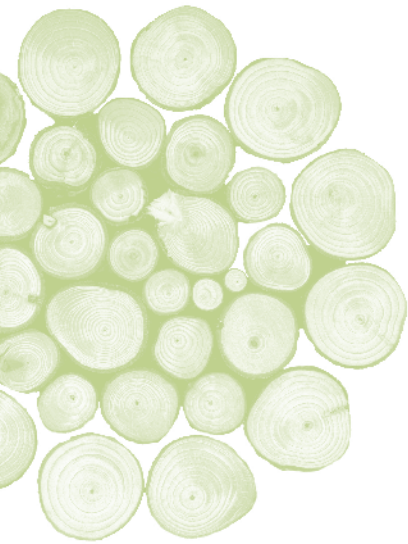


MARKET VECTORS™



The Investment Case for Hard Assets

- ▶ INVESTMENT OPPORTUNITY
- ▶ PORTFOLIO BENEFITS



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Hard assets investments are subject to risks including commodity price volatility, changes in world political and economic developments, competitive pressures, labor relations issues and risks associated with foreign investments. Sector-related investments may be more volatile than broad-based investments.

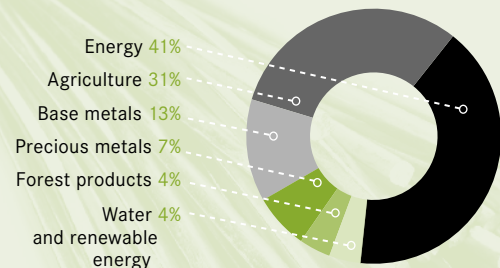
Please note that Van Eck Securities Corporation offers investment products that invest in the asset class(es) included in this research report. This material must be accompanied or preceded by a prospectus. An investor should consider a Fund's investment objective, risks, and charges and expenses carefully before investing. The prospectus contains this and other information. Please read it carefully before investing.

Economic building blocks

The case for investing in hard assets begins with the central role they play in the world economy.¹ The term “hard assets” refers to the natural resources or commodities that are mined, harvested or otherwise procured from all corners of the globe.² As these raw materials are essential to the production of goods and services, they constitute the building blocks of economic growth.² In the aggregate, hard assets currently account for 14% of the world’s output² and comprise the largest non-financial sector in the global economy.¹ Worldwide, the companies that are principally involved in commodities production currently represent over 15% of total stock market capitalization.²

Hard assets have traditionally been grouped into five broad categories: *energy* (oil and gas), *agriculture* (grains, livestock, sugar, coffee, etc.), *base metals* (copper and aluminum), *precious metals* (gold, silver and platinum) and *forest products* (paper and lumber).² Recently, a new category has emerged—water and renewable energy sources such as solar and wind.² **Figure 1** shows the breakdown of the hard assets sector in 2007 across these six categories, based on global consumption.

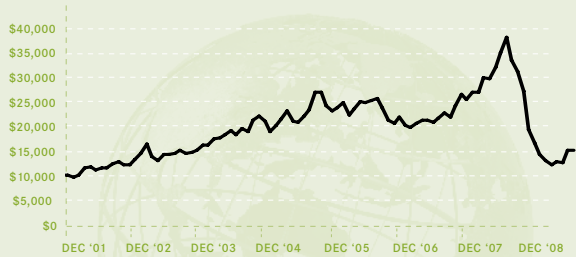
Figure 1 Global Consumption of Hard Assets*



Source: 2

* Breakdown of 2007 global hard assets consumption.

Figure 2 Recent Commodities Performance*



* Commodities represented by S&P GSCI Index.

Source: 6

This chart is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted. Indices listed are unmanaged and are not securities in which investments can be made. See Index Descriptions for a description of the S&P GSCI Index.

Boom and bust

History has shown that the hard assets sector tends to cycle through long successive bull and bear markets.^{1,3,4} From the late 1950s through 1980, for example, a bull market was fueled by baby-boom driven economic growth in the U.S., the development of Japan, Korea and Taiwan and the Middle East oil crisis, among other factors.³ That was followed by a 20-year bear market brought on in part by a deceleration in global growth and the massive liquidation of commodity inventories by the cash-poor ex-Soviet bloc after the end of the Cold War.³

Since the early 2000s, a new hard assets bull market appears to have begun to take shape (Figure 2).^{1,3,4} This is a demand-driven phenomenon that primarily reflects the unprecedented level of industrialization now taking place in China, India and much of the rest of the emerging world.^{1,3,4} This trend is so powerful that many observers believe it will cause a secular rise in hard assets prices for the next 15 to 20 years.^{3,4} The economic slowdown as a result of the financial crises in 2008 caused a sharp reduction in commodities prices but the needs of a growing middle class population in developing nations continue to support the long-term outlook for hard assets.⁵ The current environment may provide an opportunity to invest in commodities at prices not seen since the start of the early 2000s.

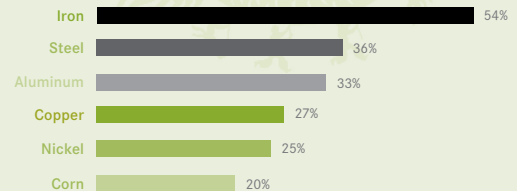
Exploding hard assets demand

China has enjoyed an astonishing degree of economic success since it embarked on a unique brand of “market socialism” in the late 1970s.³ Its GDP has expanded ten-fold over the past 30 years, and its economy has grown at an average rate in excess of 9% per annum for more than two decades.^{3,7} As a result, China’s middle class is burgeoning and disposable income has increased 170 percent from 1998 to 2007.⁸ Projections indicate that middle class households will double from eight percent of total households in 2008 to 16 percent by 2015.⁹

“An unprecedented level of industrialization is now taking place in China, India and much of the rest of the emerging world.”



