

Manager Commentary: On the Gold Market

Gold established important base in December, ended month at \$1,205.65 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares lost 3.49% for the one-month period ending December 31, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index¹ (GDM) lost 3.92% 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 December 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-3.49	-48.91	-2.17	9.02
Class A: Maximum 5.75% load	-9.01	-51.86	-3.32	8.90
GDM Index	-3.92	-53.65	-7.79	--

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

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.88	-48.35	0.46	7.84
Class A: Maximum 5.75% load	-15.05	-51.32	-0.72	7.20
GDM Index	-10.81	-53.26	-5.76	--

*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

As the Federal Reserve's holdings of bonds and other assets topped \$4 trillion (trillion!), and as the Fed's purchase of mortgage-backed securities have grown to about 90% (90%!) of new eligible issuance (according to J.P. Morgan Chase), and after years of discussing exit strategies and the rationale for tapering, the Fed finally did it. On December 18, they announced that they would purchase \$10 billion less in Treasuries and mortgage-backed securities, trimming purchases to \$75 billion (billion!) per month. The gold market has been conditioned to decline on any hints of tapering, so it is not surprising to see gold down \$47.84 (3.8%) in December to close the year at \$1,205.65 per ounce. Gold tested its multi-year low of \$1,180 per ounce set in June. We were encouraged to see gold remain above the low in December amid the selling pressure in thin holiday markets. We believe gold is forming an important base around the \$1,200 per ounce level and this recent resilience adds to our conviction. Gold stocks performed more or less in-line with gold, as the NYSE Arca Gold Miners Index¹ declined 3.9% and the Market Vectors Junior Gold Miners Index² declined 4.2% in December.

The past twelve months turned out to be a gold fund manager's nightmare. Gold fell 28.0% in 2013, its largest calendar-year decline in 32 years. The NYSE Arca Gold Miners Index fell 53.6%. Van Eck has been managing gold equity funds for 45 years and this was the worst we have seen. But before we throw ourselves out the 19th floor window, consider that the performance of gold and gold shares was a normal, although likely exaggerated, reaction to market forces. Gold generally is used as a hedge against tail risk³, but as the year progressed it became clear to us that markets have become comfortable taking on more and more risk. Equity markets rose to all-time highs, there were few sharp declines, and risk aversion as measured by the CBOE SPX Volatility Index⁴ (VIX) fell to pre-crisis levels. Junk-rated loan issuance surpassed the 2008 peak. Home values advanced nationally and luxury condos are springing up all over Manhattan.

Complacency towards risk should not be confused with the elimination of risk. We believe much of the 2013 move into riskier assets was artificially driven by Fed policies that have kept real returns in risk-free assets (treasuries, bank CDs) near zero, which forces investors to take on risk in order to generate reasonable returns.

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.

Investors have also become accustomed to brinksmanship in the way government handles crisis in sovereign debt, politics, or the economy, seemingly believing that difficult situations will ultimately be resolved. Radical Fed policies have not generated signs of inflation, so many investors appear to believe that the threat of a price spiral has passed.

Market Outlook

Despite current sentiment in the markets, we believe tail risk has not gone away. With a half-dozen countries in civil turmoil in the Middle East, how long until a country with global economic significance gets dragged into conflict? Easy monetary policies may be creating new financial bubbles in equities or other assets. Meanwhile, it is probably prudent to start thinking about inflation, since it has fallen off most investors' radars. In a press conference following the December FOMC (Federal Open Market Committee) announcement, Federal Reserve Bank Chairman Ben Bernanke commented on inflation: "We are going to do what is necessary to get to target over the next couple of years". This could result in Fed policies that again remain too easy for too long, potentially putting the Fed's 2% inflation target at risk. We believe the case for gold and gold shares as potential portfolio insurance against tail risk remains as strong as ever.

While we were anticipating gold weakness early in 2013, we never expected the correction to morph into an historic collapse of gold and gold shares. Our outlook for this year is based on two themes: 1) the bear market has been so severe and there have been so much market anticipation of lower gold prices – creating selling pressure for gold stocks – that 2014 should be a year of rebounding or mean reversion for the gold sector and 2) the economy seems to genuinely be getting back on track. As bank lending normalizes, consumers prosper and spend, and the labor market tightens, markets may experience the unintended consequences of the radical monetary policies of the past five years. While it may take a year or two for this to fully develop as GDP growth returns to historic norms, we would expect to see destabilizing levels of asset inflation, consumer price inflation, or other dislocations in the global economy create new risks that are supportive of gold and gold shares.

