

Manager Commentary: On the Gold Market

Gold bullion trades in tight range, ends April at \$1,291.55

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned 2.67% for the one-month period ending April 30, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Index¹ (GDMNTR) returned 2.31% 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 April 30, 2014

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	2.67	-12.26	0.48	8.49
Class A: Maximum 5.75% load	-3.19	-17.30	-0.70	7.85
GDMNTR Index	2.31	-19.27	-4.87	2.50

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

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-9.40	-28.80	-1.87	5.54
Class A: Maximum 5.75% load	-14.64	-32.89	-3.02	4.91
GDMNTR Index	-8.66	-36.77	-7.48	-0.43

*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.

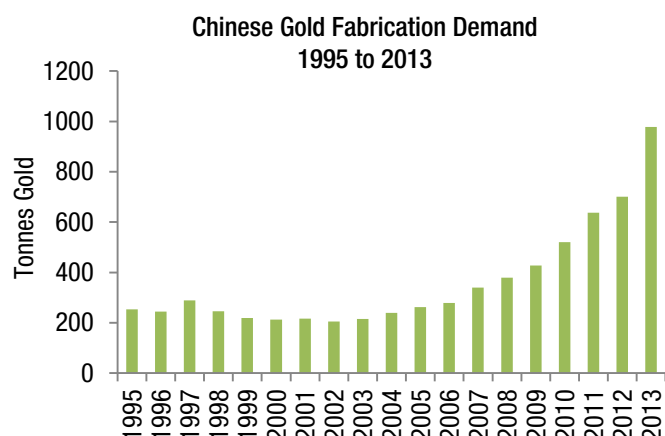
Market Review

Gold had a quiet month, trading in a tight \$50 range and ending at \$1,291.55 per ounce for a gain of \$7.54 (0.60%). Gold has not to date reacted further to the Ukrainian quagmire, as western governments have thus far avoided aggressive action that might seriously damage commerce or cause a retaliatory stoppage of European gas supplies from Russia. Gold also did not react to the U.S. GDP (gross domestic product) numbers at month end that showed annualized growth of just 0.10% in the first quarter. Markets disregarded the weak GDP in part due to winter weather, but we also saw it as more evidence that Federal Reserve (the "Fed") policies have not worked. The current recovery is now longer than the average for post-World War II recoveries, yet growth has been half the average and unemployment has never been higher at this stage in past recoveries. Monetary stimulus and low interest rates have benefitted big banks, indebted governments, and those who hold equities at the expense of savers and small businesses in need of capital. The withdrawal of Fed stimulus puts those who have benefitted at risk, potentially creating further pressure on a weak economy along with financial risks that could benefit gold.

Like gold, gold share performance had an uneventful month. The NYSE Arca Gold Miners Index¹ (GDMNTR) gained 2.3%, while the Market Vectors Junior Gold Miners Index² (MVGDXJTR) fell 0.3%. Early first quarter reporting indicates companies continued to hit their production and cost targets. The miners received some encouraging news from heavy equipment manufacturer Caterpillar, Inc. The company said sales for mining equipment has deteriorated, and expects sales to decrease by 20% this year. Sales of large mining trucks are down 80% from two years ago. This suggests mining costs will likely continue to remain under control, as suppliers have little pricing leverage over the industry.

In a new report dated April 2014, the World Gold Council predicts that gold demand in China will remain flat in 2014. While some press reports have put a negative spin on this, we see it as positive for gold. Last year saw unprecedented demand as the Chinese stepped in to take advantage of the collapse in gold prices. Demand that approaches similar levels this year would still be very supportive of gold. The Gold Council further reckons that Chinese demand will rise about 25% in the next four years. The weak Chinese economy is often cited as another impediment to gold. However, softness in China is still strong by most standards. In China, first quarter real annualized GDP gained 7.4%, industrial production was up 8.8% year-over-year (YOY) in March, retail sales up 12.2% YOY, and fixed asset investments gained 17.4% YOY. In our opinion, it appears the capacity to spend and invest will continue to grow in China in the future.

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.



Source: Reuters GFMS. Data as of December 31, 2013.

