

Natural Resources Turn Choppy as Trade Winds Persist

By Shawn Reynolds, Portfolio Manager

VanEck - Global Hard Assets UCITS

USD R1 Acc: IE00BYXQS972

USD I1 Acc: IE00BYXQS535

USD I2 Acc: IE00BYXQS642

USD I4 Acc: IE00BYXQS865

Market Review

After an encouraging first quarter to the year, commodities and natural resource equities turned choppy and skittish, and this was reflected in the performance of the VanEck - Global Hard Assets UCITS Fund (the "Fund") Class R1 shares, which returned -0.83% (excluding sales charge) during the second quarter of 2019.

A clear, finite resolution to the problems surrounding tariffs and trade remained elusive. As concerns around slowing growth and undershot inflation targets increased, central banks around the world re-engaged, reversed their policies and started easing. In June, this led to a surge in the price of gold and renewed hope that previous fears around threats to global growth would prove unfounded.

Crude oil and natural gas prices fell during the quarter. And, though they may have had a good start to the year, North American oil and gas producers languished as the perceived outlook for global oil demand weakened while, simultaneously, production moved higher in April and May.

For base and industrial metals, the second quarter was considerably more unsettled as trade concerns remained unresolved and individual companies were faced with a host of operational and geopolitical setbacks. However, gold and gold stocks shone brightly, especially in June, when the shift in central banks' policies towards greater accommodation led to a meaningful, technical breakout above \$1,400 per ounce.

Average Annual Total Returns (%) as of 30 June 2019

	2Q19 [†]	YTD	1 Yr	3 Yr	5 Yr	Life
USD R1 Acc (Inception 24/1/13)	-0.83	12.24	-20.12	-5.24	-12.56	-7.49
USD I1 Acc (Inception 24/1/13)	-0.62	12.75	-19.40	-4.40	-11.78	-6.66
USD I2 Acc (Inception 1/8/13)	-0.59	12.80	-19.32	-4.30	-11.69	-6.97
USD I4 Acc (Inception 31/7/13)	-0.55	12.90	-19.17	-4.09	-	-11.18
SPGINRTR Index (USD) [†]	-1.40	14.58	-14.10	0.07	-6.80	-1.51
M2WDCOMP Index ²	0.39	13.87	-3.98	8.53	-2.08	-0.11

Past performance of the sub-fund is no guarantee for future performance. Any performance presented herein is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted. Performance information does not take into account the commissions and costs incurred on the issue and redemption of units. Performance information is presented net of fees, but gross of tax liabilities. Each index listed is unmanaged and the returns include the reinvestment of all dividends, but do not reflect the payment of transaction costs, fees or expenses that are associated with an investment in any fund. An index's performance is not illustrative of a Fund's performance. You cannot invest in an index.

[†]Quarterly returns are not annualized. Life performance for the SPGINRTR Index and the M2WDCOMP Index are presented in U.S. Dollars (USD) as of Class I1 inception date of 24/01/2013.

Finally, among the grains, corn saw a significant jump during the quarter as considerable rain and flooding in the U.S. Midwest injected a fair amount of uncertainty into the outlook for this year's corn yields and output.

Performance & Positioning

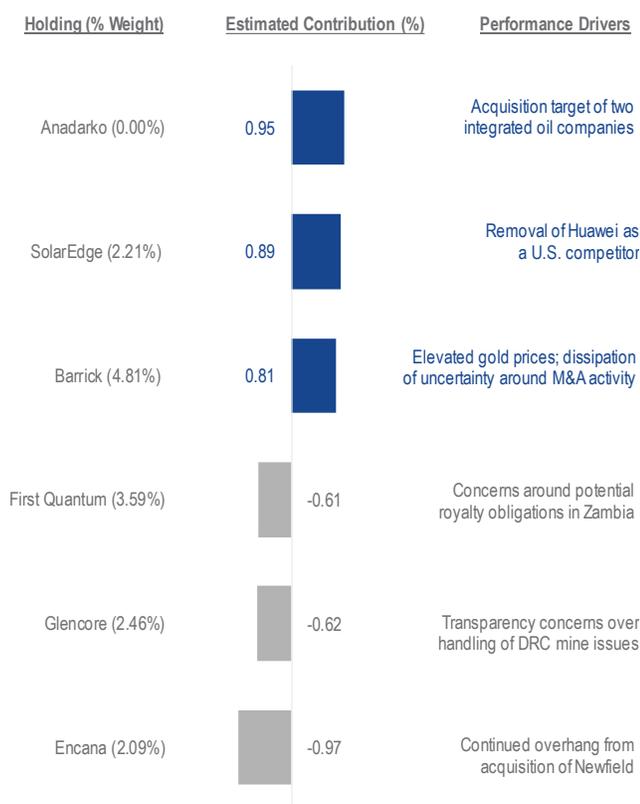
On an absolute basis, our positions in gold, renewable energy (including semiconductor equipment, electrical

