Manager Commentary: On the Gold Market

Gold bullion drops below technical support, ends May at $1,249.73

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned -4.80% for the one-month period ending May 31, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index[1] (GDMNTR) returned -7.04% 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 May 31, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-4.80	-13.70	-6.02	7.05
Class A: Maximum 5.75% load	-10.27	-18.67	-7.13	6.42
GDMNTR Index	-7.04	-22.95	-11.64	0.75

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	--

^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 traded tightly around the $1,300 per ounce mark during most of May, but on May 27, a drop below technical support levels, sent gold down, to close the month at $1,249.73 per ounce for a loss of $41.82 (3.24%). The almost $30 drop on May 27 was likely driven by a combination of stronger than expected U.S. data reports (e.g., U.S. consumer confidence and U.S. factory orders) published that day, as well as perceived lower global geopolitical risk after the presidential elections in Ukraine. In addition, a stronger U.S. dollar and gains in U.S. equities placed further pressure on gold. Increased expectations for monetary easing by the European Central Bank are likely behind the recent dollar strength. The markets appear for now to be focused on improved prospects for the U.S. economy, although the data continues to be somewhat mixed, and monetary policy remains accommodative, which generally is supportive of gold.

Gold shares underperformed gold throughout the month. The NYSE Arca Gold Miners Index[1] (GDMNTR) fell 7.0%, while the Market Vectors Junior Gold Miners Index[2] (MVGDXJTR) fell 8.0%. Gold mining companies reported their 1Q 2014 financial results in May. Overall, results suggest to us that companies are in general being successful in turning around the sector to deliver better profitability and returns to shareholders as compared to previous years. We estimate that over 70% of the companies we track reported earnings-per-share results which met or beat expectations. Operating results were generally in-line with expectations, with most companies maintaining their production and cost guidance for 2014. Cost control initiatives continue to be highlighted by companies as a key area of focus in 2014. We estimate, with the help of BMO Research data, that average senior and intermediate total cash costs for 1Q 2014 were approximately 5% lower than those reported for 1Q 2013.

The World Gold Council published its 1Q 2014 gold demand trends. The report estimates 1Q 2014 total gold demand of 1,074 tonnes, basically unchanged from 1Q 2013 demand of 1,077 tonnes. Jewelry demand increased 3% year-on-year, with the Chinese New Year contributing to record first-quarter jewelry demand out of China. Gold bar and coin demand fell significantly (-39%) relative to last year, but this was not surprising given that 2013 was an exceptional year of record levels of demand.

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.

Offsetting the yearly drop in bar and coin demand, net flows from gold bullion exchange-traded products (ETPs) were nearly zero during 1Q 2014, in contrast to more than 176 tonnes of outflows in 1Q 2013, suggesting a slowdown in the flow of gold from the west to the east. Total supply was relatively unchanged (+1%) compared to last year, with increases in mine supply mostly offset by declines in recycled gold.

Market Outlook

Despite the recent price drop, as of the end of May, gold is up 3.7% for the year. It has managed to trade above $1,200 per ounce every day this year, averaging $1,293 per ounce year to date. We expect the gold price to continue to trade in the $1,200 to $1,400 range, with $1,200 per ounce looking like a firm floor, in our opinion. Any moves below $1,200 we expect would be short lived, with several factors providing support to keep gold above this level. Demand out of China, although not at the tremendous levels reached last year, is still very strong, and Indian demand could improve if the new government relaxes restrictions and lowers tax and tariffs on gold imports. Central banks continue to be net buyers of gold. Mine supply would be significantly stressed at a gold price below $1,200 per ounce, and a decline in the number of gold discoveries and in the quality of gold deposits also constrains future mine supply. And scrap supply is price sensitive as well, having declined in response to present prices. In addition, flows out of gold bullion ETPs has stabilized compared to last year's massive redemptions. We continue to believe that gold is in a mid-cycle correction, but in the longer term, we see risk factors that remain within the global financial system that have the potential to put gold back on its bull trend.

The pickup in merger and acquisition activity that we have seen in the sector this year continued during the month. On May 21, junior producer Rio Alto Mining and developer Sulliden Gold (0.65% of Fund net assets*) announced an agreement to combine their businesses. Under the agreement, Sulliden shareholders are to receive 0.525 of a Rio Alto common share, and 0.10 of a common share in a newly incorporated company (Spinco) for each Sulliden common share held. The transaction implied a 43% premium over the closing price of Sulliden shares on the day prior to the announcement. As Sulliden shareholders, we found attractive the premium offered by the deal. But we also believe several other elements of this proposed merger could make it a particularly good deal for shareholders, and view it as a very good example of the type of transactions we think this sector would benefit from.

Likely the most obvious, but not least important, is the location of the assets—all in Peru—with Sulliden's Shahuindo gold development project located only 30 kilometers from Rio Alto's La Arena gold mine. The potential benefits that come from operating projects in the same country and in close proximity are many. These include operational, logistical, capital, equipment, and labor synergies, but also the consolidation of complex and growing regulatory, environmental, and other regional demands, and the ability of management to more effectively divide its attention among assets. Thus, from this point of view, the combination simply makes sense. In addition, the assets are similar in that they are both relatively low cost, open pit, heap leach gold projects, further contributing to the potential for meaningful synergies. In our opinion, another aspect of the transaction that makes sense to us is the combination of a producing, cash flow generating mine with a development project. Rio Alto gains the potential growth it was previously lacking in future gold production. Sulliden effectively secures access to the capital required to develop Shahuindo via Rio Alto's potential cash flow generation and, likely, a better position to tap capital markets, which could significantly de-risk the project.

Rio Alto also has a large, undeveloped copper/gold deposit. Adding the Shahuindo gold project not only provides attractive potential growth for Rio Alto, but it also transforms the company from one generally perceived by the market as a future copper company, to one with the potential to become a more pure gold play. This may possibly lead to a re-rating of its shares via the coveted gold equity premium.

The combination, we believe, has the potential to move both companies from the junior mining space to the ranks of the mid-tiers, providing an opportunity for the combined entity to re-rate in line with its future peers.

Another moving piece of this transaction was the ownership by Agnico-Eagle Mines (2.30% of Fund net assets*) of an 8.6% stake in Sulliden Gold. Following announcement of the deal, a counter bid by Agnico-Eagle was seen as highly probable, given the company's significant interest in Sulliden and its ability to likely make a higher offer. However, having just recently entered into an agreement for the acquisition of a 50% interest in Osisko Mining for about $1.5 billion in cash and shares, Agnico-Eagle decided not to compete for Sulliden and instead sold its shares to Rio Alto, monetizing its investment and realizing a profit for Agnico's shareholders. This too, we think, was a good example of capital discipline being exercised in the sector, with companies looking at more than just growth to justify asset purchases.

With valuations of gold companies at historically low levels, we expect to see further consolidation in the sector, but we also hope that companies continue to exercise the restraint, capital discipline and rigorous search for value creation that make these transactions potentially accretive for shareholders.

*All company weightings as of May 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 (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.

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