Manager Commentary: On the Gold Market

Gold bullion rises on escalating geopolitical risk, ends June at $1,327.32 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned 21.74% for the one-month period ending June 30, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index[1] (GDMNTR) returned 17.70% for the same period. The Fund is actively managed and invests mainly in gold-mining equities. Geologist Joe Foster has been part of Van Eck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

Average Annual Total Returns (%) as of June 30, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	21.74	27.28	0.23	9.60
Class A: Maximum 5.75% load	14.75	19.96	-0.95	8.96
GDMNTR Index	17.70	9.36	-5.81	2.77

Average Annual Total Returns (%) as of March 31, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-9.40	-28.80	-1.87	5.54
Class A: Maximum 5.75% load	-14.64	-32.89	-3.02	4.91
GDMNTR Index	-8.66	-36.77	-7.48	--

^Monthly returns are not annualized.

Expenses: Class A: Gross 1.46%; Net 1.45%. Expenses are capped contractually until 05/01/15 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 advanced $77.59 (6.2%) in June. The primary driver was the well-orchestrated invasion of western Iraq by a radical rebel group known as the Islamist State of Iraq and Syria (ISIS). This is the latest in a series of events over the past several years that have increased geopolitical risk in the Middle East. The withdrawal of U.S. troops from Iraq, ineffective diplomacy, and the current U.S. Administration's policy of limited engagement may have enabled the escalating chaos and civil strife witnessed in the region. So far, unrest in Libya, Mali, Egypt, Syria, and Iraq has not created major disruptions in global commerce. The bulk of Iraqi oil production in the south of the country does not appear to have been threatened. However, problems in the region are ominously getting worse. In our opinion, this caused upward pressure on oil prices and downward pressure on the dollar in June, to gold's benefit.

U.S. inflation statistics released on June 17 were also supportive of gold. The Consumer Price Index (CPI) rose 0.4% in May. This brings the annualized rate for the first five months of 2014 to 2.6%, while the core rate (excluding food and energy) stands at an annualized 2.3%. Taken alone, no one would consider these numbers problematic. However, to have inflation edging higher at the same time first quarter GDP growth fell 2.9%, raises concerns. Wage pressures could mount due to low productivity gains and a shortage of skilled workers. The U.S. unemployment rate for those out of work for less than six months fell to 4.1% in May. A recent Duke University and CFO Magazine survey found that U.S. chief financial officers expect salaries to increase 3% and the prices their firms charge customers to increase 2.6% in the next 12 months. There may be additional cause for concern when analyzing the Federal Reserve's (the "Fed's") past actions and current stance. The Fed has been targeting 2% inflation, but it has also indicated that it has no intention of raising interest rates until sometime in 2015. In addition, the trillions of idle dollars the Fed has injected into the financial system since the crisis in 2008 (see chart on following page) could come into the economy as it regains momentum after the brutal first quarter weather. With core inflation rates already at 2.3%, the Fed runs the risk of a belated reaction if inflation escalates. We believe gold could benefit from falling real (inflation adjusted) interest rates.

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.

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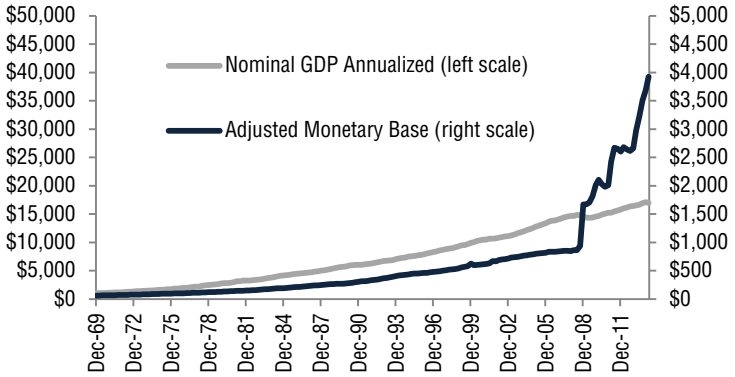
Gold stocks had a stellar month, with the NYSE Arca Gold Miners Net Total Return Index[1] (GDMNTR) advancing 17.7% and the Market Vectors Junior Gold Miners Index[2] (MVGDXJTR) gaining 25.4%. The stocks have continued to outperform gold, as the preponderance of negative news caused by permitting, taxation, rising costs, or missed expectations seems to have evaporated this year. Gold mining companies, in general, are now in better shape fundamentally than we have seen in quite a while.

