

# A Great Rotation into Value?

By David Schassler, Portfolio Manager

## RAAX<sup>®</sup> VanEck Vectors<sup>®</sup> Real Asset Allocation ETF

### Overview

The VanEck Vectors<sup>®</sup> Real Asset Allocation ETF (“RAAX”) returned -1.51% versus +1.41% for the Bloomberg Commodity Index, -0.84% for its custom blended benchmark and -2.31% for the S&P North America Natural Resources Index.

October was yet another weak month for real asset prices due to fears of a slowdown in global growth and general market turmoil leading into the U.S. elections. RAAX’s investments in diversified commodity futures, energy, coal and gold miners were amongst the largest detractors from performance. The top performing assets were clean energy and steel equities. Gold bullion prices were modestly negative during the period.

Joseph Biden is now expected to become the 46th President of the United States and will serve with a split congress. This news sent markets rallying because the cloud of uncertainty over the elections has been removed and the threat of the “Big Blue Wave” has been stopped. The base case scenario is now that there will be no substantial changes to either taxes or regulations—a clear positive for the stock market.

#### Average Annual Total Returns (%) as of October 31, 2020

	1 Mo <sup>†</sup>	YTD <sup>†</sup>	1 Yr	Life (04/09/18)
RAAX (NAV)	-1.51	-22.85	-19.94	-7.83
RAAX (Share Price)	-1.69	-22.94	-19.96	-7.88
Bloomberg Commodity Index*	1.41	-10.85	-8.75	-6.13
Blended Real Asset Index*	-0.84	-14.72	-11.39	-3.47

#### Average Annual Total Returns (%) as of September 30, 2020

	1 Mo <sup>†</sup>	YTD <sup>†</sup>	1 Yr	Life (04/09/18)
RAAX (NAV)	-5.08	-21.67	-18.32	-7.53
RAAX (Share Price)	-5.00	-21.62	-18.36	-7.51
Bloomberg Commodity Index*	-3.35	-12.08	-8.20	-6.85
Blended Real Asset Index*	-3.57	-14.00	-9.28	-3.26

<sup>†</sup>Returns less than a year are not annualized.

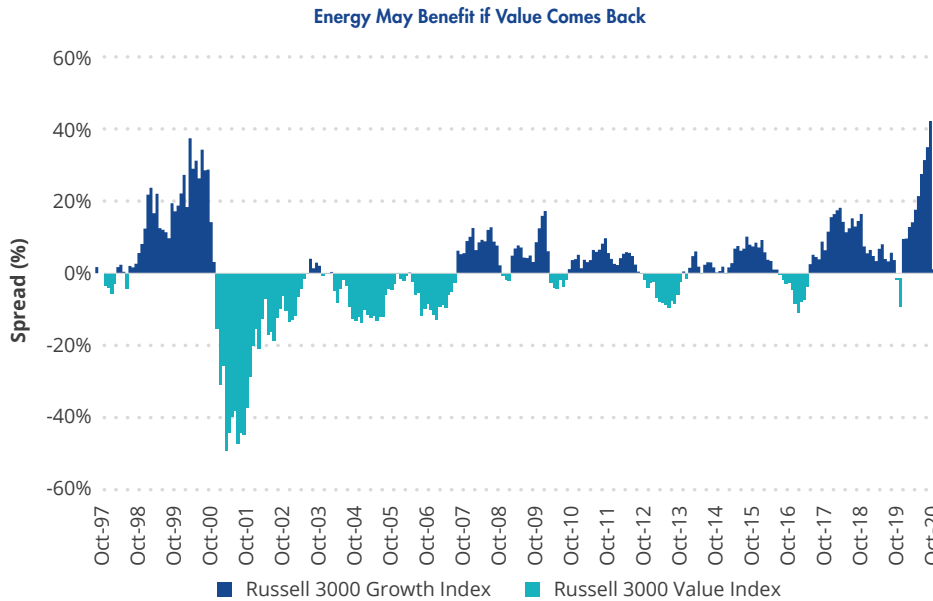
Expenses: Gross 1.13%; Net 0.75%. Expenses are capped contractually at 0.55% through February 1, 2021. Expenses are based on estimated amounts for the current fiscal year. Cap exclude certain expenses, such as interest, acquired fund fees and expenses, and trading expenses.

