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More Unrewarded Steps Towards Capital Discipline

By Shawn Reynolds, Portfolio Manager

VanEck Global Hard Assets Fund

GHAAX / GHACX / GHAIX / GHAYX

Performance Review

During the quarter, the Global Hard Assets Fund (the "Fund") Class A shares returned -23.81% (excluding sales charge). Energy companies were the largest detractors, with oil and gas exploration and production companies suffering the greatest losses following a sharp decline in the price of crude oil during the quarter. On the positive side, gold mining companies saw gains as, faced with the volatility and turmoil in the equities market, investors sought out a safe haven and store of value in both the metal and gold miners.

Average Annual Total Returns (%) as of December 31, 2018

	4Q18†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/2/94)	-23.81	-29.35	-11.77	-0.09
Class A: Maximum 5.75% load	-28.18	-33.42	-12.81	-0.69
SPGINRTR Index[1]	-23.47	-21.07	-6.50	2.99
M2WDCOMP Index[2]	-17.05	-11.22	-2.81	3.08

†Quarterly returns are not annualized. Expenses: Class A: Gross 1.53%; Net 1.38%. Expenses are capped contractually until 05/01/19 at 1.38% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Market Review

During the fourth quarter, the fears of the first nine months of the year surrounding U.S. trade policy and the impact trade restrictions might have on any type of sustained, future growth, especially Chinese growth, ratcheted up significantly. While there may have been resolution of at least the NAFTA dispute at the end of the third quarter, the continued rise in tensions between the U.S. and China only served to exacerbate the extraordinary bearish market sentiment for commodities in general. Matters were only made worse for natural resources companies by the U.S. Federal Reserve raising rates and, consequently, the U.S. dollar strengthening. The result for the two growth engines of the world economy (the U.S. and China) was: 1) the market started to price in slower U.S. growth (a result of the Fed's actions); and 2) trade tariffs started to slow down China growth (a result of President Trump's actions). In addition, the last two months of the year were dominated by extreme volatility in global equity markets, further amplifying pressure on the Fund's holdings.

Although crude oil prices had been pretty resilient for the most of the year, in its last six weeks or so of the quarter, in a confluence of events, the bottom fell totally out of the market. These events included continuing exhortations by President Trump for Saudi Arabia to pump more oil, the egregious demise of Jamal Khashoggi, the continued liquidation (after February

The table presents 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 Net Asset Value (NAV). Index returns assume that dividends from index constituents have been reinvested.

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2018) of massive speculative long positions in oil and, not least, crude oil production by the U.S., Saudi Arabia, and Russia, the three largest producers in the world, reaching all-time highs.

Since China consumes nearly half of the world's base metals, trade concerns, together with heightened fears around Chinese growth prospects and the impact on ultimate consumption, in our view "killed" mining companies. While bulks (coal and iron ore) did not suffer as badly, base metals were clobbered. By year-end, despite excellent industry fundamentals, zinc, copper, aluminum, and nickel had lost approximately 4.8%, 6.2%, 11.5%, and 15.8%, respectively, on the quarter.

There was, however, one small bright spot during the fourth quarter in the natural resources space. As the equity markets experienced increasing turmoil, investors rediscovered gold's safe haven identity and the metal ended the quarter up over 7.5%.

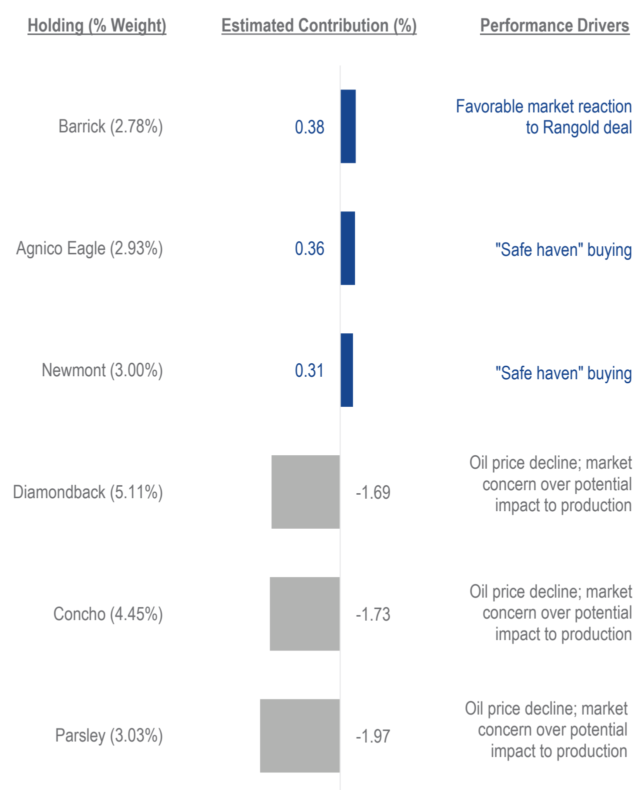
Finally, soybeans and corn continued to suffer from the U.S./China trade dispute. Fertilizer companies, which had, broadly speaking, held up for most the year, eventually sold off with the remainder of the natural resource space at the beginning of the fourth quarter.

