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Gold Opportunities in the Outback

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VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

Gold reacts to Fed, dollar strength

Gold gave back some of its July gains during the month of August. The markets continue to focus on the U.S. Federal Reserve's (Fed's) path. Indications that Fed policy may remain tighter for longer, with the potential for another hike this year, supported a stronger dollar and higher bond yields, putting pressure on gold prices. The U.S. Dollar Index (DXY)[1] was up 1.7% in August, and the U.S. 10-year treasury yield touched a high of 4.34%, its highest level since 2007. Gold fell below $1,900 per ounce, trading at a low of $1,889 on August 18, with persistent outflows out of gold bullion exchange traded funds during the month. But once again, gold showed resilience climbing back above $1,900 only a week later. Towards month-end, reported declines in U.S. consumer confidence and job openings reduced the implied probability of a Fed hike this year. With treasury yields and the dollar easing, gold found some support to close at $1,940 per ounce on August 31, posting a loss of $25 per ounce (-1.3%) for the month.

Gap remains for gold miners

The NYSE Arca Gold Miners Index (GDMNTR)[2] and the MVIS Global Juniors Gold Miners Index (MVGDXJTR)[3] were down 6.2% and 3.7% respectively during the month. The smaller gold companies outperformed their larger peers; however, the valuation gap between gold equities and gold bullion widened further. Gold prices are up 6.4% year to date, yet the GDMNTR is up only 2.7%. We have been stressing both that the equities are trading at a discount relative to gold, and that they are trading at historically low multiples. An analysis by Paradigm Capital for a universe of large and intermediate gold producers, found that based on consensus expectations, gold miners are trading at a 2024 EV/EBITDA* ratio representing about a 35% discount to their 10-year historical average.**

Average Annual Total Returns (%) as of August 31, 2023

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-4.27	21.85	9.50	1.52
Class A: Maximum 5.75% load	-9.77	14.85	8.21	0.92
GDMNTR Index	-6.23	2.65	11.04	1.65

Average Annual Total Returns (%) as of June 30, 2023

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-2.20	12.27	6.15	3.84
Class A: Maximum 5.75% load	-7.82	5.82	4.90	3.22
GDMNTR Index	-2.48	11.14	7.55	3.28

Source: VanEck

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

The "Net Asset Value" (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. Investors should not expect to buy or sell shares at NAV.

† 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 1.42%; Net 1.42%. Expenses are capped contractually until 05/01/24 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.

For reference, the S&P 500 Index[4] is trading at a 2023 EV/EBITDA ratio that is over 10% above its 10-year average, and even with estimates coming down for next year, 2024 EV/EBITDA consensus ratio is right in line with the 10-year average. With gold prices near all-time highs, we think investors should take a hard look at gold mining equities and consider the sector's potential for future stock price appreciation, as compared to other industries.

On the road in Australia

We recently had the opportunity to travel across the continent of Australia. Given the distance travelled, we made sure to maximize the trip by visiting as many operations and meeting with as many companies as we could fit in. We met with the management teams of eight companies and toured six major gold mining operations, including open pit and underground mines. We could not help but be impressed with the size and scale of some operations (e.g., Boddington), and the richness in grade of others (e.g., Bellevue and Fosterville). Across the board we noticed a focus on the latest technology, mining techniques and efficiencies, as well as a laser-like focus on Environmental, Social and Governance (ESG)-related subjects. In our view, Australia remains a leading mining jurisdiction, both in terms of potential and investability (currently, based on company reserves, Australia represents approximately 15% of the portfolio's total exposure). Key issues that we discussed with management teams include: the focus on de-carbonizing energy usage; skilled labor shortages; and the role of technology in mining to reduce costs, improve efficiency and make mining safer for workers.

For context, Australia was the second (tied with Russia, and only slightly behind China) largest producer of gold in 2022 – mining over 10% of the world's annual supply according to the United States Geological Survey.[***] On a reserve basis, the country is reported to have over 16% of the world's in-ground gold. During our trip, we visited mines representing approximately 22% of Australia's annual gold output. Increased exploration efforts, regional consolidation leading to efficiencies of scale, continued focus on optimization and cost control along with historically high gold prices should contribute to a vibrant gold mining industry for the foreseeable future.