As we look forward to the new year, we want to be positioned for a more positive gold market. One of the surprises of the recent gold bear market is that we continue to underweight or avoid the super-majors Barrick (not owned by Fund*), Newmont (1.33% of Fund net assets*), and AngloGold Ashanti (not owned by Fund*). They have not acted as pillars of stability and currently we find many smaller companies more attractive fundamentally. It has become obvious to us that the gold super-major is a failed business model. Below are our thoughts as to why:

Most gold companies produce less than two million ounces per year. Super-majors are those that produce over 4 million ounces. They became "super" through mergers and acquisitions in the secular bear market that ended in 2001. North American majors like Homestake, Santa Fe, and Placer Dome; Australian majors like Normandy, Acacia, and Plutonic; and African major Ashanti were all taken over to create the three super-majors. Barrick alone has engaged in over 30 acquisitions since 1994.

The most fundamental problem super-majors face is that there are few economic super-gold deposits occurring in nature. Relative to other metals, gold deposits tend to be smaller and more discontinuous with shorter mine lives. Replacing over four million ounces per year is a tall order, and growing organically through discovery is virtually impossible. Acquisitions are vital to the growth of a super-major. However, many acquisitions come at a hefty premium and in the end destroy value.

Not only are there a limited number of super-gold deposits, but due to escalations in capital costs, most of them aren't worth building. The easy finds have been made in developed countries like the U.S., Australia, and South Africa. Prospective countries like Russia and China are off-limits for political reasons. As mining moves into more remote corners of the world, infrastructure is lacking, while climate and/or topography is often extreme. Companies have found that costs can spiral out of control between the initial scoping phase and the final detailed engineering of a project.

Newmont and Barrick have shown a desire to acquire copper assets. That is likely because they can't find enough large gold deposits to sustain themselves. Gold is a unique financial asset, quite unlike base metals or other commodities. In bear markets like this, many generalists and momentum players abandon the sector, leaving the market to core shareholders who maintain a permanent position in gold and gold shares to properly diversify their portfolios. As core shareholders, we have no interest in seeing gold companies develop other commodities. We buy gold stocks for exposure to gold, period. Also, gold companies have always traded at a premium to base metals companies and diversified miners. Newmont and Barrick risk losing this multiple by moving away from gold, which would drive up their cost of capital.

Cultural, political, and legal issues have become extremely important and in many cases have caused a good project to become unworkable. Gold companies must be adept at monitoring and reacting to local events that can affect their operations. It is critical to maintain constructive relationships at all levels from the president of a country to mayors or tribal chiefs and their communities. The CEO is the face of the company and is often needed to engage with local stakeholders. However this typically is not possible for a mega-company with dozens of properties scattered around the globe. A company suffers when the CEO cannot provide such attention to detail.

The debt ratios of the super-majors are among the highest in the industry. The last thing we want to see is a bank influencing a company's business decisions. In November, Barrick raised \$2.9 billion in an equity financing in order to shore-up its balance sheet. The company's share price suffered, shareholders were diluted, and the deal was poorly received in the market. We would rather own mid-tier or small-cap companies with strong balance sheets, good operations, and no need for dilutive deals. In fact, we like to see companies taking advantage of the low valuations in this depressed market to acquire projects in preparation for the next positive leg in the cycle.

The super-majors are contracting, divesting properties and scaling back. Companies like New Gold (7.03% of Fund net assets*), Argonaut (2.96% of Fund net assets*), B2Gold (2.65% of Fund net assets*), and Alamos (3.80% of Fund net assets*) are not yet household names, but they are building their businesses with acquisitions at the right time, thanks to prudent management when the gold price was higher.

It looks to us that the super-majors will either stay big by diversifying away from gold, or slowly decline to a size that is more sustainable. A third option that we would prefer is to see each super-major break itself into several smaller companies that make more sense geographically and logistically. This would, in our opinion, create more options for investors and more business opportunities for each company. The companies would likely become manageable and many properties that were too small for the mega-company would become viable. Unfortunately, companies have a hard time giving up the title of “the biggest”, and the companies could become too small for the mega-funds with \$10 billion market cap minimums. That said, these are not very good reasons for not doing the right thing.

*All Company weightings as of December 31, 2013

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 (GDM) 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. ³Tail 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. ⁴CBOE SPX Volatility Index (VIX) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the “investor fear gauge.”

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. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results; current data may differ from data quoted. Current market conditions may not continue. Non-Van Eck Global proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Global. ©2014 Van Eck Global.

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.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

vaneck.com | 800.826.2333

Van Eck Securities Corporation, Distributor
335 Madison Avenue | New York, NY 10017

