

Manager Commentary: On the Gold Market

Gold breaks positive trend, ended November at \$1,253.49 per ounce

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares lost 11.44% for the one-month period ending November 30, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index¹ (GDM) lost 11.68% 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 access mining efficiencies and opportunities.

Average Annual Total Returns (%) as of November 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-11.44	-49.10	3.43	4.08
Class A: Maximum 5.75% load	-16.51	-52.02	2.21	3.46
GDM Index	-11.68	-53.31	-3.54	--

Average Annual Total Returns (%) as of September 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.88	-48.35	0.46	7.84
Class A: Maximum 5.75% load	-15.05	-51.32	-0.72	7.20
GDM Index	-10.81	-53.26	-5.76	--

*Monthly returns are not annualized.

Expenses: Class A: Gross 1.29%; Net 1.29%. Expenses are capped contractually until 05/01/14 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 closed at \$1,253.49 per ounce on November 29, for a monthly loss of \$69.61 per ounce or 5.3%. Gold equities underperformed the metal. The NYSE Arca Gold Miners Index¹ (GDM) fell 11.6% during the month, and the Market Vectors Junior Gold Miners Index² (MVGDXJTR) fell 15.6%. Gold producers released Q3 earnings reports in November. Results were generally positive with most companies meeting or exceeding EPS expectations, primarily due to lower than expected operating costs.

The gold market fell to \$1,225 per ounce intra-day on November 25, testing the low end of its recent trading range. A nascent positive trend had been forming since the \$1,180 per ounce lows set in June; however, this trend broke down in November. Those looking for lower gold prices continue to dominate the market, aided by renewed net redemptions from bullion exchange traded products and bearish press coverage of the sector. There have been a number of occasions this year when large sell orders have been placed when the market is vulnerable or thinly traded. This has happened around market opens, closes, or off-hours. A recent example occurred on November 20 at 6:26 a.m. Eastern U.S. time when overwhelming sell orders caused the CME Group to halt futures trading to allow the market to regain sufficient liquidity. Gold fell \$10 per ounce in an instant and opened down in New York. Coincidentally (or not), the same day, Goldman Sachs issued a report restating its forecast for lower gold prices. It was similar to the report Goldman released on April 10, ahead of the first major collapse of gold for the year. All of this, coincidentally (or not), was ahead of the afternoon release of the Federal Open Market Committee (FOMC) minutes. By that time, in our view, potential buyers had probably stepped aside and gold dropped another \$20 per ounce on nothing more than the Federal Reserve once again reiterating that it may "taper" its bond purchases.

We do not believe in gold conspiracy theories. However, like many global markets, we do believe the gold market can be subjected to bouts of manipulation and that some of the weakness experienced this year is attributable to large players, including some banks, seeking to benefit from lower gold prices. They potentially stand to gain from internal trading positions, client positioning, and any hedging activity that might come from lower gold prices. Like any business, a bank's overall mission is (and should be) to make money. However, many of the large banks have exhibited a habitual willingness to bend rules, operate in gray areas, or push legal limits in order to generate more revenue.

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.

They have been shown to have manipulated Libor rates. They are being forced out of commodities warehousing after gaming warehousing rules to maximize fees and distort pricing. Regulators in the U.S., U.K., Hong Kong, and Switzerland are currently involved in an investigation into possible currency-market manipulation. The U.K. Financial Conduct Authority is now reviewing suspicious activity in London gold benchmarks.

Market Outlook

We believe gold is down, in part, because stocks are realizing new all-time highs and many investors no longer sense the need for a safe haven or currency protection. That's the market and that's okay. However, it is frustrating to see gold pushed to what we believe are artificially low levels. Should prices trend lower, we expect to see a significant supply response that would be supportive of prices. This year gold companies have geared their business around a \$1,200 per ounce gold price. Some would have to make substantial production cuts of ounces that become unprofitable at lower prices. In the longer term we expect ongoing risks to again shake investors' confidence in markets, paper currencies, and the financial system, thereby potentially renewing demand for safe haven investments.

Gold companies are implementing changes and running their businesses with a new focus which, in our opinion, should lead to outperformance relative to bullion in a gold bull market. Gold stocks have been underperforming gold bullion since the beginning of 2011. Because of their leverage, gold equities are expected to underperform relative to gold during periods of falling gold prices, so it is not surprising that in 2013 the price drop in gold stocks has far surpassed that of gold. In contrast, in 2011 and 2012 gold prices rose, and while we believe that same leverage should have propelled the prices of gold stocks and should have led to their outperformance against the metal, it was not the case. While gold rose 17.9% from the end of 2010 to the end of 2012, gold stocks, as represented by the GDM, fell 22.6%, and junior gold mining companies, as represented by the MVGDJTR, fell 44%. This period of underperformance of gold equities versus gold was unprecedented, and we doubt anyone would have predicted it. We believe the main reason was the disappointing operating performance of the gold companies, primarily in the form of higher operating and capital costs. Companies repeatedly missed their production and operating cost guidance, failing to meet cash flow expectations. In addition, escalating project development costs kept eroding returns on capital. Gold stocks fell out of favor, as the market punished gold companies for their poor performance, in part ignoring what at the time were still very healthy margins and solid financial conditions. Overdone as the selloff of gold stocks may have been, and we believe it was, it did ultimately deliver a clear message to the gold companies: shareholders do not want growth at any cost; they want higher profitability and higher returns.

