Manager Commentary: On the Gold Market

Astonishing sell-off drove market lower; gold declined 7.5% in April

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares lost 16.7% for the one-month period ending April 30, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) declined 19.9% 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 April 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-16.68	-32.56	-2.91	12.87
Class A: Maximum 5.75% load	-21.46	-36.45	-4.05	12.20
GDM Index	-19.87	-33.40	-6.06	--

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

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	2.15	-23.78	-1.01	15.01
Class A: Maximum 5.75% load	-3.70	-28.15	-2.17	14.33
GDM Index	1.32	-22.22	-3.61	--

*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

The gold market suffered an astonishing collapse that saw gold fall $213.50 or 13.7% in just two days beginning on April 12. We believe a confluence of factors created conditions that enabled this selloff. Gold has been in a long consolidation and recently has failed to respond to some of its usual drivers. Economic normalization and expectations of a Federal Reserve (the "Fed") exit from quantitative easing became themes in the market. In February and March, several major investment banks issued reports that received wide attention calling for the end of the gold bull market. Broad weakness in the metals markets began in February. Persistent redemptions in gold bullion exchange-traded products (gold ETPs) also commenced in February. By April, a record in short positions had accumulated in the COMEX[1] futures market. On April 4, gold moved towards the end of a "wedge" technical price pattern[2], while falling to within $15 of the important $1525 per ounce support level. On April 10, headlines suggested the Central Bank of Cyprus could sell some of its 13 tonnes in gold reserves to repay its debts. Also on April 10, Goldman Sachs recommended investors close out long positions and initiate bearish bets on gold. Then on April 12 gold fell through its long-term technical support. Stop-loss selling, momentum trading, gold ETP redemptions and margin calls likely generated an avalanche of selling that continued until April 16.

The setup for the selloff is apparent in hindsight and we believe it was technically driven. We nonetheless remain perplexed by the severity. Anecdotally, there have been questions around the possibility of market manipulation by the banks. We believe there are three sources of the massive COMEX short position: 1) hedging related to the selling of physical gold from the gold ETPs, 2) speculators, and 3) investment banks acting on behalf of themselves or their clients. It is clear that the banks stood to gain from the trading activity that would ensue if gold breached major technical support. They would obviously gain more if they had shorted gold. However, these are questions that will probably remain unanswered. We believe gold was caught in a perfect storm, which is now over.

Market concerns over possible gold sales from Cyprus are unfounded in our opinion. First of all, missing in all the chatter is the fact that gold has fulfilled its roll. It has held its value amid all of the turmoil in Europe and it remains available as a source of funding. Second, 13 tonnes is an inconsequential amount to the gold market.

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.

Finally, we believe the probability of gold sales from other larger central banks such as Portugal or Italy are very low. The gold belongs to the national central banks, not the government. Selling it to bridge a gap in government finances would be inconsistent with European law under the Maastricht Agreement[3]. It also risks sending an unwanted message of desperation to the markets.

There has been an impressive amount of physical demand that has allowed gold to cut its losses for the month. After a $155 rebound from its April 16 low, gold closed at $1476.75 per ounce on April 30, down $120.07 or 7.5%. Gold bull markets are driven by investment demand and supported by physical demand for coins, small bars, and jewelry. Since the April 15 crash, physical price premiums and lead times to delivery have increased to levels not seen since the selloff in 2008. The heavy physical demand is global. The U.S. Mint ran out of one-tenth ounce coins. The Shanghai Gold Exchange reached record volumes in late April. Indians participating in the May wedding season and Akshaya Tritiya festivities have welcomed the low gold price.

Gold stocks were punished with the fall in gold. The NYSE Arca Gold Miners Index[4] declined 19.9% in April and the Market Vectors Junior Gold Miners Index[5] fell 23.4%. While gold stocks ended the month around 10% above their April 17 lows, the rebound has been subdued by first quarter reporting. Production reported from many companies was not at the expected pace and some negative analyst reports continued to cast a cloud over the sector. Mine production is inherently variable. Companies have not downgraded their full-year guidance, which suggests they expect to see above-average quarters that could beat expectations later in the year.

Market Outlook

While we believe the April fall in gold is not based on fundamentals, it has nonetheless done significant damage to sentiment and lent support to bearish analysts. Gold ETP redemptions are ongoing and physical demand may taper off after the Indian wedding season. While a V-shaped recovery is possible, gold may also experience a period of base-building as we await the next catalyst that could drive the market.