**The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the ETF incurred all expenses and fees, investment returns would have been reduced. Investment returns and ETF share values will fluctuate so that investors’ shares, when redeemed, may be worth more or less than their original cost.**

\*The Blended Real Asset Index is calculated by VanEck and comprises an equally weighted blend of the returns of Bloomberg Commodity Index (BCOM), S&P Real Assets Equity Index, and VanEck<sup>®</sup> Natural Resources Index. Equal weightings are reset monthly. This is an appropriate benchmark because it represents the various real assets investments considered by the Fund covering natural resources equities, MLPs, infrastructure, real estate, and commodity futures. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

Great news also came on the fight against COVID-19. Pfizer announced that its vaccine trial showed 90% effectiveness in blocking the transmission of COVID -19. A return to normalcy offers the opportunity to close the valuation gap between the growth oriented sectors, like technology, that have benefited, and cyclical industries, like energy and REITs, that have been hard hit. There are few industries that stand to benefit more than energy. On the day of the Pfizer announcement, many companies in the energy sector were up nearly 20%!

The chart below shows acceleration in the trend of growth stocks versus value stocks in 2020:



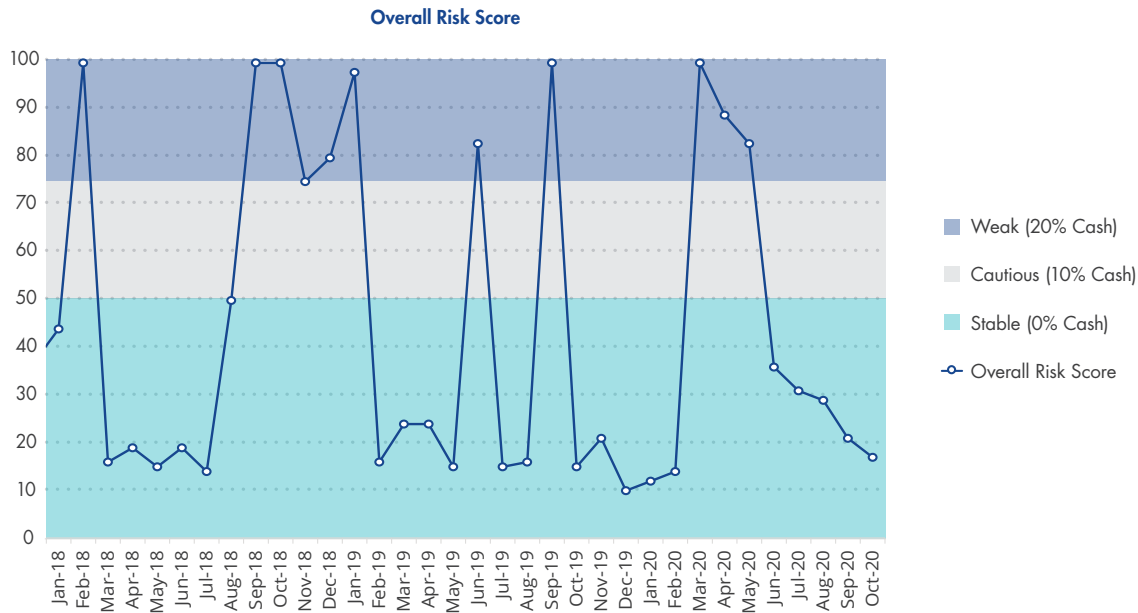
Source: Bloomberg. Data as of October 30, 2020. Charts are for illustrative purposes only. Past performance is not a guarantee of future results

As you can see, the spread between the performance of growth and value stocks has reached extremes not seen since the Technology Bubble. When that bubble popped, the markets experienced a powerful and extended period of outperformance in the value sectors. Just to be clear, we are not claiming that the growth sectors are in a bubble nor are we suggesting that prices in growth-oriented stocks will fall substantially from here. What we are however pointing out is how lopsided the market returns have been and how, we believe, value-oriented stocks, like many of the real assets in RAAX, are well positioned to perform with an effective vaccine.