Figure 3 China's Share of World Commodity Demand*



Source: 11, 12, 13

* Estimated shares as of 2008.

Out of this has come an insatiable demand for natural resources: *metals* and other materials to build infrastructure and productive capacity; *energy* to provide electricity and power production and transportation; soft *commodities* to meet the middle class's growing demand for meat and other foods; and *precious metals* for specialized industry and luxury goods.^{3,4} China is now the world's second-largest oil consumer—using more than the U.K., Germany and France combined.¹⁰ And as **Figure 3** indicates, China now accounts for 20% or more of global demand for iron ore, steel, copper and aluminum.

A similar picture prevails in India, whose population rivals that of China.³ Although India is about ten years behind China in terms of development and has been growing more slowly, its commodity use is exploding due to its rapid infrastructural, housing and commercial development.³ Much of the rest of the emerging world is in high-growth mode as well—so much so that over the past five years, the developing world's per capita GDP growth has been triple that of the developed world.⁷

While the financial crises of 2008 have drastically reduced commodity demand in the short-term, the long-term trend of demand for natural resources may continue to persist. Improvements in the financial situation of developing economies has translated into a growing middle class and increased purchasing power per capita.^{5,8,9} In addition, many countries, emerging and developed alike, have responded to the financial crises with monetary stimulus and programs geared to promote spending on infrastructure. China, for one, is aggressively taking steps to secure its future natural resources needs through stockpiling of reserves and acquisitions of commodity producing companies.⁵ Other emerging economies, such as India, have already begun to take similar steps to support their continued growth and urbanization.³ It all adds up to a pent-up demand for natural resources.

Lagging hard assets supply

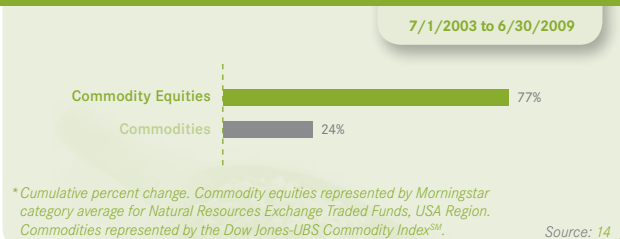
The current economic climate has potentially resulted in a situation whereby large shortfalls in the supply of natural resources could put extreme upward pressure on prices when demand returns. Prior to the crises, the industries that supply natural resources were unable to keep up with demand. Reasons included slowdown in exploration, production and infrastructure building/maintenance, as well as the loss of trained personnel—complications resulting from the prior 20-year bear market.³

As a result of the global economic crises of 2008, natural resources demand has dropped off reducing the strain on supplies—at least temporarily. However, there has been an unprecedented decline in production activity that could have significant implications on future supply.⁵ With a fall in the price of some commodities below their marginal cost of production, some projects have become uneconomical mines have been closed and plans for future projects have been delayed.⁵

Moreover, the amount of time required to bring a mine from planning into production has risen from an historical average of 5-6 years to 10 years today.³ Among other things, this reflects environmental issues and the fact that the supply of mining professionals (geologists, engineers, etc.) has greatly diminished from its pre-bear market levels.³ As such, it may be many years before added capacity will generate the supply that is needed to meet demand.^{3,4}

“Commodity equities often provide leverage to underlying commodity price increases, particularly in the mining sector.”

Figure 4 Commodities vs. Commodity Equities*



Leveraging the bull market

There are two ways to take advantage of a secular bull market in hard assets—investing in commodity futures or in commodity equities—and both can provide exposure to the positive fundamentals.³ Commodities futures are excellent diversifiers because their correlations with traditional investments tend to be low.^{3,4} Commodity equities are more closely correlated with stocks and bonds³, but potentially hold key advantages, such as:

- **LEVERAGE:** Commodity equities may often provide leverage to underlying commodity price increases, particularly in the mining sector.³ This is because commodity stock profits rise not in proportion to commodity prices, but in exponential terms as companies average their production costs while selling at rising prices.³ This leverage can be particularly powerful once a bull market is established and profits are solidly growing.³ Figure 4 illustrates this point for the current bull market, which was well under way by 2003.³ Since then, commodity equities have outperformed commodity futures by a significant margin.
- **MERGER & ACQUISITION EXPOSURE:** Corporate actions tend to increase in the hard assets sector during up cycles. As demand rises, companies often utilize mergers or takeovers to upgrade the efficiency of their operations and accumulate land, reserves or productive capacity.

Beyond the cycles

In addition to investment opportunity, hard assets offer a host of other potential benefits when added to a traditional portfolio of stocks and bonds, including:

- Additional portfolio diversification
- Potentially competitive returns
- Potential hedge against inflation
- Exposure to key global economic sector
- Complement to other alternative investments

Many studies have shown that hard assets can potentially help improve the risk/reward profile of a portfolio when included in an alternative investment allocation.^{4,15}

INDEX DESCRIPTIONS

All 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 a fund. An index's performance is not illustrative of a fund's performance. Indices are not securities in which investments can be made.

Dow Jones-UBS Commodity Index (DJ-UBS) is designed to be a highly liquid and diversified benchmark for commodities as an asset class. The DJ-UBS Index is composed of futures contracts on 20 physical commodities.

Morningstar US ETF Natural Resources Category Average approximates the return performance of exchange-traded funds (ETF) within the natural resources category by averaging their returns on a monthly basis. As of 6/30/2009, there were 25 ETFs in the US ETF Natural Resources category.

S&P® GSCI Total Return Index (SPGSCITR) is a world production-weighted commodity index comprised of 24 liquid, exchange-traded futures contracts. Designed as a benchmark for commodity prices, the GSCI measures the level of world commodity prices.

References

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