timely furnished to the Internal Revenue Service.

Distributions of ordinary income paid to shareholders who are nonresident aliens or foreign entities will generally be subject to a 30% U.S. withholding tax unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Prospective investors are urged to consult their tax advisors regarding such withholding.

For taxable years beginning before January 1, 2014 (unless further extended by Congress), properly designated dividends received by a nonresident alien or foreign entity are generally exempt from U.S. federal withholding tax when they (i) are paid in respect of a Fund's "qualified net interest income" (generally, the Fund's U.S. source interest income, reduced by expenses that are allocable to such income), or (ii) are paid in connection with the Fund's "qualified short-term capital gains" (generally, the excess of the Fund's net short-term capital gain over the Fund's long-term capital loss for such taxable year). However, depending on the circumstances, each Fund may designate all, some or none of the Fund's potentially eligible dividends as such qualified net interest income or as qualified short-term capital

gains, and a portion of the Fund's distributions (e.g. interest from non-U.S. sources or any foreign currency gains) would be ineligible for this potential exemption from withholding. There can be no assurance as to whether or not legislation will be enacted to extend this exemption.

As part of the Foreign Account Tax Compliance Act, ("FATCA"), a Fund may be required to impose a 30% withholding tax on certain types of U.S. sourced income (e.g., dividends, interest, and other types of passive income) paid effective July 1, 2014, and proceeds from the sale or other disposition of property producing U.S. sourced income paid effective January 1, 2017 to (i) foreign financial institutions ("FFI's"), including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service ("IRS") information regarding their direct and indirect U.S. account holders and (ii) certain nonfinancial foreign entities ("NFFE's"), unless they certify certain information regarding their direct and indirect U.S. owners. To avoid possible withholding, FFI's will need to enter into agreements with the IRS which state that they will provide the IRS information, including the names, account numbers and balances, addresses and taxpayer identification numbers of U.S. account holders and comply with due diligence procedures with respect to the identification of U.S. accounts as well as agree to withhold tax on certain types of withholdable payments made to non-compliant foreign financial

- 87 -



institutions or to applicable foreign account holders who fail to provide the required information to the IRS, or similar account information and required documentation to a local revenue authority, should an applicable intergovernmental agreement be implemented. NFFE's will need to provide certain information regarding each substantial U.S. owner or certifications of no substantial U.S. ownership, unless certain exceptions apply, or agree to provide certain information to the IRS.

While final FATCA rules have not been finalized, a Fund may be subject to the FATCA withholding obligation, and also will be required to perform due diligence reviews to classify foreign entity investors for FATCA purposes. Investors are required to agree to provide information necessary to allow a Fund to comply with the FATCA rules. If a Fund is required to withhold amounts from payments pursuant to FATCA, investors will receive distributions that are reduced by such withholding amounts.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in a Fund, including the possible applicability of the U.S. estate tax.

The foregoing discussion is a summary only and is not intended as a substitute for careful tax planning. Purchasers of Shares of the Trust should consult their own tax advisers as to the tax consequences of investing in such Shares, including under state, local and other tax laws. Finally, the foregoing discussion is based on applicable provisions of the Internal Revenue Code, regulations, judicial authority and administrative interpretations in effect on the date hereof. Changes in applicable authority could materially affect the conclusions discussed above, and such changes often occur.

#### Reportable Transactions

Under promulgated Treasury regulations, if a shareholder recognizes a loss on disposition of a Fund's Shares of \$2 million or more in any one taxable year (or \$4 million or more over a period of six taxable years) for an individual shareholder or \$10 million or more in any taxable year (or \$20 million or more over a period of six taxable years) for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC that engaged in a reportable transaction are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all RICs. In addition, significant penalties may be imposed for the failure to comply with the reporting requirements. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

#### California State Tax Considerations

To the extent that dividends from the Market Vectors California Long Municipal Index ETF are derived from interest on California tax-exempt securities and on certain U.S. government securities, such dividends will also be exempt from California personal income taxes. Under California law, a fund which qualifies as a regulated investment company must have at least 50% of its total assets invested in California state and local government obligations or in U.S. government obligations which pay interest excludable from income or in a combination of such obligations at the end of each quarter of its taxable year in order to be eligible to pay dividends which will be exempt from California personal income taxes.

The portion of dividends constituting exempt-interest dividends is that portion (i) derived from interest on obligations would be exempt from California tax if held by an individual, and (ii) designated by the Fund as exempt-interest dividends in a written notice to shareholders mailed within 60 days of the close of the Fund's taxable year. However, the total amount of dividends paid by the Fund to all of its shareholders with respect to any taxable year that can be treated as exempt-interest dividends for California tax purposes cannot exceed the difference between (i) the amount of interest received by the Fund during such year on obligations which pay interest excludable from California personal income under California law and (ii) the expenses of the Fund that would be disallowed under California personal income tax law as allocable to tax exempt interest if the Fund were an individual. If the aggregate dividends designated by the Fund as exempt-interest dividends for a taxable year exceed the amount that may be treated as exempt-interest dividends for California tax purposes, only that percentage

of each dividend distribution equal to the ratio of aggregate exempt-interest dividends to aggregate dividends so designated will be treated as an exempt-interest dividend for California tax purposes.

Unlike federal law, California law provides that no portion of the exempt-interest dividends will constitute an item of tax preference for California personal alternative minimum tax purposes.

Because, unlike federal law, California law does not impose personal income tax on an individual's Social Security benefits, the receipt of California exempt-interest dividends will have no effect on an individual's California personal income tax.

Individual shareholders will normally be subject to federal and California personal income tax on dividends paid from interest income derived from taxable securities and distributions of net capital gains. In addition, distributions other than exempt-interest dividends to such shareholders are includable in income subject to the California alternative minimum tax. For federal income tax and California personal income tax purposes, distributions of long-term capital gains, if any, are taxable to shareholders as long-term capital gains, regardless of how long a shareholder has held shares of the Fund and regardless of whether the distribution is received in additional shares or in cash. In general, the maximum federal capital gains rate for individuals is 15% with respect to capital assets held more than one year. The maximum capital gains rate for corporate shareholders is the same as the maximum tax rate for ordinary income. In addition, unlike federal law, the shareholders of the Fund will not be subject to tax, or receive a credit for tax paid by the Fund, on undistributed capital gains, if any.

Interest on indebtedness incurred by shareholders or related parties to purchase or carry shares of an investment company paying exempt-interest dividends, such as the Fund, generally will not be deductible by the investor for federal or state personal income tax purposes. In addition, as a result of California's incorporation of certain provisions of the Internal Revenue Code, a loss realized by a shareholder upon the sale of shares held for six months or less may be disallowed to the extent of any exempt-interest dividends received with respect to such shares. Moreover, any loss realized upon the redemption of shares within six months from the date of purchase of such shares and following receipt of a long-term capital gains distribution will be treated as long-term capital loss to the extent of such long-term capital gains distribution. Finally, any loss realized upon the redemption of shares within 30 days before or after the acquisition of other shares of the Fund may be disallowed under the "wash sale" rules.

The foregoing discussion is a summary only and is not intended as a substitute for careful tax planning. Purchasers of Shares should consult their own tax advisors as to the tax consequences of investing in such Shares, including under federal, state, local and other tax laws. Finally, the foregoing discussion is based on applicable provisions of the federal, state and local tax law, including statutes, regulations, judicial authority and administrative interpretations in effect on the date hereof. Changes in applicable authority could materially affect the conclusions discussed above, and such changes often occur.

It is intended that the Market Vectors New Jersey Municipal Index ETF will be treated as a “qualified investment fund” under New Jersey law, and as a result, distributions paid by it will generally not be subject to the personal income tax imposed under State law, the New Jersey Gross Income Tax. Only that portion of each distribution which represents income or gains attributable to investments that are not exempt from State or local tax under New Jersey or federal law will be subject to the New Jersey Gross Income Tax. To be classified as a qualified investment fund, 80% of the fund’s investments must consist of New Jersey municipal securities. In addition, as long as the fund is a qualified investment fund, net gains from the redemption of shares of the fund or from the disposition of interests in the fund will also be exempt from New Jersey Gross Income Tax.

The New Jersey Gross Income Tax is not applicable to corporations. For all corporations which are subject to the New Jersey Corporation Business Tax, dividends and distributions from a qualified investment fund are included in the tax base for purposes of computing the net income portion of the Corporation Business Tax and may be included in the gross receipts base for purposes of computing the alternative minimum assessment portion of the Corporation Business Tax. Furthermore, any gain upon the redemption or sale of shares by a corporate shareholder

- 89 -

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is also included in the net income tax base and may be added to the gross receipts base for purposes of computing the Corporation Business Tax. Shares of the fund are not subject to property taxation by New Jersey.

### New York State and City Tax

To the extent that dividends from the Market Vectors New York Long Municipal Index ETF are derived from interest on New York tax-exempt securities, such dividends will also be exempt from New York State and City income taxes.

Interest on indebtedness incurred or continued to purchase or carry shares of an investment company paying exempt-interest dividends, such as the Fund, may not be deductible by the investor for State or City income tax purposes.

Shareholders who are New York residents will normally be subject to federal, New York State or City income tax on dividends paid from interest income derived from taxable securities and on distributions of net capital gains. For federal and New York State or City income tax purposes, distributions of net long-term capital gains, if any, are taxable to shareholders as long-term capital gains, regardless of how long the shareholder has held the shares of the Fund and regardless of whether the distribution is received in additional shares or in cash. Distributions from investment income and capital gains, including exempt-interest dividends, may be subject to New York franchise taxes if received by a corporation doing business in New York, to state taxes in states other than New York and to local taxes.

### Massachusetts State Tax Considerations

Distributions paid by the Market Vectors Massachusetts Municipal Index ETF will not be subject to Massachusetts personal income tax to the extent they are derived from interest on (a) obligations of the Commonwealth of Massachusetts and its political subdivisions and qualifying agencies and instrumentalities (“Massachusetts Obligations”) and (b) U.S. government obligations. Massachusetts requires that the Fund properly designate such distributions in a written notice mailed to the Fund’s shareholders not later than sixty days after the close of the Fund’s tax year. Distributions which qualify as capital gain dividends for federal income tax purposes are exempt from Massachusetts personal income tax to the extent the distributions are derived from gains from the sale or exchange of Massachusetts Obligations, and are properly designated as such in a written notice mailed to the Fund’s shareholders not later than sixty days after the close of the Fund’s tax year. Distributions from the Fund are not exempt from Massachusetts corporate excise tax.

### Ohio State and Local Tax Considerations

To the extent that dividends from the Market Vectors Ohio Municipal Index ETF are properly attributable to interest on obligations issued by or on behalf of the State of Ohio or its political subdivisions, or the agencies or instrumentalities thereof (“Ohio Obligations”), such dividends will be exempt from Ohio personal income tax. Dividends from Market Vectors Ohio Municipal Index ETF also will be excluded from the net income base of the Ohio corporation franchise tax to the extent such dividends are excluded from gross income for federal income tax purposes or are properly attributable to interest on Ohio Obligations. The shares of Market Vectors Ohio Municipal Index ETF will, however, be included in the net worth basis of the Ohio corporation franchise tax. Dividends from Market Vectors Ohio Municipal Index ETF will be exempt from the Ohio commercial activity tax. Dividends from Market Vectors Ohio Municipal Index ETF will be exempt from Ohio municipal and joint economic development district income taxes as intangible income and will not be subject to any permissible Ohio municipal or joint economic development district income taxes on intangible income that are part of business net profits to the extent that such dividends are excluded from gross income for federal income tax purposes or are properly attributable to interest on Ohio Obligations. Dividends from Market Vectors Ohio Municipal Index ETF will be exempt from Ohio school district income taxes to the extent that such dividends are excluded from gross income for federal income tax purposes or are properly attributable to interest on Ohio Obligations.

Except for the conclusion regarding the Ohio commercial activity tax, the foregoing conclusions regarding Ohio taxation are based on the assumption that Market Vectors Ohio Municipal Index ETF will continue to qualify

as a regulated investment company under the Internal Revenue Code, and that at all times at least 50% of the value of the total assets of Market Vectors Ohio Municipal Index ETF will consist of Ohio Obligations or similar obligations of other states or their subdivisions.

#### Pennsylvania State Tax Considerations

Distributions paid by the Market Vectors Pennsylvania Municipal Index ETF will not be subject to the Pennsylvania personal income tax or the Philadelphia School District investment net income tax to the extent they are derived from interest on (a) obligations of the Commonwealth of Pennsylvania and its political subdivisions and qualifying agencies and instrumentalities (“Pennsylvania Obligations”) and (b) U.S. government obligations. For purposes of the Pennsylvania corporate net income tax, distributions will be exempt from tax to the extent they are derived from interest on Pennsylvania Obligations and will be deductible (net of carrying costs and certain other expenses) to the extent they are derived from interest on U.S. government obligations. Distributions derived from gains on the disposition of Pennsylvania Obligations will be taxable under the Pennsylvania personal income tax and Pennsylvania corporate net income tax, but not under the Philadelphia School District net investment income tax.

#### CAPITAL STOCK AND SHAREHOLDER REPORTS

The Trust currently is comprised of 59 investment funds. The Trust issues Shares of beneficial interest with no par value. The Board may designate additional funds of the Trust.

Each Share issued by the Trust has a *pro rata* interest in the assets of the corresponding Fund. Shares have no pre-emptive, exchange, subscription or conversion rights and are freely transferable. Each Share is entitled to participate equally in dividends and distributions declared by the Board with respect to the relevant Fund, and in the net distributable assets of such Fund on liquidation.

Each Share has one vote with respect to matters upon which a shareholder vote is required consistent with the requirements of the 1940 Act and the rules promulgated thereunder and each fractional Share has a proportional fractional vote. Shares of all funds vote together as a single class except that if the matter being voted on affects only a particular fund it will be voted on only by that fund, and if a matter affects a particular fund differently from other funds, that fund will vote separately on such matter. Under Delaware law, the Trust is not required to hold an annual meeting of shareholders unless required to do so under the 1940 Act. The policy of the Trust is not to hold an annual meeting of shareholders unless required to do so under the 1940 Act. All Shares of the Trust have noncumulative voting rights for the election of Trustees. Under Delaware law, Trustees of the Trust may be removed by vote of the shareholders.

Under Delaware law, the shareholders of a Fund are not generally subject to liability for the debts or obligations of the Trust. Similarly, Delaware law provides that a Fund will not be liable for the debts or obligations of any other series of the Trust. However, no similar statutory or other authority limiting statutory trust shareholder liability may exist in other states. As a result, to the extent that a Delaware statutory trust or a shareholder is subject to the jurisdiction of courts of such other states, the courts may not apply Delaware law and may thereby subject the Delaware statutory trust's shareholders to liability for the debts or obligations of the Trust. The Trust's Amended and Restated Declaration of Trust (the "Declaration of Trust") provides for indemnification by the relevant Fund for all loss suffered by a shareholder as a result of an obligation of the Fund. The Declaration of Trust also provides that a Fund shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Fund and satisfy any judgment thereon.

The Trust will issue through DTC Participants to its shareholders semi-annual reports containing unaudited financial statements and annual reports containing financial statements audited by an independent auditor approved by the Trust's Trustees and by the shareholders when meetings are held and such other information as may be required by applicable laws, rules and regulations. Beneficial Owners also receive annually notification as to the tax status of the Trust's distributions.

Shareholder inquiries may be made by writing to the Trust, c/o Van Eck Associates Corporation, 335 Madison Avenue, 19th Floor, New York, New York 10017.

- 91 -



COUNSEL AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Dechert LLP, 1095 Avenue of the Americas, New York, New York, 10036, is counsel to the Trust and has passed upon the validity of each Fund's Shares.

Ernst & Young LLP, 5 Times Square, New York, New York 10036, is the Trust's independent registered public accounting firm and has been selected to audit the Funds' financial statements and perform other related audit services.

- 92 -

LICENSE AGREEMENT AND DISCLAIMERS

The information contained herein regarding the Barclays AMT-Free California Long Municipal Index, Barclays AMT-Free Massachusetts Municipal Index, Barclays AMT-Free New Jersey Municipal Index, Barclays AMT-Free New York Long Municipal Index, Barclays AMT-Free Ohio Municipal Index and Barclays AMT-Free Pennsylvania Municipal Index (collectively, the “Indexes”) was provided by Barclays Inc. (“Licensor”), while the information contained herein regarding the securities markets and DTC was obtained from publicly available sources.

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CALCULATING OR DISSEMINATING SUCH INDEX.

- 93 -

APPENDIX A

VAN ECK GLOBAL PROXY VOTING POLICIES

Van Eck Global (the “Adviser”) has adopted the following policies and procedures which are reasonably designed to ensure that proxies are voted in a manner that is consistent with the best interests of its clients in accordance with its fiduciary duties and Rule 206(4)-6 under the Investment Advisers Act of 1940. When an adviser has been granted proxy voting authority by a client, the adviser owes its clients the duties of care and loyalty in performing this service on their behalf. The duty of care requires the adviser to monitor corporate actions and vote client proxies. The duty of loyalty requires the adviser to cast the proxy votes in a manner that is consistent with the best interests of the client.

Rule 206(4)-6 also requires the Adviser to disclose information about the proxy voting procedures to its clients and to inform clients how to obtain information about how their proxies were voted. Additionally, Rule 204-2 under the Advisers Act requires the Adviser to maintain certain proxy voting records.

An adviser that exercises voting authority without complying with Rule 206(4)-6 will be deemed to have engaged in a “fraudulent, deceptive, or manipulative” act, practice or course of business within the meaning of Section 206(4) of the Advisers Act.

The Adviser intends to vote all proxies in accordance with applicable rules and regulations, and in the best interests of clients without influence by real or apparent conflicts of interest. To assist in its responsibility for voting proxies and the overall voting process, the Adviser has engaged an independent third party proxy voting specialist, Glass Lewis & Co., LLC. The services provided by Glass Lewis include in-depth research, global issuer analysis, and voting recommendations as well as vote execution, reporting and recordkeeping.

**Resolving Material Conflicts of Interest**

When a material conflict of interest exists, proxies will be voted in the following manner:

1. Strict adherence to the Glass Lewis guidelines , or
2. The potential conflict will be disclosed to the client:

- a. with a request that the client vote the proxy,
- b. with a recommendation that the client engage another party to determine how the proxy should be voted or
- c. if the foregoing are not acceptable to the client, disclosure of how Van Eck intends to vote and a written consent to that vote by the client.

Any deviations from the foregoing voting mechanisms must be approved by the Chief Compliance Officer with a written explanation of the reason for the deviation.