Market Outlook

Some interesting activity occurred on the M&A (merger & acquisition) front during April that caused us to take a more positive outlook on gold stocks. The first involved the takeover battle between Goldcorp (4.8% of Fund net assets*) and Osisko Mining (9.2% of Fund net assets*). Osisko is a one-mine company with an approximately \$3.4 billion market capitalization. They have successfully developed the world class Canadian Malartic Mine in Quebec, Canada. Goldcorp currently has the largest gold market cap in the world at \$20 billion. Over the years, Goldcorp has shown a high level of interest in Osisko, and at one time was a major shareholder. In January 2014, Goldcorp launched a hostile takeover. Osisko was able to attract a successful white knight counteroffer in April. In an innovative transaction, Osisko is set to be taken over for a combination of cash and shares of Yamana Gold (3.3% of Fund net assets*) and Agnico Eagle Mines (2.1% of Fund net assets*), who will jointly operate Malartic. In addition, Osisko's management will create a new Osisko royalty company that contains exploration properties, cash, and a significant royalty in Malartic. Currently, Osisko is our fund's top holding, and we own Agnico, Yamana, and Goldcorp as well. We have always said a Malartic acquisition would improve the mine portfolio of any gold company, so we believe this combination is a win for all parties involved. While Goldcorp was not successful, we regard this as a win for them as well. Too many times in the past companies have destroyed value by paying too much for acquisitions. Goldcorp had the financial strength to deliver a knock-out offer, but chose to back away instead from this coveted asset. We believe the discipline that Goldcorp exhibited tells us the company is committed to its goal of creating value and generating returns for shareholders. It sets a precedent for the industry and is further evidence of the positive changes in strategy we have been looking for in the sector.

A second purported takeover was leaked to the press in April. It was reported, and later confirmed, that Newmont Mining and Barrick Gold, the world's two largest gold producers, were in merger talks. Such talks between the two companies have occurred a number of times in the past. The driving force behind such a merger is operational synergies that could be gained in Nevada, where both companies have their

largest operations. The opportunity for much of the synergy³ has passed because each company has already built their own power plants and processing facilities. Nonetheless, the companies estimate there is still approximately \$1 billion in synergy, while many analysts guess it is closer to a half-billion. The merged company would have been split into at least two parts, the pieces of which were never defined definitively. In the end, talks broke down and the merger was called off.

We find this aborted merger interesting on several levels. In the past, such talks were done in secret and we might hear of it six or eight months after the fact. In this case, there was extensive press coverage and the companies confirmed that they were in merger discussions. Whether it is sloppy management, savvy strategy, or just a deal gone bad we are not sure. Suffice to say, in our opinion, it is a strange way to conduct M&A.

While synergy is important, we believe the underlying driver of this merger is survival. In our December Update, we talked at length about these "super majors" and how we believe they have become too big for their own good. Gold deposits of a meaningful size to these companies are extremely rare and the cost of developing them has become prohibitive. The logistics and skills needed to operate so many mines in remote corners of the world is daunting. Also, Newmont and Barrick have two of the weakest balance sheets in the sector. Combining two super-majors into a super-duper-major is not likely to, in our opinion, alleviate these issues.

As reported, the merged company would have been split, with many analysts suggesting an Austral-Asian spinoff. We would prefer to see the combined company split into about ten parts, each of which we believe would be better positioned to create value. However, it has become clear to us that these companies intend to stay huge or become huger. So, in keeping with their "huge is better" theory, we think there is potential to create a more attractive vehicle. For this, we believe the merged company would have to be broken into four parts: 1) large high quality assets and debt, 2) Austral-Asian assets, 3) high cost/lower quality assets and 4) copper assets. We believe this would create a mega-company that could potentially be able to reduce its mega-debt in a reasonable time-frame, another company with high operating leverage to the gold price, geographically focused companies, and it would re-establish the companies as pure metal plays.

There is a stark contrast between all companies involved in the April merger activities. The gold bear market has brought with it low equity valuations. Fundamentally strong companies with growth projects and healthy balance sheets generally are able to pursue accretive deals, buying assets that are effectively "on sale" in a bear market. That is the opportunity that Goldcorp saw in Osisko, and the opportunity Agnico and Yamana found by combining their forces. Then at the other end of the spectrum are Barrick and Newmont. Rather than buying assets, they have been selling unwanted mines and properties in a weak market. They do not have the cash or debt capacity needed to pursue acquisitions that involve a cash component. The gold price is volatile, sometimes moving well above or below expectations. This bear market has shown that some companies seem better able to take advantage of this volatility than others.

Finally, a Barrick/Newmont deal would be a banker's dream, generating untold millions in fees. The day after merger press reports came out, Goldman Sachs issued a buy recommendation on Barrick with a twelve month return target of 20%. At the same time, Goldman has been one of the more vocal forecasters of lower gold prices. They are calling for another collapse that takes gold to \$1,050 per ounce by yearend. That would be a 19% drop from current levels. We have been in the gold sector for decades and can't recall ever seeing a major gold producer's stock rise when gold is down 19%. If you believe gold is going down, typically the last thing you want is a gold stock. Conversely, generally if you believe a gold stock is to rise by 20%, then you must also be forecasting strength in the gold market. You can't have it both ways – unless you're a banker.

All company weightings as of April 30, 2014.

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.

¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²Market 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. ³Synergy is the concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts, commonly used in the context of mergers and acquisitions.

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