

## Manager Commentary: On the Gold Market

### After reaching 2012 high, gold consolidated, ended month at \$1,720.65/ounce

By: Joe Foster, Portfolio Manager

#### Fund Review

The Fund's Class A shares lost 2.61% for the one-month period ending October 31, 2012 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) lost 1.44% for the same period.

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

	1 Mo <sup>1</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-2.61	-11.08	5.55	20.01
Class A: Maximum 5.75% load	-8.22	-16.20	4.32	19.30
GDM Index	-1.44	-9.17	2.04	--

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

	1 Mo <sup>1</sup>	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	--

<sup>1</sup>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

Gold rose to a yearly high of \$1796 per ounce on October 5. It also moved to new all-time highs in Euro and Swiss Franc terms on October 1. However, after two strong months of advance, gold spent the rest of October consolidating to finish at \$1720.65 for a loss of \$51.45 or 2.9%. There were no significant drivers affecting the markets, except for awaiting the outcome of the presidential election on November 6. The Indian festival season is underway and while it looks as though Indian demand has stabilized following weakness earlier in the year, we are not seeing signs of strength.

Gold equities fell in-line with gold. The NYSE Arca Gold Miners Index (GDM) declined 1.4% and the Market Vectors Junior Gold Miners Index (MVGDXJ) fell 3.2% during October. Mid- and large-cap companies began reporting third quarter results late in the month. Results were positive with some exceeding expectations. However, in early November, Barrick and Newmont reported poor results. These are the two largest gold companies and markets were quick to respond with weakness across the sector. The large companies are in the process of shifting their focus from growth at any price to sustainable profitability and meeting expectations. Barrick and Newmont obviously failed this quarter, but change takes time and we expect better results moving into 2013. Bank of America Merrill Lynch forecasts free cash flow (cash flow after dividends and capital outlays) for North American gold producers to increase from negative \$4B in 2012 to positive \$6B in 2013 and positive \$12B in 2014.

#### Market Outlook

Last month, we highlighted a couple of gold-friendly actions that central banks have been engaged in, namely, printing money to buy bonds or other assets and holding interest rates at or near zero. The first debases the currency and the second keeps real rates at low or negative levels. At the International Monetary Fund meetings in Tokyo in October, Federal Reserve Bank (the "Fed") Chairman Ben Bernanke added a third element that bodes well for gold. In order to slow unwanted capital flows, he encouraged policy makers in developing economies to let their currencies appreciate. Appreciate against what? While he did not say explicitly, we, and many others, assume he meant the U.S. dollar.

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Perhaps another way of saying the same thing is that the Fed Chairman wants to see a weaker dollar versus developing market currencies. Gold has historically had a negative correlation with the dollar and this roundabout call for a weaker dollar should be supportive of gold if emerging nations cooperate. So far, the market has shrugged off Mr. Bernanke's comments on currencies. The first couple of trading days in November have seen the dollar strengthen on a favorable jobs report. If Mr. Romney had won the election, we believe the dollar could have seen further strength if markets interpreted his victory as the beginning of a cure to the debt, entitlement, tax, employment, growth, and regulatory problems that the country faces. Gold has performed well through Mr. Obama's first term. If the same fiscal and monetary policies continue in his second term, we believe gold could continue to benefit.

#### Update on Greece

Greece is in its fifth year of recession, expected to contract by 7% in 2012. Their unemployment has reached 25%. Cuts are being made to pensions, public sector salaries and government operating expenses. Images of fire-bombing protestors in Athens have become common. Sovereign downgrades have caused a couple of large Greek companies to delist from the Athens stock exchange and re-domicile to Luxembourg in order protect their access to credit. New budget projections have exceeded worse-case scenarios with debt peaking at 192% of GDP in 2014.

Now for some good news. Amid all of this turmoil, we know of one company that sensed an opportunity. On March 1, 2012, Eldorado Gold (7.5% of Fund net assets as of 9/30/12), completed the acquisition of European Goldfields, a junior with attractive assets in Greece. Greece sits on the western extent of the Tethyan orogenic belt, which trends eastward through Turkey, the Middle East and China. The geology of this mountainous belt contains the tectonism, faulting and igneous activity that are conducive to the formation of metals deposits. Eldorado gained four gold and base metals projects in northern Greece with the European Goldfields acquisition. One is a small operating lead/zinc/silver mine, one is a gold/base metals mine that has been closed since 1999, and two are undeveloped gold and gold/copper deposits. Three are located in close proximity and have significant synergies, while all have very good ore grades. We visited these properties recently to better understand Eldorado's plans for development.

However, the main reason for our visit was geopolitical. We already knew these are high quality gold properties. Previous companies had made plans to develop them in the '90s when metals prices were much lower. They underestimated the anti-mining sentiment in Greece and, in 2002, a Greek Council of State denied development plans due to environmental concerns.

In 2011, with the properties under European Goldfields, the Council of State determined that the social benefits of new mine development outweigh the social costs. The government now appreciates that increasing foreign investment is one of the keys to fighting high unemployment. We sipped drinks with village residents at a Turkish tea house not far from the Perama Hill gold project where it became clear that local support for the projects is high. Support from the central government was high too, as officials from Athens had traveled to local communities to voice their views in person. There have been unsuccessful protests and challenges in court, but this has come mostly from outside anti-development groups with nothing to lose from attempting to shut down a project. The World Bank recently named Greece among the best global reformers in streamlining business regulation. Companies are benefitting from a new fast track process that allows regulatory decisions to be made in days or weeks, not months.

Key environmental and mining permits have been granted. The government is now willing to work with companies to find mutually beneficial solutions to balance environmental and cultural concerns with commerce and development. Eldorado is targeting zero liquid and air emissions for its projects. An arsenic-bearing tailings disposal from past mining that covers 26.5 hectares (65.5 acres) is being reprocessed at a profit and the site will be restored to its original pre-mining condition. The company is designing additional underground development and infrastructure to minimize surface disturbance. All sites undergo an archeological survey. At the Skouries project, an excavation of artifacts were found to be an industrial site temporarily occupied by Romans, but contained no cultural value.

While the business climate is improving, Greece still remains among the hardest places in Europe to run a company and worker productivity is sometimes a problem. Eldorado is optimistic that reforms will continue and that employees can learn to adopt work practices that are competitive in a global industry.

Finally, we wanted to see how the people of Greece are coping with extraordinary difficulty. A general strike was called by government unions on the day after our arrival. Because of this, we avoided Athens on that day and instead spent it in Thessaloniki, Greece's second largest city. On strike day, there were protest marches through the streets of Thessaloniki. They were orderly and lacked the smashed windows and molotov cocktails that many believe are for the benefit of news cameras in Athens. Even with the protesters, the city was active and business seemed normal. However, as we moved away from the core, there was a progressive increase in empty restaurants and closed businesses. The Greeks employed by Eldorado could tell personal stories of those having difficulty providing necessities for their families.

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The crisis affects everybody and has created a divided population. Many understand the reasons for austerity and the need to adapt to European standards, while many others believe a break from the Eurozone would be beneficial and relatively painless. Both sides are passionate and with conviction. For Eldorado, it seems that the company is positioned to prosper regardless of whether Greece stays in the European Union (EU). There remains the risk of an EU exit that is accompanied by a radical government and/or social unrest that makes business difficult or impossible. We regard such risks as remote. Greece is a country with many fine qualities that are on par with other European countries. While the way forward is uncharted and messy, it seems as though Greeks will find ways to adapt in order to maintain those qualities.

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