

## Manager Commentary

### Uncertainty Continues to Impede Global Growth

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#### Performance Review

The fourth quarter was marked by continuing uncertainty: not only about global growth, but also about the fundamental financial health, especially debt levels and liquidity, of companies across the natural resources spectrum. Accordingly, virtually all areas of the market were negatively impacted and the Global Hard Assets Fund (the "Fund") Class A shares provided a total return for the fourth quarter of -6.85% (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 1.81% over the same period.

Positions in the Energy sector were the primary contributors to negative performance. Within the sector, negative performance stemmed mainly from the Oil & Gas Exploration & Production and Oil & Gas Storage & Transportation sub-industries, approximately 39.4% and 5.3% respectively of Fund net assets on average during the fourth quarter. However, in the Energy sector, the Oil & Gas Refining & Marketing sub-industry (approximately 3.7% of Fund assets on average during the fourth quarter) contributed positive performance. The Forest Products sub-industry (approximately 2.6% of Fund assets on average during the fourth quarter) also provided positive returns. During the quarter, the Fund continued to hold no position in Integrated Oil & Gas.

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).

#### Fund Contribution

The top five contributing companies for the quarter came from a variety of different sectors and sub-industries. Valero Energy Corp (4.3% of Fund net assets at period end\*), an Oil & Gas Refining & Marketing company, benefited from low oil prices, the demand response to these prices in the form of increased gasoline consumption and both good crack spreads and good margins. Louisiana-Pacific Corp. (3.0% of Fund net assets at period end\*), a Forest Products company involved in building products, benefited from a strong balance sheet and strong cash flow. Parsley Energy Inc. (2.8% of Fund net assets at period end\*) benefited from the high quality of its assets and acreage. Of the two gold mining companies in the group, Agnico Eagle Mines Ltd. (4.5% of Fund net assets at period end\*), benefited from strong operational performance and its continued focus on cost reduction, while Randgold Resources Ltd.

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#### Mutual Funds

#### Average Annual Total Returns (%) as of December 31, 2015

	4Q15 <sup>^</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/1/94)	-6.85	-33.42	-12.68	-0.37
Class A: Maximum 5.75% load	-12.22	-37.24	-13.70	-0.96
SPGINRTR Index <sup>1</sup>	-1.81	-24.28	-5.50	1.48
M2WDCOMP Index <sup>2</sup>	-0.51	-25.32	-9.61	-0.11
SPGNRUN Index <sup>3</sup>	0.58	-24.00	-8.65	0.87
SPGSCITR Index <sup>4</sup>	-16.63	-32.86	-15.17	-10.56

<sup>^</sup>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](http://vaneck.com) for performance current to the most recent month ended.**

(2.5% of Fund net assets at period end\*) benefited, not least, from the continuing strength of its balance sheet and the options with which this provided it.

The five biggest performance detractors were all stocks from the Energy sector. The two Oil & Gas Storage & Transportation companies, Kinder Morgan Inc. (1.7% of Fund net assets at period end\*) and SemGroup Corp. (1.2% of Fund net assets at period end\*), both suffered from reduced demand for their midstream services in the natural gas and oil markets and the further souring of the market's feelings toward master limited partnerships (MLPs) and yieldcos. The three other stocks, all Oil & Gas Exploration & Production companies, SM Energy Co. (1.5% of Fund net assets at

period end\*), Cimarex Energy Co. (5.0% of Fund net assets at period end\*), and Anadarko Petroleum Corp. (3.4% of Fund net assets at period end\*) suffered as energy equities underperformed the commodity during the quarter.

### Market Review and Outlook

The end of the year was tough. Global growth remained anemic, with little light apparent at the end of the tunnel. Growth in China continued to disappoint, with scant respite for the many commodities producers, not just mining companies, leveraged to the country. Perhaps even more so than in the third quarter of the year, with continuing weak commodities prices, the market became increasingly worried about companies' debt and liquidity levels and just how they proposed to address them successfully. The focus shifted ever further away from expectations for future growth, and ever closer to the simple issue of survival. And, for the companies that were going to survive, just what sort of shape they were going to be in coming out the other side. In particular, decisions whether, and by how much, they were going to have to cut capital spending, reduce dividends, restructure debt, sell assets and/or raise equity, had and will continue to have substantial impact on ultimate intrinsic value and shareholder returns.

In our view, the Federal Reserve's decision in mid-December to raise rates, albeit, initially, minimally, did not help matters. Toward the end of the quarter, on the back of quite mixed economic data, concerns even started to appear in the market about a growth slowdown in the U.S. as the economy appeared both to sputter and the outlook to become somewhat murkier.

Geopolitical risks, if anything, only increased during the fourth quarter. Following its intervention in Syria (and its first airstrike there at the end of September), Russia had one of its fighters shot down by the Turkish air force on November 24. This, together with the fact of Russia's involvement in the Middle East, and subsequent events in both Paris and San Bernardino, California, only helped exacerbate concerns about global growth. Vis-à-vis Iran, we believe that the tenuous nature of the "deal" between it and the "West"/"Rest of the World" may be becoming more apparent, as evidenced by the preparation of the current U.S. administration, even following the deal, to impose financial sanction on the country because of its ballistic missile program.

