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## 3Q 2015 Commentary

# China Uncertainty Overshadows Markets

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### Performance Review

The third quarter was marked by pervasive uncertainty: uncertainty over slowing global growth and the downward recalibration of expectations, driven primarily by concerns over slowing growth in China. As such, all areas of the natural resources market were negatively impacted and the Global Hard Assets Fund (the "Fund") Class A shares provided a total return for the third quarter of -27.23% (excluding sales charge). The Fund underperformed its commodity equities-based benchmark index, the Standard & Poor's® (S&P) North American Natural Resources Sector Index (SPGINRTR), which lost 19.55% over the same period.

Positions in the Energy and Materials sectors were the primary contributors to negative performance. In the Energy sector, underperformance stemmed mainly from the Oil & Gas Exploration & Production sub-industry, approximately 34% of Fund net assets on average during the third quarter, and within the Materials sector, the Diversified Metals & Mining sub-industry, approximately 8% of Fund net assets on average during the third quarter, accounted for a majority of the underperformance. Other significant negative contributors to the Fund's performance during the quarter were the Semiconductor Equipment sub-industry (approximately 2% of Fund net assets on average during the third quarter), the Oil & Gas Equipment & Services (approximately 11% of Fund net assets on average during the third quarter) and the Oil & Gas Storage & Transportation (approximately 6% of Fund net assets on average during the third quarter) sub-industries.

On a stock-specific level, many of the portfolio's holdings, despite what we believe to be strong fundamentals, suffered amid tremendous market pressure. Glencore PLC (2.7% of Fund net assets at period end*) is just one example of a high profile company whose actions and financial health seem to belie its disappointing performance in Q3. In the Market Review and Outlook section, we'll address some of the prominent macro-level issues and individual stock holdings, such as Glencore, that have negatively impacted the market and portfolio, and address these concerns from a fundmental and rational perspective often times missing from the media coverage and speculation of today's global markets.

For comparative purposes, we continue to include total return figures for two additional commodity equity indices: the MSCI ACWI Commodity Producers Index (M2WDCOMP) and the Standard & Poor's® (S&P) Global Natural Resources Index (SPGNRUN).

### Average Annual Total Returns (%) as of September 30, 2015

| | 2Q15^ | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception 11/1/94) | -27.23 | -43.13 | -7.62 | 0.76 |
| Class A: Maximum 5.75% load | -31.41 | -46.41 | -8.71 | 0.17 |
| SPGINRTR Index[1] | -19.55 | -33.57 | -1.42 | 1.37 |
| M2WDCOMP Index[2] | -21.12 | -35.39 | -6.88 | -0.40 |
| SPGNRUN Index[3] | -22.51 | -30.66 | -5.94 | 0.32 |
| SPGSCITR Index[4] | -19.30 | -41.74 | -9.79 | -10.00 |

^Quarterly returns are not annualized.

Expenses: Class A: Gross 1.43%; Net 1.38%.
Expenses are capped contractually until 05/01/16 at 1.38% for Class A. Caps exclude certain expenses, such as interest. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Please note that commodity prices may swing sharply in response to cyclical economic conditions. Investing involves risk, including possible loss of principal. The performance shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. The 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. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends of the Index constituents in the Index have been reinvested. **Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.**

### Fund Contribution

The top five contributing companies for the quarter came from a variety of different sectors and sub-industries. Agnico-Eagle Mines Ltd. (4.0% of Fund net assets at period end*), a gold mining company, benefited from strong operational performance and its continued focus on cost reduction. Oil & Gas Refining & Marketing company Phillips 66, a position which was sold during the quarter, appeared to benefit from both cheaper feedstock and strong demand for gasoline in the U.S. Building Products company Advanced Drainage Systems Inc. (1.0% of Fund net assets at period end*) gained from both a strong non-residential construction marketplace in the U.S. and its ongoing success in converting demand for concrete, PVC and steel pipe products into demand for its high-performance thermoplastic corrugated pipe. Other top performing

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companies were Oil & Gas Exploration & Production company Ophir Energy, a position which was sold during the quarter, and San Francisco-based residential solar Electrical Components & Equipment company Sunrun Inc. (0.3% of Fund net assets at period end*).

