

VanEck

FUNDS

# Setting the Stage for the Next Gold Bull Market

By Joe Foster, Portfolio Manager

## VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

### Fund Review

The International Investors Gold Fund's Class A shares returned -10.68% for the one-month period ending May 31, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)<sup>1</sup> returned -11.94% for the same period. The Fund is actively managed and invests mainly in gold-mining equities. Geologist Joe

#### Average Annual Total Returns (%) as of May 31, 2016

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-10.68	17.95	-15.20	0.39
Class A: Maximum 5.75% load	-15.82	11.12	-16.20	-0.20
GDMNTR Index	-11.94	16.61	-16.20	-4.15

#### Average Annual Total Returns (%) as of March 31, 2016

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	7.60	8.45	-18.76	-1.14
Class A: Maximum 5.75% load	1.36	2.24	-19.72	-1.73
GDMNTR Index	3.99	10.69	-18.75	-5.29

<sup>†</sup>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. Investors should be aware that recent market conditions resulting in high performance for the gold sector may not continue.

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/17 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

The tables present 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 NAV. Index returns assume that dividends from index constituents have been reinvested.

Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit [vaneck.com](http://vaneck.com) for performance current to the most recent month end.

Foster has been part of VanEck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

### Market Review

The gold market moved to the beat of the Federal Reserve's (the "Fed") rate hike signal drumming in May. At the beginning of May, the probabilities of a rate increase, as implied by the federal funds futures markets<sup>2</sup>, were 12% for an increase in June and 26% for a July increase. That dropped to 4% for June and 19% for July by May 16. On May 18, the market interpreted the minutes from the Federal Open Market Committee (the "FOMC") April meeting as being more hawkish than anticipated and market expectations of rate increases in June and July jumped to 32% and 47%, respectively. Gold traded down for nine consecutive sessions following the release of the minutes. Gold dropped to an intra-day low of \$1,199 per ounce on May 30, and ended the month at \$1,215 per ounce for a loss of 6.0% or \$77.66.

The U.S. dollar, which historically has a strong negative correlation<sup>3</sup> with the gold price, also reflected the market's assessment of a rate hike this summer, with the U.S. Dollar Index (DXY)<sup>4</sup> ending May up 3% for the month. The change in market sentiment regarding upcoming Fed rate decisions was primarily driven by comments from Fed Chair Janet Yellen and other Fed officials. Meanwhile, U.S. economic data releases continued to be mixed, and, in our view, do not paint a clear picture of the U.S. economy that would favor further tightening in the near term. Positive April economic data included retail sales and existing and new home sales coming in above expectations, and an increase in the ISM Manufacturing Index<sup>5</sup> reading for May that was widely expected to be declining. In contrast, employment data and construction spending were below expectations while the University of Michigan Sentiment Index<sup>6</sup>, Consumer Confidence Index<sup>7</sup> and manufacturing activity in Chicago and Dallas for May were all weaker than expected.

But the most impactful, in our opinion, economic data was the May jobs report announced by the U.S. Department of Labor on June 3. Reported figures were massively below expectations, showing the lowest number of workers added in six years. While market chatter before the report's release may have suggested the Fed had everyone convinced of a summer hike, a hike was not priced in for June, as evidenced by the 20% implied probability. The chance of a July hike was only at 53.6%. Immediately after the jobs report, those probabilities dropped to 4% and 29% respectively, the DXY index fell (down 1.7%) and gold rallied (up 2.8% or \$33 per ounce), closing at \$1,244 per ounce on June 3.

With gold falling in May, gold stocks underperformed. The NYSE Arca Gold Miners Index (GDMNTR) fell 11.9%, and the MVIS Global Junior Gold Miners Index (MVGDXJTR)<sup>8</sup> dropped 11.5% during the month, trimming gains for the year to 65% and 76% respectively, as of May 31, compared to gold's gain of 14.5%.

Of note, the amount of gold held by global gold bullion exchange traded products (ETPs) increased by an additional 4.8% during the month of May. Holdings of global gold ETPs have increased almost 27% this year to an estimated 59.5 million ounces of gold, still well below the 2012 peak of more than 84 million ounces.

