Manager Commentary: On the Gold Market

Gold consolidated after April sell-off, ended May at $1,387.92 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares lost 3.22% for the one-month period ending May 31, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) declined 2.61% 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 May 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-3.22	-26.68	-4.85	11.46
Class A: Maximum 5.75% load	-8.78	-30.90	-5.97	10.81
GDM Index	-2.61	-31.35	-7.62	--

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

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	2.15	-23.78	-1.01	15.01
Class A: Maximum 5.75% load	-3.70	-28.15	-2.17	14.33
GDM Index	1.32	-22.22	-3.61	--

*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

The gold market is in the process of consolidating the losses suffered in the April selloff. The selloff generated a tremendous amount of physical demand for small bars, coins and jewelry from bargain-hunters. This demand caused gold to bounce to a monthly high of $1488 per ounce on May 3. Gold then declined to retest the April lows. There have been ongoing redemptions from gold bullion exchange-traded products (ETPs), increasing speculative shorting on COMEX[1] and a strong U.S. dollar. Despite these formidable headwinds and overwhelmingly negative sentiment, the market was supportive and gold did not fall to the $1321 per ounce low set on April 16. Gold ended the month with a loss of $88 or 6.0% at $1387.92 per ounce.

The World Gold Council estimates that Asian markets for physical gold will see record second quarter demand. Meanwhile, gold short positions on COMEX have set new records. This is the dichotomy of the physical and futures ("paper") markets. The physical markets are dominated by millions of individuals, while futures are dominated by hundreds of institutions, many of which are speculative in nature. Typically, physical demand helps set the price floor, while futures set the price peaks over the longer term. A third leg of the gold market is institutional demand for 400 ounce bars, known as the "over the counter" market. Positioning is not publicly reported for the over the counter markets, hence there is little transparency, but it too can be a significant price driver. While falling premiums indicate physical demand declined in late May, the firming gold price suggests it remains elevated at levels that are able to offset negative headwinds, in my opinion.

The International Monetary Fund ("IMF") reported steady central bank demand of 30 tonnes in April. We thought there might be a spike in central bank demand following the April price collapse, however, this was not the case. We note that China is a major player that does not report its gold activities to the IMF.

Gold stocks marginally outperformed gold in May, with the NYSE Arca Gold Miners Index[2] (GDM) falling 2.6%. The Market Vectors Junior Gold Miners Index[3] (MVGDXJTR) declined 4.5%. Company managements have been implementing plans to rein in costs, increase rates of return and meet expectations. A positive aspect of the recent decline in the gold price is that it is enabling gold producers to become more aggressive in their cost-cutting efforts.

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.

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The lower gold price has created a mood of austerity across the industry in which suppliers, contractors and engineering firms are becoming more accommodative.

Market Outlook

There were ample signs during May that the economy and financial system may finally return to normal. A number of U.S. states are reporting fiscal surpluses following years of austerity. Moody's upgraded its view of the U.S. banking system to "stable" from "negative" for the first time since 2008. The U.S. posted its widest monthly budget surplus in five years. Retail sales and consumer confidence posted strong gains. The stock market made new all-time highs and gold is sitting at two-year lows. In some ways, this is reminiscent of a period in the mid-'70s: the last secular gold bull market. Gold had risen to an all-time high of $184 per ounce in February 1975, driven by Consumer Price Index ("CPI") inflation that reached 11.2%. Over the next 18 months gold fell 43.6%, inflation fell to 5.7%, the S&P 500[4] gained 22.8%, and the U.S. dollar strengthened as markets believed the economy and financial system were returning to normal. However, by 1977, inflation was again trending higher, the stock market and the dollar peaked, and gold resumed its bull market trend.

Aside from higher CPI inflation levels, the 1975–1976 mid-cycle correction appears to have several similarities to the current correction. It has been 19 months from the September 2011 high of $1921 per ounce to the $1321 per ounce low, during which gold is down 31.2%, the S&P 500 is up 38.4%, and the U.S. Dollar Index[5] (DXY) is up 10.5%. This is comparable to 1975–1976 performance. In our opinion, the most important similarity between then and now is that there have been no policy changes. In the '70s, the Federal Reserve Bank (the "Fed") believed there was a trade-off between inflation and employment. Loose monetary policies fostered inflation in the belief they would also encourage economic growth and gains in employment. Instead they created stagflation: slow growth, high unemployment and high inflation. There were no changes in policies through the 1975–1976 period of "normalization". The '70s gold bull market did not end until 1980, when the Fed made unprecedented policy changes to fight inflation. We do not know whether the current gold correction will end or become a bear market.

However, the Fed is again pursuing loose monetary policies with hopes of higher inflation and employment levels. Much of the talk about exit strategies has not amounted to action and the Fed has indicated that any changes could be cautious and intermittent. Meantime, the Fed is still buying billions in U.S. Treasuries and mortgage-backed securities while keeping real rates negative. Also, recent improvements in the fiscal debt position belie the fact that the federal deficit will increase by $6.3 trillion over the next 10 years, according to the latest Congressional Budget Office estimates.

Without any discernible changes in fiscal or monetary policies, perhaps as in the mid-'70s, we will look back on this as a mid-cycle correction within an ongoing gold bull market. In fact, regardless of the depths of the current correction, we will not be prepared to contemplate an end to the bull market until we see several changes that include:

- A credible fiscal plan that addresses long-term entitlement funding and paves the way for a significant reduction in federal debt (preferably without raising taxes).
- Timely withdrawal of the excessive liquidity that has built up in the banking system.
- Interest rate, money supply, and credit creation policies that foster certainty and long-term measured growth, rather than the excessive boom-bust cycles that have become too common.
- Leadership with the vision, conviction, and consensus to implement such changes.

We believe changes are needed to restore confidence in policymakers and the financial system so that intelligent planning, sound investment and innovation can properly drive the economy. We are not optimistic that such change will be forthcoming, which is why we believe gold and gold shares have an important role to play in portfolios as diversifiers and hedges against financial stress.

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]COMEX (Commodity Exchange, Inc.) is a division of the New York Mercantile Exchange (NYMEX). [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]S&P® 500 Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors. [5]The U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. It does this by averaging the exchange rates between the U.S. dollar and six major world currencies.

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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