Manager Commentary: On the Gold Market

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Gold Price and U.S. Dollar Head in Opposite Directions

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned -8.59% for the one-month period ending November 30, 2015 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned -8.51% 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 November 30, 2015

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-8.59	-24.94	-23.41	-0.71
Class A: Maximum 5.75% load	-13.87	-29.22	-24.32	-1.29
GDMNTR Index	-8.51	-25.21	-24.53	-6.23

Average Annual Total Returns (%) as of September 30, 2015

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-4.41	-34.45	-21.83	-0.22
Class A: Maximum 5.75% load	-9.94	-38.19	-22.75	-0.81
GDMNTR Index	-2.28	-35.32	-23.60	-6.09

^Monthly returns are not annualized.

Expenses: Class A: Gross 1.47%; Net 1.45%. Expenses are capped contractually until 05/01/16 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

After falling to its cycle lows in July, the gold price had advanced nicely and last month we wondered whether the positive trend was sustainable. The short answer is: No, it wasn't. In November, the gold price fell to new 5.5-year lows at $1,052 per ounce, as the U.S. Dollar Index[2] (DXY) approached long-term highs. Gold ended the month at $1,064.77 per ounce for a loss of $77.39 (6.8%).

On November 4, *Bloomberg News* reported that Federal Reserve (the "Fed") Chair Janet Yellen said an improving economy would set the stage for a December interest rate increase if economic reports continue to assure policymakers that inflation will accelerate over time. This set the tone for both gold and the U.S. dollar, which fell and rose, respectively, for the remainder of the month. A strong jobs report on November 6, followed by generally positive economic releases throughout the month enabled market consensus to gain momentum for a rate increase at the December 16 Federal Open Market Committee (FOMC) meeting. Gold bullion exchange-traded products (ETPs) saw 1.59 million ounces (49.3 tonnes) of redemptions in November which drove gold ETPs' combined holdings to a new cycle low of 47.92 million ounces (1,490.3 tonnes).

During November gold equity indices fell with the gold price and nearly met the lows set in July. The NYSE Arca Gold Miners Index (GDMNTR) declined 8.5%, while the Market Vectors Junior Gold Miners Index[3] (MVGDXJTR) fell 8.6%. Low gold prices caused investors to largely ignore the robust results of the third quarter earnings season. BMO Capital Markets reported free cash flow of $978 million from the North American senior miners, far surpassing expectations of $94 million. Scotiabank's universe of senior and larger mid-caps had production that was 3% above expectations and all-in mining costs that were 8% lower than expected. The favorable results stemmed from operating efficiency, bear market pricing for materials and services, low local currency values, and low fuel prices. Many companies have indicated that there is still room to cut costs further. We now expect positive production results and cost-savings to continue in 2016.

Physical demand for gold bars, coins, and jewelry improved in the third quarter. The World Gold Council (WGC) reported that Q3 gold demand increased by 8% over Q2 and by 14% over last year. Year-to-date demand is up 3% versus the same period in 2014. The WGC reckons that there was a gold market deficit of 56.0 tonnes in Q3. The largest drivers of this strong demand were India and China, where demand increased 13% in each country which equates to a 58.0 tonne increase over Q2. Chinese demand continues as physical deliveries from the Shanghai Gold Exchange through November have now surpassed the record set in 2013.

***All company weightings as of November 30, 2015 unless otherwise noted.**

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.

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Investors might wonder how gold can make new lows in July and again in November while the market has been in a deficit, which means demand is presumably outstripping supply. The gold market is unique among commodities and indeed unique in the financial world. Most gold is hoarded as a financial asset, like currencies, stocks, and bonds. It is not consumed like oil, copper, or soybeans. All of the gold ever produced is sitting in a vault, safe, jewelry box, place of worship, or museum, or is adorning a person's body. This gold represents a huge reservoir of potential supply, some of which is available at a price. This is why the supply/demand drivers that apply to most commodities may not apply to gold. In addition, the gold market is not sufficiently transparent to account for all of the transactions that occur globally. All of the gold that the WGC can account for amounted to a 56.0 tonne deficit in Q3, however, there is gold the WGC cannot count that may make this deficit larger or perhaps nonexistent altogether.

For commodities other than gold, strong physical demand drives prices higher – *prices follow demand*. With gold, the current price drives physical demand – *demand follows prices*. Lower prices entice buyers in India and China. They also bring strong retail demand from the U.S. and Europe. This physical demand increases when prices drop, helping to stabilize prices. However, physical demand usually diminishes when prices increase.

