Manager Commentary: On the Gold Market

Gold partially rebounded from June losses, gained 7.4% in July

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares gained 14.9% for the one-month period ending July 31, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index[1] (GDM) gained 10.2% 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 July 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	14.92	-32.10	-3.84	9.94
Class A: Maximum 5.75% load	8.32	-35.99	-4.97	9.29
GDM Index	10.22	-35.99	-8.20	--

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

Gold gained $90.68 (7.4%) in July, as it partially rebounded from its June losses. Selling pressure continued from the gold bullion exchange-traded products (ETPs), which we believe is the main driver of recent gold weakness. The opposing force working to establish a floor in the gold market is physical demand from the Middle East and Asia, particularly China. Low gold prices have ushered an unprecedented movement of gold from vaults in New York and London to vaults in Singapore, Dubai and Shanghai. While much has been made of the slowdown in Chinese economic growth, we feel it has not phased gold demand. The government's change in focus from industrial growth to consumer-led growth has been supportive of gold. According to the Wall Street Journal, over the past year China has surpassed the U.S. and Germany in tourism spending. Rising wealth and discretionary spending bodes well for the gold market, in our view. It remains to be seen whether this gold stays in Asia once the price rises. However, we believe it is part of a fundamental shift in macro-economic power from West to East. The Chinese government does not disclose its gold activity, however we suspect much of the gold being produced in China and imported through Hong Kong winds up in China's official holdings. Many emerging markets leaders are appalled at the mismanaged monetary systems in the U.S., Europe, and Japan. We feel that new monetary order may eventually evolve in the East in which gold has an integral role to play.

Unlike the Chinese, the Indian government continues to do all it can to discourage its people from buying gold. However, gold is so deeply ingrained in Indian culture and sense of value that ways are found to circumvent official channels. Thomson Reuters GFMS[1] estimates that, in 2012, 102 tonnes of gold were smuggled into India. That is equal to 14% of fabrication demand. We believe smuggled gold demand will probably see tremendous growth in the year ahead. Already, Pakistan has temporarily banned imports of gold to defend its foreign currency reserve amid the smuggling going through to India. This year India has seen a good monsoon season, which usually leads to robust gold demand in the fall.

Recycled gold scrap made up 36% of gold supply in 2012. Low gold prices have significantly curtailed scrap supply, which the World Gold Council estimates could fall by as much as 25% (400 tonnes) in 2013. The other source of supply is the gold mines, which only grew 28 tonnes last year. We expect no growth in mine production this year.

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.

Gold stocks outperformed gold in July, as the NYSE Arca Gold Miners Index[2] (GDM) gained 10.2% and the Market Vectors Junior Gold Miners Index[3] (MVGDJXTR) gained 13.0%. Most of the North American senior- and mid-tier producers have reported second quarter results. Many had lower earnings, which were expected following the collapse in the gold price. Importantly, most companies met production and cost guidance, which was a welcome improvement from first quarter results. So far, only one company has downgraded annual production guidance and some have indicated stronger second half production. Hopefully this incipient trend of better operating results continues, stay tuned.

Market Outlook

Gold companies are adjusting to lower gold prices much quicker than we anticipated. Billions in write-offs and impairment charges, dividend cuts, and some operational adjustments were announced in July. We thought this would overhang the sector until yearend, however, the bullet has been bitten. Most companies have adjusted financially to a $1200 per ounce price floor. If prices trend lower, then we feel there will certainly be more such pain. Operationally, we believe the adjustments will continue through yearend. Roughly 20% of gold mines do not make money at $1200 per ounce. If those operations cannot cut costs, they will likely be shut down or phased out in 2014 in our view. Nearly every growth project that is on the drawing boards has been deferred pending higher gold prices or delayed to conserve capital. The final adjustment to low prices for the gold companies will be long-term mine plans, which come at yearend. We expect to see many mines shorten their lives as uneconomic material is left in the ground. Bank of America Merrill Lynch Australian Research recons some mine lives could decline by 20% to 30%. Global gold production grew just 0.8% in 2012 and could easily resume its secular decline in 2014.