A **material conflict of interest** means the existence of a business relationship between a portfolio company or an affiliate and the Adviser, any affiliate or subsidiary, or an “affiliated person” of a Van Eck mutual fund. Examples of when a material conflict of interest exists include a situation where the adviser provides significant investment advisory, brokerage or other services to a company whose management is soliciting proxies; an officer of the Adviser serves on the board of a charitable organization that receives charitable contributions from the portfolio company and the charitable organization is a client of the Adviser; a portfolio company that is a significant selling agent of the Adviser’s products and services solicits proxies; a broker-dealer or insurance company that controls 5% or more of the Adviser’s assets solicits proxies; the Adviser serves as an investment adviser to the pension or other investment account of the portfolio company; the Adviser and the portfolio company have a lending relationship. In each of these situations voting against management may cause the Adviser a loss of revenue or other benefit.

## Client Inquiries

All inquiries by clients as to how the Adviser has voted proxies must immediately be forwarded to Portfolio Administration.

## Disclosure to Clients:

### 1. Notification of Availability of Information

Client Brochure - The Client Brochure or Part II of Form ADV will inform clients that they can obtain information from the Adviser on how their proxies were voted. The Client Brochure or Part II of Form ADV will be mailed to each client annually. The Legal Department will be responsible for coordinating the mailing with Sales/Marketing Departments.

### 2. Availability of Proxy Voting Information

<sup>a.</sup> At the client's request or if the information is not available on the Adviser's website, a hard copy of the account's proxy votes will be mailed to each client.

## Recordkeeping Requirements

Van Eck will retain the following documentation and information for each matter relating to a portfolio security with respect to which a client was entitled to vote:

- a. proxy statements received;
- b. identifying number for the portfolio security;
- c. shareholder meeting date;
- d. brief identification of the matter voted on;
- e. whether the vote was cast on the matter;

f. how the vote was cast (e.g., for or against proposal, or abstain; for or withhold regarding election of directors);

g. records of written client requests for information on how the Adviser voted proxies on behalf of the client;

a copy of written responses from the Adviser to any written or oral client request for information on how the  
h. Adviser voted proxies on behalf of the client; and any documents prepared by the Adviser that were material to the decision on how to vote or that memorialized the basis for the decision, if such documents were prepared.

Copies of proxy statements filed on EDGAR, and proxy statements and records of proxy votes maintained with a  
2. third party (i.e., proxy voting service) need not be maintained. The third party must agree in writing to provide a copy of the documents promptly upon request.

3. If applicable, any document memorializing that the costs of voting a proxy exceed the benefit to the client or any other decision to refrain from voting, and that such abstention was in the client's best interest.

- 95 -

Proxy voting records will be maintained in an easily accessible place for five years, the first two at the office of the 4. Adviser. Proxy statements on file with EDGAR or maintained by a third party and proxy votes maintained by a third party are not subject to these particular retention requirements.

### **Voting Foreign Proxies**

At times the Adviser may determine that, in the best interests of its clients, a particular proxy should not be voted. This may occur, for example, when the cost of voting a foreign proxy (translation, transportation, etc.) would exceed the benefit of voting the proxy or voting the foreign proxy may cause an unacceptable limitation on the sale of the security. Any such instances will be documented by the Portfolio Manager and reviewed by the Chief Compliance Officer.

### **Securities Lending**

Certain portfolios managed by the Adviser participate in securities lending programs to generate additional revenue. Proxy voting rights generally pass to the borrower when a security is on loan. The Adviser will use its best efforts to recall a security on loan and vote such securities if the Portfolio Manager determines that the proxy involves a material event.

### **Proxy Voting Policy**

The Adviser has reviewed the Glass Lewis Proxy Guidelines (“Guidelines”) and has determined that the Guidelines are consistent with the Adviser’s proxy voting responsibilities and its fiduciary duty with respect to its clients. The Adviser will review any material amendments to the Guidelines.

While it is the Adviser’s policy to generally follow the Guidelines, the Adviser retains the right, on any specific proxy, to vote differently from the Guidelines, if the Adviser believes it is in the best interests of its clients. Any such exceptions will be documented by the Adviser and reviewed by the Chief Compliance Officer.

The portfolio manager or analyst covering the security is responsible for making proxy voting decisions. Portfolio Administration, in conjunction with the portfolio manager and the custodian, is responsible for monitoring corporate actions and ensuring that corporate actions are timely voted.



PROXY PAPER™

GUIDELINES

2014 PROXY SEASON

AN OVERVIEW OF THE GLASS LEWIS

APPROACH TO PROXY ADVICE

UNITED STATES

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TABLE OF

CONTENTS

I. OVERVIEW OF SIGNIFICANT UPDATES FOR 2014	1
Majority-Approved Shareholder Proposals Seeking Board Declassification	1
Poison Pills with a Term of One Year or Less	1
Dual-Listed Companies	1
Hedging and Pledging of Stock	1
SEC Final Rules Regarding Compensation Committee Member Independence and Compensation Consultants	1
II. A BOARD OF DIRECTORS THAT SERVES THE INTERESTS OF SHAREHOLDERS	2
Election of Directors	2
Independence	2
Voting Recommendations on the Basis of Board Independence	4
Committee Independence	4
Independent Chairman	4
Performance	5
Voting Recommendations on the Basis of Performance	5
Board Responsiveness	6
The Role of a Committee Chairman	6
Audit Committees and Performance	7
Standards for Assessing the Audit Committee	7
Compensation Committee Performance	10
Nominating and Governance Committee Performance	12
Board Level Risk Management Oversight	13
Experience	14
Other Considerations	14
Controlled Companies	16
Unofficially Controlled Companies and 20-50% Beneficial Owners	17
Exceptions for Recent IPOs	17
Dual-Listed Companies	18
Mutual Fund Boards	18
Declassified Boards	19
Mandatory Director Term and Age limits	20
Requiring Two or More Nominees per Board Seat	21
Proxy Access	21

Majority Vote for the Election of Directors	21
The Plurality Vote Standard	21
Advantages of a Majority Vote Standard	22
<b>III. TRANSPARENCY AND INTEGRITY OF FINANCIAL REPORTING</b>	<b>23</b>
Auditor Ratification	23
Voting Recommendations on Auditor Ratification	23
Pension Accounting Issues	24
<b>IV. THE LINK BETWEEN COMPENSATION AND PERFORMANCE</b>	<b>25</b>
Advisory Vote on Executive Compensation (“Say-on-Pay”)	25
Say-on-Pay Voting Recommendations	26
Company Responsiveness	27
Pay for Performance	27
Short-Term Incentives	27
Long-Term Incentives	28
Recoupment (“Clawback”) Provisions	29
Hedging of Stock	29
Pledging of Stock	29
Compensation Consultant Independence	30
Frequency of Say-on-Pay	30
Vote on Golden Parachute Arrangements	31
Equity-Based Compensation Plan Proposals	31
Option Exchanges	32
Option Backdating, Spring-Loading and Bullet-Dodging	33
Director Compensation Plans	33
Executive Compensation Tax Deductibility (IRS 162(m) Compliance)	34
<b>V. GOVERNANCE STRUCTURE AND THE SHAREHOLDER FRANCHISE</b>	<b>35</b>
Anti-Takeover Measures	35
Poison Pills (Shareholder Rights Plans)	35
NOL Poison Pills	35
Fair Price Provisions	36
Reincorporation	37
Exclusive Forum Provisions	37
Authorized Shares	38
Advance Notice Requirements	38
Voting Structure	39
Cumulative Voting	39
Supermajority Vote Requirements	40

Transaction of Other Business	40
Anti-Greenmail Proposals	40
Mutual Funds: Investment Policies and Advisory Agreements	40
Real Estate Investment Trusts	41
Preferred Stock Issuances at REITs	41
Business Development Companies	41
Authorization to Sell Shares at a Price below Net Asset Value	41

VI. COMPENSATION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE SHAREHOLDER INITIATIVES OVERVIEW	43
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III

I.

**OVERVIEW OF SIGNIFICANT UPDATES FOR 2014**

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail throughout this document:

**MAJORITY-APPROVED SHAREHOLDER PROPOSALS SEEKING BOARD DECLASSIFICATION**

We have updated our policy with regard to implementation of majority-approved shareholder proposals seeking board declassification. If a company fails to implement a shareholder proposal seeking board declassification, which received majority support from shareholders (excluding abstentions and broker non-votes) at the previous year's annual meeting, we will consider recommending that shareholders vote against all nominees up for election that served throughout the previous year, regardless of their committee membership.

**POISON PILLS WITH A TERM OF ONE YEAR OR LESS**

We have refined our policy with regard to short-term poison pills (those with a term of one year or less). If a poison pill with a term of one year or less was adopted without shareholder approval, we will consider recommending that shareholders vote against all members of the governance committee. If the board has, without seeking shareholder approval, extended the term of a poison pill by one year or less in two consecutive years, we will consider recommending that shareholders vote against the entire board.

**DUAL-LISTED COMPANIES**

We have clarified our approach to companies whose shares are listed on exchanges in multiple countries, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules. In determining which Glass Lewis country-specific policy to apply, we will consider a number of factors, and we will apply the policy standards most relevant in each situation.

**HEDGING AND PLEDGING OF STOCK**

We have included general discussions of our policies regarding hedging of stock and pledging of shares owned by executives.

**SEC FINAL RULES REGARDING COMPENSATION COMMITTEE MEMBER INDEPENDENCE AND  
COMPENSATION CONSULTANTS**

We have summarized the SEC requirements for compensation committee member independence and compensation consultant independence, and how these new rules may affect our evaluation of compensation committee members. These requirements were mandated by Section 952 of the Dodd-Frank Act and formally adopted by the NYSE and NASDAQ in 2013. Companies listed on these exchanges were required to meet certain basic requirements under the new rules by July 1, 2013, with full compliance by the earlier of their first annual meeting after January 15, 2014, or October 31, 2014.

II.

**A BOARD OF DIRECTORS THAT SERVES THE INTERESTS OF SHAREHOLDERS  
ELECTION OF DIRECTORS**

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that a board can best protect and enhance the interests of shareholders if it is sufficiently independent, has a record of positive performance, and consists of individuals with diverse backgrounds and a breadth and depth of relevant experience.

**INDEPENDENCE**

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine when a director's service track record on multiple boards indicates a lack of objective decision-making. Ultimately, we believe the determination of whether a director is independent or not must take into consideration both compliance with the applicable independence listing requirements as well as judgments made by the director.

We look at each director nominee to examine the director's relationships with the company, the company's executives, and other directors. We do this to evaluate whether personal, familial, or financial relationships (not including director compensation) may impact the director's decisions. We believe that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests. We also believe that a director who owns more than 20% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

Thus, we put directors into three categories based on an examination of the type of relationship they have with the company:

**Independent Director** – An independent director has no material financial, familial or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service. Relationships that existed within three to five years<sup>1</sup> before the inquiry are usually considered “current” for purposes of this test.

In our view, a director who is currently serving in an interim management position should be considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such capacity is considered independent. Moreover, a director who previously served in an interim management position for over one year and is no longer serving in such capacity is considered an affiliate for five years following the date of his/her resignation or departure from the interim management position. Glass Lewis applies a three-year look-back period to all directors who have an affiliation with the company other than former employment, for which we apply a five-year look-back.

<sup>1</sup> NASDAQ originally proposed a five-year look-back period but both it and the NYSE ultimately settled on a three-year look-back prior to finalizing their rules. A five-year standard is more appropriate, in our view, because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.



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Affiliated Director – An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.<sup>2</sup> This includes directors whose employers have a material financial relationship with the company.<sup>3</sup> In addition, we view a director who owns or controls 20% or more of the company’s voting stock as an affiliate<sup>4</sup>

We view 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

Definition of “Material”: A material relationship is one in which the dollar value exceeds:

- \$50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services; or

- \$120,000 (or where no amount is disclosed) for those directors employed by a professional services firm such as a law firm, investment bank, or consulting firm and the company pays the firm, not the individual, for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor; or charities where a director serves on the board or is an executive;<sup>5</sup> and any aircraft and real estate dealings between the company and the director’s firm; or

- 1% of either company’s consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).<sup>6</sup>

Definition of “Familial”: Familial relationships include a person’s spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person’s home. A director is an affiliate if: i) he or she has a family member who is employed by the company and receives more than \$120,000 in annual compensation; or, ii) he or she has a family member who is employed by the company and the company does not disclose this individual’s compensation.

Definition of “Company”: A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

Inside Director – An inside director simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company. In our view, an inside director who derives a greater amount of income as a result of affiliated transactions with the company rather than through compensation paid by the company (i.e., salary, bonus, etc. as a company employee) faces a conflict between making decisions that are in the best interests of the company versus

those in the director's own best interests. Therefore, we will recommend voting against such a director.

2 If a company classifies one of its non-employee directors as non-independent, Glass Lewis will classify that director as an affiliate.

3 We allow a five-year grace period for former executives of the company or merged companies who have consulting agreements with the surviving company. (We do not automatically recommend voting against directors in such cases for the first five years.) If the consulting agreement persists after this five-year grace period, we apply the materiality thresholds outlined in the definition of "material."

4 This includes a director who serves on a board as a representative (as part of his or her basic responsibilities) of an investment firm with greater than 20% ownership. However, while we will generally consider him/her to be affiliated, we will not recommend voting against unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.

5 We will generally take into consideration the size and nature of such charitable entities in relation to the company's size and industry along with any other relevant factors such as the director's role at the charity. However, unlike for other types of related party transactions, Glass Lewis generally does not apply a look-back period to affiliated relationships involving charitable contributions; if the relationship between the director and the school or charity ceases, or if the company discontinues its donations to the entity, we will consider the director to be independent.

6 This includes cases where a director is employed by, or closely affiliated with, a private equity firm that profits from an acquisition made by the company. Unless disclosure suggests otherwise, we presume the director is affiliated.

## **VOTING RECOMMENDATIONS ON THE BASIS OF BOARD INDEPENDENCE**

Glass Lewis believes a board will be most effective in protecting shareholders' interests if it is at least two-thirds independent. We note that each of the Business Roundtable, the Conference Board, and the Council of Institutional Investors advocates that two-thirds of the board be independent. Where more than one-third of the members are affiliated or inside directors, we typically<sup>7</sup> recommend voting against some of the inside and/or affiliated directors in order to satisfy the two-thirds threshold.

In the case of a less than two-thirds independent board, Glass Lewis strongly supports the existence of a presiding or lead director with authority to set the meeting agendas and to lead sessions outside the insider chairman's presence.

In addition, we scrutinize avowedly "independent" chairmen and lead directors. We believe that they should be unquestionably independent or the company should not tout them as such.

## **COMMITTEE INDEPENDENCE**

We believe that only independent directors should serve on a company's audit, compensation, nominating, and governance committees.<sup>8</sup> We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating, or governance committee, or who has served in that capacity in the past year.

Pursuant to Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require that boards apply enhanced standards of independence when making an affirmative determination of the independence of compensation committee members. Specifically, when making this determination, in addition to the factors considered when assessing general director independence, the board's considerations must include: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by the listed company to the director (the "Fees Factor"); and (ii) whether the director is affiliated with the listing company, its subsidiaries, or affiliates of its subsidiaries (the "Affiliation Factor").

Glass Lewis believes it is important for boards to consider these enhanced independence factors when assessing compensation committee members. However, as discussed above in the section titled Independence, we apply our own standards when assessing the independence of directors, and these standards also take into account consulting and advisory fees paid to the director, as well as the director's affiliations with the company and its subsidiaries and affiliates. We may recommend voting against compensation committee members who are not independent based on our standards.

## INDEPENDENT CHAIRMAN

Glass Lewis believes that separating the roles of CEO (or, more rarely, another executive position) and chairman creates a better governance structure than a combined CEO/chairman position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals set by the board. This is needlessly complicated when a CEO chairs the board, since a CEO/chairman presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chairman controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched

7 With a staggered board, if the affiliates or insiders that we believe should not be on the board are not up for election, we will express our concern regarding those directors, but we will not recommend voting against the other affiliates or insiders who are up for election just to achieve two-thirds independence. However, we will consider recommending voting against the directors subject to our concern at their next election if the concerning issue is not resolved.

8 We will recommend voting against an audit committee member who owns 20% or more of the company's stock, and we believe that there should be a maximum of one director (or no directors if the committee is comprised of less than three directors) who owns 20% or more of the company's stock on the compensation, nominating, and governance committees.

position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chairman can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Further, it is the board's responsibility to select a chief executive who can best serve a company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. Such a replacement becomes more difficult and happens less frequently when the chief executive is also in the position of overseeing the board.

Glass Lewis believes that the installation of an independent chairman is almost always a positive step from a corporate governance perspective and promotes the best interests of shareholders. Further, the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Encouragingly, many companies appear to be moving in this direction—one study even indicates that less than 12 percent of incoming CEOs in 2009 were awarded the chairman title, versus 48 percent as recently as 2002.<sup>9</sup> Another study finds that 45 percent of S&P 500 boards now separate the CEO and chairman roles, up from 23 percent in 2003, although the same study found that of those companies, only 25 percent have truly independent chairs.<sup>10</sup>

We do not recommend that shareholders vote against CEOs who chair the board. However, we typically recommend that our clients support separating the roles of chairman and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that it is in the long-term best interests of the company and its shareholders.

## **PERFORMANCE**

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served.

**VOTING RECOMMENDATIONS ON THE BASIS OF PERFORMANCE**

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

1. A director who fails to attend a minimum of 75% of board and applicable committee meetings, calculated in the aggregate.<sup>11</sup>
2. A director who belatedly filed a significant form(s) 4 or 5, or who has a pattern of late filings if the late filing was the director's fault (we look at these late filing situations on a case-by-case basis).

9 Ken Favaro, Per-Ola Karlsson and Gary Neilson. "CEO Succession 2000-2009: A Decade of Convergence and Compression." Booz & Company (from Strategy+Business, Issue 59, Summer 2010).

10 Spencer Stuart Board Index, 2013, p. 5

11 However, where a director has served for less than one full year, we will typically not recommend voting against for failure to attend 75% of meetings. Rather, we will note the poor attendance with a recommendation to track this issue going forward. We will also refrain from recommending to vote against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

3. A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.
4. A director who has received two against recommendations from Glass Lewis for identical reasons within the prior year at different companies (the same situation must also apply at the company being analyzed).
5. All directors who served on the board if, for the last three years, the company's performance has been in the bottom quartile of the sector and the directors have not taken reasonable steps to address the poor performance.

## BOARD RESPONSIVENESS

Glass Lewis believes that any time 25% or more of shareholders vote contrary to the recommendation of management, the board should, depending on the issue, demonstrate some level of responsiveness to address the concerns of shareholders. These include instances when 25% or more of shareholders (excluding abstentions and broker non-votes): WITHOLD votes from (or vote AGAINST) a director nominee, vote AGAINST a management-sponsored proposal, or vote FOR a shareholder proposal. In our view, a 25% threshold is significant enough to warrant a close examination of the underlying issues and an evaluation of whether or not a board response was warranted and, if so, whether the board responded appropriately following the vote. While the 25% threshold alone will not automatically generate a negative vote recommendation from Glass Lewis on a future proposal (e.g. to recommend against a director nominee, against a say-on-pay proposal, etc.), it may be a contributing factor if we recommend to vote against management's recommendation in the event we determine that the board did not respond appropriately.