There were no changes this month to the allocations within RAAX. It is maintaining a diversified allocation to real assets, including a 34% allocation to natural resource equities (including a 5% allocation to renewable energy), a 27% allocation to gold, a 15% allocation to diversified commodity futures, a 14% allocation to global infrastructure, a 5% allocation to REITs, and a 5% allocation to MLPs.

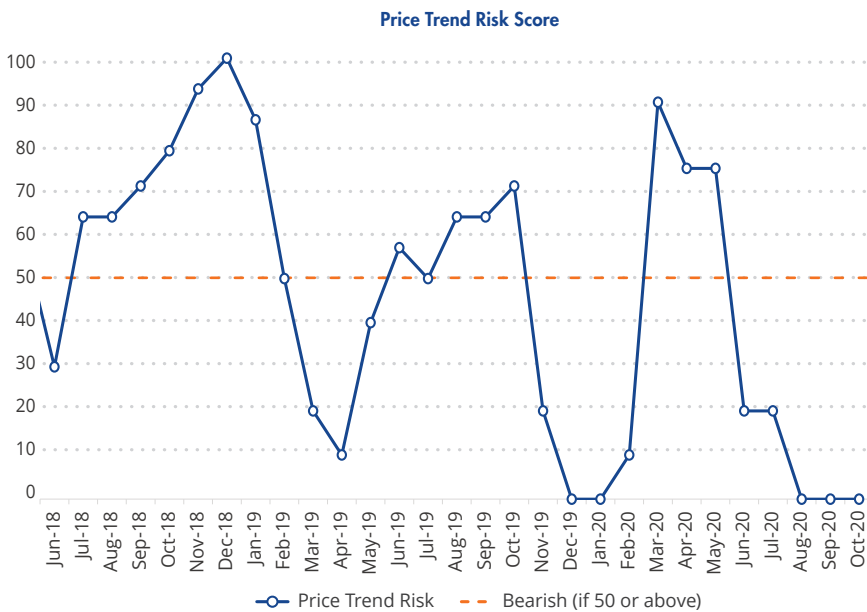
### Deeper Dive

The chart below shows the overall real asset composite. A score of 0 represents the lowest risk level and a score of 100 represents the highest risk level. A score of 60 or higher will result in our most defensive posture. The current score is 17, which indicates a stable risk regime for real assets.

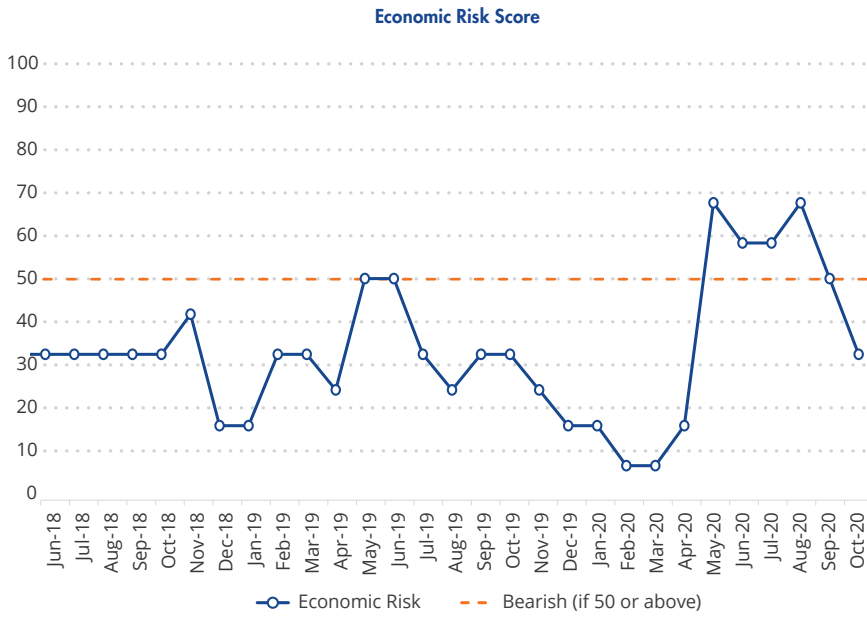


The risk score can be decomposed into key factors that drive real asset prices. These include price trends, economic activity, realized volatility and investor sentiment.

