

## Manager Commentary: On the Gold Market

### Gold rebounded further following July rally, gained 5.2% in August

By: Joe Foster, Portfolio Manager

#### Fund Review

The International Investors Gold Fund's Class A shares gained 7.49% for the one-month period ending August 31, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index<sup>2</sup> (GDM) gained 4.29% 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 access mining efficiencies and opportunities.

#### Average Annual Total Returns (%) as of August 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	7.49	-35.33	-0.05	9.60
Class A: Maximum 5.75% load	1.34	-39.06	-1.23	9.48
GDM Index	4.29	-40.37	-4.68	--

#### Average Annual Total Returns (%) as of June 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-17.45	-40.77	-8.92	9.07
Class A: Maximum 5.75% load	-22.20	-44.17	-10.00	8.42
GDM Index	-17.07	-44.39	-11.86	--

\*Monthly returns are not annualized.

**Expenses: Class A: Gross 1.29%; Net 1.29%.** Expenses are capped contractually until 05/01/14 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.

#### Market Review

Following the poor performance of the first half of the year, gold posted gains in July (+7.4%) and once again in August (+5.2%), significantly trimming its losses for the year. During the first week of August, positive economic data pushed gold below \$1,300 per ounce, closing as low as \$1,287.65 per ounce on August 7. Later, a weaker dollar and expectations for continued strong physical demand out of China lifted prices. Data showed a 54% increase in Chinese domestic gold purchases during the first half of 2013 compared to the previous year. Growing Chinese demand has helped offset a potential decline in Indian demand, which was also very strong in the first half, but could be negatively impacted by increasing import restrictions and taxes on gold in that country. Weaker than expected U.S. economic releases helped push prices higher, and by mid-month gold was trading above the \$1,350 per ounce resistance level.

Net redemptions from gold bullion exchange-traded products (ETPs), which began in February 2013 and continued throughout July, subsided early in the month. These redemptions were one of the main drivers of the gold sell-off in the first half of the year, thus a reversal to net increases in gold ETP holdings, we believe, is a key sign that gold may be reestablishing a positive trend. Also, during the month, COMEX<sup>1</sup> gold speculative short positions declined from the all-time highs reached in July, while new longs were also initiated.

Gold also benefited from its safe haven role, as global geopolitical risk increased as a result of the events in Syria. Gold traded as high as \$1,434 per ounce on August 28, but end of month profit taking appears to have taken the wind out of the sails, leading the metal to close at \$1,395.15 per ounce on August 30, for a monthly gain of \$69.90 per ounce.

After outperforming gold in July, gold equities slightly underperformed the metal in August, as shown by the NYSE Arca Gold Miners Index<sup>2</sup> (GDM) which was up 4.3% during the month, compared to gold's 5.3% gain. Gold producers reported Q2 results during the month. Although there were many earnings misses and asset write-downs due to the lower gold prices during the quarter, we were generally pleased by the operating results. Most companies maintained their 2013 operating and cost guidance, and many announced cost saving initiatives and other efforts designed to improve profitability and financial stability in the current price environment.

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.

The junior gold mining companies, significantly outperformed both gold and its senior/mid-tier peers. The Market Vectors Junior Gold Miners Index<sup>3</sup> (MVGDXJTR) gained 17.8% during the month.

### Market Outlook

It looks as if the 2013 bear-raid on gold has run its course. Net redemptions in the gold bullion ETPs have ceased and gold is \$200 above its oversold lows of June. We believe we are mainly seeing some technical mean-reversion in the gold price, however, for the positive momentum to have staying power, the market needs some fundamental strength. Dislocations in the economy and misallocations of wealth due to extreme monetary policies and sovereign debt levels have created unsustainable imbalances in the financial system. While we believe these imbalances will again create risks that favor gold, it is impossible to predict the source or timing. Perhaps the Federal Reserve Bank (the "Fed") finds it more difficult to "taper" than it anticipated, perhaps fighting in the Middle East escalates into global unrest, perhaps bubbles in stocks or bonds burst unexpectedly. Will the newborn gold rally fail as it did last year, or continue into the fall as has been common in prior years of the bull market? We have positioned the fund for the latter, as we believe that many weak hands have left the sector, which is the first step in building a new base.

Our fund portfolio is comprised primarily of gold stocks, but about 15% of the fund's value is presently allocated to silver companies. A company is considered a silver company if it derives more than 50% of its revenues from silver. There are several reasons for including silver companies in the portfolio. The most obvious reason is that silver is very similar to gold. Silver is a monetary metal, and like gold, it is in demand by investors as a safe haven asset, currency hedge, and portfolio diversifier. Investment demand has been the primary driver of the silver price rally over the last decade. The price performance of silver has historically been highly correlated<sup>4</sup> to the price of gold, as shown by a correlation factor (R) of 0.79 over the last ten years. In addition, the process of exploration, extraction, and production of silver is nearly identical to gold's. These characteristics allow the inclusion of silver companies in our analysis, effectively extending our investable universe. We note that the universe of primary silver companies is smaller than the gold mining universe. For example, the ten largest primary silver companies have a combined market cap<sup>5</sup> of about \$36 billion, compared to the combined market cap of the ten largest gold companies of \$107 billion at present.

There are some aspects, in our opinion, unique to the silver market that further support the current case for some silver exposure. Compared to the gold market, the silver market is smaller in dollar terms with fewer participants, which makes it less liquid and more volatile. The effect of changes in investment demand on the price of silver is magnified compared to gold, thus silver could be viewed as a leveraged play on gold. In a rising gold price environment, we believe silver should outperform gold, while it would generally underperform in periods of declining gold prices.