As we expected, the normalization theme is losing its credibility. U.S. economic statistics have disappointed, for example, March retail sales fell, as did durable goods, while payrolls were short of expectations and more workers left the work force. GDP growth averaged just 1.5% over the last two quarters. The latest Fed comments suggest quantitative easing may continue. The president of the European Central Bank promised "our monetary policy stance will remain accommodative as long as needed". The Bank of Japan initiated its efforts to double its monetary base and stimulate inflation. These are policies, we believe, that could debase currencies and create the potential for unwanted levels of inflation or more asset bubbles.

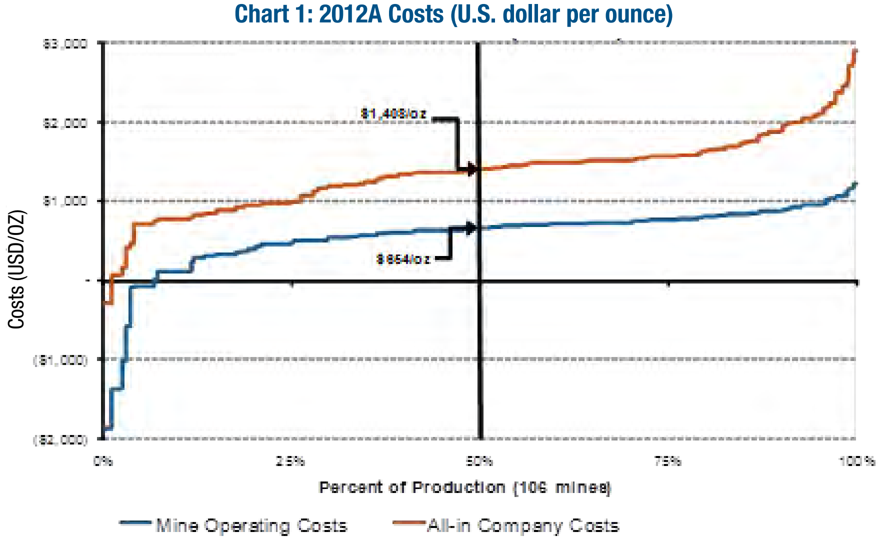
Meanwhile, austerity is falling out of favor as many European countries fail to hit their budget deficit targets. The International Monetary Fund (the "IMF") is encouraging the U.S. and Great Britain to slow the pace of their budget cuts. The sovereign debt of China was downgraded by Fitch[6] for the first time since 1999 based on "underlying structural weakness". Sovereign debt burdens are not going away and now China has joined the crowd. High debt levels create systemic financial and banking risks.

There remain considerable risks to the financial system, the economy, and the financial well-being of companies and households. Gluskin Sheff's economist David Rosenberg compared the April fall in gold to the 1987 crash in the S&P® 500[7] or the 2007 plunge in U.S. Treasury prices. These were hard corrections in ongoing bull markets. Given current global monetary and fiscal policies, we would be very surprised if gold fails to find a catalyst that resumes its bull market trend.

Industry Cost Analysis

Gold industry costs have been under close scrutiny recently. The market has been very focused on cost escalation over the last couple of years, and this is one of the main reasons behind the poor share price performance of the gold stocks. So naturally, the sharp drop in the gold price in mid-April, which saw gold trading as low as $1322 per ounce, raised the question: how low can the gold price go before miners are forced to shut down their mines? Clearly the answer varies significantly across operations, with some mines becoming unprofitable at a gold price of $1500 and others remaining profitable at gold prices below $1000. Chart 1, generated by Dundee Capital Markets using data from 106 mines, estimates the distribution of 2012 costs for the sector.

Chart 1: 2012A Costs (U.S. dollar per ounce)



Source: Van Eck Research, Dundee Capital Markets, Company Reports.

All-in company costs (the top curve) include all the mine operating costs, mine sustaining capital, new project capital as well as exploration, general and administrative, interest, and tax expenses on a corporate level. This cost measure incorporates both required as well as discretionary spending at both the mine and corporate level, and thus, it is a "fully loaded" cost of production. Therefore, in our opinion, this metric is not an indicator of the minimum cost of production, but rather provides the most rigorous margin test. Extremely high all-in company costs per ounce are typically the result of large project capital expenditures in a given year, the benefits of which are realized in the future when the new production comes on line.

The other curve on the chart shows mine operating costs (also known as total cash costs), which include mining, processing, selling, and royalty costs (net of by-product (non-gold) revenues in some cases). These costs are in theory the very minimum required to run an operation. However, some critical mine costs are capitalized, and not included in this metric, which means it may underestimate the true minimum cost of operation.

