

## Manager Commentary: On the Commodity Market

### Looking ahead to 2012, opportunities in unconventional oil and metals stand out

By: Charles Cameron and Shawn Reynolds, Co-Portfolio Managers

#### The Commodity Markets

Performance among commodities was widely dispersed during 2011, as a bifurcation emerged between strength in gold and energy prices and weakness in most other commodities.

For the year, gold bullion rose \$143, closing at \$1,564/ounce. Gold mining companies benefited financially from higher gold prices, but few stocks were able to outperform bullion. Gold stock valuations at the end of 2011 were at levels last seen during the 2008 credit crisis and the bear market lows from 1999 to 2001. We believe this is due to a few key reasons. First, gold companies have had trouble controlling capital and operating costs as prices for energy, materials and labor have been rising materially for the past several years. Second, taxes and royalties have been on the rise, and third, regulatory burdens seem to be increasing.

Concern about growth abroad, particular in China and other emerging markets, led to multiple contractions in the base metals space. Once the market focused on a hard landing in August, base metal stocks moved down strongly, many by 20 – 30%. As for the metals, copper prices fell 21.53% in 2011, impacted substantially by concerns about a potential hard landing in China's economy. Tin, nickel and zinc prices fell even more, down 28.49%, 25.01% and 24.57% in 2011, respectively.

Crude oil prices rose 8.38% in 2011 (to \$98.83/barrel), but we believe that risk aversion created a flight to quality on the equity side. The three largest integrated oil companies (Exxon, Chevron, and ConocoPhillips) comprise 20% of the benchmark index noted in this paper (SPGINRTR), and outperformed many of their energy-related peers in the exploration and production and oil services sub-sectors in 2011. For example, in 2011, major integrated oil companies advanced 1.31%, as measured by the NYSE Arca Oil Index (XOI), while oil services stocks fell 11.77%, as measured by the Philadelphia Oil Services Index (OSX).

#### Performance Review

The Fund's Class A shares decreased by 16.63% for the annual period ending December 31, 2011 (excluding sales charge), while the S&P® North American Natural Resources Sector Index (SPGINRTR) returned -7.35% for the same period. Over the past ten years, the Fund's A shares have returned 15.96%, annually.

There is an economic cycle inherent in the value stocks we tend to favor. Historically, particularly in 2009 and 2010, we had very strong "stock picking" outperformance. This reversed in 2011, something which often happens in times of stress. Risk-averse investors often favor the large caps over the small and mid-caps. On a positive note: valuations are very attractive in our equity universe, and we believe that some commodities are priced already around their cost of production (like aluminum, zinc, iron ore in China) and production cuts have been implemented already or could take place in the foreseeable future. This should, in our opinion, support commodity prices at current levels.

#### Average Annual Total Returns (%) as of December 31, 2011

	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/1/94)	-16.63	17.75	5.19	15.96
Class A: Maximum 5.75% load	-21.42	15.44	3.95	15.28
SPGINRTR Index	-7.35	16.44	4.04	10.99
S&P GSCI Index	-1.18	6.93	-2.79	5.64
S&P 500 Index	2.11	14.11	-0.25	2.92

**Expenses: Class A: Gross 1.43%; Net 1.39%.** Expenses are capped contractually until 05/01/12 at 1.38% for Class A. Caps exclude certain expenses, such as interest.

Please note that commodity prices may swing sharply in response to cyclical economic conditions. The performance shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. The investment return and principal value of an investment in the Fund will fluctuate as the prices of the individual securities in which it invests fluctuate, so that 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. Performance information current to the most recent month end is available by calling 800.826.2333 or by visiting [vaneck.com](http://vaneck.com).

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Two main performance takeaways for 2011: We were hurt by (1) no exposure to large integrations, and being overweight coal and oil services companies, and by (2) our relative overweight to both precious and base metals as compared to the benchmark index. While the Fund lagged its benchmark in 2011, we continue to believe that our long-term track record of consistent risk-adjusted returns reflects skilled stock selection. Our 12-person investment team – among the industry’s largest – includes three trained geologists and senior analysts with deep sector experience.

Throughout 2011, we maintained our bottom-up investment strategy of making decisions on an individual security basis rather than from any overarching sector perspective. Energy holdings remained a key theme of our strategy. We also increased the Fund’s position in cash during 2011 as part of a conservative stance taken amidst challenging market conditions. We believe that this will enable us to take advantage of attractive buying opportunities on what we consider to be short-term weakness.

**Market Outlook: Themes for 2012**

**Non-Traditional Energy**

Looking forward to 2012, we remain particularly enthused about our energy positions. The themes and names we look to exploit in the months ahead are focused in several of the same core areas about which we have been optimistic for some time now—unconventional North American exploration and production companies, international exploration and production companies, niche refining companies and large-cap oil services companies. From a macro perspective, we expect continued pressure on natural gas prices, as natural gas supply is anticipated to significantly outpace demand. We expect oil prices, on the other hand, to stay resilient, as supplies remain constrained and at risk, despite facing faltering demand from Europe.

**Long-Term Gold Bug**

While gold has had a long and spectacular run, we believe that, despite the late-year pullback, the gold bull market is closer to its middle than to its end. First, we believe that easy monetary policies that have contributed to higher gold prices continue. Second, one of the key drivers of a secular gold bull market is negative real interest rates, and indeed the real yield across the U.S. Treasury duration curve had turned negative by the end of 2011, destroying wealth for many savers, institutions and sovereigns who invest in such interest-bearing vehicles.

