

Manager Commentary: On the Gold Market

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Has Gold’s Cyclical Bear Market Found a Base?

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund’s Class A shares returned 7.41% for the one-month period ending October 31, 2015 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDM)<sup>1</sup> returned 9.23% 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 October 31, 2015

	1 Mo <sup>^</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	7.41	-14.32	-21.08	1.23
Class A: Maximum 5.75% load	1.24	-19.21	-22.01	0.64
GDMNTR Index	9.23	-13.45	-22.57	-4.52

Average Annual Total Returns (%) as of September 30, 2015

	1 Mo <sup>^</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-4.41	-34.45	-21.83	-0.22
Class A: Maximum 5.75% load	-9.94	-38.19	-22.75	-0.81
GDMNTR Index	-2.28	-35.32	-23.60	-6.09

<sup>^</sup>Monthly returns are not annualized.

**Expenses: Class A: Gross 1.47%; Net 1.45%.** Expenses are capped contractually until 05/01/16 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. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit [vaneck.com](http://vaneck.com) for performance current to the most recent month ended.

Market Review

Once again, we must report that the outlook for the Federal Reserve Bank’s (Fed’s) rate decision influenced the movements in the gold price in October. Leaving rates unchanged is considered supportive for gold because it implies weakness in the economy, a lower U.S. dollar, and potentially lower real rates. Gold advanced on October 2 when disappointing September U.S. non-farm payrolls meant lower odds of a Fed rate increase. Gold reached its \$1,191 per ounce high for the month on October 15 following retail sales that were below expectations and producer prices that fell more than forecasts predicted. Poor economic results continued with the release of downward pointing monthly reports for durable goods, consumer confidence, and other leading indicators. However, on October 28, the Fed released its post-FOMC (Federal Open Market Committee) meeting statement, which the market interpreted as increasing the likelihood of a December rate hike. In the statement, the Fed dropped previous warnings on global risk and focused on gains in household spending. As a result of the Fed’s comments, the gold price partially lost earlier gains and ended the month with a \$27.09 advance (2.4%) at \$1,142.16 per ounce.

Gold stocks perked up in October, although they also saw weakness following the FOMC statement. In October, the NYSE Arca Gold Miners Index gained 9.2% while the Market Vectors Junior Gold Miners Index<sup>2</sup> advanced 5.1%. Third quarter reporting started in the last week of October and will run into November. So far we are pleased with the sector’s improving operating performance. In our opinion, companies have done a good job driving down costs and early reports suggest this trend is continuing. For example, Agnico Eagle Mines Limited (7.7% of Fund net assets\*) lowered the midpoint of its all-in mining cost guidance from \$880 per ounce to \$850, Newmont (1.9% of Fund net assets\*) from \$950 per ounce to \$910, and Eldorado Gold Corporation (4.8% of Fund net assets\*) from \$925 per ounce to \$870.

A symptom of the economic weakness in China is its foreign exchange (forex) reserves, which have been in decline since June 2014 and are down \$329 billion (8.6%) so far this year. Despite this, the Peoples Bank of China (PBOC) continues to buy significant amounts of gold to add to its forex reserves. In July, the PBOC began announcing monthly changes in its official gold reserves. For the third quarter, the PBOC added 50 tonnes, which exceeds its annualized pace of 100 tonnes per year for the last six years. Meanwhile, the Chinese Gold and Silver Exchange Society believes gold consumption may match or exceed the record set in 2013. Robust Chinese demand helps underpin prices in an otherwise weak market.

\*All company weightings as of October 31, 2015 unless otherwise noted.

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.