We believe that, for all the brouhaha surrounding the climate talks in Paris at the end of November into December, they turned out, essentially, to be almost a "non-event". There may have been great long-term goals, but execution appears to remain neither verifiable nor certifiable.

On a stock-specific level, we noted last quarter that while Glencore (2.8% of Fund net assets at period end\*) had recently been prominent in the news, so too had other mining majors, including Anglo American PLC (not owned by the Fund). We also stated our belief that Glencore had, unjustifiably, been made a scapegoat by both the

market and the media for a sector in which all companies were (and still are), essentially, in the same boat. It appeared to us that little real attention had been paid to the fact that Glencore was (and is), we believe, actually in relatively good shape. Not least, at the time, the company appeared to be leading the sector by actively adjusting to and addressing current market conditions.

During the fourth quarter, however, the tables appeared to turn a little in Glencore's favor, in particular in the context of the market's contrasting reactions to Glencore's and Anglo American's separate efforts to help reduce their debt levels. When the company announced its most recent debt reduction plans in early December, Glencore was able to report that it had met 85% of the debt reduction target it had set itself in September, with analysts lauding the company's efforts. A couple of days earlier, however, when Anglo American announced its debt reduction plans, reactions were more muted, not least as the company failed to provide any targets for 2016. As one analyst was quoted in a December article in the Financial Times as saying: "Anglo was long on promises but short on action. Glencore took aggressive action with more detail and the market appreciated that."

Gold mining companies continued to face headwinds in the fourth quarter. However, as in the third 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 and continuing low oil prices.

Looking closer, for another quarter, at the Energy sector, the U.S. rig count continued to register new lows, ending December at 698, down 16.7% on the previous quarter and down 61.5% 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 reduction in U.S. oil production of over 1% from 9.46 million barrels a day in September to 9.35 million barrels a day (b/d) in October.

Formerly considered bastions of safety, integrated oil and gas companies also continued to tighten their belts during the quarter. As if to echo French oil and gas major Total S.A.'s (not owned by the Fund) announcement just before the end of the third quarter that it was going both to slash capex and to reduce opex, following its announcement back in July that it, too, would slash capex, just before the end of the year Royal Dutch Shell (not owned by the Fund) said that it would cut 2016 capex by an extra \$2 billion and operating costs by \$3 billion.

Finally, while it is obviously far too soon to say what the long-term effects on the price of crude oil may be, one significant event in the fourth quarter was the lifting by Congress of a 40-year ban on oil exports from the U.S.

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As part of the same \$1.15 trillion federal spending bill, much to the industries' delight (and that of environmentalists), federal subsidies for renewable energy, which includes both solar and wind, were extended.

In 2015, both actual capital expenditure, and expectations and budgets for 2016, continued to decline. During the year, many cuts were made voluntarily, for example, the massive cuts in capex (some \$100 billion since 2014) made by the large integrated oil companies. In 2016, however, we believe any further such capex cuts are more likely to be made perforce than voluntarily.

The paradox of 2015 was that, over the course of the year, China went from "bad" to "not all bad", and the U.S. went from "not all good" to "mixed". Although third quarter GDP growth in China (announced in the fourth quarter at 6.9% in inflation-adjusted terms) may have been the slowest since the first quarter of 2009, it did beat expectations. Such a combination, in terms of expectations and outlook, could only be described as toxic. However, the absolute data for crude oil demand continued to be very strong for both countries – the world's two largest consumers.

This was true, however, not just in absolute terms, but also in percentage terms. Gasoline demand in China hit a record in August, as did vehicle sales in November. This resulted in record oil product demand. To us, unless global growth collapses totally, the strength of such demand looks set to continue.

Although we anticipate a somewhat lackluster outlook for crude in the first half of 2016, we are, however, a little more optimistic for the second half of the year. While it may have taken longer than we originally expected, capex reductions will, likely, result in a meaningful supply response. In addition, demand remains solid, particularly in both China and the U.S.

In the metals and mining sector, following several years notable for capex cuts affecting future production and, in 2015, mine closures affecting current production, producers are now finding themselves increasingly forced to go after the highest grade ores. This is, however, a situation that can only last so long, before, even with prices falling, they are forced to go back after lower grade material, if only for geological and engineering reasons. Expectations are that capex cuts will continue and that, subsequently, there will be firm reductions in supply. In the case of copper, the forecasts are for it to be in deficit in 2016 for the first year in a number of years.

Since 1955, one of the main pillars of our investment philosophy has been to look for long-term growth and the structural enhancement in intrinsic value in the companies in which we invest. Even in today's extremely challenging market conditions this continues to be one of our guiding tenets. Since we remain convinced that positioning our portfolio for the future, and not just reacting to current circumstance, is of paramount importance, our focus across the sectors in which we invest remains on companies that can navigate commodity price volatility and help grow sustainable net asset value.

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