The third reason we believe in the longer-term continuation of the gold bull market is that once the European financial system is set on a sounder course, attention may move to no less dire conditions in Japan and the U.S. Gold may benefit as a sound currency alternative or inflation hedge.

**Quality in Base Metals**

As for base metals, although macroeconomic risks remain high, we believe serious and escalating supply constraints and a recovery in Chinese demand will keep the commodity market tight. Thus, in the near term, we favor commodities such as copper, lead and zinc.

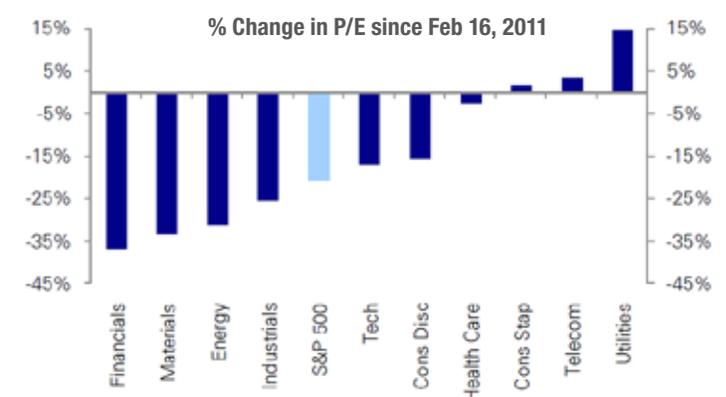
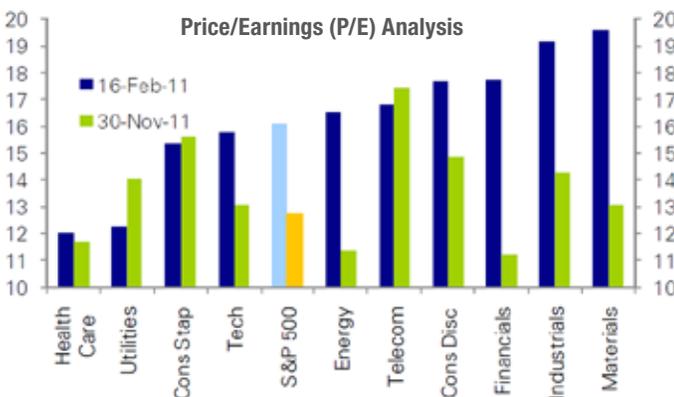
On the equity side, base and industrial metal stocks are vulnerable to ongoing concerns regarding Europe, worries about the global economy and broad investor risk aversion. However, on the positive side, base and industrial metal mining equities were, at the end of 2011, trading near the bottom of their historical price/earnings (P/E) and enterprise value/earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) multiple ranges. Although these depressed multiples reflect elevated macroeconomic and company-specific risk, we do believe there is scope for a re-rating in 2012. In the near-term, we favor companies such as First Quantum (2.2% of Fund net assets) that have well-defined, near-term catalysts. We will also be closely monitoring progress related to European sovereign debt, as we believe a solution would bode particularly well for mining equities.

**Supply Tightness to Persist in Ags**

Within the agricultural sub-sector, we believe the fundamental tightness experienced in 2011 may repeat in 2012, though with a likely moderate loosening of the corn balance sheet. As we look forward, assuming that farming economics stay positive, it seems that the U.S. should plant at least 92 million acres of corn. Indeed, recent consultant estimates have been in the 90 to 95 million acre range. With a trend yield of about 158 to 159 bushels per acre, there should be corn production of more than 13.5 billion bushels in the new year.

December 2012 corn futures were priced at the end of 2011 at around \$5.50; we feel that corn below \$5.00 may represent good value. Obviously, there are many other variables that could impact prospects for the commodity, but in our view, a significant number of buyers of corn, such as ethanol producers, should be profitable in the months ahead. Importantly, the Chinese have been opportunistic buyers of corn on dips and at some point, we believe, will re-enter the market.

**FIGURE 1: DE-RATING OF SECTORS HAS BEEN CONCENTRATED IN THE CYCLICAL SECTORS**



Price-to-Earnings (P/E) ratio is the price of a stock divided by its earnings per share. Source: Bloomberg, Haver, Deutsche Bank, Standard and Poors

**Summary**

In sum, we remain particularly enthused about the Fund's energy positions. The themes and names we look to exploit in the months ahead are focused on unconventional North American exploration and production companies, international exploration and production companies, niche refining companies and large-cap oil services companies.

The international exploration and production area, for example, was largely de-rated as investors fled risk in 2011, but we feel this is positioned to change at least for a few of our names. And within the base metals space, going forward we intend to focus on the diversified mining companies that have quantifiable shareholder-friendly capital management policies.

All company weightings as of December 31, 2011.

Net asset value and performance information included in this report is based on the data maintained by the Fund's custodian. This data is compiled using a "trade date plus one" accounting convention and reflects the impact of any fair value adjustments to the prices of foreign securities. Remaining information contained herein is an estimate based on internal data maintained by Van Eck Associates Corporation. This data is compiled using a "trade date" accounting convention and generally does not reflect the impact of fair value adjustments to the prices of foreign securities.

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