As a general framework, our evaluation of board responsiveness involves a review of publicly available disclosures (e.g. the proxy statement, annual report, 8-Ks, company website, etc.) released following the date of the company's last annual meeting up through the publication date of our most current Proxy Paper. Depending on the specific issue, our focus typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities;
- Any revisions made to the company's articles of incorporation, bylaws or other governance documents;
- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports; and
- Any modifications made to the design and structure of the company's compensation program.

Our Proxy Paper analysis will include a case-by-case assessment of the specific elements of board responsiveness that we examined along with an explanation of how that assessment impacts our current vote recommendations.

#### **THE ROLE OF A COMMITTEE CHAIRMAN**

Glass Lewis believes that a designated committee chairman maintains primary responsibility for the actions of his or her respective committee. As such, many of our committee-specific vote recommendations deal with the applicable committee chair rather than the entire committee (depending on the seriousness of the issue). However, in cases where we would ordinarily recommend voting against a committee chairman but the chair is not specified, we apply the following general rules, which apply throughout our guidelines:



If there is no committee chair, we recommend voting against the longest-serving committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member serving on the committee (i.e. in either case, the “senior director”); and

If there is no committee chair, but multiple senior directors serving on the committee, we recommend voting against both (or all) such senior directors.

In our view, companies should provide clear disclosure of which director is charged with overseeing each committee. In cases where that simple framework is ignored and a reasonable analysis cannot determine which committee member is the designated leader, we believe shareholder action against the longest serving committee member(s) is warranted. Again, this only applies if we would ordinarily recommend voting against the committee chair but there is either no such position or no designated director in such role.

On the contrary, in cases where there is a designated committee chair and the recommendation is to vote against the committee chair, but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

## AUDIT COMMITTEES AND PERFORMANCE

Audit committees play an integral role in overseeing the financial reporting process because “[v]ibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important.”<sup>12</sup>

When assessing an audit committee’s performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee member monitors and oversees the process and procedures that management and auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

*A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting – the full board including the audit committee, financial management including the internal auditors, and the outside auditors – form a ‘three legged stool’ that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be ‘first among equals’ in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process.*

**STANDARDS FOR ASSESSING THE AUDIT COMMITTEE**

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting recommendations, the Conference Board Commission on Public Trust and Private Enterprise said "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."<sup>13</sup>

We are skeptical of audit committees where there are members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO) or corporate controller, or similar experience. While

12 Audit Committee Effectiveness – What Works Best.” PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

13 Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

we will not necessarily vote against members of an audit committee when such expertise is lacking, we are more likely to vote against committee members when a problem such as a restatement occurs and such expertise is lacking.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and would vote in favor of its members, but we would recommend voting against the following members under the following circumstances:<sup>14</sup>

All members of the audit committee when options were backdated, there is a lack of adequate controls in place,  
1. there was a resulting restatement, and disclosures indicate there was a lack of documentation with respect to the option grants.

The audit committee chair, if the audit committee does not have a financial expert or the committee's financial  
2. expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.

3. The audit committee chair, if the audit committee did not meet at least 4 times during the year.

4. The audit committee chair, if the committee has less than three members.

Any audit committee member who sits on more than three public company audit committees, unless the audit  
5. committee member is a retired CPA, CFO, controller or has similar experience, in which case the limit shall be four committees, taking time and availability into consideration including a review of the audit committee member's attendance at all board and committee meetings.<sup>15</sup>

6. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if audit and audit-related fees total one-third or less of the total fees billed by the auditor.

7. The audit committee chair when tax and/or other fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case we also recommend against ratification of the auditor).

8.

All members of an audit committee where non-audit fees include fees for tax services (including, but not limited to, such things as tax avoidance or shelter schemes) for senior executives of the company. Such services are prohibited by the Public Company Accounting Oversight Board (“PCAOB”).

9. All members of an audit committee that reappointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.

14 As discussed under the section labeled “Committee Chairman,” where the recommendation is to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against the members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

15 Glass Lewis may exempt certain audit committee members from the above threshold if, upon further analysis of relevant factors such as the director’s experience, the size, industry-mix and location of the companies involved and the director’s attendance at all the companies, we can reasonably determine that the audit committee member is likely not hindered by multiple audit committee commitments.

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10. All members of an audit committee when audit fees are excessively low, especially when compared with other companies in the same industry.

The audit committee chair<sup>16</sup> if the committee failed to put auditor ratification on the ballot for shareholder approval. However, if the non-audit fees or tax fees exceed audit plus audit-related fees in either the current or the prior year, then Glass Lewis will recommend voting against the entire audit committee.

12. All members of an audit committee where the auditor has resigned and reported that a section 10A<sup>17</sup> letter has been issued.

13. All members of an audit committee at a time when material accounting fraud occurred at the company.<sup>18</sup>

14. All members of an audit committee at a time when annual and/or multiple quarterly financial statements had to be restated, and any of the following factors apply:

• The restatement involves fraud or manipulation by insiders;

• The restatement is accompanied by an SEC inquiry or investigation;

• The restatement involves revenue recognition;

• The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or

• The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.

All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion. 15. For example, the company has filed two or more quarterly or annual financial statements late within the last 5 quarters.

16. All members of an audit committee when it has been disclosed that a law enforcement agency has charged the company and/or its employees with a violation of the Foreign Corrupt Practices Act (FCPA).

17. All members of an audit committee when the company has aggressive accounting policies and/ or poor disclosure or lack of sufficient transparency in its financial statements.

18.

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All members of the audit committee when there is a disagreement with the auditor and the auditor resigns or is dismissed (e.g., the company receives an adverse opinion on its financial statements from the auditor).

19. All members of the audit committee if the contract with the auditor specifically limits the auditor's liability to the company for damages.<sup>19</sup>
20. All members of the audit committee who served since the date of the company's last annual

16 As discussed under the section labeled "Committee Chairman," in all cases, if the chair of the committee is not specified, we recommend voting against the director who has been on the committee the longest.

17 Auditors are required to report all potential illegal acts to management and the audit committee unless they are clearly inconsequential in nature. If the audit committee or the board fails to take appropriate action on an act that has been determined to be a violation of the law, the independent auditor is required to send a section 10A letter to the SEC. Such letters are rare and therefore we believe should be taken seriously.

18 Recent research indicates that revenue fraud now accounts for over 60% of SEC fraud cases, and that companies that engage in fraud experience significant negative abnormal stock price declines—facing bankruptcy, delisting, and material asset sales at much higher rates than do non-fraud firms (Committee of Sponsoring Organizations of the Treadway Commission. "Fraudulent Financial Reporting: 1998-2007." May 2010).

19 The Council of Institutional Investors. "Corporate Governance Policies," p. 4, April 5, 2006; and "Letter from Council of Institutional Investors to the AICPA," November 8, 2006.

meeting, and when, since the last annual meeting, the company has reported a material weakness that has not yet been corrected, or, when the company has an ongoing material weakness from a prior year that has not yet been corrected.

We also take a dim view of audit committee reports that are boilerplate, and which provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filings occurs, we take into consideration, in forming our judgment with respect to the audit committee, the transparency of the audit committee report.

## **COMPENSATION COMMITTEE PERFORMANCE**

Compensation committees have the final say in determining the compensation of executives. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for such items as pay, pensions and severance arrangements. It is important in establishing compensation arrangements that compensation be consistent with, and based on the long-term economic performance of, the business's long-term shareholders returns.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes disclosure of compensation arrangements, the matrix used in assessing pay for performance, and the use of compensation consultants. In order to ensure the independence of the compensation consultant, we believe the compensation committee should only engage a compensation consultant that is not also providing any services to the company or management apart from their contract with the compensation committee. It is important to investors that they have clear and complete disclosure of all the significant terms of compensation arrangements in order to make informed decisions with respect to the oversight and decisions of the compensation committee.

Finally, compensation committees are responsible for oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establishment of equity award plans, and granting of equity awards. For example, the use of a compensation consultant who maintains a business relationship with company management may cause the committee to make decisions based on information that is compromised by the consultant's conflict of interests. Lax controls can also contribute to improper awards of compensation such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Central to understanding the actions of a compensation committee is a careful review of the Compensation Discussion and Analysis ("CD&A") report included in each company's proxy. We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. The CD&A is also integral to the evaluation of compensation proposals at companies, such as advisory votes on executive compensation, which allow shareholders to vote on the compensation paid to a company's top executives.

When assessing the performance of compensation committees, we will recommend voting against for the following:<sup>20</sup>

- All members of the compensation committee who are up for election and served at the time of poor
1. pay-for-performance (e.g., a company receives an F grade in our pay-for-performance analysis) when shareholders are not provided with an advisory vote on executive compensation

<sup>20</sup> As discussed under the section labeled “Committee Chairman,” where the recommendation is to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.



at the annual meeting.<sup>21</sup>

Any member of the compensation committee who has served on the compensation committee of at least two other public companies that received F grades in our pay-for-performance model and whose oversight of compensation at the company in question is suspect.

The compensation committee chair if the company received two D grades in consecutive years in our pay-for-performance analysis, and if during the past year the company performed the same as or worse than its peers.<sup>22</sup>

4. All members of the compensation committee (during the relevant time period) if the company entered into excessive employment agreements and/or severance agreements.

All members of the compensation committee when performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained.

6. All members of the compensation committee if excessive employee perquisites and benefits were allowed.

7. The compensation committee chair if the compensation committee did not meet during the year, but should have (e.g., because executive compensation was restructured or a new executive was hired).

8. All members of the compensation committee when the company repriced options or completed a "self tender offer" without shareholder approval within the past two years.

9. All members of the compensation committee when vesting of in-the-money options is accelerated.

10. All members of the compensation committee when option exercise prices were backdated. Glass Lewis will recommend voting against an executive director who played a role in and participated in option backdating.

11. All members of the compensation committee when option exercise prices were spring-loaded or otherwise timed around the release of material information.

All members of the compensation committee when a new employment contract is given to an executive that does not include a clawback provision and the company had a material restatement, especially if the restatement was due to fraud.

13. The chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the

compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets.

14. All members of the compensation committee during whose tenure the committee failed to

21 Where there are multiple CEOs in one year, we will consider not recommending against the compensation committee but will defer judgment on compensation policies and practices until the next year or a full year after arrival of the new CEO. In addition, if a company provides shareholders with a say-on-pay proposal and receives an F grade in our pay-for-performance model, we will recommend that shareholders only vote against the say-on-pay proposal rather than the members of the compensation committee, unless the company exhibits egregious practices. However, if the company receives successive F grades, we will then recommend against the members of the compensation committee in addition to recommending voting against the say-on-pay proposal.

22 In cases where a company has received two consecutive D grades, or if its grade improved from an F to a D in the most recent period, and during the most recent year the company performed better than its peers (based on our analysis), we refrain from recommending to vote against the compensation committee chair. In addition, if a company provides shareholders with a say-on-pay proposal in this instance, we will consider voting against the advisory vote rather than the compensation committee chair unless the company exhibits unquestionably egregious practices.

implement a shareholder proposal regarding a compensation-related issue, where the proposal received the affirmative vote of a majority of the voting shares at a shareholder meeting, and when a reasonable analysis suggests that the compensation committee (rather than the governance committee) should have taken steps to implement the request.<sup>23</sup>

All members of a compensation committee during whose tenure the committee failed to address shareholder concerns following majority shareholder rejection of the say-on-pay proposal in the previous year. Where the proposal was approved but there was a significant shareholder vote (i.e., greater than 25% of votes cast) against the say-on-pay proposal in the prior year, if there is no evidence that the board responded accordingly to the vote including actively engaging shareholders on this issue, we will also consider recommending voting against the chairman of the compensation committee or all members of the compensation committee, depending on the severity and history of the compensation problems and the level of opposition.

## **NOMINATING AND GOVERNANCE COMMITTEE PERFORMANCE**

The nominating and governance committee, as an agency for the shareholders, is responsible for the governance by the board of the company and its executives. In performing this role, the board is responsible and accountable for selection of objective and competent board members. It is also responsible for providing leadership on governance policies adopted by the company, such as decisions to implement shareholder proposals that have received a majority vote. (At most companies, a single committee is charged with these oversight functions; at others, the governance and nominating responsibilities are apportioned among two separate committees.)

Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience and culture.

Regarding the committee responsible for governance, we will recommend voting against the following:<sup>24</sup>

All members of the governance committee<sup>25</sup> during whose tenure the board failed to implement a shareholder proposal with a direct and substantial impact on shareholders and their rights – i.e., where the proposal received enough shareholder votes (at least a majority) to allow the board to implement or begin to implement that proposal.<sup>26</sup> Examples of these types of shareholder proposals are majority vote to elect directors and to declassify the board.

<sup>2</sup>. The governance committee chair,<sup>27</sup> when the chairman is not independent and an independent lead or presiding director has not been appointed.<sup>28</sup>

23 In all other instances (i.e., a non-compensation-related shareholder proposal should have been implemented) we recommend that shareholders vote against the members of the governance committee.

24 As discussed in the guidelines section labeled “Committee Chairman,” where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

25 If the board does not have a committee responsible for governance oversight and the board did not implement a shareholder proposal that received the requisite support, we will recommend voting against the entire board. If the shareholder proposal at issue requested that the board adopt a declassified structure, we will recommend voting against all director nominees up for election.

26 Where a compensation-related shareholder proposal should have been implemented, and when a reasonable analysis suggests that the members of the compensation committee (rather than the governance committee) bear the responsibility for failing to implement the request, we recommend that shareholders only vote against members of the compensation committee.

27 As discussed in the guidelines section labeled “Committee Chairman,” if the committee chair is not specified, we recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member serving on the committee.

28 We believe that one independent individual should be appointed to serve as the lead or presiding director. When such a position is rotated among directors from meeting to meeting, we will recommend voting against as if there were no lead or presiding director.

3. In the absence of a nominating committee, the governance committee chair when there are less than five or the whole nominating committee when there are more than 20 members on the board.

4. The governance committee chair, when the committee fails to meet at all during the year.

The governance committee chair, when for two consecutive years the company provides what we consider to be “inadequate” related party transaction disclosure (i.e., the nature of such transactions and/or the monetary amounts involved are unclear or excessively vague, thereby preventing a shareholder from being able to reasonably interpret the independence status of multiple directors above and beyond what the company maintains is compliant with SEC or applicable stock exchange listing requirements).

The governance committee chair, when during the past year the board adopted a forum selection clause (i.e., an exclusive forum provision)<sup>29</sup> without shareholder approval, or, if the board is currently seeking shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal.

Regarding the nominating committee, we will recommend voting against the following:<sup>30</sup>

All members of the nominating committee, when the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

2. The nominating committee chair, if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated or appointed since the time of the last annual meeting).

3. In the absence of a governance committee, the nominating committee chair<sup>31</sup> when the chairman is not independent, and an independent lead or presiding director has not been appointed.<sup>32</sup>

4. The nominating committee chair, when there are less than five or the whole nominating committee when there are more than 20 members on the board.<sup>33</sup>

5. The nominating committee chair, when a director received a greater than 50% against vote the prior year and not only was the director not removed, but the issues that raised shareholder concern were not corrected.<sup>34</sup>

## **BOARD-LEVEL RISK MANAGEMENT OVERSIGHT**

Glass Lewis evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at

29 A forum selection clause is a bylaw provision stipulating that a certain state, typically Delaware, shall be the exclusive forum for all intra-corporate disputes (e.g. shareholder derivative actions, assertions of claims of a breach of fiduciary duty, etc.). Such a clause effectively limits a shareholder's legal remedy regarding appropriate choice of venue and related relief offered under that state's laws and rulings.

30 As discussed in the guidelines section labeled "Committee Chairman," where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

31 As discussed under the section labeled "Committee Chairman," if the committee chair is not specified, we will recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member on the committee.

32 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis, unless if the chairman also serves as the CEO, in which case we will recommend voting against the director who has served on the board the longest.

33 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis, unless if the chairman also serves as the CEO, in which case we will recommend voting against the director who has served on the board the longest.

34 Considering that shareholder discontent clearly relates to the director who received a greater than 50% against vote rather than the nominating chair, we review the validity of the issue(s) that initially raised shareholder concern, follow-up on such matters, and only recommend voting against the nominating chair if a reasonable analysis suggests that it would be most appropriate. In rare cases, we will consider recommending against the nominating chair when a director receives a substantial (i.e., 25% or more) vote against based on the same analysis.

financial firms which inherently maintain significant exposure to financial risk. We believe such financial firms should have a chief risk officer reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight. Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firms have complex hedging or trading strategies, those firms should also have a chief risk officer and a risk committee.

Our views on risk oversight are consistent with those expressed by various regulatory bodies. In its December 2009 Final Rule release on Proxy Disclosure Enhancements, the SEC noted that risk oversight is a key competence of the board and that additional disclosures would improve investor and shareholder understanding of the role of the board in the organization's risk management practices. The final rules, which became effective on February 28, 2010, now explicitly require companies and mutual funds to describe (while allowing for some degree of flexibility) the board's role in the oversight of risk.

When analyzing the risk management practices of public companies, we take note of any significant losses or writedowns on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or writedown, and where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise)<sup>35</sup>, we will consider recommending to vote against the chairman of the board on that basis. However, we generally would not recommend voting against a combined chairman/CEO, except in egregious cases.

## **EXPERIENCE**

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database of directors serving at over 8,000 of the most widely held U.S. companies. We use this database to track the performance of directors across companies.

### **Voting Recommendations on the Basis of Director Experience**

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, excessive compensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.<sup>36</sup>

Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the

committee is responsible.

## **OTHER CONSIDERATIONS**

In addition to the three key characteristics – independence, performance, experience – that we use to evaluate board members, we consider conflict-of-interest issues as well as the size of the board of directors when making voting recommendations.

35 A committee responsible for risk management could be a dedicated risk committee, the audit committee, or the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

36 We typically apply a three-year look-back to such issues and also take into account the level of support the director has received from shareholders since the time of the failure.



## Conflicts of Interest

We believe board members should be wholly free of identifiable and substantial conflicts of interest, regardless of the overall level of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of directors:

1. A CFO who is on the board: In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Due to the critical importance of financial disclosure and reporting, we believe the CFO should report to the board and not be a member of it.