Here are some of the key takeaways from our trip:

- **While raw material input prices now appear to be receding, skilled labor shortages in Australia continue to impact both costs and volumes, despite the reversal of COVID-related impacts last year.**
    - High bulk material prices (iron ore, coal, lithium) and government funded project stimulus have sharply increased competition for skilled labor. This has led to higher wages in the mining industry as companies raise salaries to retain or attract talent, including for those candidates coming right out of university. Anecdotally, we heard that a salary of A$150,000 for a junior engineer is not uncommon.
    - Fly-In-Fly-Out operations, largely in Western Australia (e.g., Bellevue and Gruyere), facilitate 'mercenary' type labor behavior. For example, miners, mechanics and engineers based near Perth, can chase the highest compensation without having to move or relocate their families.
    - Operations located within driving distance of major population centers (e.g., Boddington, Fosterville) benefit both from lower labor rates and lower turnover.
    - Gold miners are attempting to meet this labor challenge through aggressive recruiting/hiring, training of recent university graduates in adjacent fields (such as civil engineering) and through automation and technology.
- **Australia leads the industry in technology, with remote control and automated vehicle adoption set to drive continuous improvement in costs, production and safety.**
    - At Fosterville and Cowal, we had the opportunity to visit the control room and observe above-ground operators controlling vehicles operating underground. This technology is deployed when ground conditions present a safety concern for workers and utilized during shift changes to smooth operations and maximize volumes.
    - The most striking technology adoption we witnessed was at Newmont's (3.60% of fund net assets) Boddington operations. There, we saw the largest automated haul fleet in the gold industry. Boddington is currently operating 35 fully automated Cat® 793 (400 ton) haul trucks and expects to increase the fleet to 40. The full benefits realized by Boddington's automated fleet compared to a conventional fleet have yet to be quantified, but we expect the gains to be significant.
    - At Gruyere, a 50/50 Joint Venture between Gold Fields (0.41% of fund net assets) and Gold Road (not held), management is considering automating their drill fleet to both gain efficiencies and to reduce labor costs. Operations have been recently hampered by a lack of drilling capacity.
    - At Fosterville and Boddington, vehicles are monitored and tracked at all times, including vehicles operating underground, which is something we have not seen before. While this should clearly benefit safety performance, we would also expect improved operating performance and longer equipment life.
- **Throughout Australia, we noticed an emphasis on ESG, and specifically, on the mandate to reduce greenhouse gas (GHG) emissions. Gold producers are aggressively pursuing energy efficiency and alternative power generation (largely solar and wind) to achieve near-term 2030 targets using currently available technology.**

- The Australian mining industry is generally well positioned to invest in these non-petroleum sources of power due to remote operations currently relying on self-owned, high-cost diesel power generation. The existing diesel power (a sunk cost) has the benefit of supplementing alternative, but intermittent solar and wind generation.
- Power investment decisions benefit from the generally long lives of mining operations, low-cost land availability, declining cost of solar, availability and increasing size of battery storage capacity.
- During our recent trips to both Australia and West Africa, we witnessed current or soon to be installed solar power capacity - incentivized by a combination of diesel price volatility and falling cost of alternative energy projects, as well as the low reliability and/or high cost of grid power.
- We visited a fully operational solar farm at Gold Fields' Gruyere joint venture. The company appears to be emerging as a leading player in this area, with existing or planned solar and/or wind power generation across its Australian and South African operations.
- Longer-term full de-carbonization challenges remain, as electrification solutions do not yet exist for large haul trucks and long hauls. In addition, battery storage capacity, both mobile and stationary, is insufficient to operate at the required utilization rates.

[*]Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): a valuation metric that looks at a company's debt and cash levels in addition to stock price and relates that value to its profitability

[**]Lauren McConnell, "Gold – Comparing Historical EV/EBITDA to 2023/2024 Consensus," Paradigm Capital. August 30, 2023.

[***]U.S. Geological Survey, 2022, Mineral Commodity Summary: Gold, https://pubs.usgs.gov/periodicals/mcs2023/mcs2023-gold.pdf (accessed September 2023)

All company, sector, and sub-industry weightings as of August 31, 2023 unless otherwise noted.

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[1]The U.S. Dollar Index measures the value of the U.S. dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies [2]NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. [3]MVIS 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. [4]S&P 500 Index is a float-adjusted, market-cap-weighted index of 500 leading U.S. companies from across all market sectors.

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