In our opinion, compared to past down cycles, companies have had to respond more quickly to lower prices because: a) there is no significant hedging in place and b) ore quality has diminished, leaving less to be gained from high-grading. Hedging artificially induces more supply, which is the last thing the market needs in a downturn. The current lack of hedging creates a healthier gold market, as companies are forced to more quickly curtail production. There are only two circumstances where we find hedging acceptable: 1) when needed to gain project financing – should be limited to 20% of production over the first three or four years and 2) when needed to manage near-term working capital on a quarterly basis. Anything more is damaging to the gold price and the company's earnings power.

It is easy to assume the large producers are better able to cope with low gold prices. However, in many cases the opposite is true. For example, in the first quarter Barrick, the world's largest producer, reported all-in sustaining costs[4] (AISC) from its five core mines (57% of production) at $591 per ounce. The company also has a collection of 12 other mines (43% of production) with AISC averaging $1349 per ounce, which means that over half of Barrick's operations are struggling to generate cash. The majors also have some of the highest debt ratios in the sector. We are able to find many mid-tier and junior producers with more attractive cost profiles across fewer mines, with manageable debt.

Last month we mentioned our belief that regulations are choking economic growth in the U.S. A mining-specific example of this is found in the "2013 Ranking of 25 Countries for Mining Investment" by industry advisors Behre Dolbear. While the U.S. ranked sixth in overall stability, it tied with Papua New Guinea for dead last in permitting delays due to bureaucratic and other issues. Permitting delays, primarily at the federal level, have resulted in a seven- to 10-year waiting period before mine development can begin. This is up from five to seven years in 2009 and compares unfavorably with Australia's timeline of around two years. We sometimes invest in companies with properties in countries that are perceived as dangerous or politically risky. In reality, many such countries are better mining jurisdictions than the U.S. They cannot afford to impose unnecessary delays on a sector that is a significant contributor to GDP.

The Federal Reserve Bank (the "Fed") is the largest holder of Treasury bonds at over $1.870 trillion as of May. China is number two at $1.316 trillion. Perhaps the markets are numb to the numbers, but we continue to see them as mind-blowing. Once again, it seems that monetary policies have remained too easy for too long. The Fed has created a bond bubble that we do not believe it knows how to deflate without bursting. Perhaps there will be no lingering side effects from monetary experimentation. We doubt it and we are not alone. The High Tech Strategist Newsletters' Fred Hickey also sees the risks of monetary imbalances, stating "the alternative is to believe that money printing works, central planning and big-state government Keynesianism is a successful formula, core structural problems need never be addressed, the economy will significantly improve despite all the headwinds and that this time the Fed really will be able to completely exit from its money printing by mid-2014. I don't believe in fairy tales …..". Gluskin Sheff's economist David Rosenberg says "you cannot keep real short-term rates negative for this long in the face of even modestly positive real economic growth without generating financial excesses today and inflationary pressures in the future." We believe gold is a hedge to monetary risks, but when the markets again focus on such risks is difficult to forecast. Gold bullion ETP redemptions continued through July. While we see the gold market as oversold, it will probably stay that way until gold ETP investors stop selling.

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]Thomson Reuters GFMS is a leading independent precious metals consultancy specializing in global gold, silver, platinum and palladium market research. [2]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. [3]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. [4]"All-in sustaining costs" and "all-in costs" metrics are how gold mining companies report their costs as part of their overall reporting disclosure. The costs associated with an investment can adversely impact an investor's ability to profit, so understanding the all-in costs of a trade, including the spread and commission, is important. In terms of loans, consumers need to understand the true cost of their loans, including closing costs and interest, in order to evaluate both their ability to pay it off and whether the item is worth that expense.

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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.

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335 Madison Avenue | New York, NY 10017