2. A director who is on an excessive number of boards: We will typically recommend voting against a director who serves as an executive officer of any public company while serving on more than two other public company boards and any other director who serves on more than six public company boards.<sup>37</sup> Academic literature suggests that one board takes up approximately 200 hours per year of each member's time. We believe this limits the number of boards on which directors can effectively serve, especially executives at other companies.<sup>38</sup> Further, we note a recent study has shown that the average number of outside board seats held by CEOs of S&P 500 companies is 0.6, down from 0.7 in 2008 and 1.0 in 2003.<sup>39</sup>

3. A director, or a director who has an immediate family member, providing material consulting or other material professional services to the company: These services may include legal, consulting, or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.

4. A director, or a director who has an immediate family member, engaging in airplane, real estate, or similar deals, including perquisite-type grants from the company, amounting to more than \$50,000. Directors who receive these sorts of payments from the company will have to make unnecessarily complicated decisions that may pit their interests against shareholder interests.

5. Interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.<sup>40</sup>

6. All board members who served at a time when a poison pill with a term of longer than one year was adopted without shareholder approval within the prior twelve months.<sup>41</sup> In the event a board is classified and shareholders are therefore unable to vote against all directors, we will recommend voting against the remaining directors the next year they are up for a shareholder vote. If a poison pill with a term of one year or less was adopted without shareholder approval, and without adequate justification, we will consider recommending that shareholders vote against all members of the governance committee. If the board has, without seeking shareholder

<sup>37</sup> Glass Lewis will not recommend voting against the director at the company where he or she serves as an executive officer, only at the other public companies where he or she serves on the board.

38 Our guidelines are similar to the standards set forth by the NACD in its “Report of the NACD Blue Ribbon Commission on Director Professionalism,” 2001 Edition, pp. 14-15 (also cited approvingly by the Conference Board in its “Corporate Governance Best Practices: A Blueprint for the Post-Enron Era,” 2002, p. 17), which suggested that CEOs should not serve on more than 2 additional boards, persons with full-time work should not serve on more than 4 additional boards, and others should not serve on more than six boards.

39 Spencer Stuart Board Index, 2013, p. 6.

40 We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. We will also evaluate multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.

41 Refer to Section V. Governance Structure and the Shareholder Franchise for further discussion of our policies regarding anti-takeover measures, including poison pills.

approval, and without adequate justification, extended the term of a poison pill by one year or less in two consecutive years, we will consider recommending that shareholders vote against the entire board.

#### Size of the Board of Directors

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of “too many cooks in the kitchen” and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the chairman of the nominating committee at a board with fewer than five directors. With boards consisting of more than 20 directors, we typically recommend voting against all members of the nominating committee (or the governance committee, in the absence of a nominating committee).<sup>42</sup>

#### **CONTROLLED COMPANIES**

Controlled companies present an exception to our independence recommendations. The board’s function is to protect shareholder interests; however, when an individual or entity owns more than 50% of the voting shares, the interests of the majority of shareholders are the interests of that entity or individual. Consequently, Glass Lewis does not apply our usual two-thirds independence rule and therefore we will not recommend voting against boards whose composition reflects the makeup of the shareholder population.

#### Independence Exceptions

The independence exceptions that we make for controlled companies are as follows:

We do not require that controlled companies have boards that are at least two-thirds independent. So long as the

1. insiders and/or affiliates are connected with the controlling entity, we accept the presence of non-independent board members.

2. The compensation committee and nominating and governance committees do not need to consist solely of independent directors.

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We believe that standing nominating and corporate governance committees at controlled companies are unnecessary. Although having a committee charged with the duties of searching for, selecting, and nominating independent directors can be beneficial, the unique composition of a controlled company's shareholder base makes such committees weak and irrelevant.

Likewise, we believe that independent compensation committees at controlled companies are unnecessary. Although independent directors are the best choice for approving and monitoring senior executives' pay, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests. As such, we believe that having affiliated directors on a controlled company's compensation committee is acceptable. However, given that a controlled company has certain obligations to minority shareholders we feel that an insider should not serve on the compensation committee. Therefore, Glass Lewis

42 The Conference Board, at p. 23 in its May 2003 report "Corporate Governance Best Practices, Id.," quotes one of its roundtable participants as stating, "[w]hen you've got a 20 or 30 person corporate board, it's one way of assuring that nothing is ever going to happen that the CEO doesn't want to happen."

will recommend voting against any insider (the CEO or otherwise) serving on the compensation committee.

Controlled companies do not need an independent chairman or an independent lead or presiding director.

3. Although an independent director in a position of authority on the board – such as chairman or presiding director – can best carry out the board’s duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

#### Size of the Board of Directors

We have no board size requirements for controlled companies.

#### Audit Committee Independence

We believe that audit committees should consist solely of independent directors. Regardless of a company’s controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company’s financial statements. Allowing affiliated directors to oversee the preparation of financial reports could create an insurmountable conflict of interest.

#### **UNOFFICIALLY CONTROLLED COMPANIES AND 20-50% BENEFICIAL OWNERS**

Where a shareholder group owns more than 50% of a company’s voting power but the company is not a “controlled” company as defined by relevant listing standards, we apply a lower independence requirement of a majority of the board but believe the company should otherwise be treated like another public company; we will therefore apply all other standards as outlined above.

Similarly, where an individual or entity holds between 20-50% of a company’s voting power, but the company is not “controlled,” we believe it is reasonable to allow proportional representation on the board and committees (excluding the audit committee) based on the individual or entity’s percentage of ownership.

#### **EXCEPTIONS FOR RECENT IPOs**

We believe companies that have recently completed an initial public offering (“IPO”) should be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. We believe a one-year grace period immediately following the date of a company’s IPO is sufficient time for most

companies to comply with all relevant regulatory requirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (e.g., board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

However, two specific cases warrant strong shareholder action against the board of a company that completed an IPO within the past year:

Adoption of a poison pill: In cases where a board implements a poison pill preceding an IPO, we will consider voting against the members of the board who served during the period of the poison pill's adoption if the board (i) did not also commit to submit the poison pill to a shareholder vote within 12 months of the IPO or (ii) did not provide a sound rationale for adopting the pill and the pill does not expire in three years or less. In our view,<sup>1</sup> adopting such an anti-takeover device unfairly penalizes future shareholders who (except for electing to buy or sell the stock) are unable to weigh in on a matter that could potentially negatively impact their ownership interest. This notion is strengthened when a board adopts a poison pill with a five to ten year life immediately prior to having a public shareholder base so as to insulate management for a substantial amount

of time while postponing and/or avoiding allowing public shareholders the ability to vote on the pill's adoption. Such instances are indicative of boards that may subvert shareholders' best interests following their IPO.

Adoption of an exclusive forum provision: Consistent with our general approach to boards that adopt exclusive forum provisions without shareholder approval (refer to our discussion of nominating and governance committee performance in Section I of the guidelines), in cases where a board adopts such a provision for inclusion in a company's charter or bylaws before the company's IPO, we will recommend voting against the chairman of the governance committee, or, in the absence of such a committee, the chairman of the board, who served during the period of time when the provision was adopted.

In addition, shareholders should also be wary of companies that adopt supermajority voting requirements before their IPO. Absent explicit provisions in the articles or bylaws stipulating that certain policies will be phased out over a certain period of time (e.g. a predetermined declassification of the board, a planned separation of the chairman and CEO, etc.) long-term shareholders could find themselves in the predicament of having to attain a supermajority vote to approve future proposals seeking to eliminate such policies.

## **DUAL-LISTED COMPANIES**

For those companies whose shares trade on exchanges in multiple countries, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules, we will apply the governance standards most relevant in each situation. We will consider a number of factors in determining which Glass Lewis country-specific policy to apply, including but not limited to: (i) the corporate governance structure and features of the company including whether the board structure is unique to a particular market; (ii) the nature of the proposals; (iii) the location of the company's primary listing, if one can be determined; (iv) the regulatory/governance regime that the board is reporting against; and (v) the availability and completeness of the company's SEC filings.

## **MUTUAL FUND BOARDS**

Mutual funds, or investment companies, are structured differently from regular public companies (i.e., operating companies). Typically, members of a fund's adviser are on the board and management takes on a different role from that of regular public companies. Thus, we focus on a short list of requirements, although many of our guidelines remain the same.

The following mutual fund policies are similar to the policies for regular public companies:

1. Size of the board of directors: The board should be made up of between five and twenty directors.
- 2.

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The CFO on the board: Neither the CFO of the fund nor the CFO of the fund's registered investment adviser should serve on the board.

3. Independence of the audit committee: The audit committee should consist solely of independent directors.

4. Audit committee financial expert: At least one member of the audit committee should be designated as the audit committee financial expert.

The following differences from regular public companies apply at mutual funds:

1. Independence of the board: We believe that three-fourths of an investment company's board should be made up of independent directors. This is consistent with a proposed SEC rule on



investment company boards. The Investment Company Act requires 40% of the board to be independent, but in 2001, the SEC amended the Exemptive Rules to require that a majority of a mutual fund board be independent. In 2005, the SEC proposed increasing the independence threshold to 75%. In 2006, a federal appeals court ordered that this rule amendment be put back out for public comment, putting it back into “proposed rule” status. Since mutual fund boards play a vital role in overseeing the relationship between the fund and its investment manager, there is greater need for independent oversight than there is for an operating company board.

2. When the auditor is not up for ratification: We do not recommend voting against the audit committee if the auditor is not up for ratification. Due to the different legal structure of an investment company compared to an operating company, the auditor for the investment company (i.e., mutual fund) does not conduct the same level of financial review for each investment company as for an operating company.

3. Non-independent chairman: The SEC has proposed that the chairman of the fund board be independent. We agree that the roles of a mutual fund’s chairman and CEO should be separate. Although we believe this would be best at all companies, we recommend voting against the chairman of an investment company’s nominating committee as well as the chairman of the board if the chairman and CEO of a mutual fund are the same person and the fund does not have an independent lead or presiding director. Seven former SEC commissioners support the appointment of an independent chairman and we agree with them that “an independent board chairman would be better able to create conditions favoring the long-term interests of fund shareholders than would a chairman who is an executive of the adviser.” (See the comment letter sent to the SEC in support of the proposed rule at <http://www.sec.gov/news/studies/indchair.pdf>)

4. Multiple funds overseen by the same director: Unlike service on a public company board, mutual fund boards require much less of a time commitment. Mutual fund directors typically serve on dozens of other mutual fund boards, often within the same fund complex. The Investment Company Institute’s (“ICI”) Overview of Fund Governance Practices, 1994-2012, indicates that the average number of funds served by an independent director in 2012 was 53. Absent evidence that a specific director is hindered from being an effective board member at a fund due to service on other funds’ boards, we refrain from maintaining a cap on the number of outside mutual fund boards that we believe a director can serve on.

## **DECLASSIFIED BOARDS**

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests.

Empirical studies have shown: (i) companies with staggered boards reduce a firm’s value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.

In our view, there is no evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Research shows that shareholders are worse off when a staggered board blocks a transaction. A study by a group of Harvard Law professors concluded that companies whose staggered boards prevented a takeover “reduced shareholder returns for targets ... on the order of eight to ten percent in the nine months after a hostile bid was

announced.<sup>43</sup> When a staggered board negotiates

43 Lucian Bebchuk, John Coates IV, Guhan Subramanian, “The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants,” 55 Stanford Law Review 885-917 (2002), page 1.

a friendly transaction, no statistically significant difference in premiums occurs.<sup>44</sup> Further, one of those same professors found that charter-based staggered boards “reduce the market value of a firm by 4% to 6% of its market capitalization” and that “staggered boards bring about and not merely reflect this reduction in market value.”<sup>45</sup> A subsequent study reaffirmed that classified boards reduce shareholder value, finding “that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth.”<sup>46</sup>

Shareholders have increasingly come to agree with this view. In 2013, 91% of S&P 500 companies had declassified boards, up from approximately 40% a decade ago.<sup>47</sup> Clearly, more shareholders have supported the repeal of classified boards. Resolutions relating to the repeal of staggered boards garnered on average over 70% support among shareholders in 2008, whereas in 1987, only 16.4% of votes cast favored board declassification.<sup>48</sup>

Given the empirical evidence suggesting staggered boards reduce a company’s value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

## **MANDATORY DIRECTOR TERM AND AGE LIMITS**

Glass Lewis believes that director age and term limits typically are not in shareholders’ best interests. Too often age and term limits are used by boards as a crutch to remove board members who have served for an extended period of time. When used in that fashion, they are indicative of a board that has a difficult time making “tough decisions.”

Academic literature suggests that there is no evidence of a correlation between either length of tenure or age and director performance. On occasion, term limits can be used as a means to remove a director for boards that are unwilling to police their membership and to enforce turnover. Some shareholders support term limits as a way to force change when boards are unwilling to do so.

While we understand that age limits can be a way to force change where boards are unwilling to make changes on their own, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. Further, age limits unfairly imply that older (or, in rare cases, younger) directors cannot contribute to company oversight.

In our view, a director’s experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, we support periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. We believe the board should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

We believe that shareholders are better off monitoring the board's approach to corporate governance and the board's stewardship of company performance rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

44 Id. at 2 ("Examining a sample of seventy-three negotiated transactions from 2000 to 2002, we find no systematic benefits in terms of higher premia to boards that have [staggered structures].").

45 Lucian Bebchuk, Alma Cohen, "The Costs of Entrenched Boards" (2004).

46 Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," SSRN: <http://ssrn.com/abstract=1706806> (2010), p. 26.

47 Spencer Stuart Board Index, 2013, p. 4

48 Lucian Bebchuk, John Coates IV and Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy," 54 Stanford Law Review 887-951 (2002).

## **REQUIRING TWO OR MORE NOMINEES PER BOARD SEAT**

In an attempt to address lack of access to the ballot, shareholders sometimes propose that the board give shareholders a choice of directors for each open board seat in every election. However, we feel that policies requiring a selection of multiple nominees for each board seat would discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board's clear choice or that he or she would be elected. Therefore, Glass Lewis generally will vote against such proposals.

## **PROXY ACCESS**

Proxy Access has garnered significant attention in recent years. As in 2013, we expect to see a number of shareholder proposals regarding this topic in 2014 and perhaps even some companies unilaterally adopting some elements of proxy access. However, considering the uncertainty in this area and the inherent case-by-case nature of those situations, we refrain from establishing any specific parameters at this time.

For a discussion of recent regulatory events in this area, along with a detailed overview of the Glass Lewis approach to Shareholder Proposals regarding Proxy Access, refer to Glass Lewis' *Proxy Paper Guidelines for Shareholder Initiatives*.

## **MAJORITY VOTE FOR THE ELECTION OF DIRECTORS**

In stark contrast to the failure of shareholder access to gain acceptance, majority voting for the election of directors is fast becoming the de facto standard in corporate board elections. In our view, the majority voting proposals are an effort to make the case for shareholder impact on director elections on a company-specific basis.

While this proposal would not give shareholders the opportunity to nominate directors or lead to elections where shareholders have a choice among director candidates, if implemented, the proposal would allow shareholders to have a voice in determining whether the nominees proposed by the board should actually serve as the overseer-representatives of shareholders in the boardroom. We believe this would be a favorable outcome for shareholders.

During the first half of 2013, Glass Lewis tracked approximately 30 shareholder proposals seeking to require a majority vote to elect directors at annual meetings in the U.S. While this is roughly on par with what we have reviewed in each of the past several years, it is a sharp contrast to the 147 proposals tracked during all of 2006. This large drop in the number of proposals being submitted in recent years compared to 2006 is a result of many companies

having already adopted some form of majority voting, including approximately 84% of companies in the S&P 500 Index, up from 56% in 2008.<sup>49</sup> During 2013, these proposals received, on average, 59% shareholder support (excluding abstentions and broker non-votes), up from 54% in 2008. Further, nearly half of these resolutions received majority shareholder support.

## **THE PLURALITY VOTE STANDARD**

Today, most US companies still elect directors by a plurality vote standard. Under that standard, if one shareholder holding only one share votes in favor of a nominee (including himself, if the director is a shareholder), that nominee “wins” the election and assumes a seat on the board. The common concern among companies with a plurality voting standard is the possibility that one or more directors would not receive a majority of votes, resulting in “failed elections.” This was of particular concern during the 1980s, an era of frequent takeovers and contests for control of companies.

49 Spencer Stuart Board Index, 2013, p. 13

## **ADVANTAGES OF A MAJORITY VOTE STANDARD**

If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to be elected. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

We believe that a majority vote standard will likely lead to more attentive directors. Occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests in favor of other interests that conflict with those of investors. Glass Lewis will generally support proposals calling for the election of directors by a majority vote except for use in contested director elections.

In response to the high level of support majority voting has garnered, many companies have voluntarily taken steps to implement majority voting or modified approaches to majority voting. These steps range from a modified approach requiring directors that receive a majority of withheld votes to resign (e.g., Ashland Inc.) to actually requiring a majority vote of outstanding shares to elect directors (e.g., Intel).

We feel that the modified approach does not go far enough because requiring a director to resign is not the same as requiring a majority vote to elect a director and does not allow shareholders a definitive voice in the election process. Further, under the modified approach, the corporate governance committee could reject a resignation and, even if it accepts the resignation, the corporate governance committee decides on the director's replacement. And since the modified approach is usually adopted as a policy by the board or a board committee, it could be altered by the same board or committee at any time.

III.

TRANSPARENCY AND INTEGRITY OF FINANCIAL REPORTING

**AUDITOR RATIFICATION**

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health. As stated in the October 6, 2008 Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury:

*“The auditor is expected to offer critical and objective judgment on the financial matters under consideration, and actual and perceived absence of conflicts is critical to that expectation. The Committee believes that auditors, investors, public companies, and other market participants must understand the independence requirements and their objectives, and that auditors must adopt a mindset of skepticism when facing situations that may compromise their independence.”*

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection. Moreover, in October 2008, the Advisory Committee on the Auditing Profession went even further, and recommended that “to further enhance audit committee oversight and auditor accountability... disclosure in the company proxy statement regarding shareholder ratification [should] include the name(s) of the senior auditing partner(s) staffed on the engagement.”<sup>50</sup>

On August 16, 2011, the PCAOB issued a Concept Release seeking public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced, with a specific emphasis on mandatory audit firm rotation. The PCAOB convened several public roundtable meetings during 2012 to further discuss such matters. Glass Lewis believes auditor rotation can ensure both the independence of the auditor and the integrity of the audit; we will typically recommend supporting proposals to require auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years), particularly at companies with a history of accounting problems.



**VOTING RECOMMENDATIONS ON AUDITOR RATIFICATION**

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised. Where a board has not allowed shareholders to review and ratify an auditor, we typically recommend voting against the audit committee chairman. When there have been material restatements of annual financial statements or material weaknesses in internal controls, we usually recommend voting against the entire audit committee.

50 "Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury." p. VIII:20, October 6, 2008.

