June 30, 2011

Oppenheimer

Gold & Special Minerals Fund

Management Commentary and Annual Report

MANAGEMENT COMMENTARY

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The Right Way to Invest

Q. How did Oppenheimer Gold & Special Minerals Fund perform over the 12-month period ended June 30, 2011?

A. The Fund produced solid results over its most recent fiscal year, with its Class A shares (without sales charge) producing a total return of 25.22%. The Fund substantially outperformed major indices of gold stocks, as the NYSE Arca Gold Miners Index produced a return of 5.62%, the NYSE Arca Gold BUGS Index returned 9.75% and the Philadelphia Gold & Silver Index returned 13.23%. However, the Fund underperformed its benchmark, the MSCI World Index, which returned 30.51%, as gold stocks generally lagged other industry groups that comprise the broadly diversified index.

In addition, over the longer term, the Fund's Class A shares (without sales charge) has fared well in its Lipper peer group (Precious Metals Funds Category), finishing in the first quartile for the 1-year (7 out of 70 ranked funds), 3-year (8 of 56) and 5-year (1 of 44) periods, based on total return. The Fund's Class A shares (without sales charge) finished in the second quartile for the 10-year period (10 of 33 funds), based on total return.[1]

What macroeconomic developments influenced the Fund's performance over the reporting period?

The reporting period began with investors responding to a number of intensifying economic headwinds, including the resurgence of a sovereign debt crisis in Europe, persistently high unemployment and a declining housing market in the United States, and mounting inflationary pressures in the emerging markets. As a result, nervous investors sought traditional safe havens that historically have retained their value during times of heightened uncertainty, including gold. Consequently, gold prices continued to advance, following an upward trend that generally has been in place for the better part of a decade.

By the end of the summer, central bankers in the United States took additional steps to spark stronger economic growth, launching a quantitative easing program involving the purchase of $600 million of U.S. Treasury securities. This renewed commitment to avoiding a double-dip recession helped spur a market rally, as investors began to look forward to better economic times. A more optimistic outlook subsequently was reinforced by better economic data throughout the world as Europe appeared to undertake substantial efforts to address its debt problems while inflationary pressures in the fast-growing emerging markets appeared to be less of an

1. Lipper Inc., 6/30/11. Lipper ranking is for Class A shares and ranking may include more than one share class of funds in the category, including other share classes of this Fund. Ranking is based on total return as of 6/30/11, without considering sales charges. Different share classes may have different expenses and performance characteristics. Ranking is a relative peer group ranking and does not necessarily mean the Fund had high total returns. **Past performance is no guarantee of future results.**

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immediate threat. Commodity prices, including gold, continued to climb in anticipation of rising demand in a recovering global economy.

Investor optimism largely continued for the remainder of 2010 and carried over into the opening weeks of 2011, supported by additional signs of economic strength. However, in February 2011, political unrest in North Africa and the Middle East sparked concerns that disruptions in oil production might derail the global recovery. Investors encountered another unexpected shock in March, when catastrophic natural and nuclear disasters hit Japan, one of the world's largest economies and a key exporter of industrial components to many countries and industries. Market concerns proved short-lived, and the U.S. stock market continued to climb.

In late April, market concerns resurfaced in earnest when Greece teetered on the brink of defaulting on its sovereign debt, rekindling worries that fiscal instability might spread to other parts of Europe. In the United States, a debate regarding government spending and borrowing intensified, creating a renewed sense of uncertainty among businesses and consumers. Additionally, the Fed's latest round of quantitative easing measures labeled "QE2" officially ended on June 30, further contributing to questions around what the Fed's next move would be. Behind this backdrop, by period end, job creation in the U.S. slowed, the unemployment rate moved higher and consumers reined in spending. These setbacks sparked sharp declines in global equity markets while gold's climb continued.

How did the changing economic environment affect gold prices and gold-related stocks?

Gold prices set new records during the spring of 2011 as investors continued to flock toward the precious metal, which traditionally has been considered a hedge against inflation, political instability and currency fluctuations. Although gold prices dipped sharply in January 2011 in a temporary market correction after several months of strong gains, they soon resumed their upward climb.

Stocks of gold companies generally fared less well than commodity prices overall, particularly over the second half of the reporting period. Production shortfalls and higher input costs caused some mining companies to miss their earnings targets. In addition, investors grew concerned that upcoming investments in exploration and production of new reserves might constrain profit margins in the future. Consequently, stocks of gold producers declined, on average, over the first half of 2011 even as commodity prices hit new highs. The result, in our view, was a disparity between gold prices and gold stocks that is likely to narrow over time. Indeed, our analysis suggests that gold stocks are more attractively valued relative to gold prices than they have been for nearly three decades.

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What is your outlook?
We believe that gold prices may continue to climb until global political uncertainties are resolved. Progress made by sovereign governments toward reducing heavy debt loads may be key to the direction of the global economy and commodity prices over the longer term. In the meantime, we remain optimistic regarding business fundamentals for gold producers. Demand for the precious metal is expected to remain robust, but the supply is unlikely to increase substantially due to the high costs of finding, mining and processing new discoveries. Our ability to identify those companies that are in the best position to increase production while containing costs is central to what makes Oppenheimer Gold & Special Minerals Fund part of *The Right Way to Invest.*

The Fund is non-diversified and may concentrate holdings into fewer securities or sectors. This increases volatility. Investing in foreign securities may involve special risks (such as currency fluctuations and political uncertainties) and may have greater expense and volatility. Investments in emerging and developing markets may also be especially volatile. See the prospectus for more information on the risks associated with investing in the Fund.

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