

As Fears Expand, Commodities Shrink

By David Schassler, Portfolio Manager

RAAX[®] VanEck Vectors[®] Real Asset Allocation ETF

Overview

The VanEck Vectors[®] Real Asset Allocation ETF ("RAAX") returned -5.08% versus -3.35% for the Bloomberg Commodity Index, -3.57% for its custom blended benchmark and -9.57% for the S&P North America Natural Resources Index.

Fear re-entered the market in September due to an increase in the spread of COVID-19 infections, uncertainties around further fiscal stimulus and the potential for a contested election in the U.S. in November. This resulted in a sea of red for the month in nearly all real asset prices. The largest detractor for RAAX was falling oil prices. Economically sensitive industries, such as oil, were under significant pressure as investors weighed a potential decline in demand on top of elevated oil inventories. The price of oil experienced a rapid decline of 14% at the beginning of the month and ended the month down nearly 6%. Companies in the energy sector fared much worse, with different segments of the energy equity market down between 15% and 22%.

The price of gold was down 4%, primarily due to the strength of the U.S. dollar. Falling gold prices were particularly bad for gold mining stocks. The NYSE Arca Gold Miners Index was down over 7%. The top performing position within RAAX was its allocation to companies in the coal industry, which were up nearly 5%. Coal prices have been surging in China due to strong electricity demand and constrained supply. There was also a terrible coal mining accident in China that left 16 dead on September 28. This led to a jump in prices due to potential increases in safety measures and possible further constraints on supply.

Average Annual Total Returns (%) as of September 30, 2020

	1 Mo [†]	YTD [†]	1 Yr	Life (04/09/18)
RAAX (NAV)	-5.08	-21.67	-18.32	-7.53
RAAX (Share Price)	-5.00	-21.62	-18.36	-7.51
Bloomberg Commodity Index [*]	-3.35	-12.08	-8.20	-6.85
Blended Real Asset Index [*]	-3.57	-14.00	-9.28	-3.26

Average Annual Total Returns (%) as of June 30, 2020

	1 Mo [†]	YTD [†]	1 Yr	Life (04/09/18)
RAAX (NAV)	0.66	-24.32	-21.90	-9.75
RAAX (Share Price)	1.03	-24.07	-21.75	-9.62
Bloomberg Commodity Index [*]	2.28	-19.40	-17.38	-11.17
Blended Real Asset Index [*]	1.63	-18.57	-15.31	-5.93

[†]Returns less than a year are not annualized.

Expenses: Gross 1.13%; Net 0.75%. Expenses are capped contractually at 0.55% through February 1, 2021. Expenses are based on estimated amounts for the current fiscal year. Cap exclude certain expenses, such as interest, acquired fund fees and expenses, and trading expenses.

