Manager Commentary: On the Gold Market

Global Financial Concerns Propel Gold in January

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned 12.75% for the one-month period ending January 31, 2015 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned 20.35% for the same period. The Fund is actively managed and invests mainly in gold-mining equities. Geologist Joe Foster has been part of Van Eck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

Average Annual Total Returns (%) as of January 31, 2015

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	12.75	-5.25	-8.26	6.07
Class A: Maximum 5.75% load	6.24	-10.69	-9.34	5.44
GDMNTR Index	20.35	-4.39	-10.32	0.51

Average Annual Total Returns (%) as of December 31, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	0.76	-6.10	-12.47	4.13
Class A: Maximum 5.75% load	-4.99	-11.50	-13.49	3.51
GDMNTR Index	0.33	-11.99	-15.72	-2.04

^Monthly returns are not annualized.

Expenses: Class A: Gross 1.46%; Net 1.45%. Expenses are capped contractually until 05/01/15 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries. Investors should be aware that recent market conditions resulting in high performance for the gold sector may not continue. The tables present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends of the Index constituents in the Index have been reinvested. **Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.**

Market Review

The prospect of systemic financial risk drove the gold market in January. Currencies, deflation, and sovereign debt topped the list of concerns that caused gold to advance $98.91 to close the month at $1,283.77 (an increase of 8.4%). The U.S. Dollar Index (DXY) soared 5.1%, rising in tandem with gold as safe havens.[2] Gold also broke free from the broader commodity complex, as WTI crude and copper tumbled 10.9% and 12.6%, respectively, in January. Gold bullion exchange-traded products had their strongest monthly net inflows since 2012.

Gold stocks began the year with a strong move, as the NYSE Arca Gold Miners Index (GDMNTR) gained 20.4% and the Market Vectors Junior Gold Miners Index (MVGDXJTR) gained 14.7%.[3] Large-cap stocks outperformed, which may be due to generalist money coming into the sector. South African stocks were stellar performers, with gains ranging from 42% to 64%, which may explain why the GDMNTR managed to outperform U.S.-listed gold mutual funds in January.

Most nations appear to be pursuing weak currency policies in order to gain trade advantages and generate growth. Singapore was the latest to do so, and on January 28, it had its first emergency policy change since 2001, sending the Singapore dollar to five-year lows against the U.S. dollar. Every country that devalues does so at the expense of another country. If devaluations become more aggressive and disorderly, systemic risk may become prevalent throughout the world.

On January 15 the markets caught a glimpse of what a currency crisis might look like when the Swiss National Bank (SNB) abandoned the Euro peg established for the Swiss franc three years ago. Markets were baffled by SNB officials, who had voiced strong support for the peg just days before dropping it. Apparently, the European Central Bank's (ECB) moves toward negative rates and plans of quantitative easing (QE) created unbearable Euro weakness for the Swiss.[4] Within minutes of the announcement, the Swiss franc saw double-digit percentage gains against foreign currencies. Liquidity dried up and Swiss franc trades became virtually impossible to execute. Currency dealers suffered losses in the hundreds of millions of dollars and some needed cash infusions to remain solvent. Swiss franc transactions account for less than one percent of the $5.3 trillion a day foreign exchange market. An unanticipated Swiss-like shift in currency policies in one of the major currencies cannot be ruled out, as central bankers experiment with extremes in interest rates, exchange rates, money printing, and asset purchases.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time.

European consumer prices fell for the second consecutive month to -0.6 percent in January. European policy makers continue to fret over deflationary pressures, seeking to avert a depression-era mentality in which consumers become less willing to spend and debts become more onerous in real terms. On January 22 the ECB announced a massive QE program to print €60 billion per month to purchase bonds and debt securities in an attempt to stimulate the moribund European economy and somehow generate inflation. Past experience in Japan and the United States suggests to us that the stimulus program may not work as expected.

