VanEck FUNDS

Navigating The "New Norm" In Natural Resources

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VanEck Global Hard Assets Fund

GHAAX / GHACX / GHAIX / GHAYX

Market Review

By the end of the quarter, the seeming glimmers resulting from greater political certainty in the U.K., a reduction in trade fears, the appearance of some "green shoots" of growth in China and a deemed "bottoming" in most long-term economic indicators, together with a weaker U.S. dollar, had been totally extinguished by both the COVID-19 pandemic and, going all the way back to 1927, the fastest major market decline—peak to trough—in the entire history of the United States stock market.

Within the natural resources space, this quarter, it has really only been a story of two areas: gold and crude oil. Gold has been the only commodity to receive any real benefit from the turmoil that has hit both the world's financial markets and its populations, outperforming most asset classes so far in the market sell-off. While gold mining stocks have roughly tracked the broader stock market through the crash to date, this is normal gold equity performance in a crash and the drawdowns so far are less than that seen in 2008. We expect gold stocks to rise to reflect the underlying strength in the gold price once the panic has subsided and companies are able to return to full production. The portfolio's gold exposure, at roughly 20%, is the highest it has been in years.

As at the end of the quarter, gold mining had only encountered a marginal impact from the pandemic. The miners were adhering to the health and safety protocols with which we have all become familiar. By that time (there have, subsequently, been changes since quarter-end), only a handful of countries that had declared lock-downs had included mining as "non-essential" business.

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

	1Q20†	YTD	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/2/94)	-40.01	-40.01	-40.93	-15.12	-8.33
Class A: Maximum 5.75% load	-43.46	-43.46	-44.32	-16.11	-8.87
SPGINRTR Index[1]	-43.90	-43.90	-43.21	-11.91	-4.35
M2WDCOMP Index[2]	-38.68	-38.68	-38.44	-5.92	-4.25

The table presents 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 Net Asset Value (NAV). Index returns assume that dividends from index constituents have been reinvested. Investing involves risk, including possible loss of principal; please see disclaimers on the last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

†Quarterly returns are not annualized. Expenses: Class A: Gross 1.59%; Net 1.38%. Expenses are capped contractually until 05/01/21 at 1.38% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Bank of America Global Research estimates in a March 30 reported that 9% of global mine output had been temporarily idled.

However, most gold mines have maintained production and we don't know of any so far that have been shut down due to the coronavirus outbreak. We believe gold miners are better positioned than many industries to handle this crisis. Mines are typically in remote areas, away from coronavirus hot-spots.

Many are in Africa and have experience navigating AIDS and Ebola epidemics while safeguarding employees and sustaining production. The sector is financially strong with low debt and strong cash flow. A BMO Capital Markets universe of 27 major and mid-tier producer have an average net debt/EBITDA (earnings before interest, tax, depreciation and amortization) of 0.34, compared to an average of 1.78 for S&P 500 companies. March 2020 Scotiabank estimates also indicate all-in sustaining costs averages of roughly $950 per ounce and drastically lower fuel prices should work to offset other cost pressures this year, in our view.

Unfortunately, the exact opposite has been true for crude oil. Oil has essentially been hit by a triple "black swan" event. Obviously, there is COVID-19, with its potentially long-lasting demand impact, and the OPEC+ supply issue, which started back in early March when Saudi Arabia and Russia could not come to terms on production cuts. But, then here is also the issue of energy transition, which started years ago and really began to ramp up this January with a letter from BlackRock CEO, Larry Fink, stating that the $7 trillion manager would be upping its sustainability initiatives and divesting from its more carbon-intensive assets. In over 30 years in the traditional energy and oil markets, I cannot remember a time when things have been anywhere close to as negative as they are now for this space.

Performance & Positioning

Continuing a process that had, in fact, started over a year and half ago, and in anticipation of severe and prolonged crude oil demand degradation associated with COVID-19, the portfolio's exposure to U.S. E&P companies was trimmed further during the quarter. At the same time, due to warm winter temperatures we lowered the portfolio's exposure to natural gas and used those proceeds to increase the portfolio's exposure in renewable energy.

While the portfolio exposure to oil is now the smallest it has ever been, within the energy sleeve broadly, the team continues to focus primarily on companies in top tier locations with consistent operational and safety track records and strong balance sheets, which we believe translates into sustainable free cash flow generation. In this current environment, we believe these companies will be the ones that can proactively and successfully adapt to rapidly changing macroeconomic conditions.

Gold exposure is near the highest it has been, historically as 1) gold stocks can act as a hedge and have often rebounded faster than the broader market during recoveries, and 2) gold producers with low net debt capable of generating strong free cash flow could be at a distinct advantage in this regard.

Top Quarterly Contributors/Detractors

Holding (% Weight)	Estimated Contribution (%)	Performance Drivers
Union Pacific (1.09%)	0.14	Benefits of precision scheduled railroading
BHP (1.03%)	0.14	Strong operational performance
Kansas Southern (1.02%)	0.10	Benefits of precision scheduled railroading
Anglo American (2.57%)	-1.88	Forced closures due to COVID-19
Diamondback (1.40%)	-2.32	Victim of turmoil in crude oil market
Parsley (1.37%)	-2.35	Victim of turmoil in crude oil market

Source: FactSet; VanEck. Data as of March 31, 2020. Contribution figures are gross of fees, non-transaction based and therefore estimates only. Figures may not correspond with published performance information based on NAV per share. Past performance is not indicative of future results. Portfolio holdings may change over time. These are not recommendations to buy or sell any security.

Outlook

It has been a historically challenging environment for natural resources and, while it is impossible to predict where we might be in either one quarter's or, indeed, one year's time, we do believe that opportunities still exist within the space.

While the unprecedented demand shock is hitting all commodities, consumption and prices of agricultural goods, gold and alternative energy assets are expected to be more resilient over the near term.

We believe the massive, coordinated global monetary and fiscal stimulus is likely to impact global demand beyond the extent of the current virus. On the other hand, capital expenditures on new supply have evaporated. Combined, this suggests that the supply/demand imbalance in place today may stabilize quickly, returning many commodity prices back to near pre-crisis levels. We see potentially compelling equity values given this outlook.

We also believe that identifying and investing in companies with the strongest fundamentals is even more vital right now. Many of the companies and industries we follow have spent the last several years restructuring their business models and strategy such that they entered this crisis with secure balance sheets, lower operating costs, and improving returns on/of capital (i.e., dividends and share repurchases) and thus are positioned to weather the current environment.

I should like to finish by echoing the sentiments of Jan van Eck, the firm's CEO, and convey my wishes for the best to all and their families during this difficult time. And to say that we remain extremely grateful for the millions of healthcare and other essential workers out there who continue to battle on the frontlines of this global pandemic on a day-to-day basis. Thank you.

*All company, sector, and sub-industry weightings as of March 31, 2020 unless otherwise noted. This is not an offer to buy or sell, or a solicitation of any offer to buy or sell any of the securities mentioned herein. Fund holdings will vary.

All indices listed are unmanaged indices and include the reinvestment of 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. [1]S&P North American Natural Resources Sector (SPGINRTR) provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS® energy and materials sector excluding the chemicals industry; and steel sub-industry. [2]MSCI ACWI Commodity Producers Index (M2WDCOMP) is a free float-adjusted market capitalization index designed to reflect the performance of listed commodity producers across three industry (or sub-industry) categories as defined by the Global Industry Classification Standard: energy, metals, and agriculture.

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