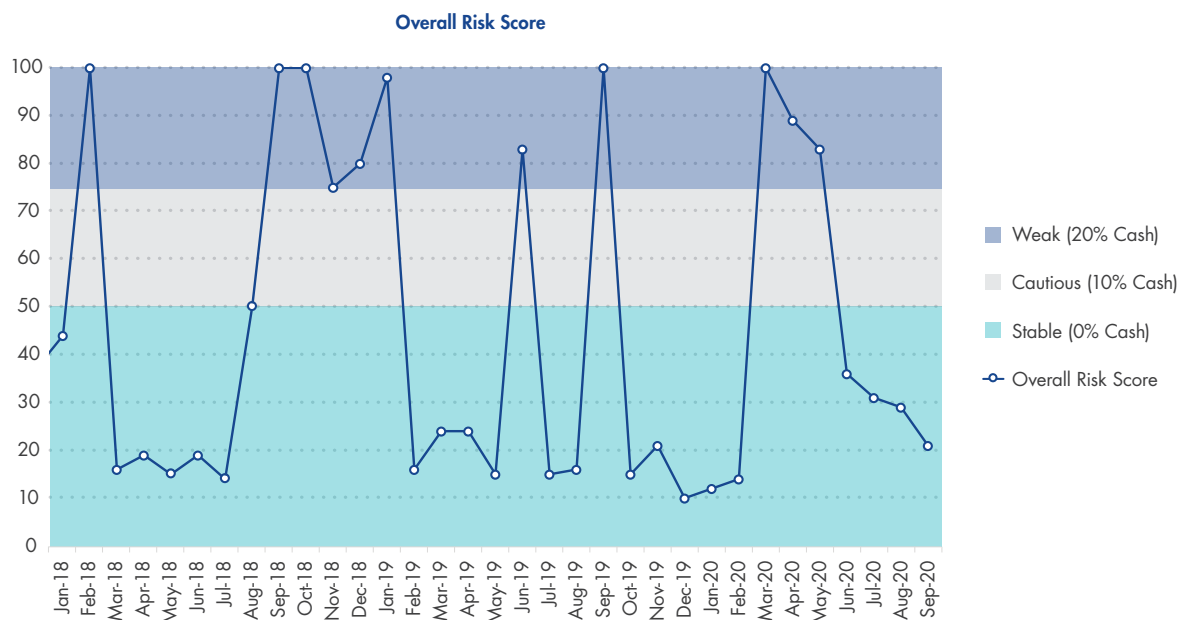
The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the ETF incurred all expenses and fees, investment returns would have been reduced. Investment returns and ETF share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost.

^{*}The Blended Real Asset Index is calculated by VanEck and comprises an equally weighted blend of the returns of Bloomberg Commodity Index (BCOM), S&P Real Assets Equity Index, and VanEck[®] Natural Resources Index. Equal weightings are reset monthly. This is an appropriate benchmark because it represents the various real assets investments considered by the Fund covering natural resources equities, MLPs, infrastructure, real estate, and commodity futures. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

In order to improve diversification based on the current risks in the market, RAAX reduced its commodity exposure in favor of companies involved in the global infrastructure and agribusiness. This was implemented by reducing its diversified commodity futures position from 28% to 15%, increasing its global infrastructure position from 5% to 14% and increasing its agribusiness position from 4% to 7%.

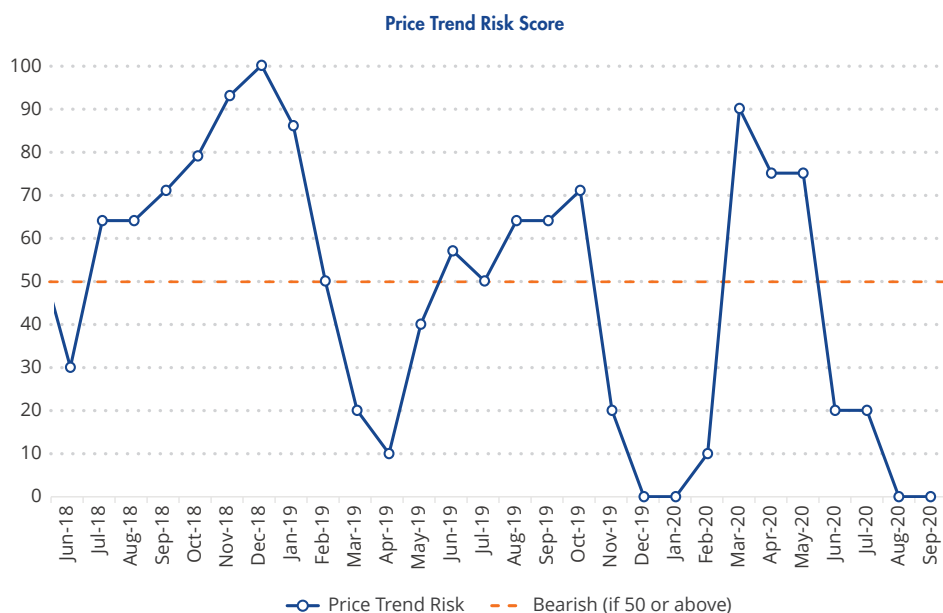
Deeper Dive

The chart below shows the overall real asset composite. A score of 0 represents the lowest risk level and a score of 100 represents the highest risk level. A score of 60 or higher will result in our most defensive posture. The current score is 21. This indicates a stable risk regime for real assets.

