Manager Commentary: On the Gold Market

Gold bullion falls as dollar strengthens, ends July at $1,282.55 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned -1.98% for the one-month period ending July 31, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index[1] (GDMNTR) returned 0.36% 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 July 31, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-1.98	8.55	-1.31	9.67
Class A: Maximum 5.75% load	-7.64	2.34	-2.47	9.03
GDMNTR Index	0.36	-0.42	-6.70	2.98

Average Annual Total Returns (%) as of June 30, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	21.74	27.28	0.23	9.60
Class A: Maximum 5.75% load	14.75	19.96	-0.95	8.96
GDMNTR Index	17.70	9.36	-5.81	2.77

^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 reached a monthly high of $1,345 per ounce on July 10 when it was reported that the parent company of one of Portugal's largest banks missed some debt payments. So far it seems there has been no impact on the broader European banking system, however, it renewed concerns about financial risks that caused the U.S. dollar to rally. Despite the tragic downing of a passenger jet over Ukraine, there has been no significant escalation of the war there. Likewise, apart from the shelling of Gaza and fighting in Libya, there have been no escalations in other Middle Eastern conflicts. Meanwhile, through Congressional testimony, Federal Open Market Committee (FOMC) meetings and FOMC minutes, the Federal Reserve (the "Fed") showed no discernable change in policy or outlook. The combination of U.S. dollar strength and a lack of new developments in other recent gold drivers contributed to gold's decline, ending the month down $44.77 (3.37%) at $1,282.55 per ounce.

Gold stocks fell with the gold price, but managed to outperform gold for the month. The NYSE Arca Gold Miners Index[1] (GDMNTR) declined 1.69%, while the Market Vectors Junior Gold Miners Index[2] (MVGDXJTR) fell 0.65%. We are writing in the midst of second quarter earnings season. Thus far we are quite pleased with the results and will have more details in our August update once quarterly reporting is complete.

Market Outlook

Gold continues to trade in the $1,200 per ounce to $1,400 per ounce range and we continue to maintain our view that the price is forming an important base. Fundamentally, Chinese demand, marginal mining costs, heightened geopolitical risk, and an absence of persistent bullion exchange-traded product (ETP) selling are helping to support the price at current levels. Technically, gold broke its bear market price trend back in February 2014. Silver is also a monetary metal and regularly trades on the same fundamentals as gold. While both metals have been in bear markets, silver only recently broke out of its technical downtrend, which can be traced back to its peak in 2011. We view this technical strength in silver as another element helping to form a base in the sector.

Mining companies are finding many ways to cope with the weak gold prices. Capital discipline is one area where there have been significant improvements. One aspect of this is a resurgence in heap leaching.[3] We recently spent time in the deserts of Nevada and southern California to take a closer look at companies who are

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.

mining or developing heap leach projects. Thanks to Nevada, the U.S. is the fourth largest producer of gold in the world, making the U.S. a net exporter of roughly $3 billion of gold in 2013.[4] The I-80 (Humboldt River) corridor between Winnemucca and Elko is among the richest gold producing regions in the world. The geology throughout Nevada and many of the surrounding states appears favorable for gold. Most of the major discoveries in Nevada were made in the '80s and '90s. It is now a mature gold mining area and production has declined somewhat. However, there remains an active exploration and development scene that creates potential opportunities for investors.

The two methods used to process gold ores are milling and heap leaching. Milling grinds the rock to a pulp in a plant with an elaborate system of crushers, mills, conveyors, pumps, piping, tanks, etc. Heap leaching became a break-through technology for gold processing in the eighties. It does not require a large plant, instead, the ore is stacked by truck or conveyor in a large pile or "heap" (see photo). The ore is either placed on the heap "as is" or it is crushed prior to stacking. The base of the heap is lined with clay and an impermeable membrane. A dilute cyanide solution is applied to the top of the heap, which dissolves the gold from the rock as it percolates to the bottom. The "pregnant" solution drains to a sump where it is pumped to a small extraction plant. Once the gold is recovered, the "barren" cyanide solution is pumped back to the heaps for reuse. It is a closed system and the cyanide solution is maintained at a high pH in order to prevent the formation of toxic hydrogen cyanide gas.

