Manager Commentary: On the Gold Market

Gold stocks start new year with gains; gold bullion ended January at $1,244.55

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned 11.74% for the one-month period ending January 31, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Index[1] (GDM) returned 10.78% 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 January 31, 2014

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	11.74	-37.56	-0.55	6.14
Class A: Maximum 5.75% load	5.31	-41.16	-1.72	5.52
GDM Index	10.78	-42.80	-6.10	--

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	3.95
Class A: Maximum 5.75% load	-9.01	-51.86	-3.32	3.33
GDM Index	-3.92	-53.65	-7.79	--

*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

Investors were focused on emerging markets during January on several fronts, including growth concerns in China, scandals in Turkey, and political unrest in Ukraine and Thailand. Markets are also concerned with the impact of the Federal Reserve's (the "Fed") actions on emerging markets. Over the past several years, emerging markets have benefitted from easy money and low interest rates set by the Fed, as money flowed overseas in search of higher yields. Now, with the Fed's first step to unwind its accommodative policies by tapering its bond purchases, the flow of money is beginning to reverse course. This potentially causes countries that are vulnerable to financial and/or political instability to have problems. As a result, global stock markets have sold-off, as many emerging market currencies adjusted lower against the U.S. dollar. The complacency towards risk we saw in 2013 has begun to dissipate, as safe haven investments gained in January. Treasuries rallied and the dollar strengthened. Gold was up $38.90 or 3.2% to close January at $1,244.55 per ounce.

Gold stocks began the new-year with handsome gains. The NYSE Arca Gold Miners Index[1] was up 10.8%, while the Market Vectors Junior Gold Miners Index[2] advanced 14.8%. We believe there were several reasons for the strong performance. First was the safe-haven bid mentioned above. Second was a rebound from oversold levels in December, when yearend selling pounded the sector to multi-year lows. Lastly there was significant acquisition activity. Canadian major Goldcorp (4.9% of Fund net assets*) launched a hostile offer for fellow Canadian mid-tier Osisko Mining (8.1% of Fund net assets*). The prize is Osisko's world-class Canadian Malartic mine in Quebec. Malartic is a new operation that started producing in 2012. The mine is hitting its stride after several start-up problems caused it to underperform in its first year. It has been over a decade since we have seen a hostile offer on this scale in the gold sector. Goldcorp is taking advantage of depressed valuations in a bear market, which we believe is a great way to create value in the long-term. Osisko has declared the 15% premium Goldcorp has offered as inadequate. Investors are waiting to see if Osisko can attract a competing bid or whether Goldcorp is willing to pay more to win over Osisko shareholders. The action caused other mid-tier and small-cap stocks to perk up in January.

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.

Market Outlook

In our view, the gold price is in the process of forming a base and the longer it remains above $1,200 per ounce, the stronger the base becomes. Net redemptions in gold bullion exchange-traded products (ETPs) continued into January, but stopped around mid-month for the first time since September 2013. This should help gold stabilize, however, if net redemptions resume, then downside risk to the gold price would rise.

Several other factors are likely to affect gold in the first half of the year. Economic data has been mixed lately with positive GDP growth offset by weak data on payrolls and manufacturing. With Janet Yellen swearing in as Fed Chair, the gold market will likely be sensitive to her first actions or statements. Gold could receive a boost if there are hints of further monetary accommodation. Gold could find further support as a safe haven if recent turbulence in emerging markets should continue or worsen. Finally, we will see if strong demand for physical gold continues from China now that the Lunar New Year has passed. This demand has been critical in absorbing the heavy redemptions from the gold bullion ETPs.