Reasons why we may not recommend ratification of an auditor include:

1. When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.

2. Weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.<sup>51</sup>

3. When the auditor performs prohibited services such as tax-shelter work, tax services for the CEO or CFO, or contingent-fee work, such as a fee based on a percentage of economic benefit to the company.

4. When audit fees are excessively low, especially when compared with other companies in the same industry.

5. When the company has aggressive accounting policies.

6. When the company has poor disclosure or lack of transparency in its financial statements.

7. Where the auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures without adequate justification.

8. We also look for other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.

## **PENSION ACCOUNTING ISSUES**

A pension accounting question often raised in proxy proposals is what effect, if any, projected returns on employee pension assets should have on a company's net income. This issue often arises in the executive-compensation context in a discussion of the extent to which pension accounting should be reflected in business performance for purposes of calculating payments to executives.

Glass Lewis believes that pension credits should not be included in measuring income that is used to award performance-based compensation. Because many of the assumptions used in accounting for retirement plans are subject to the company's discretion, management would have an obvious conflict of interest if pay were tied to pension income. In our view, projected income from pensions does not truly reflect a company's performance.

51 An auditor does not audit interim financial statements. Thus, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.



IV.

**THE LINK BETWEEN COMPENSATION AND PERFORMANCE**

Glass Lewis carefully reviews the compensation awarded to senior executives, as we believe that this is an important area in which the board's priorities are revealed. Glass Lewis strongly believes executive compensation should be linked directly with the performance of the business the executive is charged with managing. We believe the most effective compensation arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to fixed pay elements.

Glass Lewis believes that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which pay is keeping pace with company performance. When reviewing proxy materials, Glass Lewis examines whether the company discloses the performance metrics used to determine executive compensation. We recognize performance metrics must necessarily vary depending on the company and industry, among other factors, and may include a wide variety of financial measures as well as industry-specific performance indicators. However, we believe companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivize will lead to better corporate performance.

Moreover, it is rarely in shareholders' interests to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for the company and its shareholders. While we favor full disclosure for senior executives and we view pay disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories) as potentially useful, we do not believe shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

**ADVISORY VOTE ON EXECUTIVE COMPENSATION ("SAY-ON-PAY")**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required companies to hold an advisory vote on executive compensation at the first shareholder meeting that occurs six months after enactment of the bill (January 21, 2011).

This practice of allowing shareholders a non-binding vote on a company's compensation report is standard practice in many non-US countries, and has been a requirement for most companies in the United Kingdom since 2003 and in Australia since 2005. Although say-on-pay proposals are non-binding, a high level of "against" or "abstain" votes indicates substantial shareholder concern about a company's compensation policies and procedures.

Given the complexity of most companies' compensation programs, Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

We believe that each company should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company's long-term shareholder value.

Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis focuses on four main areas when reviewing say-on-pay proposals:

- The overall design and structure of the company's executive compensation program including performance metrics;
- The quality and content of the company's disclosure;
- The quantum paid to executives; and
- The link between compensation and performance as indicated by the company's current and past pay-for-performance grades.

We also review any significant changes or modifications, and rationale for such changes, made to the company's compensation structure or award amounts, including base salaries.

## **SAY-ON-PAY VOTING RECOMMENDATIONS**

In cases where we find deficiencies in a company's compensation program's design, implementation or management, we will recommend that shareholders vote against the say-on-pay proposal. Generally such instances include evidence of a pattern of poor pay-for-performance practices (i.e., deficient or failing pay for performance grades), unclear or questionable disclosure regarding the overall compensation structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Although not an exhaustive list, the following issues when weighed together may cause Glass Lewis to recommend voting against a say-on-pay vote:

- Inappropriate peer group and/or benchmarking issues;
- Inadequate or no rationale for changes to peer groups;
-

Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes;

- Guaranteed bonuses;
- Targeting overall levels of compensation at higher than median without adequate justification;
- Bonus or long-term plan targets set at less than mean or negative performance levels;
- Performance targets not sufficiently challenging, and/or providing for high potential payouts;
- Performance targets lowered without justification;
- Discretionary bonuses paid when short- or long-term incentive plan targets were not met;
- Executive pay high relative to peers not justified by outstanding company performance; and

The terms of the long-term incentive plans are inappropriate (please see “Long-Term Incentives” on page 28).

In instances where a company has simply failed to provide sufficient disclosure of its policies, we may recommend shareholders vote against this proposal solely on this basis, regardless of the appropriateness of compensation levels.

## **COMPANY RESPONSIVENESS**

At companies that received a significant level of shareholder disapproval (25% or greater) to their say-on-pay proposal at the previous annual meeting, we believe the board should demonstrate some level of engagement and responsiveness to the shareholder concerns behind the discontent. While we recognize that sweeping changes cannot be made to a compensation program without due consideration and that a majority of shareholders voted in favor of the proposal, we will look for disclosure in the proxy statement and other publicly-disclosed filings that indicates the compensation committee is responding to the prior year’s vote results including engaging with large shareholders to identify the concerns causing the substantial vote against. In the absence of any evidence that the board is actively engaging shareholders on these issues and responding accordingly, we may recommend holding compensation committee members accountable for failing to adequately respond to shareholder opposition, giving careful consideration to the level of shareholder protest and the severity and history of compensation problems.

Where we identify egregious compensation practices, we may also recommend voting against the compensation committee based on the practices or actions of its members during the year, such as approving large one-off payments, the inappropriate, unjustified use of discretion, or sustained poor pay for performance practices.

## **PAY FOR PERFORMANCE**

Glass Lewis believes an integral part of a well-structured compensation package is a successful link between pay and performance. Our proprietary pay-for-performance model was developed to better evaluate the link between pay and performance of the top five executives at US companies. Our model benchmarks these executives’ pay and company performance against peers selected by Equilar’s market-based peer groups and across five performance metrics. By measuring the magnitude of the gap between two weighted-average percentile rankings (executive compensation and performance), we grade companies from a school letter system: “A”, “B”, “F”, etc. The grades guide our evaluation of compensation committee effectiveness and we generally recommend voting against compensation committee of companies with a pattern of failing our pay-for-performance analysis.

We also use this analysis to inform our voting decisions on say-on-pay proposals. As such, if a company receives a failing grade from our proprietary model, we are likely to recommend that shareholders vote against the say-on-pay proposal. However, there may be exceptions to this rule such as when a company makes significant enhancements to its compensation programs that may not be reflected yet in a quantitative assessment.



## **SHORT-TERM INCENTIVES**

A short-term bonus or incentive (“STI”) should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on company-wide or divisional financial measures as well as non-financial factors such as those related to safety, environmental issues, and customer satisfaction. While we recognize that companies operating in different sectors or markets may seek to utilize a wide range of metrics, we expect such measures to be appropriately tied to a company’s business drivers.

Further, the target and potential maximum awards that can be achieved under STI awards should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential maximum award should be clearly justified to shareholders.

Glass Lewis recognizes that disclosure of some measures may include commercially confidential information. Therefore, we believe it may be reasonable to exclude such information in some cases as long as the company provides sufficient justification for non-disclosure. However, where a short-term bonus has been paid, companies should disclose the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved.

Where management has received significant STIs but short-term performance over the previous year prima facie appears to be poor or negative, we believe the company should provide a clear explanation of why these significant short-term payments were made.

## **LONG-TERM INCENTIVES**

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that Glass Lewis believes are common to most well-structured long-term incentive ("LTI") plans. These include:

- No re-testing or lowering of performance conditions;
- Performance metrics that cannot be easily manipulated by management;
- Two or more performance metrics;
- At least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Performance periods of at least three years;
- Stretching metrics that incentivize executives to strive for outstanding performance while not encouraging excessive risk-taking; and
- Individual limits expressed as a percentage of base salary.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

While cognizant of the inherent complexity of certain performance metrics, Glass Lewis generally believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target and is therefore more susceptible to manipulation. When utilized for relative measurements, external benchmarks such as a sector index or peer group should be disclosed and transparent. The rationale behind the selection of a specific index or peer group should also be disclosed. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

We also believe shareholders should evaluate the relative success of a company's compensation programs, particularly with regard to existing equity-based incentive plans, in linking pay and performance in evaluating new LTI plans to determine the impact of additional stock awards. We

will therefore review the company's pay-for-performance grade (see below for more information) and specifically the proportion of total compensation that is stock-based.

## **RECOUPMENT (“CLAWBACK”) PROVISIONS**

Section 954 of the Dodd-Frank Act requires the SEC to create a rule requiring listed companies to adopt policies for recouping certain compensation during a three-year look-back period. The rule applies to incentive-based compensation paid to current or former executives if the company is required to prepare an accounting restatement due to erroneous data resulting from material non-compliance with any financial reporting requirements under the securities laws.

These recoupment provisions are more stringent than under Section 304 of the Sarbanes-Oxley Act in three respects: (i) the provisions extend to current or former executive officers rather than only to the CEO and CFO; (ii) it has a three-year look-back period (rather than a twelve-month look-back period); and (iii) it allows for recovery of compensation based upon a financial restatement due to erroneous data, and therefore does not require misconduct on the part of the executive or other employees.

## **HEDGING OF STOCK**

Glass Lewis believes that the hedging of shares by executives in the shares of the companies where they are employed severs the alignment of interests of the executive with shareholders. We believe companies should adopt strict policies to prohibit executives from hedging the economic risk associated with their shareownership in the company.

## **PLEDGING OF STOCK**

Glass Lewis believes that shareholders should examine the facts and circumstances of each company rather than apply a one-size-fits-all policy regarding employee stock pledging. Glass Lewis believes that shareholders benefit when employees, particularly senior executives have “skin-in-the-game” and therefore recognizes the benefits of measures designed to encourage employees to both buy shares out of their own pocket and to retain shares they have been granted; blanket policies prohibiting stock pledging may discourage executives and employees from doing either.

However, we also recognize that the pledging of shares can present a risk that, depending on a host of factors, an executive with significant pledged shares and limited other assets may have an incentive to take steps to avoid a forced sale of shares in the face of a rapid stock price decline. Therefore, to avoid substantial losses from a forced sale to meet the terms of the loan, the executive may have an incentive to boost the stock price in the short term in a

manner that is unsustainable, thus hurting shareholders in the long-term. We also recognize concerns regarding pledging may not apply to less senior employees, given the latter group's significantly more limited influence over a company's stock price. Therefore, we believe that the issue of pledging shares should be reviewed in that context, as should policies that distinguish between the two groups.

Glass Lewis believes that the benefits of stock ownership by executives and employees may outweigh the risks of stock pledging, depending on many factors. As such, Glass Lewis reviews all relevant factors in evaluating proposed policies, limitations and prohibitions on pledging stock, including:

- The number of shares pledged;
- The percentage executives' pledged shares are of outstanding shares;
- The percentage executives' pledged shares are of each executive's shares and total assets;
- Whether the pledged shares were purchased by the employee or granted by the company;

- Whether there are different policies for purchased and granted shares;
- Whether the granted shares were time-based or performance-based;
- The overall governance profile of the company;
- The volatility of the company's stock (in order to determine the likelihood of a sudden stock price drop);
- The nature and cyclicity, if applicable, of the company's industry;
- The participation and eligibility of executives and employees in pledging;
- The company's current policies regarding pledging and any waiver from these policies for employees and executives; and
- Disclosure of the extent of any pledging, particularly among senior executives.

## **COMPENSATION CONSULTANT INDEPENDENCE**

As mandated by Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require compensation committees to consider six factors in assessing compensation advisor independence. These factors include: (1) provision of other services to the company; (2) fees paid by the company as a percentage of the advisor's total annual revenue; (3) policies and procedures of the advisor to mitigate conflicts of interests; (4) any business or personal relationships of the consultant with any member of the compensation committee; (5) any company stock held by the consultant; and (6) any business or personal relationships of the consultant with any executive officer of the company. According to the SEC, "no one factor should be viewed as a determinative factor." Glass Lewis believes this six-factor assessment is an important process for every compensation committee to undertake.

We believe compensation consultants are engaged to provide objective, disinterested, expert advice to the compensation committee. When the consultant or its affiliates receive substantial income from providing other services to the company, we believe the potential for a conflict of interest arises and the independence of the consultant may be jeopardized. Therefore, Glass Lewis will, when relevant, note the potential for a conflict of interest when the fees paid to the advisor or its affiliates for other services exceeds those paid for compensation consulting.

## **FREQUENCY OF SAY-ON-PAY**

The Dodd-Frank Act also requires companies to allow shareholders a non-binding vote on the frequency of say-on-pay votes, i.e. every one, two or three years. Additionally, Dodd-Frank requires companies to hold such votes on the frequency of say-on-pay votes at least once every six years.

We believe companies should submit say-on-pay votes to shareholders every year. We believe that the time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareholders through more frequent accountability. Implementing biannual or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the compensation committee. Unless a company provides a compelling rationale or unique circumstances for say-on-pay votes less frequent than annually, we will generally recommend that shareholders support annual votes on compensation.

## **VOTE ON GOLDEN PARACHUTE ARRANGEMENTS**

The Dodd-Frank Act also requires companies to provide shareholders with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control transactions. However, if the golden parachute arrangements have previously been subject to a say-on-pay vote which shareholders approved, then this required vote is waived.

Glass Lewis believes the narrative and tabular disclosure of golden parachute arrangements benefits all shareholders. Glass Lewis analyzes each golden parachute arrangement on a case-by-case basis, taking into account, among other items: the ultimate value of the payments particularly compared to the value of the transaction, the tenure and position of the executives in question, and the type of triggers involved (single vs. double).

## **EQUITY-BASED COMPENSATION PLAN PROPOSALS**

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Glass Lewis evaluates equity-based compensation plans using a detailed model and analytical review.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our model and analysis takes into account factors such as plan administration, the method and terms of exercise, repricing history, express or implied rights to reprice, and the presence of evergreen provisions.

Our analysis is primarily quantitative and focused on the plan's cost as compared with the business's operating metrics. We run twenty different analyses, comparing the program with absolute limits we believe are key to equity value creation and with a carefully chosen peer group. In general, our model seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareholders and the projected annual cost relative to the company's financial performance. Each of the twenty analyses (and their constituent parts) is weighted and the plan is scored in accordance with that weight.

In our analysis, we compare the program's expected annual expense with the business's operating metrics to help determine whether the plan is excessive in light of company performance. We also compare the plan's expected annual cost to the enterprise value of the firm rather than to market capitalization because the employees, managers and directors of the firm contribute to the creation of enterprise value but not necessarily market capitalization (the biggest difference is seen where cash represents the vast majority of market capitalization). Finally, we do not rely exclusively on relative comparisons with averages because, in addition to creeping averages serving to inflate compensation, we believe that some absolute limits are warranted.



We evaluate equity plans based on certain overarching principles:

- Companies should seek more shares only when needed;
- Requested share amounts should be small enough that companies seek shareholder approval every three to four years (or more frequently);
- If a plan is relatively expensive, it should not grant options solely to senior executives and board members;
- Annual net share count and voting power dilution should be limited;

- Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and should be in line with the peer group;
- The expected annual cost of the plan should be proportional to the business's value;
- The intrinsic value that option grantees received in the past should be reasonable compared with the business's financial results;
- Plans should deliver value on a per-employee basis when compared with programs at peer companies;
- Plans should not permit re-pricing of stock options;
- Plans should not contain excessively liberal administrative or payment terms;
- Plans should not count shares in ways that understate the potential dilution, or cost, to common shareholders. This refers to "inverse" full-value award multipliers;
- Selected performance metrics should be challenging and appropriate, and should be subject to relative performance measurements; and
- Stock grants should be subject to minimum vesting and/or holding periods sufficient to ensure sustainable performance and promote retention.

## OPTION EXCHANGES

Glass Lewis views option repricing plans and option exchange programs with great skepticism. Shareholders have substantial risk in owning stock and we believe that the employees, officers, and directors who receive stock options should be similarly situated to align their interests with shareholder interests.

We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option's value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration.

In short, repricings and option exchange programs change the bargain between shareholders and employees after the bargain has been struck.

There is one circumstance in which a repricing or option exchange program is acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the repricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a circumstance, we will recommend supporting a repricing only if the following conditions are true:

- Officers and board members cannot participate in the program;
- The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;
- The exchange is value-neutral or value-creative to shareholders using very conservative assumptions and with a recognition of the adverse selection problems inherent in voluntary programs; and
- Management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

## **OPTION BACKDATING, SPRING-LOADING AND BULLET-DODGING**

Glass Lewis views option backdating, and the related practices of spring-loading and bullet-dodging, as egregious actions that warrant holding the appropriate management and board members responsible. These practices are similar to re-pricing options and eliminate much of the downside risk inherent in an option grant that is designed to induce recipients to maximize shareholder return.

Backdating an option is the act of changing an option's grant date from the actual grant date to an earlier date when the market price of the underlying stock was lower, resulting in a lower exercise price for the option. Since 2006, Glass Lewis has identified over 270 companies that have disclosed internal or government investigations into their past stock-option grants.

Spring-loading is granting stock options while in possession of material, positive information that has not been disclosed publicly. Bullet-dodging is delaying the grants of stock options until after the release of material, negative information. This can allow option grants to be made at a lower price either before the release of positive news or following the release of negative news, assuming the stock's price will move up or down in response to the information. This raises a concern similar to that of insider trading, or the trading on material non-public information.

The exercise price for an option is determined on the day of grant, providing the recipient with the same market risk as an investor who bought shares on that date. However, where options were backdated, the executive or the board (or the compensation committee) changed the grant date retroactively. The new date may be at or near the lowest price for the year or period. This would be like allowing an investor to look back and select the lowest price of the year at which to buy shares.

A 2006 study of option grants made between 1996 and 2005 at 8,000 companies found that option backdating can be an indication of poor internal controls. The study found that option backdating was more likely to occur at companies without a majority independent board and with a long-serving CEO; both factors, the study concluded, were associated with greater CEO influence on the company's compensation and governance practices<sup>52</sup>

Where a company granted backdated options to an executive who is also a director, Glass Lewis will recommend voting against that executive/director, regardless of who decided to make the award. In addition, Glass Lewis will recommend voting against those directors who either approved or allowed the backdating. Glass Lewis feels that executives and directors who either benefited from backdated options or authorized the practice have breached their fiduciary responsibility to shareholders.

Given the severe tax and legal liabilities to the company from backdating, Glass Lewis will consider recommending voting against members of the audit committee who served when options were backdated, a restatement occurs,

material weaknesses in internal controls exist and disclosures indicate there was a lack of documentation. These committee members failed in their responsibility to ensure the integrity of the company's financial reports.

When a company has engaged in spring-loading or bullet-dodging, Glass Lewis will consider recommending voting against the compensation committee members where there has been a pattern of granting options at or near historic lows. Glass Lewis will also recommend voting against executives serving on the board who benefited from the spring-loading or bullet-dodging.