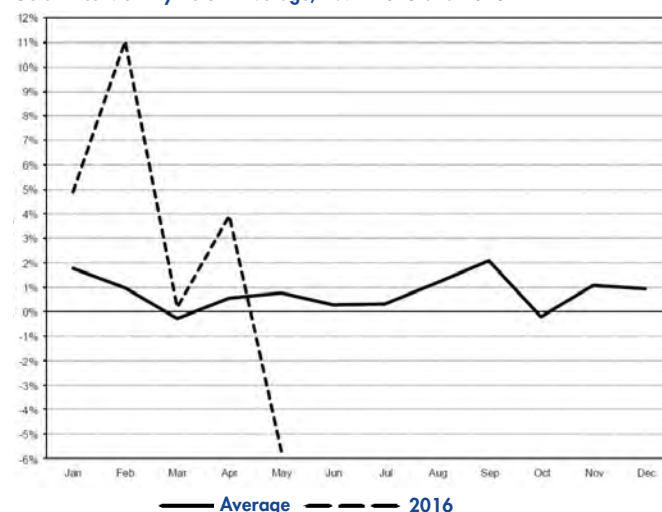
## Market Outlook

We have been of the opinion that the Fed may not be as aggressive as previously guided, and that rising rates in 2016 could be a

significant impediment to the U.S. economy. The June 3 jobs report missed expectations by a wide margin. In May, the U.S. added just 38,000 workers, compared to the median of 160,000 as forecasted by Bloomberg. Job gains for prior months were downgraded as well. This indicates a weakening labor market and reduces the odds of Fed rate increases in the coming months.

We believe this is another important inflection point for gold that suggests the early stages of a new bull market. The gold price has been consolidating in the \$1,200 to \$1,300 per ounce range since early March, hitting a low of nearly \$1,200 per ounce on May 30. It now appears as if gold is poised to remain above the technically and psychologically important \$1,200 per ounce level. While it is not uncommon for the gold price to struggle in the summer months, we believe gold is forming a new base. We expect to see higher gold prices as the year progresses.

Gold Price Monthly Return Average, 1971-2015 and 2016



Source: Bloomberg, Scotiabank GBM

We met the management of approximately 20 gold companies during the month, which allowed us to get a good sense of what's happening in the sector. The main takeaway is that while companies are still focused on efficiencies, cost savings and operating improvements to help maximize cash flow, higher gold prices this year have shaped the conversation around what to do with these new cash levels.

For some companies, paying down debt still remains a priority. For firms currently building new mines, the higher cash flows provide welcomed cushion and remove market concerns over financing.

Many companies also expect dividends to resume and/or increase as free cash flow grows. But for most companies, higher cash flows, at a time when balance sheets are in good shape and costs are under control, will likely bring back the opportunity to add future growth.

Valuations are still relatively low, so there is opportunity to buy assets. Exploration spending, which had been significantly reduced over the last couple of years, should also pick up again, allowing companies to add resources and reserves and increasing their chances of making new discoveries. Projects that have been shelved will be revisited as financing becomes available. We met with management teams that despite the higher gold price, and higher cash flows that come with it, remain firmly committed to growing

profitability and returns rather than production. We heard more than once in our discussions that a new ounce of production is only good and will only be added if it improves or maintains the existing per ounce profitability of the company. Companies are measuring growth in free cash flow per share, for example, rather than production volumes.

This is very encouraging to us. Company initiatives have slowly and cautiously started to shift from mere survival to thriving. "Caution" is the key word here. As they embark on what may be the next gold bull market, we believe gold companies need to continue to demonstrate a rigorous capital allocation strategy that focuses on value creation for shareholders and positions the gold mining equity sector in the investable universe of the broader market.

All company weightings as of May 31, 2016 unless otherwise noted.

<sup>1</sup> 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. <sup>2</sup>In the U.S., the federal funds rate is "the interest rate" at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances. <sup>3</sup>The correlation coefficient is a measure that determines the degree to which two variables' movements are associated and will vary from -1.0 to 1.0. -1.0 indicates perfect negative correlation, and 1.0 indicates perfect positive correlation. <sup>4</sup>U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. <sup>5</sup>The ISM Manufacturing Index is an index based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders and supplier deliveries. <sup>6</sup>A survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy. <sup>7</sup>The U.S. consumer confidence index (CCI) is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. <sup>8</sup>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.

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Any indices listed are unmanaged indices and include the reinvestment of all 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.

You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary and political developments. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk, leverage risk, credit risk and counterparty risk. Please see the prospectus and summary prospectus for information on these as well as other risk considerations.

**Please call 800.826.2333 or visit [vaneck.com](http://vaneck.com) for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.**

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