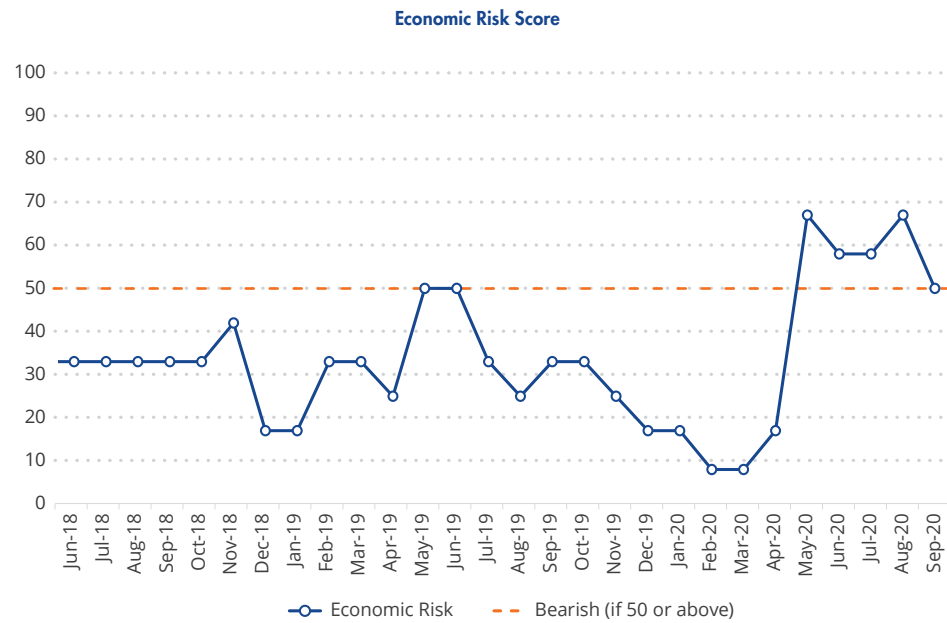


The risk score can be decomposed into key factors that drive real asset prices. These include price trends, economic activity, realized volatility and investor sentiment.

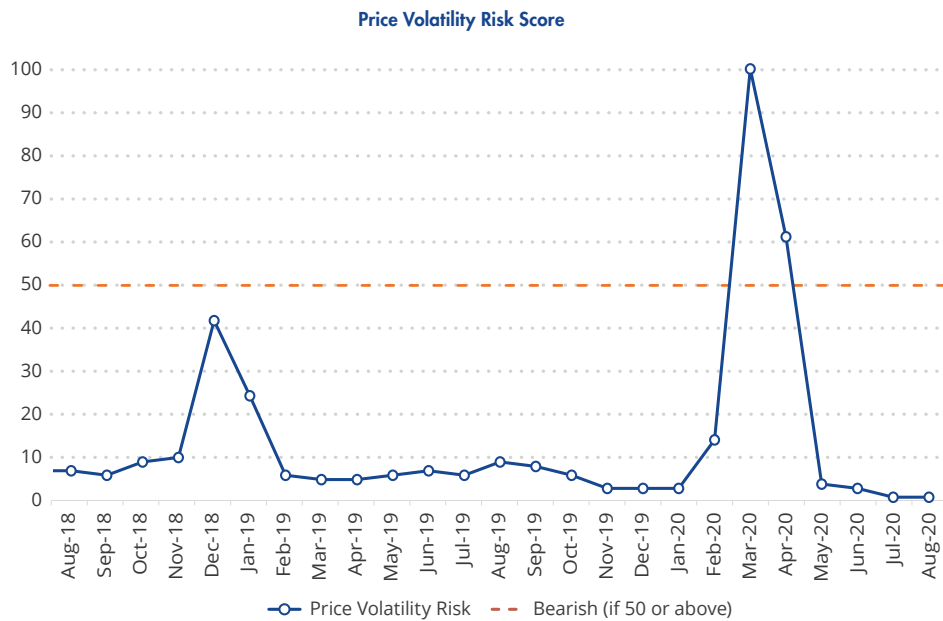
- Price trends, in aggregate, are positive. The price trends that are currently negative are in the energy sector.