## **DIRECTOR COMPENSATION PLANS**

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. However, a

52 Lucian Bebchuk, Yaniv Grinstein and Urs Peyer. "LUCKY CEOs." November, 2006.

balance is required. Fees should be competitive in order to retain and attract qualified individuals, but excessive fees represent a financial cost to the company and potentially compromise the objectivity and independence of non-employee directors. We will consider recommending supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. However, equity grants to directors should not be performance-based to ensure directors are not incentivized in the same manner as executives but rather serve as a check on imprudent risk-taking in executive compensation plan design.

Glass Lewis uses a proprietary model and analyst review to evaluate the costs of equity plans compared to the plans of peer companies with similar market capitalizations. We use the results of this model to guide our voting recommendations on stock-based director compensation plans.

### **EXECUTIVE COMPENSATION TAX DEDUCTIBILITY (IRS 162(M) COMPLIANCE)**

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of \$1 million for the CEO and the next three most highly compensated executive officers, excluding the CFO, if the compensation is performance-based and is paid under shareholder-approved plans. Companies therefore submit incentive plans for shareholder approval to take advantage of the tax deductibility afforded under 162(m) for certain types of compensation.

We believe the best practice for companies is to provide robust disclosure to shareholders so that they can make fully-informed judgments about the reasonableness of the proposed compensation plan. To allow for meaningful shareholder review, we prefer that disclosure should include specific performance metrics, a maximum award pool, and a maximum award amount per employee. We also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the company's peers.

We typically recommend voting against a 162(m) proposal where: (i) a company fails to provide at least a list of performance targets; (ii) a company fails to provide one of either a total maximum or an individual maximum; or (iii) the proposed plan is excessive when compared with the plans of the company's peers.

The company's record of aligning pay with performance (as evaluated using our proprietary pay-for-performance model) also plays a role in our recommendation. Where a company has a record of setting reasonable pay relative to business performance, we generally recommend voting in favor of a plan even if the plan caps seem large relative to peers because we recognize the value in special pay arrangements for continued exceptional performance.

As with all other issues we review, our goal is to provide consistent but contextual advice given the specifics of the company and ongoing performance. Overall, we recognize that it is generally not in shareholders' best interests to vote against such a plan and forgo the potential tax benefit since shareholder rejection of such plans will not curtail the

awards; it will only prevent the tax deduction associated with them.

V.

**GOVERNANCE STRUCTURE AND THE SHAREHOLDER FRANCHISE  
ANTI-TAKEOVER MEASURES**

**POISON PILLS (SHAREHOLDER RIGHTS PLANS)**

Glass Lewis believes that poison pill plans are not generally in shareholders' best interests. They can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. Typically we recommend that shareholders vote against these plans to protect their financial interests and ensure that they have an opportunity to consider any offer for their shares, especially those at a premium.

We believe boards should be given wide latitude in directing company activities and in charting the company's course. However, on an issue such as this, where the link between the shareholders' financial interests and their right to consider and accept buyout offers is substantial, we believe that shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion. Its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

In certain circumstances, we will support a poison pill that is limited in scope to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable qualifying offer clause. We will consider supporting a poison pill plan if the qualifying offer clause includes each of the following attributes:

- The form of offer is not required to be an all-cash transaction;
- The offer is not required to remain open for more than 90 business days;
- The offeror is permitted to amend the offer, reduce the offer, or otherwise change the terms;
- There is no fairness opinion requirement; and
- There is a low to no premium requirement.



Where these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer.

## **NOL POISON PILLS**

Similarly, Glass Lewis may consider supporting a limited poison pill in the unique event that a company seeks shareholder approval of a rights plan for the express purpose of preserving Net Operating Losses (NOLs). While companies with NOLs can generally carry these losses forward to offset future taxable income, Section 382 of the Internal Revenue Code limits companies' ability to use NOLs in the event of a "change of ownership."<sup>53</sup> In this case, a company may adopt or amend a poison pill ("NOL pill") in order to prevent an inadvertent change of ownership by multiple investors purchasing small

<sup>53</sup> Section 382 of the Internal Revenue Code refers to a "change of ownership" of more than 50 percentage points by one or more 5% shareholders within a three-year period. The statute is intended to deter the "trafficking" of net operating losses.

chunks of stock at the same time, and thereby preserve the ability to carry the NOLs forward. Often such NOL pills have trigger thresholds much lower than the common 15% or 20% thresholds, with some NOL pill triggers as low as 5%.

Glass Lewis evaluates NOL pills on a strictly case-by-case basis taking into consideration, among other factors, the value of the NOLs to the company, the likelihood of a change of ownership based on the size of the holding and the nature of the larger shareholders, the trigger threshold and whether the term of the plan is limited in duration (i.e., whether it contains a reasonable “sunset” provision) or is subject to periodic board review and/or shareholder ratification. However, we will recommend that shareholders vote against a proposal to adopt or amend a pill to include NOL protective provisions if the company has adopted a more narrowly tailored means of preventing a change in control to preserve its NOLs. For example, a company may limit share transfers in its charter to prevent a change of ownership from occurring.

Furthermore, we believe that shareholders should be offered the opportunity to vote on any adoption or renewal of a NOL pill regardless of any potential tax benefit that it offers a company. As such, we will consider recommending voting against those members of the board who served at the time when an NOL pill was adopted without shareholder approval within the prior twelve months and where the NOL pill is not subject to shareholder ratification.

## **FAIR PRICE PROVISIONS**

Fair price provisions, which are rare, require that certain minimum price and procedural requirements be observed by any party that acquires more than a specified percentage of a corporation’s common stock. The provision is intended to protect minority shareholder value when an acquirer seeks to accomplish a merger or other transaction which would eliminate or change the interests of the minority stockholders. The provision is generally applied against the acquirer unless the takeover is approved by a majority of “continuing directors” and holders of a majority, in some cases a supermajority as high as 80%, of the combined voting power of all stock entitled to vote to alter, amend, or repeal the above provisions.

The effect of a fair price provision is to require approval of any merger or business combination with an “interested stockholder” by 51% of the voting stock of the company, excluding the shares held by the interested stockholder. An interested stockholder is generally considered to be a holder of 10% or more of the company’s outstanding stock, but the trigger can vary.

Generally, provisions are put in place for the ostensible purpose of preventing a back-end merger where the interested stockholder would be able to pay a lower price for the remaining shares of the company than he or she paid to gain control. The effect of a fair price provision on shareholders, however, is to limit their ability to gain a premium for their shares through a partial tender offer or open market acquisition which typically raise the share price, often significantly. A fair price provision discourages such transactions because of the potential costs of seeking shareholder approval and because of the restrictions on purchase price for completing a merger or other transaction at a later time.

Glass Lewis believes that fair price provisions, while sometimes protecting shareholders from abuse in a takeover situation, more often act as an impediment to takeovers, potentially limiting gains to shareholders from a variety of transactions that could significantly increase share price. In some cases, even the independent directors of the board cannot make exceptions when such exceptions may be in the best interests of shareholders. Given the existence of state law protections for minority shareholders such as Section 203 of the Delaware Corporations Code, we believe it is in the best interests of shareholders to remove fair price provisions.

## **REINCORPORATION**

In general, Glass Lewis believes that the board is in the best position to determine the appropriate jurisdiction of incorporation for the company. When examining a management proposal to reincorporate to a different state or country, we review the relevant financial benefits, generally related to improved corporate tax treatment, as well as changes in corporate governance provisions, especially those relating to shareholder rights, resulting from the change in domicile. Where the financial benefits are de minimis and there is a decrease in shareholder rights, we will recommend voting against the transaction.

However, costly, shareholder-initiated reincorporations are typically not the best route to achieve the furtherance of shareholder rights. We believe shareholders are generally better served by proposing specific shareholder resolutions addressing pertinent issues which may be implemented at a lower cost, and perhaps even with board approval. However, when shareholders propose a shift into a jurisdiction with enhanced shareholder rights, Glass Lewis examines the significant ways would the company benefit from shifting jurisdictions including the following:

- Is the board sufficiently independent?
- Does the company have anti-takeover protections such as a poison pill or classified board in place?
- Has the board been previously unresponsive to shareholders (such as failing to implement a shareholder proposal that received majority shareholder support)?
- Do shareholders have the right to call special meetings of shareholders?
- Are there other material governance issues at the company?
- Has the company's performance matched or exceeded its peers in the past one and three years?
- How has the company ranked in Glass Lewis' pay-for-performance analysis during the last three years?
- Does the company have an independent chairman?

We note, however, that we will only support shareholder proposals to change a company's place of incorporation in exceptional circumstances.

## **EXCLUSIVE FORUM PROVISIONS**

Glass Lewis believes that charter or bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. As such, shareholders should be wary about approving any limitation on their legal recourse including limiting themselves to a single jurisdiction (e.g.

Delaware) without compelling evidence that it will benefit shareholders.

For this reason, we recommend that shareholders vote against any bylaw or charter amendment seeking to adopt an exclusive forum provision unless the company: (i) provides a compelling argument on why the provision would directly benefit shareholders; (ii) provides evidence of abuse of legal process in other, non-favored jurisdictions; and (iii) maintains a strong record of good corporate governance practices.

Moreover, in the event a board seeks shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal, we will weigh the importance of

the other bundled provisions when determining the vote recommendation on the proposal. We will nonetheless recommend voting against the chairman of the governance committee for bundling disparate proposals into a single proposal (refer to our discussion of nominating and governance committee performance in Section I of the guidelines).

## **AUTHORIZED SHARES**

Glass Lewis believes that adequate capital stock is important to a company's operation. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock:

1. **Stock Split** – We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: The historical stock pre-split price, if any; the current price relative to the company's most common trading price over the past 52 weeks; and some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.
2. **Shareholder Defenses** – Additional authorized shares could be used to bolster takeover defenses such as a poison pill. Proxy filings often discuss the usefulness of additional shares in defending against or discouraging a hostile takeover as a reason for a requested increase. Glass Lewis is typically against such defenses and will oppose actions intended to bolster such defenses.
3. **Financing for Acquisitions** – We look at whether the company has a history of using stock for acquisitions and attempt to determine what levels of stock have typically been required to accomplish such transactions. Likewise, we look to see whether this is discussed as a reason for additional shares in the proxy.
4. **Financing for Operations** – We review the company's cash position and its ability to secure financing through borrowing or other means. We look at the company's history of capitalization and whether the company has had to use stock in the recent past as a means of raising capital.

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend against the authorization of additional shares. Similar concerns may also lead us to recommend against a proposal to conduct a reverse stock split if the board does not state that it will reduce the number of authorized common shares in a ratio proportionate to the split.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

**ADVANCE NOTICE REQUIREMENTS**

We typically recommend that shareholders vote against proposals that would require advance notice of shareholder proposals or of director nominees.

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements typically range between three to six months prior to the annual meeting. Advance notice requirements typically make it impossible for a shareholder who misses the deadline to present a shareholder proposal or a director nominee that might be in the best interests of the company and its shareholders.

We believe shareholders should be able to review and vote on all proposals and director nominees. Shareholders can always vote against proposals that appear with little prior notice. Shareholders, as owners of a business, are capable of identifying issues on which they have sufficient information and ignoring issues on which they have insufficient information. Setting arbitrary notice restrictions limits the opportunity for shareholders to raise issues that may come up after the window closes.

## **VOTING STRUCTURE**

### **CUMULATIVE VOTING**

Cumulative voting increases the ability of minority shareholders to elect a director by allowing shareholders to cast as many shares of the stock they own multiplied by the number of directors to be elected. As companies generally have multiple nominees up for election, cumulative voting allows shareholders to cast all of their votes for a single nominee, or a smaller number of nominees than up for election, thereby raising the likelihood of electing one or more of their preferred nominees to the board. It can be important when a board is controlled by insiders or affiliates and where the company's ownership structure includes one or more shareholders who control a majority-voting block of company stock.

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders.

However, academic literature indicates that where a highly independent board is in place and the company has a shareholder-friendly governance structure, shareholders may be better off without cumulative voting. The analysis underlying this literature indicates that shareholder returns at firms with good governance structures are lower and that boards can become factionalized and prone to evaluating the needs of special interests over the general interests of shareholders collectively.

We review cumulative voting proposals on a case-by-case basis, factoring in the independence of the board and the status of the company's governance structure. But we typically find these proposals on ballots at companies where independence is lacking and where the appropriate checks and balances favoring shareholders are not in place. In those instances we typically recommend in favor of cumulative voting.

Where a company has adopted a true majority vote standard (i.e., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), Glass Lewis will recommend voting against cumulative voting proposals due to the incompatibility of the two election methods. For companies that have not adopted a true majority voting standard but have adopted some form of majority voting,



Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Where a company has not adopted a majority voting standard and is facing both a shareholder proposal to adopt majority voting and a shareholder proposal to adopt cumulative voting, Glass Lewis will support only the majority voting proposal. When a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

## **SUPERMAJORITY VOTE REQUIREMENTS**

Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. An example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority shareholders. We believe that a simple majority is appropriate to approve all matters presented to shareholders.

## **TRANSACTION OF OTHER BUSINESS**

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before an annual or special meeting. In our opinion, granting unfettered discretion is unwise.

## **ANTI-GREENMAIL PROPOSALS**

Glass Lewis will support proposals to adopt a provision preventing the payment of greenmail, which would serve to prevent companies from buying back company stock at significant premiums from a certain shareholder. Since a large or majority shareholder could attempt to compel a board into purchasing its shares at a large premium, the anti-greenmail provision would generally require that a majority of shareholders other than the majority shareholder approve the buyback.

## **MUTUAL FUNDS: INVESTMENT POLICIES AND ADVISORY AGREEMENTS**

Glass Lewis believes that decisions about a fund's structure and/or a fund's relationship with its investment advisor or sub-advisors are generally best left to management and the members of the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. As such, we focus our analyses of such proposals on the following main areas:

- The terms of any amended advisory or sub-advisory agreement;
- Any changes in the fee structure paid to the investment advisor; and
- Any material changes to the fund's investment objective or strategy.

We generally support amendments to a fund's investment advisory agreement absent a material change that is not in the best interests of shareholders. A significant increase in the fees paid to an investment advisor would be reason for us to consider recommending voting against a proposed amendment to an investment advisory agreement. However, in certain cases, we are more inclined to support an increase in advisory fees if such increases result from being performance-based rather than asset-based. Furthermore, we generally support sub-advisory agreements between a fund's advisor and sub-advisor, primarily because the fees received by the sub-advisor are paid by the advisor, and not by the fund.

In matters pertaining to a fund's investment objective or strategy, we believe shareholders are best served when a fund's objective or strategy closely resembles the investment discipline shareholders understood and selected when they initially bought into the fund. As such, we generally recommend voting against amendments to a fund's investment objective or strategy when the proposed changes would leave shareholders with stakes in a fund that is noticeably different than when originally contemplated, and which could therefore potentially negatively impact some investors' diversification strategies.

## **REAL ESTATE INVESTMENT TRUSTS**

The complex organizational, operational, tax and compliance requirements of Real Estate Investment Trusts (“REITs”) provide for a unique shareholder evaluation. In simple terms, a REIT must have a minimum of 100 shareholders (the “100 Shareholder Test”) and no more than 50% of the value of its shares can be held by five or fewer individuals (the “5/50 Test”). At least 75% of a REITs’ assets must be in real estate, it must derive 75% of its gross income from rents or mortgage interest, and it must pay out 90% of its taxable earnings as dividends. In addition, as a publicly traded security listed on a stock exchange, a REIT must comply with the same general listing requirements as a publicly traded equity.

In order to comply with such requirements, REITs typically include percentage ownership limitations in their organizational documents, usually in the range of 5% to 10% of the REITs outstanding shares. Given the complexities of REITs as an asset class, Glass Lewis applies a highly nuanced approach in our evaluation of REIT proposals, especially regarding changes in authorized share capital, including preferred stock.

## **PREFERRED STOCK ISSUANCES AT REITS**

Glass Lewis is generally against the authorization of preferred shares that allows the board to determine the preferences, limitations and rights of the preferred shares (known as “blank-check preferred stock”). We believe that granting such broad discretion should be of concern to common shareholders, since blank-check preferred stock could be used as an antitakeover device or in some other fashion that adversely affects the voting power or financial interests of common shareholders. However, given the requirement that a REIT must distribute 90% of its net income annually, it is inhibited from retaining capital to make investments in its business. As such, we recognize that equity financing likely plays a key role in a REIT’s growth and creation of shareholder value. Moreover, shareholder concern regarding the use of preferred stock as an anti-takeover mechanism may be allayed by the fact that most REITs maintain ownership limitations in their certificates of incorporation. For these reasons, along with the fact that REITs typically do not engage in private placements of preferred stock (which result in the rights of common shareholders being adversely impacted), we may support requests to authorize shares of blank-check preferred stock at REITs.

## **BUSINESS DEVELOPMENT COMPANIES**

Business Development Companies (“BDCs”) were created by the U.S. Congress in 1980; they are regulated under the Investment Company Act of 1940 and are taxed as regulated investment companies (“RICs”) under the Internal Revenue Code. BDCs typically operate as publicly traded private equity firms that invest in early stage to mature private companies as well as small public companies. BDCs realize operating income when their investments are sold off, and therefore maintain complex organizational, operational, tax and compliance requirements that are similar to those of REITs—the most evident of which is that BDCs must distribute at least 90% of their taxable earnings as dividends.

**AUTHORIZATION TO SELL SHARES AT A PRICE BELOW NET ASSET VALUE**

Considering that BDCs are required to distribute nearly all their earnings to shareholders, they sometimes need to offer additional shares of common stock in the public markets to finance operations and acquisitions. However, shareholder approval is required in order for a BDC to sell shares of common stock at a price below Net Asset Value (“NAV”). Glass Lewis evaluates these proposals using a case-by-case approach, but will recommend supporting such requests if the following conditions are met:

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- The authorization to allow share issuances below NAV has an expiration date of one year or less from the date that shareholders approve the underlying proposal (i.e. the meeting date);
- The proposed discount below NAV is minimal (ideally no greater than 20%);
- The board specifies that the issuance will have a minimal or modest dilutive effect (ideally no greater than 25% of the company's then-outstanding common stock prior to the issuance); and
- A majority of the company's independent directors who do not have a financial interest in the issuance approve the sale.

In short, we believe BDCs should demonstrate a responsible approach to issuing shares below NAV, by proactively addressing shareholder concerns regarding the potential dilution of the requested share issuance, and explaining if and how the company's past below-NAV share issuances have benefitted the company.

VI.

COMPENSATION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE SHAREHOLDER INITIATIVES  
OVERVIEW

Glass Lewis typically prefers to leave decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, to management and the board, except when there is a clear link between the proposal and value enhancement or risk mitigation. We feel strongly that shareholders should not attempt to micromanage the company, its businesses or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and then hold directors accountable for management and policy decisions through board elections. However, we recognize that support of appropriately crafted shareholder initiatives may at times serve to promote or protect shareholder value.