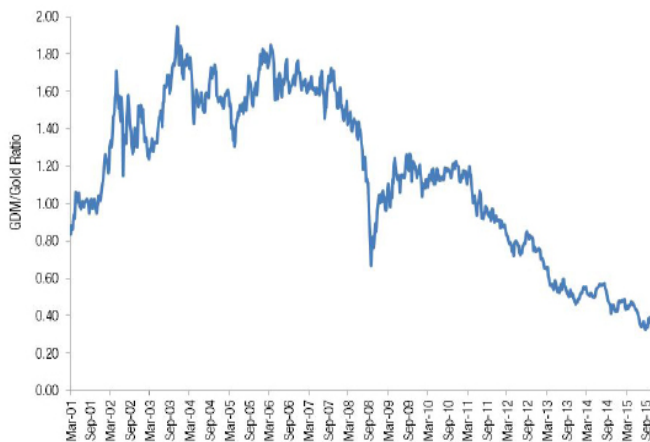


**Market Outlook**

Since gold fell to its cycle low of \$1,072 per ounce in July, we feel it has embarked on a positive trend. Each time gold makes new lows in the bear market, we see a similar pattern, and investors wonder whether this positive trend is sustainable. The recent fundamental drivers have been safe haven<sup>3</sup> demand due to jitters over the collapse of the Chinese stock market in August and uncertainty surrounding the Fed's rate decision. It feels as if markets are being held hostage until the next FOMC meeting in December. Perhaps there will be answers to the multitude of questions that create uncertainty: Will rates be increased? How will markets react? How much is already priced into the gold market? How much is priced into the U.S. dollar? How will emerging economies behave? What will be the pace of rate increases? Will they have to reverse course? Until there is more clarity, it is difficult to say whether this is another false start for gold or the beginning of a lasting trend.

Many who follow gold stocks are puzzled by the depths to which they have fallen. There are several ways of analyzing this, some of which are misleading. Chart 1 shows the ratio of the NYSE Gold Miners Index (GDM) to gold at all-time lows, well below the levels of the 2008 credit crisis crash or the 1980–2001 secular bear market. This chart depicts the unprecedented decline in gold stocks.

**Chart 1: GDM Index/Gold Ratio (2001-2015 Weekly Close)**



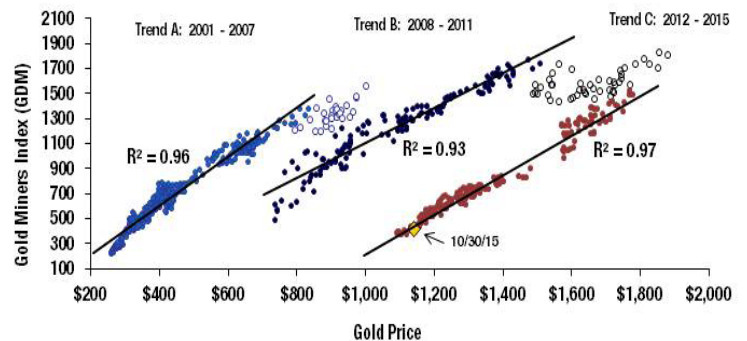
Source: Bloomberg, Van Eck Research. Not illustrative of an investment in the Fund. Historical information is not a forecast of future events, a guarantee of future result or investment advice. Current market conditions may not continue.

The GDM Index saw its cycle low of 348 on September 11, 2015. The last time it was this low was in 2002 when gold was \$300 per ounce. We do not believe that this means stocks are anticipating much lower gold prices. The average all-in mining cost for our coverage universe is \$920 per ounce. We do not know of any mines that are producing gold for \$300 per ounce. In fact, in our view, high cost mines would begin shutting down at around the \$1,000 per ounce level and the entire industry would likely to cease to exist long before gold reached \$300.

The bottom for gold in this cycle was \$1,072 per ounce on July 20, 2015 when the GDM closed at 383. The last time the gold price was \$1,072 per ounce was February 11, 2010 when the GDM was 217% higher. Does this mean there will be some sort of reversion to the mean that causes the GDM to triple to its former level? We believe not likely.

These can be valid ways of looking at markets, however, for gold and gold stocks they are misleading because they fail to capture important changes in the fundamentals of the industry over the past 15 years. To demonstrate and quantify these changes, we look to Chart 2. This chart uses the same data as Chart 1, but displays it as an x-y plot, rather than a ratio.

**Chart 2: Gold vs. GDM Index Plot (2001-2015 Weekly Close)**



Source: Bloomberg, Van Eck Research. Not illustrative of an investment in the Fund. Historical information is not a forecast of future events, a guarantee of future result or investment advice. Current market conditions may not continue.