Investment demand generates price strength in the gold market and a lack of investment demand characterizes bear markets. The motives that drive both physical and investment demand are the same – to utilize gold as a store of wealth and a hedge against currency weakness, tail risk[4], or financial stress. However, investment demand manifests itself mainly in the futures market in New York and the over-the-counter market in London. These markets exert the largest influence on gold prices and they are driven more by macroeconomic, financial, and geopolitical events than by prices and supply/demand equations.

Gold ETPs are relatively transparent vehicles that we use as a proxy for broad investment demand. In Q3 global bullion ETPs had 63.0 tonnes of redemptions. This is probably a good indicator of weak investment demand in New York and London. It also lends better insight into price action than physical demand from China or elsewhere.

We believe that physical demand should play a larger role in price discovery, and maybe it eventually will as the Asian gold market grows and matures. In the meantime, the Chinese seem happy to accumulate all the gold the West cares to provide at low gold prices. Regardless of what we believe should happen, we make investment decisions based on what actually drives the market. This means investing in companies that can survive intact or gain an advantage if a lack of investment demand drives prices lower than expected.

Market Outlook

Once again the markets are essentially convinced that the Fed will raise rates at the next FOMC meeting. Based on recent Fed comments, economic releases, and the level of expectations, we will be shocked if the Fed doesn't raise rates. Rate rising cycles introduce risks to the economy and financial system and they often end badly. According to Gluskin Sheff[5], a bull market in the S&P 500 Index[6] has never ended after an initial rate hike. It is a different story if the rate hikes keep coming. The stock market crashed in October 1987 after three rate hikes over five months. NASDAQ crashed in April 2000 after six rate hikes over 11 months. Rate increases are often a prelude to recessions, which become increasingly likely as the yield curve flattens or inverts (when short-term rates exceed long-term rates).

The Fed has never waited as long as five years into a bull market to begin to raise rates. A few reasons the Fed has been reluctant to pull the trigger:

- In the last four decades, the Fed has never raised rates when the Institute of Supply Management (ISM) Manufacturing Index[7] was below 50, which signifies a manufacturing recession. The ISM Index is currently 48.6.

- How long can Fed policies diverge from the rest of the world where the central banks of Europe, China, Australia, and Japan are all easing to combat economic weakness?

- Every country that started a rate-hiking course after the Great Recession that ended in 2009 was ultimately forced to reverse course.

On November 2 as we watched Fed Chair Yellen address the Economic Club of Washington D.C., the U.S. Dollar Index approached a 12.5-year high while gold made a new 5.5-year low at $1,052 per ounce. With the U.S. dollar and gold at extreme levels, it seems the market has already priced in forthcoming rate hikes. Credit Suisse reported in October that historically when the U.S. has raised rates the dollar has stopped appreciating. In some cases the dollar fell into a bear market and in others the dollar eventually recovered.

Gold has a similarly inconsistent reaction to rate increases, as shown in this excerpt from our March gold market update, written when the market was obsessed with the Fed's rate decision, as it unfortunately still is:

Scotiabank has analyzed the last six tightening cycles since 1982 when a suitable gold index became available. They found that gold prices advanced in the year following the first rate increase in half of the cycles, whereas gold declined in the other half. Scotia points out that the only other point at which the Fed raised rates in a low-inflation environment was in 1986, when rates were increased in order to help defend a sharply depreciating U.S. dollar. It was also one of the rate-rising periods when gold performed well. The Scotia analysis leads to an uncertain outlook; it tells us that sometimes gold advances when rates rise and sometimes it does not. However, the economic and financial backdrop to the next rate cycle is unlike any other in history. The imbalances in asset markets, sovereign debt levels, and central bank finances create risks that may become overwhelming under the stress of rising rates. Perhaps the first rate increase will mark the beginning of the end of the gold bear market.

Any indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Fund. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

[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]Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution. [5]Gluskin Sheff + Associates Inc., a Canadian independent wealth management firm, manages investment portfolios for high net worth investors, including entrepreneurs, professionals, family trusts, private charitable foundations, and estates. [6]S&P 500® Index (S&P 500) consists of 500 widely held common stocks covering industrial, utility, financial, and transportation sectors. [7]The ISM Manufacturing Index, based on surveys of more than 300 manufacturing firms by the Institute of Supply Management, monitors employment, production inventories, new orders and supplier deliveries.

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You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary and political developments. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, CMOs and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk, leverage risk, credit risk and counterparty risk. Please see the prospectus and summary prospectus for information on these as well as other risk considerations.

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