

The Superlative Impact of Supermajors

By Joe Foster, Portfolio Manager

VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Fund Review

The International Investors Gold Fund's Class A shares (the "Fund") returned 7.97% for the one month period ending January 31, 2019 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)¹ returned 7.48% for the same period.

Average Annual Total Returns (%) as of January 31, 2019

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	7.97	-10.06	-0.11	-0.33
Class A: Maximum 5.75% load	1.72	-15.26	-1.29	-0.92
GDMNTR Index	7.48	-3.58	0.34	-2.92

Average Annual Total Returns (%) as of December 31, 2018

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	11.77	-15.99	0.57	-0.81
Class A: Maximum 5.75% load	5.35	-20.81	-0.61	-1.39
GDMNTR Index	10.77	-8.55	0.95	-3.52

The tables above 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 from index constituents have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

[†]Monthly returns are not annualized. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/19 at 1.45% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Market Review

Gold spent most of January consolidating December's gains in the \$1,280 to \$1,295 per ounce price range. On January 25, gold moved through the psychologically important \$1,300 level as markets began to anticipate an earlier-than-expected end to the Federal Reserve's (Fed's) bond portfolio sales. The market's suspicions were confirmed on January 30 when Fed comments following the Federal Open Market Committee (FOMC) meeting stated that it is prepared to alter the size of its balance sheet if conditions warrant a more accommodative policy. This suggests the Fed is, indeed, in "pause" mode, and that future market and economic conditions will determine whether the next move is to revert back to easier crisis-era policies. As a result, gold advanced to a nine-month high to end January with a \$38.76 (3.0%) gain at \$1,321.20. Junior miners also gained, with the MVIS Global Junior Gold Miners Index(MVGDJTR)² up 9.5%. Mining news was dominated by the Newmont Mining Corporation-Goldcorp Inc. merger (5.8% and 2.2% of net assets, respectively*), which is discussed later in this commentary.

While the Fed is clearly concerned about the health of the U.S. economy, reports released elsewhere in January show mounting concerns globally as well. China's Caixin manufacturing survey³ posted a contraction reading, German industrial production fell 4.7% year-on-year, while France's annual GDP growth slowed to 1.5%. The Organization for Economic Co-operation and Development (OECD) Composite Leading Indicator suggests 2019 global growth is losing momentum. On January 28, the European Central Bank (ECB) president said the central bank is ready to use all its policy tools to support Europe's softening economy.

While the U.S. dollar index (DXY)⁴ fell slightly in January, it has not relinquished its 2018 gains due to the growing economic weakness outside the U.S. Accordingly, the gold price advanced across most local currencies as well as the U.S. dollar in January. This is historically safe haven⁵ behavior when investors sense increasing financial risks globally.

The World Gold Council reported that central banks purchased net 651 tonnes of gold in 2018, the second highest total on record. Central banks have been net purchasers of gold since 2010 as more countries are finding a need to diversify their paper currency reserves. China was a consistent buyer earlier in the decade, but has not reported any purchases for nearly two years. However, China reported an increase in gold reserves of approximately 10 tonnes in December. It remains to be seen if this signifies a resumption of regular Chinese buying.

Market Outlook

Central banks are out of the time needed to normalize policies as they make preparations to stimulate the economy through the next recession. It looks like the new normal is a Fed funds rate⁶ that has peaked at just over 2% and a balance sheet that bottoms at \$4 trillion. Meanwhile, the ECB can't get its policy rate above negative 0.4% after purchasing \$3 trillion of bonds. What will the financial system look like when the Fed funds rate is zero (or less), fiscal deficits exceed \$2 trillion annually, and the Fed bond hoard tops \$10 trillion? We may find out in 2020.

The recent shift in Fed policy was the catalyst that moved gold through its first significant price hurdle of the year, past \$1,300. It is looking like gold could now test the much more formidable \$1,365 level that has acted as a price ceiling for five years now. If further fundamental risks develop around Brexit, the economy, or the stock market, then perhaps gold and gold stocks finally move into a higher price range.

The structure of the gold industry has changed with the announcement of a second blockbuster merger in January. The first was the Barrick Gold Corporation-Randgold Resources (6.6% of net assets*) combination announced last September. Not to be outdone by Barrick, Newmont announced plans to acquire fellow senior producer Goldcorp in an all-stock deal valued at \$10 billion to create the world's largest gold company. Like Barrick, Newmont intends to sell non-core mines to focus on a smaller portfolio of larger, higher quality properties. However, the new Newmont will have 21 mines (Barrick has 13), so integrating Newmont with Goldcorp will be a challenge.

The current management of Goldcorp was a disappointment. Since taking charge of the company three years ago, they have missed earnings expectations half of the time and the stock has underperformed the GDMNTR by 72%. As a result, Newmont is acquiring an excellent suite of assets at a discount and Goldcorp shareholders will get the quality management they have long been waiting for.