Gold companies received the message, and in the second half of 2012 we started to see signs that companies were making the necessary changes to address the negative issues. The first positive sign was the firing/replacement of the Chief Executive Officer of almost every major gold mining company and widespread management team changes in the sector. A change of leadership was the first step in the deployment of a new strategy.

As we met with companies, one management team after another emphasized the new strategy: growth is no longer a priority; instead the new focus is on controlling costs, meeting expectations and generating attractive returns to shareholders.

Costs in the industry escalated due to declining reserve quality, high energy prices, geopolitical risks, as well as skilled labor shortages and high demand for supplies and services as a result of the most recent global mining boom. However, a rise in gold prices and pursuit of growth at any cost, created negative trends within gold companies that drove costs higher. The single issue most recognized by market participants as the main problem facing gold companies is the escalating cost of production, and the perception that costs simply got out of control. In their efforts to repair the mistakes of the past, and regain investor trust, new management teams have made cost control and cost cutting their top priority. There are three main forces at work that, we believe, may lead to declining costs for the industry: companies' initiatives; the slowdown of global mining activities; and changes to mine plans as a result of lower gold prices this year. Here, we want to focus on the companies' initiatives, which began well before gold prices fell this year, and are expected to lead to long-term, sustainable cost savings. When the gold price rises again, we believe mining activity will pick up and mine plans will be altered to chase more marginal ounces, and we will likely see some of those cost pressures return. Similarly, discretionary spending, such as exploration, will tend to increase in a higher gold price environment. But many of the initiatives being implemented by the gold companies are structural changes in the way they operate that are expected to result in a more permanent cut to costs.

The initiatives are primarily focused on improving operating efficiency, and involve all segments of operations. The following are a few examples of cost initiatives in different categories that help us understand how companies are achieving these savings. Energy: optimization of grid power to eliminate the need for self-generated power; Labor: replacing contractors and consultants with company employees; Supplies and Services: renegotiation of old contracts to reflect current market conditions; Mining: changes to blasting method to improve ore fragmentation; Equipment: replacement of smaller trucks with larger trucks to increase efficiency and lower maintenance costs and fuel consumption; Infrastructure: redesigned roads to improve tire life and reduce hauling distances; Processing: crusher expansion to improve metallurgical recoveries; General and Administrative: elimination of redundant and overlapping positions. Many companies are already enjoying the initial benefits of these initiatives, with further savings expected to be realized in the near future.

So far, the results are encouraging, indicating that initiatives are paying off. Gold companies reported their Q3 2013 financial results during the month of November. Over 80% of the companies we track met or exceeded EPS expectations, with about 50% beating expectations, primarily due to lower than expected operating costs. Operating costs reported this year show a declining trend. We estimate that on average Q2 2013 operating cash costs (excluding sustaining capital) were 2% lower than costs reported for Q1 2013; and Q3 2013 costs were 5% lower than Q2 costs.

Also, we estimate that average Q3 2013 operating cash costs of around \$670 per ounce were 4% lower than the average full year guidance provided by companies for 2013, suggesting that after many years of cost increases, costs may finally come down in 2014.

Managing expectations and meeting guidance became another priority for companies, which realized the negative impact that missing expectations had on their share price. Setting and meeting operating guidance is not an easy task. Gold mining operations are generally subject to a high degree of variability and to risks which cannot always be controlled by the companies, especially when operations are starting and ramping up. But as hard as the task may be, companies have to provide the market with a way to periodically measure and monitor their performance. Setting achievable targets, as well as providing transparent communications and reports, are now recognized as critically important for the sector. While it is too early to assess their success in meeting 2013 full year guidance, so far most gold producers have reiterated (and some have improved) their guidance and appear positioned to meet their targets.

In demonstrating to investors their commitment to optimizing returns, gold companies have imposed higher rate of return hurdles, leading to the deferral, re-engineering or scaling down of many projects in the sector. Capital cost escalation, combined with the current low gold price, has rendered these projects economically unattractive. Companies are also more active in assessing their existing operations. They are divesting assets that are non-core or marginal, and redeploying proceeds to the benefit of their core businesses. In addition, the subdued level of merger and acquisition activity in the sector, despite record low valuations, provides further evidence of the capital discipline exercised by gold companies under the new strategy.

We expect this new focus by the gold companies on optimizing profitability and returns may lead to improved performance, helping them regain their status in the markets as an effective investment for leveraged exposure to gold. We believe this could translate to outperformance of gold equities relative to gold in a gold bull market.

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¹NYSE Arca Gold Miners Index (GDM) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²Market 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.

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335 Madison Avenue | New York, NY 10017