Outlook

Moderated Fed tightening and U.S./China trade resolution are potentially, simultaneously, the largest catalysts for positive macroeconomic momentum in the natural resource/commodity markets AND, also, the largest question marks heading into 2019. If investors believe the Fed is done tightening, the U.S. dollar should decline, creating a better outlook for emerging markets economies and commodity demand. In addition, any improvement in the China trade environment could lead to a sharp recovery in the "China-sensitive" natural resource sectors of U.S. grains and global industrial metals.

The Fed's recent waver on further normalization of U.S. interest rates and positive advancements in U.S./China trade talks ahead of the March 1st deadline for U.S. tariff increases have provided at least some optimism. We believe supply fundamentals continue to look generally positive for commodity prices too—particularly following a multi-year stretch devoid of substantive new discoveries across a number of energy and mining sectors.

Top Quarterly Contributors/Detractors



Source: FactSet; VanEck. Data as of December 31, 2018. Contribution figures are gross of fees, non-transaction based and therefore estimates only. Figures may not correspond with published performance information based on NAV per share. Past performance is not indicative of future results. Portfolio holdings may change over time. These are not recommendations to buy or sell any security.

However, our focus remains, first-and-foremost, on company fundamentals. Over the last 30 years, natural resource companies have rarely exhibited such a harmonic convergence of desirable fundamentals, including moderate-yet-increasing production growth, low-yet-efficient use of leverage, positive free cash flow generation, and a propensity to return capital to shareholders. It is perhaps notable, too, how historically attractive these fundamentals appear on a relative basis versus the broader market.

While some investors may simply refer to the space as a "value trap" at this point—i.e., attractive at such lows, but with the potential to fall further still—we believe it is difficult to imagine a scenario where relative values could fall further. By our account, there has been only one occasion in the last 30 years when energy and mining stocks, collectively, have traded as low as they are now relative to the broader market. This was around

1999 in the "dot-com" bubble era when many investors were willing to overlook traditional valuation metrics and place their confidence in the prospect of internet-based startup companies to turn a profit based upon promises of technology-driven advancements alone.

In our view, there has been no industry perhaps more prone to the "value trap" discussion recently than U.S. unconventional oil where investors remain skeptical that production is sustainable absent continuous investment and/or higher oil prices. We believe, however, that this view discounts two very important facts. First, the industry has already proved this point wrong when it increased its per-day production of oil by 6.5 million barrels between 2009 (the start of the U.S. shale oil revolution) and 2018 with WTI oil prices that averaged $50/Bbl or less at the height of the industry's largest capital outflows between 2015 and 2017. Second, this view also ignores the fact that the industry that has gone through an intense, but completely normal, period of necessary investment that included purchases of large acreage tracts, the drilling of single wells merely to hold that acreage, and investment in infrastructure such as roads, pipelines, storage tanks, and processing facilities.

The U.S. unconventional oil and gas industry is now transitioning from the investment phase to the harvest phase. As we have seen before with the mining industry, returns on any early capital expenditures tend to be sub-optimal in the initial stages. However, as companies begin to shore up their balance sheets, generate positive free cash flow, and then return some of that to shareholders in the form of dividends and/or share repurchases, success has followed, historically. We believe companies in the mining industry espousing this model are now well positioned to see, potentially, another year of shareholder capital return unmatched since 2011.

All company, sector, and sub-industry weightings as of December 31, 2018 unless otherwise noted.

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. 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. [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.

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