To this end, Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally recommend supporting shareholder proposals calling for the elimination of, as well as to require shareholder approval of, antitakeover devices such as poison pills and classified boards. We generally recommend supporting proposals likely to increase and/or protect shareholder value and also those that promote the furtherance of shareholder rights. In addition, we also generally recommend supporting proposals that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance.

**For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*.**

**DISCLAIMER**

This document sets forth the proxy voting policy and guidelines of Glass, Lewis & Co., LLC. The policies included herein have been developed based on Glass Lewis' experience with proxy voting and corporate governance issues and are not tailored to any specific person. Moreover, these guidelines are not intended to be exhaustive and do not include all potential voting issues. The information included herein is reviewed periodically and updated or revised as necessary. Glass Lewis is not responsible for any actions taken or not taken on the basis of this information. This document may not be reproduced or distributed in any manner without the written permission of Glass Lewis.

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PROXY PAPER™

GUIDELINES

2014 PROXY SEASON

AN OVERVIEW OF THE GLASS LEWIS

APPROACH TO PROXY ADVICE

INTERNATIONAL

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TABLE OF

CONTENTS

I. ELECTION OF DIRECTORS	1
Board Composition	1
Slate Elections	2
Board Committee Composition	2
Review of Risk Management Controls	2
Classified Boards	2
II. FINANCIAL REPORTING	3
Accounts and Reports	3
Income Allocation (Distribution of Dividend)	3
Appointment of Auditors and Authority to Set Fees	3
III. COMPENSATION	4
Compensation Report/Compensation Policy	4
Long Term Incentive Plans	4
Performance-Based Equity Compensation	4
Director Compensation	5
Retirement Benefits for Directors	5
Limits on Executive Compensation	5
IV. GOVERNANCE STRUCTURE	6
Amendments to the Articles of Association	6
Anti-Takeover Measures	6
Poison Pills (Shareholder Rights Plans)	6
Supermajority Vote Requirements	6
Increase in Authorized Shares	6
Issuance of Shares	7
Repurchase of Shares	7
V. ENVIRONMENTAL AND SOCIAL RISK	8

I.

#### **ELECTION OF DIRECTORS**

Boards are put in place to represent shareholders and protect their interests. Glass Lewis seeks boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. In our view, boards working to protect and enhance the best interests of shareholders typically include some independent directors (the percentage will vary by local market practice and regulations), boast a record of positive performance, have directors with diverse backgrounds, and appoint directors with a breadth and depth of experience.

#### **BOARD COMPOSITION**

When companies disclose sufficient relevant information, we look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships are likely to impact the decisions of that board member. Where the company does not disclose the names and backgrounds of director nominees with sufficient time in advance of the shareholder meeting to evaluate their independence and performance, we will consider recommending abstaining on the directors' election.

We vote in favor of governance structures that will drive positive performance and enhance shareholder value. The most crucial test of a board's commitment to the company and to its shareholders is the performance of the board and its members. The performance of directors in their capacity as board members and as executives of the company, when applicable, and in their roles at other companies where they serve is critical to this evaluation.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the three-five years prior to the inquiry are usually considered to be "current" for purposes of this test.

In our view, a director is affiliated if he or she has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the Company. This also includes a director who owns or controls 10-20% or more of the company's voting stock.

We define an inside director as one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of

the company.

Although we typically vote for the election of directors, we will recommend voting against directors for the following reasons:

- A director who attends less than 75% of the board and applicable committee meetings.
- A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.

We also feel that the following conflicts of interest may hinder a director's performance and will therefore recommend voting against a:

- CFO who presently sits on the board.
- Director who presently sits on an excessive number of boards.

- Director, or a director whose immediate family member, provides material professional services to the company at any time during the past five years.
- Director, or a director whose immediate family member, engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
- Director with an interlocking directorship.

## **SLATE ELECTIONS**

In some countries, companies elect their board members as a slate, whereby shareholders are unable to vote on the election of each individual director, but rather are limited to voting for or against the board as a whole. If significant issues exist concerning one or more of the nominees or in markets where directors are generally elected individually, we will recommend voting against the entire slate of directors.

## **BOARD COMMITTEE COMPOSITION**

We believe that independent directors should serve on a company's audit, compensation, nominating and governance committees. We will support boards with such a structure and encourage change where this is not the case.

## **REVIEW OF RISK MANAGEMENT CONTROLS**

We believe companies, particularly financial firms, should have a dedicated risk committee, or a committee of the board charged with risk oversight, as well as a chief risk officer who reports directly to that committee, not to the CEO or another executive. In cases where a company has disclosed a sizable loss or writedown, and where a reasonable analysis indicates that the company's board-level risk committee should be held accountable for poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise), we will consider recommending to vote against the chairman of the board on that basis.

## **CLASSIFIED BOARDS**

Glass Lewis favors the repeal of staggered boards in favor of the annual election of directors. We believe that staggered boards are less accountable to shareholders than annually elected boards. Furthermore, we feel that the annual election of directors encourages board members to focus on protecting the interests of shareholders.





II.

**FINANCIAL REPORTING  
ACCOUNTS AND REPORTS**

Many countries require companies to submit the annual financial statements, director reports and independent auditors' reports to shareholders at a general meeting. Shareholder approval of such a proposal does not discharge the board or management. We will usually recommend voting in favor of these proposals except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report and/or annual report not be published at the writing of our report, we will recommend that shareholders abstain from voting on this proposal.

**INCOME ALLOCATION (DISTRIBUTION OF DIVIDEND)**

In many countries, companies must submit the allocation of income for shareholder approval. We will generally recommend voting for such a proposal. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high relative to its peers and the company has not provided a satisfactory explanation.

**APPOINTMENT OF AUDITORS AND AUTHORITY TO SET FEES**

We believe that role of the auditor is crucial in protecting shareholder value. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

We generally support management's recommendation regarding the selection of an auditor and support granting the board the authority to fix auditor fees except in cases where we believe the independence of an incumbent auditor or the integrity of the audit has been compromised.

However, we recommend voting against ratification of the auditor and/or authorizing the board to set auditor fees for the following reasons:

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- When audit fees added to audit-related fees total less than one-half of total fees.
- When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in financial statements.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

III.

**COMPENSATION  
COMPENSATION REPORT/COMPENSATION POLICY**

We closely review companies' remuneration practices and disclosure as outlined in company filings to evaluate management-submitted advisory compensation report and policy vote proposals. In evaluating these proposals, which can be binding or non-binding depending on the country, we examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company and the levels of remuneration in comparison to company performance and that of its peers.

We will usually recommend voting against approval of the compensation report or policy when the following occur:

- Gross disconnect between pay and performance;
- Performance goals and metrics are inappropriate or insufficiently challenging;
- Lack of disclosure regarding performance metrics and goals as well as the extent to which the performance metrics, targets and goals are implemented to enhance company performance and encourage prudent risk-taking;
- Excessive discretion afforded to or exercised by management or the compensation committee to deviate from defined performance metrics and goals in making awards;
- Ex gratia or other non-contractual payments have been made and the reasons for making the payments have not been fully explained or the explanation is unconvincing;
- Guaranteed bonuses are established;
- There is no clawback policy; or
- Egregious or excessive bonuses, equity awards or severance payments.

**LONG TERM INCENTIVE PLANS**

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an employee's pay to a company's performance, thereby aligning their interests with those of shareholders. Tying a portion of an employee's compensation to the performance of the Company provides an

incentive to maximize share value. In addition, equity-based compensation is an effective way to attract, retain and motivate key employees.

In order to allow for meaningful shareholder review, we believe that incentive programs should generally include: (i) specific and appropriate performance goals; (ii) a maximum award pool; and (iii) a maximum award amount per employee. In addition, the payments made should be reasonable relative to the performance of the business and total compensation to those covered by the plan should be in line with compensation paid by the Company's peers.

#### **PERFORMANCE-BASED EQUITY COMPENSATION**

Glass Lewis believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. While we do not believe that equity-based compensation plans for all employees need to be based on overall company performance, we do support such limitations for grants to senior executives (although even some equity-based compensation of senior executives

without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment).

Boards often argue that such a proposal would hinder them in attracting talent. We believe that boards can develop a consistent, reliable approach, as boards of many companies have, that would still attract executives who believe in their ability to guide the company to achieve its targets. We generally recommend that shareholders vote in favor of performance-based option requirements.

There should be no retesting of performance conditions for all share- and option- based incentive schemes. We will generally recommend that shareholders vote against performance-based equity compensation plans that allow for re-testing.

## **DIRECTOR COMPENSATION**

Glass Lewis believes that non-employee directors should receive appropriate types and levels of compensation for the time and effort they spend serving on the board and its committees. Director fees should be reasonable in order to retain and attract qualified individuals. In particular, we support compensation plans that include non performance-based equity awards, which help to align the interests of outside directors with those of shareholders.

Glass Lewis compares the costs of these plans to the plans of peer companies with similar market capitalizations in the same country to help inform its judgment on this issue.

## **RETIREMENT BENEFITS FOR DIRECTORS**

We will typically recommend voting against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Directors should receive adequate compensation for their board service through initial and annual fees.

## **LIMITS ON EXECUTIVE COMPENSATION**

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive compensation. Such matters should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their

disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance is in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. Performance-based compensation may be limited if a chief executive's pay is capped at a low level rather than flexibly tied to the performance of the company.

IV.

**GOVERNANCE STRUCTURE  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from evaluating each amendment on its own merits. In such cases, we will analyze each change individually and will recommend voting for the proposal only when we believe that the amendments on balance are in the best interests of shareholders.

**ANTI-TAKEOVER MEASURES**

**POISON PILLS (SHAREHOLDER RIGHTS PLANS)**

Glass Lewis believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation.

In certain limited circumstances, we will support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause.

**SUPERMAJORITY VOTE REQUIREMENTS**

Glass Lewis favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where

supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

### **INCREASE IN AUTHORIZED SHARES**

Glass Lewis believes that having adequate capital stock available for issuance is important to the operation of a company. We will generally support proposals when a company could reasonably use the requested shares for financing, stock splits and stock dividends. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of large pools of unallocated shares available for any purpose.

In general, we will support proposals to increase authorized shares up to 100% of the number of shares currently authorized unless, after the increase the company would be left with less than 30% of its authorized shares outstanding.



## **ISSUANCE OF SHARES**

Issuing additional shares can dilute existing holders in some circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares requested are excessive, we typically recommend against the issuance. In the case of a private placement, we will also consider whether the company is offering a discount to its share price.

In general, we will support proposals to issue shares (with pre-emption rights) when the requested increase is the lesser of (i) the unissued ordinary share capital; or (ii) a sum equal to one-third of the issued ordinary share capital. This authority should not exceed five years. In some countries, if the proposal contains a figure greater than one-third, the company should explain the nature of the additional amounts.

We will also generally support proposals to suspend pre-emption rights for a maximum of 5-20% of the issued ordinary share capital of the company, depending on the country in which the company is located. This authority should not exceed five years, or less for some countries.

## **REPURCHASE OF SHARES**

We will recommend voting in favor of a proposal to repurchase shares when the plan includes the following provisions: (i) a maximum number of shares which may be purchased (typically not more than 15% of the issued share capital); and (ii) a maximum price which may be paid for each share (as a percentage of the market price).

V.

#### ENVIRONMENTAL AND SOCIAL RISK

We believe companies should actively evaluate risks to long-term shareholder value stemming from exposure to environmental and social risks and should incorporate this information into their overall business risk profile. In addition, we believe companies should consider their exposure to changes in environmental or social regulation with respect to their operations as well as related legal and reputational risks. Companies should disclose to shareholders both the nature and magnitude of such risks as well as steps they have taken or will take to mitigate those risks.

When we identify situations where shareholder value is at risk, we may recommend voting in favor of a reasonable and well-targeted proposal if we believe supporting the proposal will promote disclosure of and/or mitigate significant risk exposure. In limited cases where a company has failed to adequately mitigate risks stemming from environmental or social practices, we will recommend shareholders vote against: (i) ratification of board and/or management acts; (ii) approving a company's accounts and reports and/or; (iii) directors (in egregious cases).

8

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PART C: OTHER INFORMATION

**Item 28. Exhibits:**

- (a) Amended and Restated Declaration of Trust.<sup>47</sup>
- (b) Amended and Restated Bylaws of the Trust.<sup>47</sup>
- (c) Not applicable.
- (d)(1) Form of Investment Management Agreement between the Trust and Van Eck Associates Corporation (with respect to Market Vectors—Gold Miners ETF).
- (d)(2) Form of Investment Management Agreement between the Trust and Van Eck Associates Corporation (with respect to all portfolios except for Market Vectors—Gold Miners ETF).
- (d)(3) Form of Investment Management Agreement between the Trust and Van Eck Associates Corporation (with respect to certain municipal portfolios).<sup>25</sup>
- (d)(4) Form of Sub-Investment Advisory Agreement between China Asset Management (Hong Kong) Limited and Van Eck Associates Corporation (with respect to Market Vectors ChinaAMC A-Share ETF f/k/a Market Vectors China ETF).<sup>50</sup>
- (d)(5) Form of Sub-Investment Advisory Agreement between China Asset Management (Hong Kong) Limited and Van Eck Associates Corporation (with respect to Market Vectors ChinaAMC MSCI All China ETF and Market Vectors ChinaAMC SME-ChiNext ETF).<sup>49</sup>
- (e)(1) Form of Distribution Agreement between the Trust and Van Eck Securities Corporation.<sup>2</sup>
- (e)(2) Form of Participant Agreement.<sup>1</sup>
- (f) Not applicable.
- (g) Form of Custodian Agreement between the Trust and The Bank of New York.<sup>1</sup>
- (h)(1) Form of Fund Accounting Agreement between the Trust and The Bank of New York.<sup>1</sup>
- (h)(2) Form of Transfer Agency Services Agreement between the Trust and The Bank of New York.<sup>1</sup>
- (h)(3) Form of Sub-License Agreement between the Trust and the Van Eck Associates Corp.<sup>1</sup>
- (i)(1) Opinion and Consent of Clifford Chance US LLP (with respect to Market Vectors—Environmental Services ETF, Market Vectors—Gold Miners ETF and Market Vectors—Steel ETF).
- (i)(2) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Global Alternative Energy ETF and Market Vectors—Russia ETF).
- (i)(3) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Global Agribusiness ETF and Market Vectors—Market Vectors Uranium+Nuclear Energy ETF f/k/a Global Nuclear Energy ETF).
- (i)(4) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Lehman Brothers Intermediate Municipal ETF, Market Vectors—Lehman Brothers Long Municipal ETF, Market Vectors—Lehman Brothers 1-5 Year Municipal ETF, Market Vectors—Lehman Brothers Non-Investment Grade Municipal ETF, Market Vectors—Lehman Brothers California Municipal ETF and Market Vectors—Lehman Brothers New York Municipal ETF).<sup>6</sup>
- (i)(5) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Coal ETF and Market Vectors—Gaming ETF).<sup>7</sup>
- (i)(6) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Lehman Brothers AMT-Free Massachusetts Municipal Index ETF, Market Vectors—Lehman Brothers AMT-Free New Jersey Municipal Index ETF, Market Vectors—Lehman Brothers AMT-Free Ohio Municipal Index ETF and Market Vectors—Lehman Brothers AMT-Free Pennsylvania Municipal Index ETF).<sup>8</sup>
- (i)(7) Opinion of Clifford Chance US LLP (with respect to Market Vectors—Hard Assets ETF and Market Vectors—Solar Energy ETF).
- (i)(8) Opinion and Consent of Clifford Chance US LLP with respect to Market Vectors—Africa Index ETF, Market Vectors—Emerging Eurasia Index ETF, Market Vectors—Global Frontier Index ETF and Market Vectors—Gulf States Index ETF).<sup>10</sup>



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- (i)(9) Consent of Clifford Chance US LLP (with respect to Market Vectors—Lehman Brothers High-Yield Municipal Index ETF).<sup>11</sup>
- (i)(10) Opinion and Consent of Clifford Chance US LLP (with respect to Market Vectors Indonesia Index ETF).<sup>12</sup>
- (i)(11) Opinion and Consent of Clifford Chance US LLP (with respect to Market Vectors Vietnam ETF).<sup>13</sup>
- (i)(12) Opinion and Consent of Clifford Chance US LLP (with respect to Market Vectors Pre-Refunded Municipal Index ETF).<sup>14</sup>
- (i)(13) Opinion and Consent of Dechert LLP (with respect to Market Vectors Egypt Index ETF).<sup>21</sup>
- (i)(14) Opinion and Consent of Dechert LLP (with respect to Market Vectors Kuwait Index ETF).<sup>21</sup>
- (i)(15) Opinion and Consent of Dechert LLP (with respect to Market Vectors Latin America Small-Cap Index ETF).<sup>22</sup>
- (i)(16) Opinion and Consent of Dechert LLP (with respect to Market Vectors ChinaAMC A-Share ETF f/k/a Market Vectors China ETF).<sup>18</sup>
- (i)(17) Opinion and Consent of Clifford Chance US LLP (with respect to Market Vectors Brazil Small-Cap ETF).<sup>17</sup>
- (i)(18) Opinion and Consent of Dechert LLP (with respect to Market Vectors Junior Gold Miners ETF).<sup>19</sup>
- (i)(19) Opinion and Consent of Dechert LLP (with respect to Market Vectors Poland ETF).<sup>20</sup>
- (i)(20) Opinion and Consent of Dechert LLP (with respect to Market Vectors India Small-Cap Index ETF).<sup>23</sup>
- (i)(21) Opinion and Consent of Dechert LLP (with respect to Market Vectors Emerging Markets Local Currency Bond ETF).<sup>24</sup>
- (i)(22) Opinion and Consent of Dechert LLP (with respect to Market Vectors GDP – International Equity ETF and Market Vectors GDP – Emerging Markets Equity ETF).
- (i)(23) Opinion and Consent of Dechert LLP (with respect to Market Vectors Investment Grade Floating Rate Bond ETF).<sup>24</sup>
- (i)(24) Opinion and Consent of Dechert LLP (with respect to Market Vectors Rare Earth/Strategic Metals ETF).<sup>26</sup>
- (i)(25) Opinion and Consent of Dechert LLP (with respect to Market Vectors Emerging Markets Aggregate Bond ETF f/k/a Market Vectors LatAm Aggregate Bond ETF).<sup>29</sup>
- (i)(26) Opinion and Consent of Dechert LLP (with respect to Market Vectors High Yield Floating Rate ETF).<sup>52</sup>
- (i)(27) Opinion and Consent of Dechert LLP (with respect to Market Vectors Fixed Income II ETF).<sup>52</sup>
- (i)(28) Opinion and Consent of Dechert LLP (with respect to Market Vectors Colombia ETF).<sup>27</sup>
- (i)(29) Opinion and Consent of Dechert LLP (with respect to Market Vectors CM Commodity Index ETF).<sup>52</sup>
- (i)(30) Opinion and Consent of Dechert LLP (with respect to Market Vectors Russia Small-Cap ETF).<sup>28</sup>
- (i)(31) Opinion and Consent of Dechert LLP (with respect to Market Vectors Germany Small-Cap ETF).<sup>28</sup>
- (i)(32) Opinion and Consent of Dechert LLP (with respect to Market Vectors CEF Municipal Income ETF).<sup>30</sup>
- (i)(33) Opinion and Consent of Dechert LLP (with respect to Market Vectors GDP – Emerging Markets Small-Cap Equity ETF).<sup>52</sup>
- (i)(34) Opinion and Consent of Dechert LLP (with respect to Market Vectors European Currency High Yield Bond ETF).<sup>34</sup>
- (i)(35) Opinion and Consent of Dechert LLP (with respect to Market Vectors European Sovereign Bond ETF).<sup>52</sup>
- (i)(36) Opinion and Consent of Dechert LLP (with respect to Market Vectors Asia ex-Japan Aggregate Bond ETF).<sup>52</sup>



