

Natural Resources Lifted By Trade, Growth Optimism

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VanEck Global Hard Assets Fund

GHAAX / GHACX / GHAIK / GHAYX

Market Review

Commodities and natural resource equities faced a number of headwinds leading up to October as fears around slowing growth in China and a strong U.S. dollar created less than ideal conditions for the space. As the quarter progressed, these were joined by concerns around Brexit (and what it might mean for an already weak Europe) and evolving political events in the U.S.

However, by the end of December, greater political certainty in the U.K. following their general election, the waning of U.S./China trade fears, the appearance of some “green shoots” of growth in China and an apparent bottoming in most global long-term economic indicators helped to mitigate aforementioned concerns and to lift the market more broadly.

Crude oil experienced a choppy yet, eventually, positive quarter. Following a painful two-month stretch prior to December, there was at least some reprieve to end the year as prices strengthened on the back of further OPEC+ production cuts and (likely) benign effects of the Saudi Aramco IPO. WTI rose nearly 13% over the quarter to close the year at \$61.06 a barrel.

In our view, and by and large, shale oil and gas companies remained financially prudent and continued to optimize around free cash flow generation during the quarter. This was reflected, once more, in the declining U.S. oil and gas rig count which, according to Baker Hughes, fell over 6% (from 860 to 805), ending the year down nearly 26%.

We also saw further consolidation within the space during the quarter, including with Parsley Energy Inc.’s (4.18% of Fund net assets*) acquisition of Jagged Peak Energy in an all-stock

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

	4Q19 [†]	YTD	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/2/94)	8.72	11.64	11.64	-5.83	-3.16
Class A: Maximum 5.75% load	2.46	5.20	5.20	-6.93	-3.73
SPGINRTR Index ¹	7.47	17.63	17.63	-1.41	1.39
M2WDCOMP Index ²	7.76	13.86	13.86	2.85	0.57

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.

transaction, as well as in mid-December with Permian basin operator WPX Energy, Inc.’s (1.93% of Fund net assets*) announced purchase of privately-held, Denver-based Felix Energy in a \$2.5 billion deal. For both Parsley and WPX, the deals were viewed not only as additive from an acreage standpoint, but also from a financial perspective as Parsley greatly enhanced its 2020 free cash flow and WPX Energy was able to initiate a dividend and accelerate its financial metrics.

Stressed by trade woes, the slowdown in global growth, and a number of operational concerns at individual companies, copper and aluminum essentially found a second bottom in October. Thereafter, each finished the quarter stronger. Nickel, on the back of weakening stainless steel demand, and lead ended significantly down on the quarter while zinc ended the quarter down only slightly.

For most of the fourth quarter, gold consolidated its 2019 gains. However, it trended higher in the last two weeks of the year, suggesting, perhaps, a resumption of the bull run that we saw in the rest of 2019. Among gold mining companies, consolidation during the quarter – in the form of seven mergers and acquisitions (M&A) deals involving 12 companies – was at possibly the highest levels we have ever seen in just two months. Four of the deals were asset sales, with mid-tier companies buying non-core mining properties located in Canada, Australia and Senegal. The remaining three deals were mergers or acquisitions, each with a different deal structure.

The performance of both grains and proteins were lackluster during the quarter, impacted by the restrictions associated with the ongoing trade impasse between the U.S. and China. On the fertilizer front, unharvested acres and poor weather resulted in reduced applications post-harvest. Somewhat surprisingly, perhaps, recent oversupply – particularly of potash – actually to some shuttering of production.

Performance & Positioning

On an absolute basis, our positions in oil and gas exploration and production, gold and copper were the largest contributors to returns during the quarter. The largest absolute detractors were our allocations to electrical components and equipment (solar energy) and fertilizers and agricultural chemicals.

In terms of portfolio positioning, the only really notable change in the fourth quarter was within our diversified metals and mining allocations where we exited our position in Glencore (following its latest announcement of a bribery investigation initiated by U.K.'s Serious Fraud Office) and initiated a position in Lundin Mining (1.07% of Fund net assets*). Lundin Mining is attractive to us for several reasons—predominately its solid production growth and pivot towards lowering capex in favor of returning capital to shareholders.

We also established new positions in IPG Photonics Corp. (1.03% of Fund net assets*) and Allusa Energy (0.44% of Fund net assets*) during the quarter. IPG Photonics is a quality play on, what we believe to be, the undervalued industrial laser

market, with high-powered laser applications and attractive product moat and margins. Allusa Energy is Special Purpose Acquisition Company (SPAC) IPO we participated in, in part for the opportunity to diversify our energy portfolio into international exploration names.