U.S. GDP vs. Monetary Base (Billions)



Source: St. Louis Federal Reserve, Van Eck Research. Data as of March 31, 2014.

Market Outlook

We believe gold is showing some signs of strength so far this summer, a season that normally experiences demand weakness. We see this as constructive and it could bode well for gold in the fall as stronger demand develops. Geopolitical risk, in our opinion, has been the dominant driver of the gold market this year. Problems in Turkey, Ukraine, Thailand, and the Middle East have the potential to evolve into broader turmoil that could impact the global economy. While geopolitical risk is supportive of gold, historically it has not been a longer-term driver. In our opinion, elevated levels of financial risk are generally needed in order to generate longer-term momentum for gold. We see financial risks building that could become drivers as we move into 2015.

Markets appear to be largely ignoring risk and the level of complacency should have contrarian investors on alert. A number of financial metrics indicate a heightened tolerance for risk. The stock market continues to make all-time highs, while the future CBOE Volatility Index[3] (VIX) and the St. Louis Fed Financial Stress Index[4] are near record low levels last seen in 2007, before the 2008 financial melt-down. Corporate bond spreads of around 1% are also down to 2007 levels. The sovereign debt of European nations is higher now than it was during the sovereign debt crisis. Yet 10-year sovereign yields are near record lows: France 1.6%, Italy 2.7%, and Spain 2.6%, compared with the U.S. at 2.6%. Ecuador was able to sell $2 billion worth of bonds for the first time since defaulting in 2008. Lenders are also taking on more risk, issuing 39% more credit cards than last year to subprime borrowers. Several central banks are now buying equities, as the Swiss, Danish, and Chinese have disclosed recently.

The Bank for International Settlements (BIS) in its annual report said "Overall, it is hard to avoid the sense of a puzzling disconnect between the markets' buoyancy and underlying economic developments globally" and "Financial markets are euphoric, in the grip of an aggressive search for yield."

In our view, zero interest rate policies, led by the Federal Reserve, followed by the European Central Bank and the Bank of Japan, are responsible for the complacency toward risk and the reach for yield. Yet it seems policy makers are oblivious to the potential for unintended consequences of their policies. We were flabbergasted by Fed Chairwoman Janet Yellen's comments in a July 3, 2014 interview reported in the Wall Street Journal: "Monetary policy faces significant limitations as a tool to promote financial stability. Its effects on financial vulnerabilities, such as excessive leverage and maturity transformations, are not well understood" and "The potential cost, in terms of diminished macroeconomic performance, is likely to be too great to give financial stability risks a central role in monetary policy decisions." We had thought that after experiencing a crisis that nearly destroyed the financial system, Ms. Yellen might see a stronger role for the Fed in reducing the odds of another. Excessive credit cycles can create the booms and, ultimately, the busts that nobody wants to experience. Bank credit, along with non-bank credit and the "shadow" banking system[5] generate the cash and liquidity that can make excessive booms possible. At the top of the pyramid sits the Central Bank, able to set interest rates and control the creation of money. Ms. Yellen's comments suggest the Fed is either incapable or unwilling to use the tools at its disposal to moderate the credit cycle in order to help reduce the severity of the downturns.

Former Fed Chairman Paul Volcker understands the failings of the current monetary system. In a May 2014 speech, he said "By now, I think we can agree that the absence of an official, rules-based, cooperatively managed monetary system has not been a great success. In fact, international financial crises seem at least as frequent and more destructive in impeding economic stability and growth." Mr. Volcker made a "plea for attention to the need for developing an international monetary and financial system worthy of our time." It is also our view that, until significant fundamental changes are made in the way the monetary system is managed, the markets will continue to be prone to financial risks that are highly disruptive. Gold or gold-related investments were among the best performing asset classes during the '30s, '70s, and '00s (2000–2010), the three most financially destructive decades of the past century. We believe the financial system remains vulnerable, and Ms. Yellen's comments only add to our conviction.

*All company weightings as of June 30, 2014.

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.

[1]NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. [2]Market Vectors Junior Gold Miners Index (MVGDXJTR) is a rules-based, modified market 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. [3]CBOE Volatility Index (VIX) is a popular measure of the implied volatility of S&P 500® Index options, representing one measure of the market's expectation of stock market volatility over the next 30 day period. [4]St. Louis Fed Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series. [5]The "shadow" banking system is a term for the collection of non-bank financial intermediaries that provide services similar to traditional commercial banks.

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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.

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