Van Eck Company Research - Active heap leach operation - 2014

There is a common misconception among investors and analysts that heap leaching is a simple processing alternative. While the process is simpler than milling, in practice the industry is littered with failed heap leach projects because planners made critical miscalculations of crush size, percolation rate, clay content, volumes, stacking methods, recoveries, etc. Heap leach projects require just as much due diligence and technical know-how as mills.

Heap leaching has several advantages to milling. Without the need to construct a plant, the capital cost is much less. Heaps have no moving parts, so the cost to operate is less as well. Less water and power is needed and there is no need for tailings[5] disposal. The disadvantage is that recoveries are less in a heap leach. A good heap leach recovery is around 70% of the gold in the ore, whereas mills are able to achieve 90% or more on the same rock. Because of the lower recoveries, heap leach projects are used for low-grade deposits that would otherwise require a mill that would be too large to be economic. In some cases, high capex[6] mill projects that no longer make sense at current gold prices are being redesigned as heap leach projects. With limited access to capital in the current bear market, many junior companies are still able to move heap leach projects forward. Development projects in which we are interested in Nevada are costing around $100 million to build and have attractive potential returns at current gold prices. Other similar projects we have seen in West Africa are in the $125 to $175 million range due mainly to infrastructure costs, whereas projects in Mexico tend to be a bit cheaper. Projects with a higher price tag require better gold grades to make economic sense.

Each time we visit Nevada we are disheartened to hear stories about permitting issues that raise the cost and time required to develop projects. One example is a project that had to build an additional 25 miles of power line, rather than the seven mile route originally planned. Another company faced delays permitting a tiny inconsequential fraction of land in the middle of their Environmental Assessment area. Common sense is sometimes lacking. Permitting agencies for mining include the Bureau of Land Management, U.S. Forest Service, Army Corp of Engineers, and Environmental Protection Agency, as well as many state and local agencies. Mining consultant Behre Dolbear estimates that it takes the average mine in the U.S. seven to 10 years to move from permitting to production.[7] Twenty years ago it would probably have taken half the time. Heap leach projects tend to be below average, typically taking three or four years to develop.

The onerous permitting environment stems in large part from successful lobbying, legal challenges, and protests brought on by special interests with anti-mining agendas. They often promote unnecessary regulations or legal action that effectively stymies or slows the decision making process of government bureaucrats. The irony is that the smart phones, laptops, and flat screens that these same special interests are so fond of come with a cocktail of metals. Perhaps gold from Nevada, silver from Idaho, or copper from Arizona, to name a few. The power used to charge these gadgets could be generated by coal from Wyoming or natural gas from fracked wells in Pennsylvania. The same could be said for the vast majority of modern conveniences. A second irony is that special interests try to drive resource development out of a country that has stringent environmental and safety rules and compliance that is second to none.

The U.S. is a world leader in responsible mining. Many mines that have run out of ore have been shut down and reclaimed over the years. We visited a heap leach project that finished operating in the '90s. The cyanide in the heaps has been destroyed and the site has been contoured, seeded, and returned to its natural state (see photo). The metals mining industry has an excellent environmental track record, yet regulations, bureaucracy, and uncertainty continue to increase.

Van Eck Company Research - Reclaimed heap leach operation - 2014

Unfortunately, many industries we are less familiar with also face growing regulatory and legal obstacles to their business. There have been fewer startups and less entrepreneurial activity. Because of this, it is possible that the economy may never reach its full potential. In past cycles, economic growth has helped reduce or eliminate the fiscal debt that piles up in recessions. In the current low-growth recovery the U.S. has piled up trillions of dollars of debt that looks like it is here to stay. We like to think of gold from Nevada as a hedge against irresponsible policies from Washington, D.C.

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 (GDMNTR) 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. [3]Heap leaching is an industrial mining process to extract precious metals, copper, uranium, and other compounds from ore via a series of chemical reactions that absorb specific minerals and then re-separates them after their division from other earth materials. [4]Source: Thompson Reuters GFMS and Nevada Bureau of Mines and Geology [5]Tailings, also called mine dumps, culm dumps, slimes, tails, refuse, leach residue, or slickens, are the materials left over after the process of separating the valuable fraction from the uneconomic fraction of an ore. [6]CAPEX (capital expenditure) funds are used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory. [7]Source: Behre Dolbear's annual survey of global gold mining

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