

Manager Commentary: On the Gold Market

Gold bullion consolidates within a strong quarter, ends March at \$1,284.01

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned -9.40% for the one-month period ending March 31, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Index¹ (GDMNTR) returned -8.66% 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 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	--

Average Annual Total Returns (%) as of December 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-3.49	-48.91	-2.17	3.95
Class A: Maximum 5.75% load	-9.01	-51.86	-3.32	3.33
GDMNTR 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

A rise in geopolitical risk created by Russia's military occupation of the Crimea region of Ukraine drove gold to its 2014 high of \$1,392 per ounce on March 17. Gold declined for the remainder of the month as tensions have steadied in Ukraine. Also, Federal Reserve Chair Janet Yellen indicated that rate increases could come as early as mid-2015. The market considers hints of rate increases that might cause real (inflation adjusted) rates to rise to be negative for gold. As a result, gold ended the month with a \$42.43 (3.2%) loss at \$1,284.01 per ounce. This is gold's first consolidation of 2014 within a strong quarter in which gold has gained \$78.36 or 6.5% due to rising geopolitical risk in many emerging markets. Gold stocks also experienced healthy gains for the quarter with the NYSE Arca Gold Miners Index¹ (GDMNTR) up 11.8% and the Market Vectors Junior Gold Miners Index² (MVGDXJTR) up 18.8%. Stocks cooled off with gold in late March, as the GDMNTR and MVGDXJTR declined 8.6% and 11.2% respectively for the month.

Market Outlook

The positive performance of gold and gold shares this year reflects some shifts in market sentiment. The most significant is the realization that local geopolitical risks have the potential to disrupt global economic well-being. The United States' track record in Iraq, Afghanistan, Libya, and Syria have lacked clear success. This could be perceived by foes as weakness. Now Vladimir Putin has found he can annex a piece of an adjacent country equal in area to the state of Massachusetts, while the international community has so far merely imposed economic sanctions on a handful of Russian nationals. When combined with the occupation of Georgia in 2008, this Ukrainian incursion establishes a pattern that suggests Russia has little reverence for international law or the sanctity of sovereign borders. Unfortunately, Mr. Putin must be encouraged by an approval rating in Russia that has soared. The situation is summarized by George Mason University professor Tyler Cowen in a New York Times Op-Ed piece: "as peaceful settlement becomes less common, trust declines, international norms shift, and conflict becomes more likely. So there is an unfavorable tipping point". In our view, this escalates geopolitical risk to a level that has the potential to impact the global financial system, which in turn is supportive of gold.

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 prices tested the technically important \$1,400 per ounce level in March and failed. Following the current price weakness, we would expect another test later in the year. Some new or escalating level of financial or geopolitical risk would probably need to come into view in order to move the price through \$1,400 per ounce. Trends or events that elevate risk are difficult to forecast. However, we believe there are some risks that the markets are choosing to ignore at the moment. According to Bloomberg, the amount of debt globally has soared over 40% since mid-2007, before the subprime debt crisis, to \$100 trillion. The financial system has once again been burdened with too much debt. Governments have borrowed heavily and companies have taken advantage of rates that have been held at artificially low levels for years. The Federal Reserve Bank (the "Fed") has been buying billions in U.S. Treasuries and mortgage bonds backed by Government Sponsored Enterprises (Fannie, Freddie, etc.). In our opinion, the withdrawal of the Fed's extraordinary support for these debt markets and the impact on the cost of debt service, if rates indeed rise, may create financial and economic risks, such as weaker economic growth, a collapse in asset prices, or rising fiscal deficits. We are afraid such risks could become more obvious to the market in the coming year as the Fed tapers.

The low gold price forced many gold producers to cut dividends, take write downs, and reduce reserves in the first quarter. The strong gold share performance this year indicates the market had already priced-in these difficult measures as gold collapsed in 2013. We were expecting these measures as well; however, we were surprised at the amount of gold that was removed from reserves. Gold companies release the results of their mine plans, reserve, and resource estimates annually as of December 31. The new plans factored in much lower gold prices than last year. As a result, global gold reserves declined by about 90 million ounces. BofA Merrill Lynch estimates reserves in their gold company universe fell 16.8%, while average reserve life has declined by 16% to 12.5 years. We believe this may have several implications:

- A lot of the increases in reserves in prior years turned out to be low-quality, low-margin ounces due to unexpected increases in mining costs. In hindsight, these ounces should probably never have been counted as reserves to begin with.
- The remaining reserves are higher quality, lower cost ounces that should enable companies to generate better returns. Grade is the primary measure of quality in a gold deposit, and BofA Merrill Lynch calculates a 14% average increase in reserve grade. Given the experience of the recent past, we expect gold companies to be more disciplined if gold trends higher by refraining from bringing marginal ounces into their mine plans.

- Ninety million ounces is a lot of gold that will eventually need to be replaced. However, companies have cut their exploration budgets dramatically. SNL Metals Economics Group estimates that exploration budgets for non-ferrous metals fell by 29% in 2013 to \$15.2 billion. Junior exploration budgets fell 39%, with their share of the total dropping to 34%, from 55% in 2007. It takes almost three years to take a project from initial discovery to reporting a maiden resource. It takes several more years to get a myriad of permits and design a mine, and several more years to get it built. Given this extended time frame, it seems that many producers will soon be searching for ways to maintain production. With the gold price arguably forming an important base and the MVGDJX Index trading near its historic lows, we believe now is the time to identify junior companies with promising gold deposits that are of sufficient size and quality to be attractive to their larger cousins. Merger and acquisitions (M&A) have been subdued due to poor market conditions. Ernst and Young estimates that metals sector deal volumes were down 25% in 2013, which was the lowest since 2006. We believe the writing is on the wall, if gold prices trend higher and share valuations improve, many producers could become quite motivated to engage in M&A to fill a depleted reserve base. Juniors with attractive resources could become a scarce and sought after commodity.

All company weightings as of March 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.

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.

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