To gain a longer-term perspective on the gold market, we look at similar situations in past markets. There are two scenarios that remind us of the present. The first was the severe correction in the secular bull market of the 1970s in which gold fell 43% from January 1975 to August 1976. In August 1976 Time Magazine published an article titled: "The Great Gold Bust." Comments on gold in the New York Times in 1976 include: "The fear that dominated two years ago has largely vanished, replaced by a (stock market) recovery that has turned the gold speculators' dream into a nightmare" and "The most recent advisory from a leading Wall Street firm suggests that the price will continue to drift downward, and may ultimately settle 40% below current levels." We now know that monetary policies did not change in the '70s, inflation was not dead, and 1975-1976 turned out to be a cyclical bear market. Gold rose to new heights over the next three years. In the current correction from September 2011 to June 2013, gold fell 36%. Similar comments are common in today's press. For example UBS Global Research on January 13, 2014 said "Gold bulls are in a lonely place–after a disastrous 2013, few investors are willing to trust gold at this stage." It paid to be a contrarian in 1976, will it again pay off in 2014?

The second scenario of interest is from September 1980 to June 1982 when gold fell 56%, marking the beginning of a secular bear market that lasted until 2001. For this we go to the Van Eck archives to see what our predecessors were thinking at the onset of a very long bear market. Quotes from gold fund reports published in 1981 and 1982 include:

- "If the Reagan program and the Fed's monetary policies don't show favorable results soon, the pendulum will swing back the other way and the demand for expansionary policies may prevail"
- "Management anticipates that the U.S. Federal Reserve eventually will increase the rate of monetary expansion in this country during 1982 due to political pressures, rising bankruptcies and the requirements of the Full Employment Act of 1946. This upward cycle will be accompanied by a resurgence in inflationary expectations and commodity prices, including precious metal prices."

It is clear that fund management expected the gold bull market to resume based on experience with past fiscal and monetary policies. What they did not anticipate was the resolve and leadership of Ronald Reagan and Paul Volker to "stay the course", subjecting the economy to considerable pain and suffering with tight monetary policies that ultimately succeeded in stamping out inflation and ushering in an era of prosperity.

We believe the current gold market is akin to the cyclical bear market of 1975–1976, not the beginning of the secular bear market in 1982. Why might we be right today, while our predecessors were wrong 32 years ago? First, our outlook is based on the premise that there will be unintended and highly undesirable consequences of the massive printing of money by the Fed to buy debt securities, the prolonging of interest rates that are far below equilibrium, and the ongoing extraordinary buildup of federal indebtedness. These are not sound monetary or fiscal policies. They violate any and all sense of prudent financial management and are likely to bring unwanted inflation in asset prices (bubbles) and/or consumer prices and/or other dislocations in the global financial system.

Secondly in 1982 inflation was a clear and quantifiable detriment to the economy. Leaders could articulate a strategy to deal with it that the public could understand and support. The current situation is insidious. There is no evidence that fiscal or monetary policies have done any harm. The costs, if any, of monetary policies won't be known until the Fed has completely unwound its balance sheet and returned rates to normal. The Fed is busy devising exit strategies and experimenting with new vehicles like "reverse repo transactions" to offset any ill effects. Our outlook again comes down to a belief that the Fed will not be able to financially engineer a peaceful withdrawal.

Finally, like our predecessors, we believe the government's past record speaks volumes about how it will behave in the future. U.S. politicians have a long record of approving more spending than the government takes in through taxes. They also have a propensity to avoid hard or unpopular choices that involve cuts in spending or benefits. It is likely in our view that debt levels continue to increase as retirement and medical costs soar with age. Interest charges could become overwhelming if and when rates normalize.

The recent history of the Fed shows a tendency to promote cycles of easing and excessive credit that generate disruptive episodes of asset price inflation. Since 1997, responses to the Asian financial crisis, the collapse of Long-Term Capital Management, Y2K, and the tech bust have created over-heated markets that resulted in crashes in tech stocks and housing. In the wake of the financial crisis, former Fed Chairman Ben Bernanke has doubled-down on accommodative strategies and Janet Yellen is expected to follow in his footsteps. We are afraid the Fed will again maintain policies that are far too easy for far too long.

*All company weightings as of January 31, 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.

[1]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. [2]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.

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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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