Manager Commentary: On the Gold Market

Gold held on despite downward pressure, ended month at $1,714.80/ounce

By: Joe Foster, Portfolio Manager

Fund Review

The Fund's Class A shares lost 9.26% for the one-month period ending November 30, 2012 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) lost 10.00% for the same period.

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

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.26	-18.48	6.05	18.88
Class A: Maximum 5.75% load	-14.49	-23.16	4.80	18.18
GDM Index	-10.00	-20.38	1.66	--

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

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	12.84	-1.50	9.17	18.87
Class A: Maximum 5.75% load	6.34	-7.18	7.88	18.17
GDM Index	12.03	-1.67	4.67	--

[1]Monthly returns are not annualized.

Expenses: Class A: Gross 1.20%; Net 1.20%. Expenses are capped contractually until 05/01/13 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 November, gold fought some vicious downward pressure that we guess was driven by speculative selling. On November 2, the metal fell $39, and on November 28, it dropped $22 in the first five minutes of New York trading. Despite these attempts to drive it down, gold proved resilient and finished the month just $5.85 lower at $1,714.80 per ounce. As has been the case throughout the year, central banks have been supportive. International Money Fund ("IMF") statistics show that Brazil increased its gold reserves by 49% with the purchase of 17.2 tonnes in October. This adds another in a long line of emerging market central banks in Asia, the Middle East, and now Latin America who are accumulating gold. The Central Bank of China does not regularly report its gold transactions. However, net imports through Hong Kong have been consistently strong the past couple of years. In September, China imported a net 41.5 tonnes. Many analysts believe some of this is winding up in central bank vaults. One player that may be absent in the future is Iran. Iran has been importing gold from Turkey in order to circumvent international sanctions against other forms of trade.

The U.S. Senate is now working on a new package of sanctions that would include gold. While the Reserve Bank of India (RBI) gold reserves have grown, it nonetheless has targeted gold imports to improve the country's trade deficit. The RBI has issued a directive prohibiting financing for gold purchases used for speculative or investment purposes. Indian demand has been weak this year and such efforts suggest it will continue to be subdued. Finally, the amount of bullion held within exchange-traded products (ETPs) reached a record 2,604 tonnes. This exceeds the official reserves of every nation except the U.S. and Germany. ETPs have accumulated gold for investors of all sizes and nationalities, many of whom are losing faith in the fiat currency system that is dominated by the U.S. dollar. We think of gold ETPs as "the people's central bank".

Gold stocks had a disappointing month. The NYSE Arca Gold Miners Index (GDX) fell 10.0%, while the Market Vectors Junior Gold Miners Index (GDXJ) declined 9.5%. Third quarter reporting was the culprit, as a handful of companies missed earnings forecasts that caused the overall weakness. In our view, the underlying causes of the earnings disappointments were minor or transitory and certainly not enough to justify the weakness in the stocks. In fact, several companies were able to beat expectations. Yet the market is ultra sensitive to negative news in this sector.

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.

There seem to be funds that have learned that hitting the sell button on any negative news is profitable. Market sentiment towards gold companies is extremely low. A WSJ.com poll, published on November 5, asked readers for the best way to invest in gold. Seventy-five percent said gold coins, bars, or ETFs backed by physical gold. Just 8% chose gold-miner stocks/funds/ETFs. This quantifies how out-of-favor gold stocks have become. They are under-appreciated, under-owned and under-valued. We believe therein lies opportunity, as it is up to the companies to meet expectations and drive aggressive sellers out of the market. We continue to believe that a new focus on profitability and relief from cost pressures should enable gold companies to achieve better performance in 2013.

Geopolitical risk is always a major consideration when investing in mining companies and there are many parts of the globe that we avoid because of it. Following months of labor unrest in South Africa, Goldfields Ltd. announced that, as of February 2013, the company will be split in two. One company will contain their older labor-intensive South African mines and the other will contain their international mines along with one newer South African operation with modern mechanized infrastructure. Most of the South African risk will be contained in one company, giving investors a clear choice and potentially unlocking value in their international assets. We hope more major gold companies follow Goldfield's lead by breaking up their global enterprises into smaller companies that make more sense in terms of geopolitical risk or regional synergies.

Most of the companies in our managed gold funds are domiciled in Canada, which is the premier center for mining globally. These companies operate around the world; so much better to gauge the geopolitical risk of our portfolios, we analyze the funds based on the location of each company's gold reserves in the ground. Forty-seven percent of the reserves held by the companies in the gold funds are located in North America. This is a high weighting that is largely the result of increasing geopolitical risk elsewhere in the world. While risk in North America is less than most places, there are still many situations that we must watch closely. Local political and cultural issues can be very important and within a given country there may be states, provinces, or regions that should be avoided. For example, Nevada is one of the friendliest jurisdictions for mining, while the adjacent state of California is one of the most hostile jurisdictions towards metals mining in the world.