There are a number of implications this transaction will have on the industry that we find interesting:

- These mergers create an exclusive class of majors that no other company or combination of companies will be able to replicate. Supermajors Barrick and Newmont will produce between five million and eight million ounces per year. Majors Agnico-Eagle Mines Ltd. (4.8% of net assets*), Kinross Gold Corporation (2.2%*), Newcrest Mining Ltd. (1.0%*), AngloGold Ashanti (not owned), and Gold Fields Ltd. (not owned) have production ranging between two million and four million ounces per year. The supermajors will have unmatched economies of scale and the liquidity to attract the largest institutional investors.
- These aren't your father's gold companies. Today's companies have a streamlined management structure, proper incentives, and the experience of past mistakes to drive value creation. Nonetheless, execution will be challenging for these two behemoths.
- In the gold industry, bigger isn't necessarily better. From 2001 to 2015, we were underweight or avoiding Barrick and Newmont because they had become too big and unwieldy to create value. History has shown that acquisitions often don't pay off, and having too many mines becomes difficult for a company to manage. A number of mid-tier CEOs have commented that six to eight mines are optimal.
- Past cycles saw majors merge to get bigger. This cycle they are merging to become more profitable. The managements of Newmont and Randgold believe they can instill proven management structure, efficiencies, and technology in their new companies. They are also looking to divest mines that don't meet their return hurdles. If successful, they will be smaller (though still supermajors), more profitable companies in a couple of years.
- There are roughly ten mines between the two supermajors with values ranging between \$100 million and \$1 billion that are now up for sale. The potential buyers are the majors and mid-tiers. We know many examples of aging mines that were neglected or undercapitalized, but later became successful core properties after being sold to a smaller company. We hope to see more win-win transactions that bring a source of growth and value creation to the majors and mid-tiers.

Newmont and Barrick are now in the top five holdings in our portfolio.* Through the low gold prices of the past six years, we have seen financial, operating, and capital discipline that we believe is here to stay. Corporate structures are flatter and more responsive. We expect the supermajors to create value and set new standards for the industry.

*All company, sector, and sub-industry weightings as of January 31, 2019 unless otherwise noted.

Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²MVIS Global 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. ³China's Caixin manufacturing survey is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private manufacturing sector companies. ⁴U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. ⁵A safe haven is an investment that is expected to retain or increase in value during times of market turbulence. Safe havens are sought by investors to limit their exposure to losses in the event of market downturns. ⁶The federal funds rate ("the interest rate") is a rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis.

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

NYSE Arca Gold Miners Index is a service mark of ICE Data Indices, LLC or its affiliates ("ICE Data") and has been licensed for use by VanEck Vectors ETF Trust (the "Trust") in connection with VanEck Vectors Gold Miners ETF (the "Fund"). Neither the Trust nor the Fund is sponsored, endorsed, sold or promoted by ICE Data. ICE Data makes no representations or warranties regarding the Trust or the Fund or the ability of the NYSE Arca Gold Miners Index to track general stock market performance.

ICE DATA MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE NYSE ARCA GOLD MINERS INDEX OR ANY DATA INCLUDED THEREIN. IN NO EVENT SHALL ICE DATA HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

MVIS Global Junior Gold Miners Index (the "Index") is the exclusive property of MV Index Solutions GmbH (a wholly owned subsidiary of Van Eck Associates Corporation), which has contracted with Solactive AG to maintain and calculate the Index. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards MV Index Solutions GmbH, Solactive AG has no obligation to point out errors in the Index to third parties. The VanEck Vectors Junior Gold Miners ETF (the "Fund") is not sponsored, endorsed, sold or promoted by MV Index Solutions GmbH and MV Index Solutions GmbH makes no representation regarding the advisability of investing in the Fund.

Please note that the information herein represents the opinion of the author, but not necessarily those of VanEck, and this opinion may change at any time and from time to time. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. 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. Any graphs shown herein are for illustrative purposes only. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck.

About VanEck International Investors Gold Fund: 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, or political, economic or social instability. The Fund is subject to risks associated with investments in Canadian issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, gold-mining industry, derivatives, emerging market securities, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

Diversification does not assure a profit or protect against loss.

Fund shares are not individually redeemable and will be issued and redeemed at their net asset value (NAV) only through certain authorized broker-dealers in large, specified blocks of shares called "creation units" and otherwise can be bought and sold only through exchange trading. Shares may trade at a premium or discount to their NAV in the secondary market. You will incur brokerage expenses when trading Fund shares in the secondary market. Past performance is no guarantee of future results.

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 a Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

©2019 VanEck.



Van Eck Securities Corporation, Distributor

666 Third Avenue | New York, NY 10017

vaneck.com | 800.826.2333