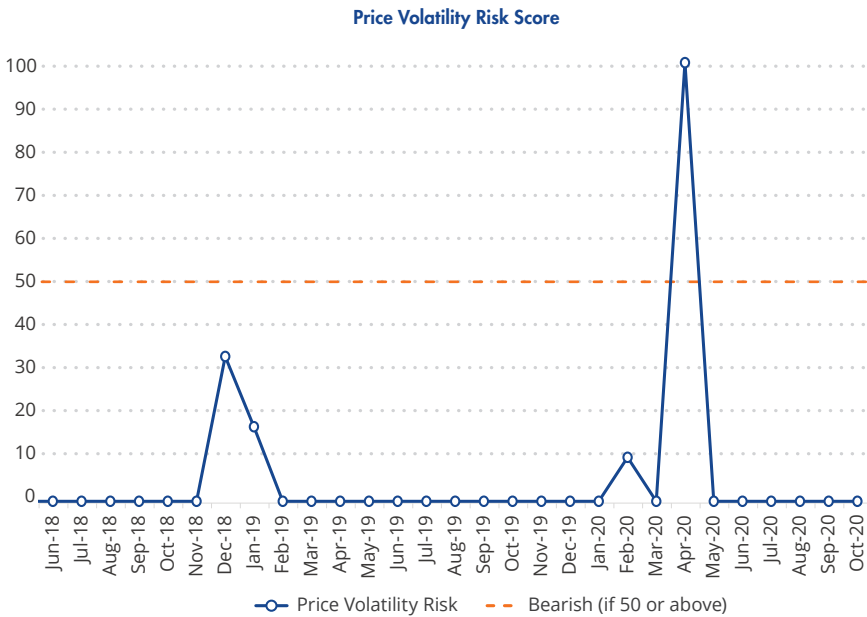
- Price trends, in aggregate, are positive. The price trends that are currently negative are in the energy sector.



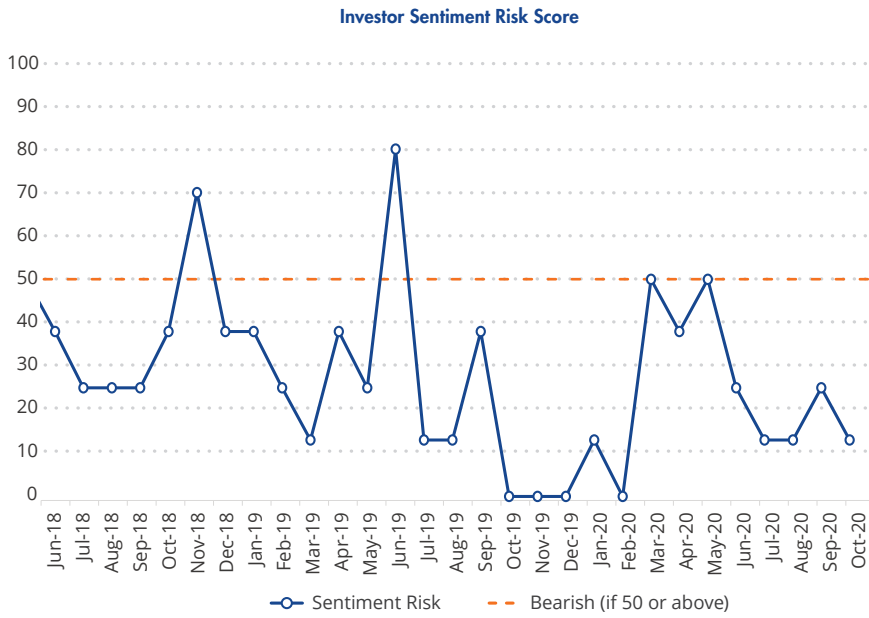
- Economic risk has subsided due to the rebound in economic activity.



- Price volatility is within normal ranges.