With so much invested in North America, we spend substantial time visiting properties there. We travelled to Mexico in November to visit the Guerrero gold belt, located a few hours drive south of Mexico City. Torex Gold has raised funds to develop the Morelos deposit, which was discovered in 2000. While Morelos is a substantial gold deposit with excellent grades, the former owners mismanaged the social aspects of the project. Contractors were hired to deal with the Ejidos (local communities). Unfortunately, perceived inequalities in dealing with Ejido members created mistrust, legal actions, and hostility toward the company. Torex took ownership of Morelos in 2009 and immediately began a constructive dialogue with the Ejidos. The company has transformed the project from one that was socially toxic to one that has community involvement and support. Personal engagement, jobs, community projects, and meeting commitments have enabled the company to gain credibility and turn the project around.

We also visited two new discoveries on the Guerrero gold belt that could transform the region into a world class gold producer. North of Mexico City, we visited Fresnillo, one of the oldest and largest silver mines in the world. New discoveries at Fresnillo have allowed the mine to expand. Mexico has a long history of mining and an established mining culture. However, we are always concerned about cartel activity and potential for violence. As with past trips to Mexico, we came away satisfied that illegal activities have a minimal impact on the mining companies. Heavy security is needed mainly to prevent theft, but cartels do not have any need or interest in engaging the mines. Near the Fresnillo Mine, the cities of Fresnillo and Zacatecas were experiencing increasing levels of drug-related violence that has abated recently when the government began stationing army troops there.

Market Outlook

It had looked for awhile that Mitt Romney might win the presidential election, which could have been hard on gold. With the Obama victory, the outlook becomes a bit clearer. Since the financial crisis, federal spending seems to have reached a new plateau as "emergency" spending has become permanent. Federal deficits have exceeded $1 trillion in every year Mr. Obama has been in office, up from $161 billion in 2007 and $459 billion in 2008. The balance sheet of the Federal Reserve has increased to $2.9 trillion, from less than $1 trillion in 2008. The Fed's assets consist mainly of U.S. Treasury debt and mortgage-backed securities. In 2011 the Fed purchased a stunning 61% of the total net Treasury issuance. Many expect the Fed to announce additional purchases following its December 12 Federal Open Market Committee (FOMC) meeting.

For four years, economic policy seems to have been built on deficit spending and dependence on the Fed to buy the government's excess debt. After the tech bust, Washington encouraged households to raise more mortgage debt than they could handle. When that blew up, the government embarked on a borrowing binge of its own. Political leaders seem to believe that the way to solve a debt crisis is to raise more debt. The leadership of the Administration, the House and the Senate have all remained the same. The Fed Chairman can now fulfill his term and expect a like-minded transition if he decides to step down in 2014. We don't expect much change in policy with the same leadership in place for the next four years. Since Barack Obama took office on January 20, 2009, gold has gained 103% and it has risen in each year he has been in office. Could gold double again in the next four years? Probably not, but if it does, we will not be surprised.

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.

As difficult as current debt problems are, they are probably destined to get worse. Entitlement programs (Social Security and Medicare) used to generate surpluses that reduced the federal deficit. Thanks to the economic downturn, Social Security annual cash flow turned negative in 2010, where it had previously been expected to show annual surpluses into 2017. In 2012, Social Security tax receipts have fallen short of benefits by $138 billion. Entitlement deficits are set to balloon as baby boomers are now beginning to retire. Using the generally accepted accounting principles (GAAP) required of businesses, the net present value of future federal government obligations is roughly negative $90 trillion. This suggests the already mammoth $16 trillion federal debt is set to grow substantially in the coming decades. For many folks, $90 trillion is beyond comprehension, but it equates to $288,000 for every man, woman, and child in the U.S., or $14,400 each per year for 20 years. The December 31 "fiscal cliff" totals $668 billion and politicians are talking about several trillion dollars in taxes and spending cuts over 10 years to avert the cliff. All the cliff hoopla is little more than a side show when considering the entitlement burdens that follow. There is no way of balancing the GAAP-based deficit without a major restructuring of the entitlement programs – there are simply not enough taxes that can be raised or enough spending that can be cut. As we have seen in Greece, people get very upset when the government tries to take away their entitlements. The US government hasn't even started the process. If we assume leadership lacks the stomach to substantially curtail entitlements, then there are two ways to address the debt and entitlement obligations – inflating the currency and/or increasing economic growth. Coming austerity probably limits the scope for growth. However, the mechanism for generating inflation is now in place. Fed Chairman Ben Bernanke has established quantitative easing as an accepted form of Fed policy. Aside from a bit of complaining from people like us, the Fed's actions have gained broad acceptance. Some Fed members have indicated there is capacity to expand the balance sheet much further. Likewise, Europe and Japan have their own debt quagmires that are equally as daunting and that are prompting monetary responses. The financial stress brought on by over-indebted governments and the potentially inflationary solutions they might pursue are the key reasons we remain bullish for gold in the longer term.

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.

The S&P® 500 Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors. 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. 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. Market Vectors Junior Gold Miners Index is (MVGDXJTR) is a rules-based, modified 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. Philadelphia Stock Exchange Gold and Silver (XAU) Index is capitalization-weighted and includes the leading companies involved in the mining of gold and silver.

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. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-Van Eck Global proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Global. ©2012 Van Eck Global.

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.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

vaneck.com | 800.826.2333

Van Eck Securities Corporation, Distributor
335 Madison Avenue | New York, NY 10017