Manager Commentary: On the Gold Market

Stimulus hopes kept gold steady in April, ended month at $1,664.75/ounce

By: Joe Foster, Portfolio Manager

Fund Review

The Fund's Class A shares declined 5.82% for the one-month period ending April 30, 2012 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) lost 6.41% for the same period.

Average Annual Total Returns (%) as of April 30, 2012

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-5.82	-29.19	9.46	17.76
Class A: Maximum 5.75% load	-11.22	-33.26	8.17	17.07
GDM Index	-6.41	-24.84	4.28	--

Average Annual Total Returns (%) as of March 31, 2012

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-12.16	-22.65	11.06	19.38
Class A: Maximum 5.75% load	-17.22	-27.11	9.75	18.68
GDM Index	-10.47	-16.92	5.78	--

[1]Monthly returns are not annualized.

Expenses: Class A: Gross 1.25%; Net 1.25%. Expenses are capped contractually until 05/01/12 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 finished the month of April at $1664.75 per ounce, basically unchanged (-0.22%) from the end of March 2012. Gold reached its April high of $1677.68 per ounce on April 2, following news on the increase of bailout funds by European officials, and a 12-month high reached by China's Purchasing Managers' Index which pushed up commodities. From that point on, the price of gold went through four cycles of alternating moves, within a $50/oz range, coming right back to where it finished at the end of March. The first down cycle saw the price drop to its month low of $1620.77 per ounce on April 4, driven by Federal Open Market Committee (FOMC) meeting minutes that lacked any mention of further quantitative easing. This was followed by an up cycle through April 12, on the back of a weaker than expected March job report and higher than expected unemployment claims. Prices then dropped through April 23, likely due to indications of an improving U.S. economy combined with reported slowed growth in China in Q1 2012. And finally, gold went on the last up cycle for the month, after Q1 2012 GDP data showed a shrinking U.K. economy and a U.S. economic expansion below forecasts.

So what is driving the gold price at present? In our opinion, the single most important driver seems to be expectations around further economic stimulus, with the market looking at growth and employment indicators to gauge the likelihood of central banks across the globe engaging in further quantitative easing. Gold's subdued behavior reflects the market's lack of conviction in the direction of the global economy and the ever-changing assessment of financial risk.

Meanwhile, emerging market demand is also mixed. Indications are that physical demand in China remains strong and continues to grow, while demand out of India in April was impacted by a jewelers' strike early in the month and a weaker rupee, which increases the local cost of U.S. dollar denominated gold.

The absence of any firm indicators has kept market participants on the sidelines and has kept gold in a holding pattern. Positively, it has held above the $1600 mark. The gold price averaged $1650 per ounce during April, 11% higher than the April 2011 average of $1485 per ounce.

Year to date as of April 30, 2012, the gold price is up 6.5%. The gap between gold and gold equities continued to widen in April, with the NYSE Arca Gold Miners Index1 (GDM) down 6.4% during the month despite gold's flat performance. Year to date as of April 30, 2012, the GDM Index is down 10.2%, compared to gold's 6.5% appreciation. Stock valuations continue to look compelling, although we don't expect to see improvement without some positive momentum in the gold price.

Market Outlook

While the current lack of direction may keep gold range-bound in the near term, longer term we believe the fundamental drivers of a gold bull market continue to be in place. As we saw during April, indicators of a U.S. economic recovery have been far from strong. The U.S. economy is experiencing the weakest post-recession recovery on record, expanding at an average annual rate of just over 2%, despite the massive fiscal and monetary stimulus that has been injected into the system. GDP growth closer to 5% can be expected in a normal recovery. The latest U.S. GDP growth reading for Q1 2012 came in at 2.2%, showing the continuing trend of slow expansion. The job data is also less than encouraging with unemployment still above Federal Reserve targets, and suggestions that some of the so-called strength in recent months could be a result of warmer than expected weather. While the housing sector may be reaching a bottom, falling new and existing home sales in March, declining property values, and a drop in homebuilder confidence all cast doubts on a rebound.

Thus, it is difficult to be too optimistic about the outlook of the U.S. economy. We are not alone. As hawkish a tone as the minutes of the latest FOMC meeting might have been interpreted in the markets, the Federal Reserve Bank's (the "Fed") policy makers were very careful to state that they expect "economic growth to remain moderate over coming quarters" and that "strains in global financial markets continue to pose significant downside risks to the economic outlook." The fact that there was no mention of further stimulus in the minutes was initially taken as a positive sign of growth expectations, but Fed Chairman Bernanke at a press conference later that day pointed out that the committee remains "entirely prepared to take additional balance sheet actions if necessary," and that "those tools [i.e., quantitative easing] remain very much on the table."

The case for gold, in our opinion, is also supported by continuing sovereign debt problems in Europe. Following the bailout of Greece, the focus shifted to the risk of debt defaults by Spain as austerity impacts its economy. On April 26, S&P cut Spain's credit rating two levels to BBB+ from A. Even the Netherlands has now joined the number of countries facing difficulties in the region, with expectations of a shrinking economy and risks of a credit downgrade now impacting the Dutch nation.

The impact of austerity measures will be significant not only for the European region but for the rest of the world. In its World Economic Outlook report, the International Monetary Fund (the "IMF") forecasts a 0.3% contraction of the euro area economy in 2012, an improvement compared to previous estimates for a 0.5% contraction, but the report points out that the risks of a country's debt default are hard to quantify. Another concerning figure came out of the U.K., where the economy shrank again by 0.2% in Q1 2012, after a 0.3% decline in Q4 2011, pushing the country into a technical recession, its first double-dip recession since the 1970s. The euro region is the U.K.'s biggest export market. Further weakness could lead to additional expansionary policies by the Bank of England.

The global economy continues to struggle under the ongoing weight of a deflationary credit contraction. The uncertain outlook for global economic growth, the potential for further monetary easing, the impact that this is likely to have in fiat currencies, and the high level of financial risk still persistent, we believe, are all supportive of increasing future demand for gold as a safe haven asset and currency alternative. Apparently, we are not alone. According to IMF data, at least twelve central banks around the world decided to reduce their exposure to U.S. dollars and other currencies to purchase gold, continuing the trend of net purchases from the official sector that commenced in 2010. Total central bank purchases for the month of March are estimated at about 58 tonnes. Notable purchasers included Mexico (17 tonnes), Russia (16.6 tonnes), Turkey (11.5 tonnes), and Argentina (7 tonnes). Thomson Reuters GFMS estimates that central banks purchased in excess of 400 tonnes in 2011. The recent figures indicate 2012 could be another year of significant official sector purchases, which is encouraging, especially in light of the 6.5% increase in the gold price to the end of April.

Lastly, it is important to mention that while physical demand has not proven particularly strong so far this year, we do believe jewelry, coin and bar demand out of China and India will continue to provide significant near-term support to gold prices, providing a floor (it appears somewhere around $1600-1625 per ounce at present) during times of lackluster investment demand. We continue to believe that risks to the global economy and financial system could create strength in the gold market during the second half of 2012.

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.

All indices listed are unmanaged indices and 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. The Financial Times Gold Mines Index is a market capitalization-weighted global index of gold-mining shares. 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.

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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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