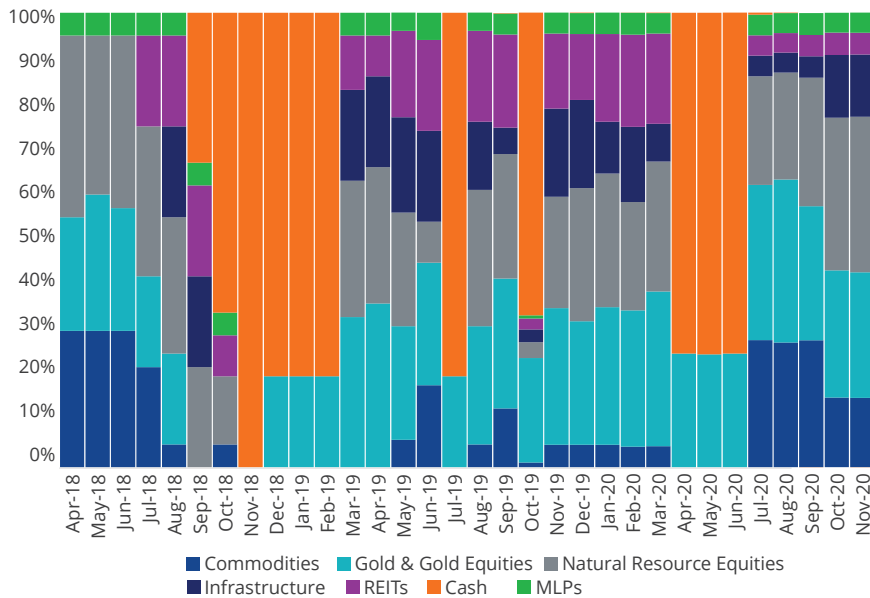


- Investor sentiment is not at an extreme.



RAAX will remain diversified and fully invested across a set of unique real asset investments, while continuing to monitor the current environment. It will adjust its allocations, if needed, to balance the risk and rewards of the asset class.

Real Asset Sector Allocations Since Inception



Real Asset Class Allocations

	Nov-20	Oct-20	Change from Previous Month	
Oil Services Equities	2.8%	2.6%	0.2%	Increase
Low Carbon Energy Equities	5.2%	5.0%	0.2%	Increase
Steel Equities	4.0%	3.8%	0.2%	Increase
Unconventional Oil & Gas Equities	2.9%	2.8%	0.1%	Increase
Agribusiness Equities	7.3%	7.2%	0.1%	Increase
Energy Equities	4.8%	4.7%	0.1%	Increase
MLPs	4.5%	4.4%	0.1%	Increase
Global Metals & Mining Equities	3.6%	3.6%	0.0%	No Change
Cash	0.0%	0.0%	0.0%	No Change
Diversified Commodities	15.2%	15.3%	-0.1%	Decrease
Global Infrastructure	13.7%	13.8%	-0.1%	Decrease
REITs	4.8%	4.9%	-0.1%	Decrease
Gold Equities	5.1%	5.3%	-0.2%	Decrease
Gold Bullion	22.5%	22.7%	-0.2%	Decrease
Coal Equities	3.7%	3.9%	-0.2%	Decrease

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The Blended Real Assets Index consists of an equally weighted blend of the returns of Bloomberg Commodity Index, S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. The S&P Real Assets Equity Index measures the performance of equity real return strategies that invest in listed global property, infrastructure, natural resources, and timber and forestry companies. The VanEck Natural Resources Index is a rules-based index intended to give investors a means of tracking the overall performance of a global universe of listed companies engaged in the production and distribution of commodities and commodity-related products and services. Sector weights are set annually based on estimates of global natural resources consumption, and stock weights within sectors are based on market capitalization, float-adjusted and modified to conform to various asset diversification requirements. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. The S&P 500® Index (S&P 500) consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation).

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The Solactive MLP & Energy Infrastructure Index tracks the performance of MLPs and energy infrastructure corporations. The MVIS US Listed Oil Services 25 Index is intended to track the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, which include oil equipment, oil services, or oil drilling. The Dow Jones Equity All REIT Index, designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. The NYSE Arca Gold Miners Index is a modified market capitalization-weighted index composed of publicly traded companies involved primarily in the mining for gold. The Index is calculated and maintained by the New York Stock Exchange. The S&P® North American Natural Resources Sector Index: a modified capitalization-weighted index which includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. The S&P® GSCI Total Return Index is a world production-weighted commodity index comprised of liquid, exchange-traded futures contracts and is often used as a benchmark for world commodity prices.

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. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

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