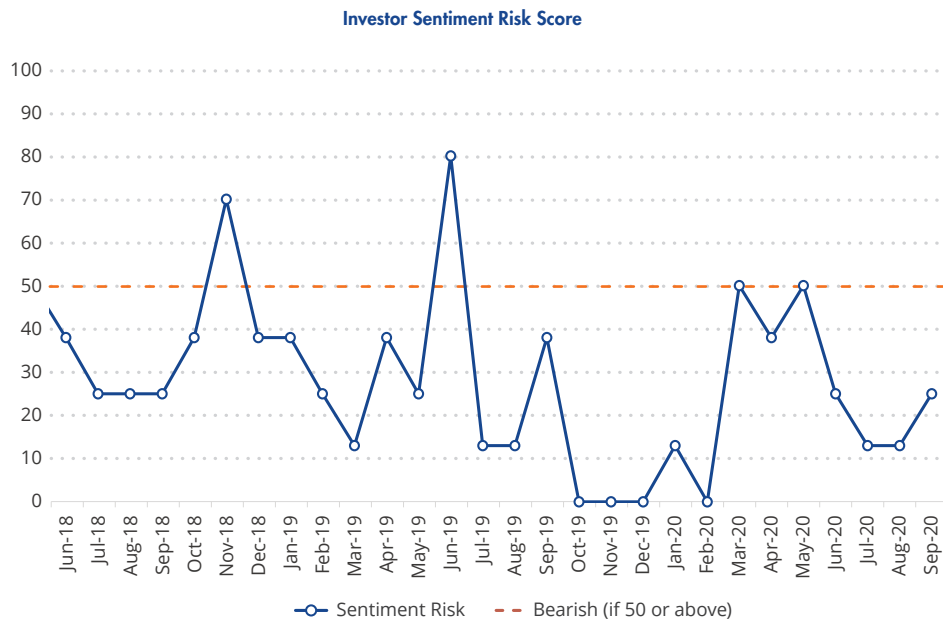
- Economic risk remains high across a broad range of real assets.



- Price volatility is low across real assets.



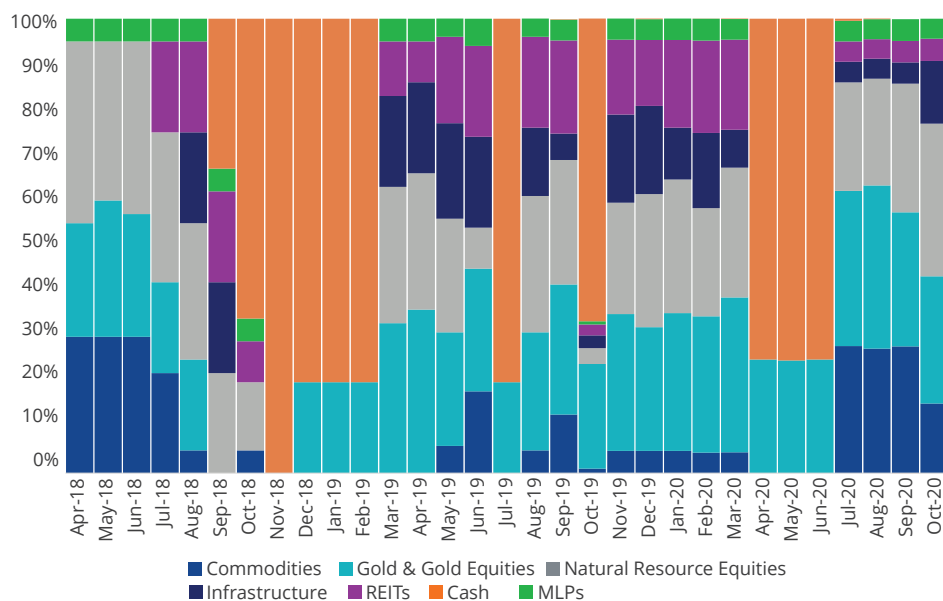
- Investor sentiment is not at an extreme.