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- (i)(37) Opinion and Consent of Dechert LLP (with respect to Market Vectors Mortgage REIT Income ETF).<sup>31</sup>
- (i)(38) Opinion and Consent of Dechert LLP (with respect to Market Vectors International High Yield Bond ETF).<sup>38</sup>
- (i)(39) Opinion and Consent of Dechert LLP (with respect to Market Vectors BDC Income ETF).<sup>45</sup>
- (i)(40) Opinion and Consent of Dechert LLP (with respect to Market Vectors Mongolia ETF).<sup>52</sup>
- (i)(41) Opinion and Consent of Dechert LLP (with respect to Market Vectors Nigeria ETF).<sup>52</sup>
- (i)(42) Opinion and Consent of Dechert LLP (with respect to Market Vectors Greater China Corporate Bond ETF).<sup>52</sup>
- (i)(43) Opinion and Consent of Dechert LLP (with respect to Market Vectors Greater China High Yield Bond ETF).<sup>52</sup>
- (i)(44) Opinion and Consent of Dechert LLP (with respect to Market Vectors Renminbi Bond ETF).<sup>33</sup>
- (i)(45) Brokerage ETF, Market Vectors Oil Services ETF, Market Vectors Pharmaceutical ETF, Market Vectors Retail ETF and Market Vectors Semiconductor ETF).<sup>35</sup>
- (i)(46) Opinion and Consent of Dechert LLP (with respect to Market Vectors Indonesia Small-Cap ETF).<sup>37</sup>
- (i)(47) Opinion and Consent of Dechert LLP (with respect to Market Vectors Yuan Bond ETF).<sup>52</sup>
- (i)(48) Opinion and Consent of Dechert LLP (with respect to Market Vectors Unconventional Oil & Gas ETF).<sup>36</sup>
- (i)(49) Opinion and Consent of Dechert LLP (with respect to Market Vectors Wide Moat ETF).<sup>40</sup>
- (i)(50) Opinion and Consent of Dechert LLP (with respect to Market Vectors Emerging Markets High Yield Bond ETF).<sup>39</sup>
- (i)(51) Opinion and Consent of Dechert LLP (with respect to Market Vectors Global High Yield Bond ETF).<sup>52</sup>
- (i)(52) Opinion and Consent of Dechert LLP (with respect to Market Vectors Fallen Angel High Yield Bond ETF).<sup>39</sup>
- (i)(53) Opinion and Consent of Dechert LLP (with respect to Market Vectors Global Chemicals ETF).<sup>52</sup>
- (i)(54) Opinion and Consent of Dechert LLP (with respect to Market Vectors Preferred Securities ex Financials ETF).<sup>42</sup>
- (i)(55) Opinion and Consent of Dechert LLP (with respect to Market Vectors Saudi Arabia ETF).<sup>52</sup>
- (i)(56) Opinion and Consent of Dechert LLP (with respect to Market Vectors Saudi Arabia Small-Cap ETF).<sup>52</sup>
- (i)(57) Opinion and Consent of Dechert LLP (with respect to Market Vectors Short High-Yield Municipal Index ETF).<sup>47</sup>
- (i)(58) Opinion and Consent of Dechert LLP (with respect to Market Vectors Emerging Markets Aggregate Bond ETF).<sup>29</sup>
- (i)(59) Opinion and Consent of Dechert LLP (with respect to Market Vectors Non-Agency RMBS ETF).<sup>52</sup>
- (i)(60) Opinion and Consent of Dechert LLP (with respect to Market Vectors Defaulted & Distressed Bond ETF).<sup>52</sup>
- (i)(61) Opinion and Consent of Dechert LLP (with respect to Market Vectors Treasury-Hedged High Yield Bond ETF).<sup>44</sup>
- (i)(62) Opinion and Consent of Dechert LLP (with respect to Market Vectors Israel ETF).<sup>46</sup>
- (i)(63) Opinion and Consent of Dechert LLP (with respect to Market Vectors Puerto Rico Municipal Index ETF).<sup>52</sup>
- (i)(64) Opinion and Consent of Dechert LLP (with respect to Market Vectors Emerging Markets Short-Term Corporate Bond ETF).<sup>52</sup>

- (i)(65) Opinion and Consent of Dechert LLP (with respect to Market Vectors China A Consumer Demand ETF).<sup>52</sup>
- (i)(66) Opinion and Consent of Dechert LLP (with respect to Market Vectors China A Quality ETF).<sup>52</sup>
- (i)(67) Opinion and Consent of Dechert LLP (with respect to Market Vectors China A Quality Dividend ETF).<sup>52</sup>
- (i)(68) Opinion and Consent of Dechert LLP (with respect to Market Vectors MSCI International Quality ETF and Market Vectors MSCI International Quality Dividend ETF).<sup>48</sup>
- (i)(69) Opinion and Consent of Dechert LLP (with respect to Market Vectors MSCI Emerging Markets Quality ETF and Market Vectors MSCI Emerging Markets Quality Dividend ETF).<sup>48</sup>
- (i)(71) Opinion and Consent of Dechert LLP (with respect to Market Vectors MSCI All China ETF).<sup>49</sup>
- (i)(72) Opinion and Consent of Dechert LLP (with respect to Market Vectors ChinaAMC SME-ChiNext ETF).<sup>51</sup>
- (i)(73) Opinion and Consent of Dechert LLP (with respect to Market Vectors ChinaAMC China Bond ETF).<sup>52</sup>
- (i)(74) Opinion and Consent of Dechert LLP (with respect to Market Vectors [Emerging Markets Corporate Bond] ETF).<sup>52</sup>  
Consent of Dechert LLP (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF).<sup>53</sup>  
Consent of Ernst & Young LLP (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF).<sup>53</sup>
- (j) Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF).<sup>53</sup>
- (k) Not applicable.
- (l) Not applicable.
- (m) Not applicable.
- (n) Not applicable.
- (o) Not applicable.
- (p)(1) Code of Ethics of Van Eck Associates Corporation and Van Eck Securities Corporation.<sup>43</sup>

1 Incorporated by reference to the Registrant's Registration Statement filed on April 28, 2006.

2 Incorporated by reference to the Registrant's Registration Statement filed on May 11, 2006.

3 Incorporated by reference to the Registrant's Registration Statement filed on October 6, 2006.

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- 4 Incorporated by reference to the Registrant's Registration Statement filed on April 9, 2007.
- 5 Incorporated by reference to the Registrant's Registration Statement filed on July 30, 2007.
- 6 Incorporated by reference to the Registrant's Registration Statement filed on November 2, 2007.
- 7 Incorporated by reference to the Registrant's Registration Statement filed on December 31, 2007.
- 8 Incorporated by reference to the Registrant's Registration Statement filed on February 15, 2008.
- 9 Incorporated by reference to the Registrant's Registration Statement filed on April 21, 2008.
- 10 Incorporated by reference to the Registrant's Registration Statement filed on July 8, 2008.
- 11 Incorporated by reference to the Registrant's Registration Statement filed on August 8, 2008.
- 12 Incorporated by reference to the Registrant's Registration Statement filed on November 25, 2008.
- 13 Incorporated by reference to the Registrant's Registration Statement filed on December 23, 2008.
- 14 Incorporated by reference to the Registrant's Registration Statement filed on January 28, 2009.
- 15 Incorporated by reference to the Registrant's Registration Statement filed on February 6, 2009.
- 16 Incorporated by reference to the Registrant's Registration Statement filed on April 21, 2009.
- 17 Incorporated by reference to the Registrant's Registration Statement filed on May 8, 2009.
- 18 Incorporated by reference to the Registrant's Registration Statement filed on September 4, 2009.
- 19 Incorporated by reference to the Registrant's Registration Statement filed on November 9, 2009.
- 20 Incorporated by reference to the Registrant's Registration Statement filed on November 20, 2009.
- 21 Incorporated by reference to the Registrant's Registration Statement filed on February 16, 2010.
- 22 Incorporated by reference to the Registrant's Registration Statement filed on March 29, 2010.
- 23 Incorporated by reference to the Registrant's Registration Statement filed on April 5, 2010.
- 24 Incorporated by reference to the Registrant's Registration Statement filed on June 28, 2010.
- 25 Incorporated by reference to the Registrant's Registration Statement filed on August 27, 2010.
- 26 Incorporated by reference to the Registrant's Registration Statement filed on October 20, 2010.
- 27 Incorporated by reference to the Registrant's Registration Statement filed on March 4, 2011.
- 28 Incorporated by reference to the Registrant's Registration Statement filed on April 1, 2011.
- 29 Incorporated by reference to the Registrant's Registration Statement filed on May 10, 2011.
- 30 Incorporated by reference to the Registrant's Registration Statement filed on July 7, 2011.
- 31 Incorporated by reference to the Registrant's Registration Statement filed on August 15, 2011.
- 32 Incorporated by reference to the Registrant's Registration Statement filed on August 24, 2011.
- 33 Incorporated by reference to the Registrant's Registration Statement filed on October 11, 2011.
- 34 Incorporated by reference to the Registrant's Registration Statement filed on October 26, 2011.
- 35 Incorporated by reference to the Registrant's Registration Statement filed on October 31, 2011.
- 36 Incorporated by reference to the Registrant's Registration Statement filed on February 8, 2012.
- 37 Incorporated by reference to the Registrant's Registration Statement filed on March 14, 2012.
- 38 Incorporated by reference to the Registrant's Registration Statement filed on March 29, 2012.
- 39 Incorporated by reference to the Registrant's Registration Statement filed on April 3, 2012.
- 40 Incorporated by reference to the Registrant's Registration Statement filed on April 13, 2012.
- 41 Incorporated by reference to the Registrant's Registration Statement filed on May 17, 2012.
- 42 Incorporated by reference to the Registrant's Registration Statement filed on July 5, 2012.
- 43 Incorporated by reference to the Registrant's Registration Statement filed on January 24, 2013.
- 44 Incorporated by reference to the Registrant's Registration Statement filed on February 1, 2013.
- 45 Incorporated by reference to the Registrant's Registration Statement filed on February 7, 2013.
- 46 Incorporated by reference to the Registrant's Registration Statement filed on June 24, 2013.
- 47 Incorporated by reference to the Registrant's Registration Statement filed on December 20, 2013.
- 48 Incorporated by reference to the Registrant's Registration Statement filed on January 17, 2014.
- 49 Incorporated by reference to the Registrant's Registration Statement filed on April 14, 2014.
- 50 Incorporated by reference to the Registrant's Registration Statement filed on April 30, 2014.
- 51 Incorporated by reference to the Registrant's Registration Statement filed on May 16, 2014.
- 52 To be filed by Amendment.
- 53 Filed herewith.

**Item 29. Persons Controlled by or Under Common Control with Registrant**

None.

C-6

**Item 30. Indemnification**

Pursuant to Section 10.2 of the Amended and Restated Declaration of Trust, all persons that are or have been a Trustee or officer of the Trust (collectively, the “Covered Persons”) shall be indemnified by the Trust to the fullest extent permitted by law against liability and against all expenses reasonably incurred or paid by him in connection with any claim, action, suit, or proceeding in which he or she becomes involved as a party or otherwise by virtue of his being or having been a Trustee or officer and against amounts paid or incurred by him in the settlement thereof. No indemnification will be provided to a Covered Person who shall have been adjudicated by a court or body before which the proceeding was brought to be liable to the Trust or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office or not to have acted in good faith in the reasonable belief that his action was in the best interest of the Trust; or in the event of a settlement, unless there has been a determination that such Trustee or officer did not engage in willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

Article XII of the Trust’s Bylaws, to the maximum extent permitted by Delaware law in effect from time to time, the Trust shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former trustee or officer of the Trust and who is made a party to the proceeding by reason of his or her service in that capacity or (b) any individual who, while a director of the Trust and at the request of the Trust, serves or has served as a trustee, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made a party to the proceeding by reason of his or her service in that capacity. The Trust may, with the approval of its Board of Trustees, provide such indemnification and advance for expenses to a person who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust; *provided* that no provision of Article XII shall be effective to protect or purport to protect any trustee or officer of the Trust against liability to the Trust or its stockholders to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

The Trust has agreed to indemnify and hold harmless the Trustees against any and all expenses actually and reasonably incurred by the Trustee in any proceeding arising out of or in connection with the Trustee’s service to the Trust, to the fullest extent permitted by the Amended and Restated Agreement and Declaration of Trust and Bylaws of the Fund and Title 12, Part V, Chapter 38 of the Delaware Code, and applicable law.

**Item 31. Business and Other Connections of Investment Manager**

See “Management” in the Statement of Additional Information. Information as to the directors and officers of the Adviser is included in its Form ADV filed with the SEC and is incorporated herein by reference thereto.

**Item 32. Principal Underwriters**

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Van Eck Securities Corporation is the Trust's principal underwriter. Van Eck Securities Corporation also acts as a (a) principal underwriter, depositor, or investment manager for the following other investment companies: each series of Van Eck Funds and Van Eck VIP Trust.

C-7

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(b)The following is a list of the officers, directors and partners of Van Eck Securities Corporation:

<b>Name and Principal Business Address</b>	<b>Positions and Offices with Underwriter</b>	<b>Positions and Offices with Trust</b>
Jan F. van Eck 335 Madison Avenue New York, NY 10017	Director and President	President, Chief Executive Officer and Trustee
Bruce J. Smith 335 Madison Avenue New York, NY 10017	Director, Senior Vice President, Chief Financial Officer, Treasurer and Controller	Senior Vice President
Susan Marino 335 Madison Avenue New York, NY 10017	Senior Vice President	N/A
Harvey Hirsch 335 Madison Avenue New York, NY 10017	Senior Vice President	N/A
John J. Crimmins 335 Madison Avenue New York, NY 10017	Vice President	Vice President, Treasurer, Chief Financial Officer and Principal Accounting Officer
Susan C. Lashley 335 Madison Avenue New York, NY 10017	Vice President	Vice President
Jonathan R. Simon 335 Madison Avenue New York, NY 10017	Vice President, Chief Legal Officer and Secretary	Vice President, General Counsel and Secretary
John Wolfe 335 Madison Avenue New York, NY 10017	Vice President and Chief Administrative Officer	N/A
Laura I. Martinez 335 Madison Avenue New York, NY 10017	Assistant Vice President and Assistant Secretary	Assistant Vice President and Assistant Secretary
Wu-Kwan Kit 335 Madison Avenue New York, NY 10017	Assistant Vice President and Assistant Secretary	Assistant Vice President and Assistant Secretary
Allison Lovett 335 Madison Avenue New York, NY 10017	Vice President	N/A
Patrick Lulley 335 Madison Avenue	Vice President	N/A

New York, NY 10017

C-8



<b>Name and Principal Business Address</b>	<b>Positions and Offices with Underwriter</b>	<b>Positions and Offices with Trust</b>
William A. Best III 335 Madison Avenue New York, NY 10017	Senior Vice President	N/A
Janet Squitieri 335 Madison Avenue New York, NY 10017	Vice President, Global Head of Compliance and Chief Compliance Officer	Chief Compliance Officer
Bryan S. Paisley 335 Madison Avenue New York, NY 10017	Assistant Vice President	N/A

**Item 33. Location of Accounts and Records**

All accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act and the Rules thereunder will be maintained at the offices of The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286.

**Item 34. Management Services**

Not applicable.

**Item 35. Undertakings**

Not applicable.

C-9

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all the requirements for effectiveness under Rule 485(b) under the Securities Act of 1933 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York and State of New York on the 25th day of August 2014.

MARKET VECTORS ETF TRUST

By: /s/ Jan F. van Eck  
 Name: Jan F. van Eck  
 Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following person in the capacities and on the date indicated.

/s/ David H. Chow* David H. Chow	Trustee	August 25, 2014
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/s/ R. Alastair Short* R. Alastair Short	Trustee	August 25, 2014
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/s/ Peter J. Sidebottom* Peter J. Sidebottom	Trustee	August 25, 2014
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/s/ Richard D. Stamberger* Richard D. Stamberger	Trustee	August 25, 2014
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/s/ Jan F. van Eck Jan F. van Eck	President, Chief Executive Officer and Trustee	August 25, 2014
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/s/ John J. Crimmins* John J. Crimmins	Treasurer, Chief Financial Officer and Principal Accounting Officer	August 25, 2014
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\*By: /s/ Jonathan R. Simon  
 Jonathan R. Simon  
 Attorney in Fact

**EXHIBIT INDEX**

Consent of Dechert LLP (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate (i)(75) Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF).

Consent of Ernst & Young LLP (with respect to Market Vectors BDC Income ETF, Market Vectors CEF Municipal Income ETF, Market Vectors Emerging Markets Aggregate Bond ETF, Market Vectors Emerging Markets High Yield Bond ETF, Market Vectors Emerging Markets Local Currency Bond ETF, Market Vectors Fallen Angel High Yield Bond ETF, Market Vectors High-Yield Municipal Index ETF, Market Vectors Intermediate Municipal Index ETF, Market Vectors International High Yield Bond ETF, Market (j) Vectors Investment Grade Floating Rate ETF, Market Vectors Long Municipal Index ETF, Market Vectors Mortgage REIT Income ETF, Market Vectors Preferred Securities ex Financials ETF, Market Vectors Pre-Refunded Municipal Index ETF, Market Vectors Renminbi Bond ETF, Market Vectors Short High-Yield Municipal Index ETF, Market Vectors Short Municipal Index ETF and Market Vectors Treasury-Hedged High Yield Bond ETF).

C-11