The five biggest performance detractors were stocks from the Diversified Metals & Mining sub-industry and the Energy sectors, including Glencore and First Quantum Minerals Ltd. (1.7% of Fund net assets at period end*). Both firms were impacted by the general negative sentiment pertaining to concerns about China and, consequently, commodities (particularly, base metals).

Within the Energy sector, CONSOL Energy Inc. (1.6% of Fund net assets at period end*), a Coal & Consumable Fuels company, continued to be a victim of the weak natural gas and coal markets, and SemGroup Corp. (1.7% of Fund net assets at period end*) suffered from reduced demand for its midstream services in the natural gas and oil markets and the further souring of the market's feelings toward yieldcos. During the quarter, SunEdison (1.0% of Fund net assets at period end*) also faced considerable headwinds as the market's interest in yieldcos, and their ability to access capital, continued to diminish. We continue to believe, however, that, as the biggest developer of renewable energy in the U.S., the company's business is supported by growth in the long-term. We also believe that, not least because of its competitiveness with natural gas, solar energy is a viable long-term energy solution and will be around for quite some time.

### Market Review and Outlook

Slowing growth in China and its global scope were only part of the discouraging storylines emanating from the country last quarter. In particular, the market was also disheartened by the disjointed signals and subsequent actions coming from its government which failed to provide support. In the wake of the quite violent correction in the Chinese stock market just before the start of the quarter and the unexpected devaluation of the yuan on August 11, questions started to be raised as to whether the government actually knew what it was doing and, consequently, what this might mean for its reform agenda.

We continue to believe that reform in China remains a priority. We also have the confidence and conviction not only that the tools to achieve it exist and will be used, but also that it will actually happen. China "bashing", particularly in the media, appears still to be the rage. However, we believe that, if nothing else, the Chinese government should be given credit for what it has already done. As the world's second largest economy and with the world's largest population, what its government is seeking to undertake is huge and should not, we believe, be drowned in a sea of short-term judgments over apparent missteps along the way. Growth will likely slow, but will the transformation into a consumer society necessarily lead to a reduced consumption of commodities? We think not.

Because of its leverage to China, the mining sector was hit especially hard during the quarter. Base metals continued to weaken and we saw cyclical lows with price levels affecting the short-term profitability and long-term viability of many projects. The market became increasingly concerned about mining companies' debt levels and just how they proposed to address them successfully. On a stock-specific level, however, Glencore was subject to speculation in the market (particularly at the end of the quarter when its stock price fell precipitously one day, only for it to recover significantly over the next couple of days), that both its level of indebtedness was threateningly high and that it was not doing enough to reduce this level. First Quantum, in its turn, also faced speculation in the market about its debt levels, albeit to less of a degree than Glencore. However, on an operational level, First Quantum also suffered from the effects of cuts in the power supply to its facilities in Zambia where it cut nearly fifteen hundred jobs because of them.

While Glencore may have been prominent in the news recently, so too have such mining majors as BHP Billiton Ltd. (not owned by the Fund) and Anglo American PLC (not owned by the Fund). We believe, however, that Glencore has, unjustifiably, been made a scapegoat by both the market and the media for a sector in which all companies are, essentially, in the same boat. Little attention appears to have been paid to the fact that Glencore is, we believe, actually in relatively good shape. Not least, the company has already started actively and aggressively addressing the issues that appear to be raising so much concern. In addition to both cutting its workforce and reducing production, it has started, and aims to continue, to reduce its debt by approximately $10 billion with additional tools to further reduce debt by an additional $2 billion to $4 billion if needed. It has already sold equity; it is committed to asset sales and/or precious metals streaming transactions; it is committed to cutting operational expenditures; and it is prepared to suspend dividends. In this respect, if nothing else, Glencore appears to be leading the sector by actively adjusting to and addressing current market conditions.