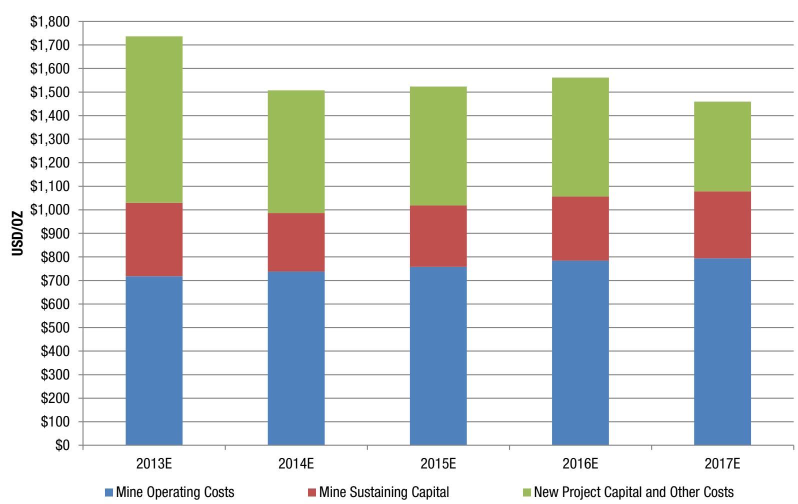
Our preferred measure is to assess the minimum cost at which a mine can sustain existing production; what we refer to as all-in mine costs. We define this level of costs as mine operating costs (as described above) plus mine sustaining capital. Mine sustaining capital is the additional capital required to maintain infrastructure and equipment.

Chart 2 shows our estimates for the three levels of costs that we have described here. The figures represent the average mine operating costs, all-in mine costs, and all-in company costs for a basket of 17 senior and intermediate producers from 2013 to 2017. We estimate average all-in mine costs for the sector of $1035 per ounce during the five-year period, suggesting that the sector has the ability to continue to operate existing mines at the current gold price. Separately, we estimate average all-in mine costs for the senior and intermediate companies in our portfolio of $930 per ounce in the same five-year period.

All-in company costs (represented by the full column in Chart 2) are expected to trend lower in the next several years, and we estimate that by 2017 all-in company costs will be approximately $275 per ounce lower than in 2013. In addition, in the current gold price environment, we expect companies to reduce all-in company costs by cutting discretionary spending such as exploration, administrative and new project capital, which could drive future costs estimates further down. Several companies have already indicated future spending cuts in their 2013 first quarter reports. A declining all-in company costs trend (or even a relatively flat trend in the case of the two other costs levels) is significant considering that for the past five years costs in the gold industry have consistently escalated. Credit Suisse estimates that in 2006 all-in company costs for the gold industry were approximately $650 per ounce, compared to about $1400 per ounce in 2012.

There are high cost mines that are not profitable at today's gold price, but even these mines will likely continue to operate for some time before a closure decision is made. Gold mines are large industrial operations that employ hundreds of people in locations where they are typically the main employer. It takes years to develop a relationship of trust with the community, and companies are reluctant to do anything that could damage that relationship. In addition, there is a lot of capital tied up in these operations, so we would not expect companies to make a closure decision unless they are convinced that prices will remain depressed. Mines generally have to run 24 hours a day, and therefore, partial shut-downs are often not an option. In the near term, we use the mine operating cost curve in Chart 1 to determine when mine closure could occur. This shows a few mines might begin to close at a $1300 per ounce gold price, but most could continue at prices as low as $1000 per ounce. In the longer term, all-in mine costs (Chart 2) become critical. Based on this, we would not anticipate a significant fall in production unless the gold price fell below $1300 per ounce for a period of six months or more.

Chart 2: All-in Company Costs for Senior and Mid-tier Producers*



Notes: All-in Mine Costs = Operating Costs + Sustaining Capital
* excludes South African producers

Source: Van Eck Research, Company Reports.

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] COMEX (Commodity Exchange, Inc.) is a division of the New York Mercantile Exchange (NYMEX). [2] Price patterns are identifiable sequences of price bars that appear in technical analysis charts using a series of trendlines and/or curves. If price continues on its trend, the price pattern is known as a continuation pattern. Common continuation patterns include wedges, constructed with two converging trendlines, where both are angled either up or down. Wedge shaped patterns are thought by technical analysts to be useful in analyzing a short- to intermediate-term reversal of what the analyst feels to be the major price trend. [3] The Maastricht Treaty, signed February 7, 1992, created the European Union and led to the creation of the single European currency, the euro. [4] 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. [5] 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. [6] Fitch Ratings is a global rating agency dedicated to providing value beyond the rating through objective and balanced credit opinions, research and data. [7] S&P® 500 Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors.

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