

Manager Commentary: On the Gold Market

Gold range-bound due to selling pressure, ended October at \$1,323.10 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares lost 1.66% for the one-month period ending October 31, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index¹ (GDM) returned 0.17% 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 October 31, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-1.66	-47.85	10.66	6.63
Class A: Maximum 5.75% load	-7.29	-50.86	9.35	6.01
GDM Index	0.17	-52.49	3.80	--

Average Annual Total Returns (%) as of September 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.88	-48.35	0.46	7.84
Class A: Maximum 5.75% load	-15.05	-51.32	-0.72	7.20
GDM Index	-10.81	-53.26	-5.76	--

*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

During the first half of October, most of the market's attention was focused on the debt ceiling circus in Washington. The gold price trended to its lows for the month on October 15, as gold market weakness indicated a belief that there was little chance politicians would actually allow a debt default, which indeed turned out to be the case. Once the circus ended on October 17, gold rallied and the U.S. dollar sank after Congress once again kicked the can down the road by scheduling another debt limit in three months.

After leveling off in August/September, net redemptions resumed in gold bullion exchange-traded products during October. With this renewed selling pressure, gold continues to be range-bound between \$1,200 and \$1,400 per ounce, finishing the month with a \$5.84 loss at \$1,323.10 per ounce.

A gold shortage has developed in India thanks to importation and tax policies implemented by the government having all but eliminated imports. The height of Indian buying occurs at this time of year with the Diwali festival and fall wedding season. Wholesalers are paying record premiums of up to \$150 per ounce, compared with \$3 a year ago. The government cannot seem to change Indians affinity for gold, and we expect unofficial channels (smuggling) to develop as a result.

Over half of the senior and mid-tier gold producers have reported third quarter results. We have been anticipating better operating performance and are pleased to see many have met or beat expectations. The results over the last two quarters indicate that efforts to control costs and effectively manage operations are paying off. Unfortunately, it is difficult for the gold stocks to perform well without more positive action from the gold price. For the month, the NYSE Arca Gold Miners Index¹ was essentially unchanged (+0.3%), while the Market Vectors Junior Gold Miners Index² lost 6.9%.

After the close on October 31, Barrick Gold announced a \$3 billion equity financing. This represents approximately 17% equity dilution for the company and the stock fell over 7% on November 1. Other gold producers have weakened as the market fears further dilutive deals. However, Barrick has one of the highest debt ratios in the industry as well as onerous capital spending plans. Most gold companies have healthier balance sheets, therefore we do not see this as the beginning of a dilutive financing trend. Our Fund has avoided companies that we believe are carrying too much debt.

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.

Market Outlook

We continue to believe the gold market is in the midst of a mid-cycle correction within an ongoing secular bull market. The potential for systemic financial stress remains high. We can think of three likely sources of stress that could drive the gold market in the coming decade: 1) substantial demise of the U.S. Dollar brought on by the rise of the Chinese Renminbi (RMB) as a global reserve currency, 2) financial crisis, and 3) consumer price inflation.

1) Overspending in the United States has forced Congress to increase the debt ceiling 15 times since 1993. The U.S. is probably the only country in the world that can monetize its debt and threaten default without seeing its currency collapse or cost of debt skyrocket. That is because the dollar is the dominant component in global currency reserves and it is the base currency for 87% of global trading. We believe this privileged role will come under threat in the coming decade. A year ago the Congressional Budget Office (CBO) projected federal debt to decline to 52% of GDP by 2038. This year that same projection is 100% of GDP, indicating that U.S. sovereign finances are deteriorating.

As the Chinese financial system modernizes, the use of the RMB in trade and financial transactions will no doubt increase. The Chinese have shown dissatisfaction with U.S. monetary policies. It is not unreasonable to assume they have longer-term plans to see the RMB become a major currency in order to access the same privileges the U.S. enjoys. Such a strategy would probably include a gold holding on par with the 8,000+ tonnes the U.S. holds. China last reported official gold reserves of 1,054 tonnes in April 2009. More gold has been flowing into China than can be accounted for through investment and jewelry demand. Analysts doing the math have concluded that the excess imported gold has enabled China to accumulate between 2,000 and 3,000 tonnes so far in its official reserves.

A communist/free market system lacks the innovation and entrepreneurship of a democratic/capitalist system. However, the Chinese system has been evolving to allow greater freedom while the U.S. system has been devolving. In the U.S., special interests often drive policy, while regulation and bureaucracy have reached levels that are choking the economy. The rollout of the Affordable Care Act ("Obamacare") is just the latest example of ineffective, overreaching government. In order to internationalize the RMB, the Chinese system does not have to be perfect—it just needs to be a credible alternative to the U.S. The Chinese could easily boost the RMB's credibility by allowing gold to play a pivotal role in its value.

While Chinese purchase of gold is supportive, we do not see it as a driver of gold prices. In this scenario, the main driver of gold would be investment demand that could come with the uncertainty and financial risks brought on by a diminished international role for the U.S. dollar. The source of risks potentially include a drop in demand for U.S. Treasuries, a rise in U.S. dollar-based interest rates, fiscal deficits becoming more costly, and the U.S. becoming a less attractive capital destination.

2) Many things have not changed since the credit crisis. Banks that were too big to fail have become bigger, the Financial Stability Board shows global shadow banking at record levels (\$67 trillion), and the Government Sponsored Mortgage Enterprises in the U.S. have grown to account for over 90% of the U.S. mortgage market. LIBOR (London Interbank Offered Rate) rates continue to be set subjectively by major banks. Proprietary trading, while diminished, continues under the guise of position hedging. Stock markets are hitting new highs. A Wall Street Journal front page November 4 article begins with: "Investors are stampeding into initial public offerings, fueling a frenzy that echoes the technology stock craze of the late '90s." U.S. investors reaching for yield are on a record pace to buy over \$1 trillion in junk bonds this year. All of this while trillions in liquidity created by the Federal Reserve Bank (the "Fed") have yet to hit the markets. Once again, it looks as if Fed policies are remaining too easy for too long. We believe another bubble-induced financial crisis is inevitable in the coming decade.

3) After five years of negative real interest rates and monetization of government debt, we would be astonished if there is not a difficult cycle of consumer price inflation (see our September update) within the next ten years. Adding to our conviction is the sense that the Fed has become much more politicized since the credit crisis, shown by the wrangling around the successor to Fed Chairman Ben Bernanke. Also, the September Fed meeting set policy that was meant to mitigate anticipated turmoil around the October fiscal debt limit. According to Barack Obama, "because of what the Fed does, more families are able to afford their own home, more small businesses are able to get loans to expand and hire workers, more folks can pay their mortgages and their car loans." Apparently, the President sees the Fed's mandate as keeping interest rates low and promoting credit. Inflationary monetary policies are ongoing and we do not expect much change with incoming Fed President Janet Yellen. According to the Wall Street Journal, she is a Keynesian-trained economist with a belief that central banks can help reduce unemployment.

A decade is a wide window for these forecasts. However, timing is impossible to judge and we would not be surprised to see these developments sooner rather than later. Gold needs a catalyst and hopefully investors can see that there are ample sources of financial stress that could again drive gold. Gluskin Sheff economist David Rosenberg's comment regarding an October 29 Wall Street Journal article entitled "Gold Fades From Investor Picture" shares our sentiment: "When a headline like that makes it to the front page of the 'Money and Investment' section instead of page C16, treat it as a sign that a whole lot of bad news is already 'in the price'. This is the sort of stuff bottoms are built on."

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 (GDM) 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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