Top Quarterly Contributors/Detractors

Holding (% Weight)	Estimated Contribution (%)	Performance Drivers
Anglo American (3.79%)	0.87	Boosting capital return; platinum/palladium exposure
Concho (3.31%)	0.82	Investor confidence in current drilling program
Pioneer (3.99%)	0.76	Positive response to return of capital efforts
Viper Energy (1.13%)	-0.14	Conservative guidance due to potentially slowing activity
Glencore (0.00%)	-0.15	Increasingly serious governance concerns
Sunrun (1.95%)	-0.37	Investor profit taking; labor inflation

Source: FactSet; VanEck. Data as of December 31, 2019. 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

Energy

Despite a year when returns from traditional energy equities failed to match those of broader markets, there are several notable, but perhaps poorly appreciated, features worth highlighting that may substantiate a more positive view of the industry. Refrains of impeding global economic weakness aside, crude oil demand continues to grow steadily and hit record levels, with consumption growth in the fourth quarter of 2019, alone, estimated to surpass 2018's fourth quarter growth figures by nearly 2 million barrels per day.

This comes at a time when physical crude supply has seemingly never been more at risk of disruption due to political conflicts. Take, for example, the September attacks on both Saudi Arabia's largest oil-processing center at Abqaiq and its Khurais oil field. While this represents just one such case, OPEC nations representing nearly 75% of the organization's November 2019 production and approximately 22% of global output are in the throes of existential crises. Saudi Arabia, Iraq, Iran, Nigeria, Libya, Algeria, Venezuela and Ecuador have all suffered significant disruptions to their production and almost all continue to face the threat of future physical interruptions due to political disarray.

Meanwhile, the U.S. has catapulted into being the largest oil producer in the world, creating cheap, reliable and secure energy to fuel the global economy. At the same time, the most successful players in U.S. shale oil production are beginning to generate sustainable returns of capital to shareholders after years of investment spent predominately on growth. To us, these factors provide more than adequate justification for a valuation re-rating for these successful U.S. shale companies—and one that is more in-line with their industrial peers.

Gold

We believe that there are several reasons for continued optimism for both gold and gold equities in 2020. The interest rate environment has become very supportive of gold prices. Real rates on one-year treasuries turned negative in 2019. The Fed cut rates three times last year and, while on hold at the moment, might continue the rate cutting cycle later in 2020.

And yet, despite higher gold prices, the overall message from gold mining companies has been one of sound business fundamentals. Companies have utilized free cash to reduce debt further, while others are deciding on proper dividend policies. A priority has also been placed on organic growth through brownfields expansion and/or increasing reserve lives, and avoiding the main source of value destruction that plagued them during the last gold bull market cycle when companies overpaid for acquisitions and developed properties that required too much capital. Given this expressed prudence, we therefore believe that profit margins have the potential to grow alongside gold prices.

Diversified Mining

We anticipate broader themes in the diversified mining sector to center around company managements' continued focus on margins (versus volume) and the threat to supply growth.

Industry capex is expected to be between \$25b to \$30b in 2020 (versus a peak of nearly \$80b in 2011), with a fairly even split between growth and sustaining capex. Across the pipeline, inventories also appear low. Therefore, we believe any shock to the supply side (such as labor strikes or seasonally inclement weather) could be exponentially challenging for supply and supportive for prices.

From the demand perspective, the threat of ongoing trade wars is the single largest risk. Chinese demand for metals remains solid, as does underlying industry-specific trends, such as with the anticipated, accelerated demand growth of copper, cobalt and nickel for use in decarbonization and electrification.

Key drivers and catalysts in the sector remain a reduction of net debt levels, a return of capital to shareholders and increased application of technology (big data) to improve operating efficiencies. Addressing Environmental, Social, Governance (ESG) issues will also be key as, to date, the industry has done a relative poor job of sharing information. For example, most investors are not aware of the industry's track record of building hospitals and schools, providing axillary job training and job creation, improving worker safety and diversity, and of achievements in mine reclamation and nature conservation.

Agriculture

We believe that lower crop prices, shifting supply chains and reopened geographies present ample, albeit uneven, opportunities across the sector in 2020. Our conversations with farmers, agronomists and seed and fertilizer distributors point to flat corn and lower soybean prices in 2020 as more planted acres in the U.S., and aggressive seed pricing from mid-sized independent seed distributors, offset the positive effects from increasing global demand. These flat to low crop prices tend to spell good news for diversified protein producers, who utilize both corn and soybean as feed for chicken, cattle and hogs. Lower feedstock prices, combined with the cascading effects of African Swine Fever in China/Southeast Asia and China's lifting of its 2015 ban on U.S. poultry imports, should provide substantive tailwinds for protein producers in 2020.

Though the impact of African Swine Fever is hard to quantify, China has accelerated its protein imports amid surging domestic pork prices. Likewise, the USDA forecasts that restored market access with China should allow U.S. poultry producers to export more than \$1 billion worth of poultry products to the country annually (double the amount of poultry exports before the ban went into effect).

*All company, sector, and sub-industry weightings as of December 31, 2019 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.

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