The first thing to notice is that gold and the GDM form three distinct trends over different periods. The transition between trends is shown as open circles. The correlation statistics (R-squared) for each trend is close to a perfect 1.00,<sup>4</sup> which means that there is indeed a very strong correlation between gold bullion and gold shares.

Each trend is positioned progressively to the right at higher gold prices. This means that higher gold prices have been required to maintain the same GDM value. Each time the trend shifts from A to B to C, stocks are de-rating due to a loss in value. In the late 1990s, many companies became heavily hedged, locking in future production at low prices. When the bull market started, they were unable to take advantage of higher prices until in the 2000s, when they started spending billions of dollars to buy back their hedge books. As a result of what appear to be irresponsible hedging policies, gold stocks devalued from Trend A to B. The good news is that today the industry remains essentially unhedged, not wanting to repeat the mistakes of the past.

A different type of mistake caused the second devaluation from Trend B to C. The global mining industry was the victim of double-digit cost inflation during the 2008 to 2011 period of Trend B. The gold miners were not immune to this, and shareholders saw profit margins squeezed and capital cost escalations that diminished returns on new projects. Frustrated by the relentless rise in costs and missed expectations, the market de-rated the sector to its current Trend C. As has been the case with hedging, we believe the industry will not repeat the mistakes of the past. Managements are now focused on maintaining operational excellence and preserving margins.

To be fair, in the 1990s there were many companies with policies against hedging, and more recently there have been many with prudent cost controls. We have aimed to generate alpha<sup>5</sup> in our portfolios by avoiding hedged producers and investing in companies with low costs and manageable debt. However, the majors have struggled the most

with the problems that have plagued the industry. These companies dominate the indices and they are the “go-to” names for large generalist investors. In our view, poor leadership has cast a negative image across the broader industry.

We do not believe the industry will encounter further de-ratings in the future. We believe that a “Trend D” is not in the cards because the hard lessons that have been learned will not be forgotten, and companies should be able to maintain value. It is also unlikely that the industry re-rates higher towards Trend B. In order to create a positive step-change in value, it would take revolutionary technology or substantially more high-grade discoveries that enable low-cost mines to be built. While some companies are likely to make game-changing discoveries, we do not see it happening for the industry as a whole. Budgets have been slashed and geologic limitations have made exploration success harder to come by.

This means that Trend C is probably the “new normal”, and, if so, what can we expect? The stocks are exhibiting considerable beta<sup>6</sup> to the gold price. From the September close of \$1,142 per ounce, a \$100

(8.7%) change in the gold price caused a 36.4% change in the GDM along Trendline C. At higher gold prices the beta diminishes, but is still significant. For example, a \$100 (6.2%) change from \$1,600 per ounce causes a 13.7% change in the GDM along the trendline. Fundamentally, we explain this through optionality and leverage. At lower gold prices the volatility increases as stocks trade more like pure options. Around the \$1,000 per ounce gold price, the industry does not generate any free cash and has little intrinsic value. However, there is still investment demand for the equities as options on higher gold prices.

Leverage at low gold prices also causes increased volatility and beta. Operating leverage increases when earnings and cash flows are at depressed levels. Small changes in the gold price can provide large percentage changes in earnings. For companies with high debt loads, there is also substantial financial leverage at low gold prices because so much of their cash flow is tied up in servicing debt.

While the near-term outlook for gold is murky, we expect to see plenty of volatility as this cyclical bear market continues to find a base.

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.

<sup>1</sup>NYSE Arca Gold Miners Index (GDM) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. <sup>2</sup>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 from gold or silver mining when developed, or primarily invest in gold or silver. <sup>3</sup>Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence. <sup>4</sup>The correlation coefficient is a measure that determines the degree to which two variables’ movements are associated and will vary from -1.0 to 1.0. -1.0 indicates perfect negative correlation, and 1.0 indicates perfect positive correlation. <sup>5</sup>Alpha is a measure of performance on a risk-adjusted basis. <sup>6</sup>Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

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. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results; current data may differ from data quoted. Current market conditions may not continue. Non-Van Eck Global proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Global. ©2015 Van Eck Global.

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.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund’s investment objective, risks, and charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

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