To conclude, RAAX will remain diversified and fully invested across a set of unique real asset investments. Its allocation shift away from commodities and towards global infrastructure and agribusiness equities is expected to further increase diversification as we approach the near-term uncertainties of COVID-19 and the U.S. elections.

As always, RAAX will continue to monitor the current environment and adjust its allocations to balance the risks and rewards of real asset investing.

Real Asset Sector Allocations Since Inception



Real Asset Class Allocations

	Oct-20	Sep-20	Change from Previous Month	
Global Infrastructure	13.8%	4.7%	9.1%	Increase
Agribusiness Equities	7.2%	3.6%	3.6%	Increase
Energy Equities	4.7%	3.4%	1.3%	Increase
Low Carbon Energy Equities	5.0%	4.0%	1.0%	Increase
Coal Equities	3.9%	3.5%	0.4%	Increase
Steel Equities	3.8%	3.6%	0.2%	Increase
REITs	4.9%	4.7%	0.2%	Increase
Cash	0.0%	-0.1%	0.1%	Increase
Global Metals & Mining Equities	3.6%	3.6%	0.0%	No Change
Gold Equities	5.3%	5.3%	0.0%	Decrease
MLPs	4.4%	4.8%	-0.4%	Decrease
Unconventional Oil & Gas Equities	2.8%	3.3%	-0.5%	Decrease
Oil Services Equities	2.6%	3.3%	-0.7%	Decrease
Gold Bullion	22.7%	24.2%	-1.5%	Decrease
Diversified Commodities	15.3%	27.9%	-12.6%	Decrease

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The Blended Real Assets Index consists of an equally weighted blend of the returns of Bloomberg Commodity Index, S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. The S&P Real Assets Equity Index measures the performance of equity real return strategies that invest in listed global property, infrastructure, natural resources, and timber and forestry companies. The VanEck Natural Resources Index is a rules-based index intended to give investors a means of tracking the overall performance of a global universe of listed companies engaged in the production and distribution of commodities and commodity-related products and services. Sector weights are set annually based on estimates of global natural resources consumption, and stock weights within sectors are based on market capitalization, float-adjusted and modified to conform to various asset diversification requirements. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. The S&P 500® Index (S&P 500) consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation).

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The Solactive MLP & Energy Infrastructure Index tracks the performance of MLPs and energy infrastructure corporations. The MVIS U.S. Listed Oil Services 25 Index is intended to track the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, which include oil equipment, oil services, or oil drilling. The Dow Jones Equity All REIT Index, designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones REIT Industry Classification Hierarchy. The NYSE Arca Gold Miners Index is a modified market capitalization-weighted index composed of publicly traded companies involved primarily in the mining for gold. The Index is calculated and maintained by the New York Stock Exchange. The S&P® North American Natural Resources Sector Index: a modified capitalization-weighted index which includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. The S&P® GSCI Total Return Index is a world production-weighted commodity index comprised of liquid, exchange-traded futures contracts and is often used as a benchmark for world commodity prices.

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. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

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