On January 25 the Syriza party gained control of Greece's leadership after campaigning to end fiscal austerity, roll back market reforms, and restructure sovereign debt – essentially to unwind or renegotiate the terms of Greece's bailout agreement with the Troika (the European Commission [EC], International Monetary Fund [IMF], and the ECB). Meanwhile, Greece lacks the cash to repay bonds held by the ECB that fall due this summer and repayment of IMF loans due in March may also be in doubt.

Eldorado Gold Corporation (4.9% of Fund net assets as of January 31, 2015) is a Canadian mid-tier gold company with mines and development projects in Greece that represent approximately 40% of its value. Its stock suffered a painful blow after the new Minister of Energy claimed the government is against Eldorado's projects. Eldorado has been one of the largest foreign investors in Greece since the sovereign debt crisis in 2010. It operates two mines and is developing Skouries, a large copper/gold project. Skouries is fully designed and permitted to European Union (EU) environmental standards. The company employs approximately 1,900 Greeks; it aims to spend around $1 billion over five years and will generate additional jobs during construction. Eldorado does not pay bribes, subvert regulations, or evade taxes. It runs a successful business with a robust payroll. Most observers believe a sovereign bond default and exit from the EU would be a worst-case outcome for Greece as well as Europe. Judging by the irrational way Syriza has treated Eldorado so far, we feel this scenario may be likely.

Market Outlook

There was a significant change in gold market psychology in January. Through most of the gold bear market there has been little sense of financial stress or tail risk. The Federal Reserve Bank (the "Fed") was tapering its bond buying program and the U.S. economy improved. The economies of Europe and Japan remained sluggish but were able to muddle through without further banking or sovereign debt problems. For most of last year, gold was driven mainly by geopolitical risks that culminated in war in Ukraine and Syria/Iraq. Financial stress has not been a dominant gold driver since the financial crisis and its aftermath – until now.

Central Bank policies have reached their "zero bound" and are running out of options to stimulate economies. Interest rates are near zero or negative across much of the developed world. HSBC economist Karen Ward states in a recent report: "Central banks face the unenviable task of trying to convince households, corporates, and markets that this latest batch of easing will work when it's increasingly evident others haven't."[5] Currency devaluations have begun to supplement radical monetary policies as tools of the trade, further distorting markets. We believe politicians have no incentive to make needed structural changes to education, regulations, business formation, taxes, entitlements, or bureaucracy as long as Central Banks keep rates low and continue buying massive quantities of sovereign debt. As an added bonus, the Fed's portfolio generated approximately $100 billion of interest income for the U.S. Treasury in 2014 alone. Free money knows no discipline. Impediments to growth remain.

In our opinion, the gold price has been forming a base around the $1,200 per ounce level since 2013 in a market that has lacked momentum. With the financial risks that are now coming into view in 2015, perhaps gold has reached an inflection. Renewed problems in Greece are cropping up at a time when Europe is least able to deal with them. Meanwhile, Russia continues to agitate in Ukraine. Many global stock markets reached new highs with the recent ECB stimulus, while the U.S. dollar and bonds continue to soar. Interest rates have been falling in much of the world as the Fed contemplates a rate increase. The deflation that European policy makers are reacting to may instead be a temporary side effect of the oil price crash. It seems the excesses, contradictions, and distortions in financial markets and Central Bank policies could set the stage for a financially tumultuous year.

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[1]NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. [2]U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. [3]Market Vectors Junior Gold Miners Index (MVGDXJTR) is a rules-based, modified market capitalization-weighted, float-adjusted index comprised of a global universe of publicly traded small- and medium-capitalization companies that generate at least 50% of their revenues from gold and/or silver mining, hold real property that has the potential to produce at least 50% of the company's revenue from gold or silver mining when developed, or primarily invest in gold or silver. [4]Quantitative easing (QE) is an unconventional monetary policy used by a central bank to stimulate an economy when standard monetary policy has become ineffective. [5]HSBC Global Research, Jan. 27, 2015, "Why QE has had its day"

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