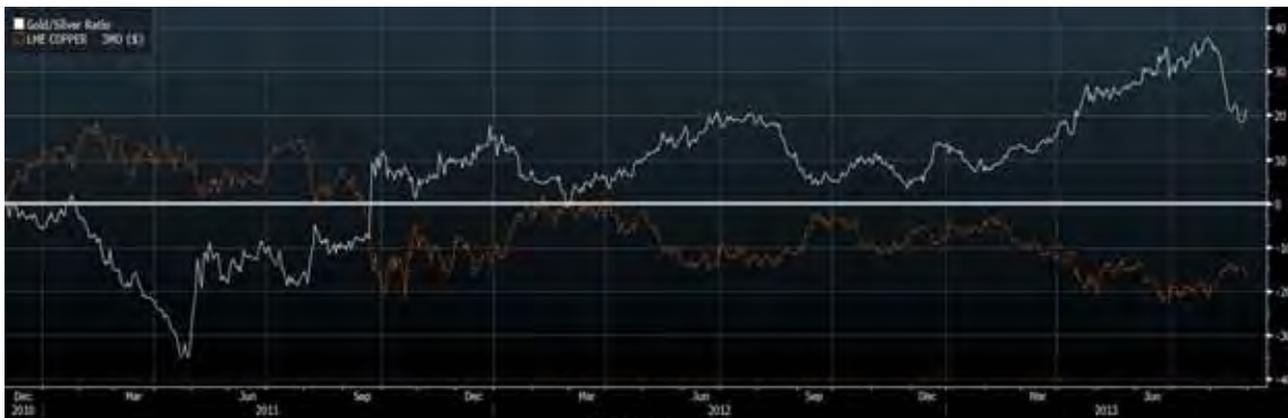
But there is an aspect of silver that could act as a natural hedge against a declining gold price: its industrial component. Silver is used in cell phones, flat screens, solar cells, and many other electronic products across many industries. GFMS<sup>6</sup> estimates that in 2012, 50% of silver demand came from industrial applications and photography. This compares to gold demand for electronics, dentistry, and other industrial uses of about 9% in 2012, as estimated by GFMS. Thus, in a scenario where gold prices are declining due to a positive global economic growth outlook, silver's industrial metal status could potentially help it offset the negative effect of lower investment demand and possibly allow it to outperform gold.

Consider the price performance of silver year to date. With gold declining in the first half of this year, by the end of June, silver (-35.2%) had underperformed gold (-26.3%), a difference of 8.9 percentage points for the six-month period. In contrast, during the months of July and August, with gold rising (+13%), silver (+19.6%) outperformed gold by 6.6 percentage points, reversing most of the year's underperformance. This is likely due to silver's link to expectations for global growth and economic normalization, which have been one of the main factors pushing gold down this year. Another indication of the market's perception that silver may benefit from an economic recovery is the change in silver ETP holdings this year. As of August 30, 2013, in sharp contrast to gold ETP holdings, which declined 25.7%, silver ETP holdings increased by more than 6%.

Many analysts follow the gold to silver ratio. At the end of July, the ratio reached a high for the year of 67. At the end of August the ratio stood at 59, back at its historical average of about 60, suggesting that the relationship between the two precious metals is once again at "normal" levels. Interestingly, and once again highlighting silver's industrial metal characteristics, the gold to silver ratio has a relatively strong inverse correlation with copper price performance (Chart 1 on next page), suggesting that as copper rises/drops, silver is more likely to outperform/underperform gold. So, while silver is, in fact, in many ways similar to gold, some of its differences with respect to gold contribute to the rationale and appeal in making an allocation to the silver sector when expectations for global growth are rising.

The fund's largest silver holding is Silver Wheaton. Silver Wheaton is a silver streaming company. It has reported having long-term agreements to purchase all or a portion of the by-product silver (and some gold) produced from more than fifteen mines around the world. We believe Silver Wheaton's business model is particularly attractive in the current environment given the low, fixed costs of its purchasing agreements. Thus, the company provides the fund with silver exposure but also with potential protection against operating and capital cost increases. Additional silver positions include the world's largest primary silver producer, Fresnillo, and other junior silver companies. Year to date as of August 30, the Solactive Global Silver Miners Index<sup>7</sup>, a representative index of silver mining stocks, was down 32.1%, outperforming the NYSE Arca Gold Miners Index<sup>2</sup> which was down 39.1% during the same period.

Chart 1: Gold to Silver Ratio (white line) vs. Copper Price Performance (orange line)



Source: Bloomberg

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.

<sup>1</sup>COMEX (Commodity Exchange, Inc.) is a division of the New York Mercantile Exchange (NYMEX). <sup>2</sup>NYSE Arca Gold Miners Index (GDM) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. <sup>3</sup>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. <sup>4</sup>Correlation is a statistical measure of how two securities move in relation to each other. <sup>5</sup>Market cap (capitalization) is the total dollar market value of all of a company’s outstanding shares calculated by multiplying a company’s shares outstanding by the current market price of one share. <sup>6</sup>Thomson Reuters GFMS is a leading independent precious metals consultancy specializing in global gold, silver, platinum and palladium market research. <sup>7</sup>Solactive Global Silver Miners Index is designed to reflect the performance of the silver mining industry. It is comprised of common stocks, ADRs and GDRs of selected companies globally that are actively engaged in some aspect of the silver mining industry such as silver mining, refining or exploration.

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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.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund’s investment objective, risks, and charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

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