Although gold mining companies, too, faced headwinds during the quarter, the force of these was mitigated somewhat not only by their having already, for the most part, addressed the twin issues of high capex and high debt levels, but also by the benefits they derived during the quarter from both lower emerging markets currencies, continuing low oil prices, and the metal's appeal as a safe haven following the market events in China in August.

Looking closer at the Energy sector, the U.S. rig count continued to register new lows during the quarter, ending September at 838, down 2.4% on the previous quarter and down 56.7% since the same time last year. And, whilst they are published with a two month time lag, monthly estimates from the U.S. Energy Information Agency ("EIA") in its latest EIA-914 report on oil and natural gas production detailed a second consecutive month's reduction in oil production from 9.4 million barrels a day in May to 9.3 million barrels a day (b/d) in June.

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Furthermore, the EIA expects "U.S. crude oil production declines to continue through August 2016, when total production is forecast to average 8.6 million b/d."

Continued belt-tightening has, however, not been restricted only to unconventional oil and gas companies, with radical actions being taken elsewhere in sector. Once considered a bastion of safety, even the integrated oil and gas companies took action during the quarter. For example, a week before the end of the quarter, French oil and gas major Total S.A. (not owned by the Fund) announced that it was placing the protection of its dividend at the heart of the company's strategy. The company intends not only to slash capex to some $20-$21 billion in 2016 (from $23-$24 billion in 2015) and achieve an opex reduction of $3 billion by 2017, but also to undertake asset sales of $10 billion in the next couple of years. This will provide dividend cover, from cash flow, by 2017 with oil at around $60 per barrel.

As we have noted before, when it comes to Iran (and now the "deal is done"), we believe that more than half of its oil may actually be out there in the market already. There continues to be little indication that the flow of Iranian oil is having any particularly adverse effects since its presence has been more than offset by reductions, amongst others, in U.S., Brazilian and Mexican production. We also continue to believe that deepwater drilling and Canadian oil sands project delays and cancellations have bolstered the argument for a structural, potentially longer-term, change in supply.

In addition to the data we are seeing that suggest a methodical tightening of the global crude market, expectations of global demand growth remain firm. In the U.S., according to the EIA, "[t]he most recent data from the U.S. Federal Highway Administration show Americans drove a record 1.54 trillion miles during the first half of 2015, compared with the previous high of 1.50 trillion miles driven in the first half of 2007, contributing to higher demand for gasoline in the United States." The same agency further sees "[m]otor gasoline consumption, which rose by 80,000 b/d in 2014, increase[ing] by a projected 210,000 b/d (2.3%) in 2015." And while globally oil inventory builds were up in the second quarter, the EIA expects the pace of builds to slow in the second half of this year.

Much has also been written in the press recently about the forthcoming regulatory reviews of banks' loans to oil and gas companies. We do not, however, expect them to "move the needle" to any real great extent. We do, though, believe that should oil prices continue to stay where they are, we may see some movement in the needle next spring. Will this lead to more bankruptcies? There are still companies with good assets and there are still potentially purchasers of those assets, especially amongst private equity outfits. In addition, there remain exploration and production companies with high quality assets and acreages that can still drill and deliver profitably, even at current oil prices.

As we mentioned in our last quarterly commentary, our approach to the energy sector has been, and continues to be, focused on those companies that can navigate commodity price volatility and to help grow net asset value substantially over the next several years.

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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. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made. [1]The **S&P North American Natural Resources Sector Index (SPGINRTR)** includes mining, energy, paper and forest products, and plantation-owning companies. [2]The **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. [3]The **S&P Global Natural Resources Index (SPGNRUN)** includes 90 of the largest publicly traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across three primary commodity-related sectors: agribusiness, energy, and metals and mining. [4]The **S&P Goldman Sachs Commodity Index (SPGSCITR)** is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures.

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