components and equipment, industrial REITs and renewable electricity sub-industries) and agriculture (including fertilizers and agricultural chemicals, packaged foods and meats, and agricultural products) were the largest contributors. The largest absolute detractors included our allocations to oil and gas exploration and production and copper.

In terms of portfolio positioning, there were some notable changes in the second quarter and, in particular, within our energy allocations.

As part of the developing theme of capital discipline and return of capital, we initiated positions in integrated oil and gas companies Chevron Corporation (2.96% of net assets) and Royal Dutch Shell plc (1.43%) as both companies have shown, recently, their willingness to prioritize these factors as part of their core business models.

Top Quarterly Contributors/Detractors



Source: FactSet; VanEck. Data as of 30 June 2019. Weights denoted with "0.0%" indicate a position sold during the quarter. 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.

We also opened positions in oil and gas services and equipment company Solaris Oilfield Infrastructure, Inc. (0.21%), which is heavily involved in mobile proppant and chemical systems. The company has a strong balance sheet, high free cash flow yield, competitive dividend, attractive relative valuation and continues to gain market share in both its established and developing product/service lines.

Finally, in terms of adds within the energy space, we participated in an initial public offering for oil and gas exploration company Brigham Minerals (0.23%) and, subsequently, stayed with the allocation. We consider the minerals company attractive given its high free cash flow yield and dividend yield and its connection with good operators, providing promising long-term stability and growth potential.

We exited a number of companies during the quarter. Notable among these were: Anadarko Corp. following its acquisition by Occidental Petroleum (not held by Fund), given Occidental's relative lack of capital discipline and low-prioritization of return of capital; diversified metals and mining company KAZ Minerals PLC, with the capital being re-allocated to financially stronger names; oil and gas refining and marketing company Green Plains Inc.; and gold mining company IAMGold Corporation.

Outlook

We believe resolution on trade and further accommodative central bank policy would be positive for the space. In the meantime, these macroeconomic headwinds may dampen the impact of potential tightening supply and demand fundamentals or significant corporate actions.

Energy allocations remain at historic lows with the vast majority of long-term investors in the sector demanding that North American unconventional oil and gas companies deliver on their promise of return of capital. For this reason, prioritization of capital discipline remains critical and companies must be willing to "prove it" by delivering attractive returns on capital and associated cash flow yields and, furthermore, by initiating or expanding their dividend and share repurchase programs. Mergers and acquisitions that would have otherwise sparked interest—in terms of potential cost synergies and growth opportunity—have, for the most part, fizzled with this core investor base.

Base metals and mining companies are unable to escape trade fears and so, perhaps more than any other natural resources sector, would substantially benefit from a resolution. Headline risks have also increased for many of these companies following several major incidents, including Vale's tailings dam collapse in Brazil and a fatal landslide at a Glencore mine in the Democratic Republic of Congo. Fundamentals in the space remain as enticing as ever, particularly for copper, yet the market has reluctantly imputed these factors into the share price of many operators.

We believe gold miners are in perhaps the most favorable position of all natural resource sectors at this point. A roughly 8% move in gold can often generate double-digit increases in free cash flow for some operators (depending on their all-in mining costs) and shifts in central bank policy, declining real rates and a weaker dollar could help establish a higher trading range for the metal over the next several months. The current price to cash flow valuations of majors and mid-tiers are also hovering around their 15-year lows, presenting an attractive value opportunity with a relatively tangible short-term catalyst.

All company weightings, if mentioned, are as of 30 June 2019 unless otherwise noted. This is not an offer to buy or sell, or a solicitation of any offer to buy or sell any of the securities mentioned herein. Fund holdings will vary.

¹S&P North American Natural Resources Sector (SPGINRTR) provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS® energy and materials sector excluding the chemicals industry; and steel sub-industry. ²The 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. 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.

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