

Gold Could Shine Once Liquidity Fades

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 -12.12% for the one month period ending August 31, 2018 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)¹ returned -12.53% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

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

	1 Mo ¹	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-12.12	-24.08	-5.87	-3.01
Class A: Maximum 5.75% load	-17.18	-28.42	-6.98	-3.58
GDMNTR Index	-12.53	-23.45	-6.90	-5.80

Average Annual Total Returns (%) as of June 30, 2018

	1 Mo ¹	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-0.78	-3.24	1.58	-3.82
Class A: Maximum 5.75% load	-6.45	-8.80	0.38	-4.39
GDMNTR Index	-0.27	2.24	-0.78	-6.49

¹Monthly 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.

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/19 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 van Eck.com for performance current to the most recent month end.

Geologist Joe 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 robust U.S. dollar has weighed on gold since May, and in August the U.S. Dollar Index (DXY)² again reached new yearly highs. U.S. dollar strength was mainly due to emerging markets (EM) currencies that weakened in response to a currency crisis in Turkey. President Trump tweeted that he would increase steel and aluminum tariffs and impose sanctions against two officials in an effort to gain the release of a U.S. pastor detained in Turkey. The fragile nature of Turkey's financial system was exposed when these tweets precipitated a crisis. According to *The Wall Street Journal*, Turkey has one of the largest trade deficits among EM countries, high inflation, and heavy borrowing in both U.S. dollars and euros. The 74% decline in the Turkish lira this year makes repaying \$330 billion in foreign currency debt held by banks and businesses very problematic. The Turkish government also has issued foreign currency debt equal to 11% of GDP.

Turkish holders of gold were able to preserve their wealth, as the gold price rose 31% in lira terms in August. The Turkish people responded to their financial crisis as others have responded throughout the millennia. Metals Focus reported a lack of selling despite the high lira gold prices as people kept their gold as a hedge against further turmoil.

The gold price in U.S. dollar terms has not responded to the Turkish crisis because, at this time, it poses virtually no immediate threat to either the U.S. economy or global

financial system. Gold fell \$22.69 (1.9%) to end the month at \$1,201.40 per ounce in response to the August U.S. dollar strength. The gold price made what appeared to be a capitulation low of \$1,160 per ounce on August 16. Thin summer trading activity enabled sellers to dominate as net speculative positioning on Comex (the primary futures and options market for trading metals) turned short for the first time since 2001 when gold was under \$300 per ounce.

The gold price weakness caused gold stocks to fall in August as the NYSE Arca Gold Miners Index (GDMNTR) and the MVIS Global Junior Gold Miners Index (MVGDXJTR)³ both declined 12.5%. The underperformance was reminiscent of February when GDMNTR lagged gold by 8%. By July, the miners had clawed back the performance they had lost in February. While we know of no fundamental company news that explains the weakness of gold stocks, we do know of potential selling pressure that could account for it. The Vanguard Group announced that its \$2.3 billion Precious Metals and Mining Fund will change focus in late September to a more diversified mandate that features telecommunications, utilities, materials, and natural resources. The last time Vanguard changed the fund's mandate was also at a low in the gold market. In 2001, "gold" was dropped from the fund's name, enabling a broader portfolio that included other metals. The fund subsequently endured the secular gold bull market with as much as 50% of its portfolio in non-gold stocks. As of June 30, the Vanguard fund was approximately 77% invested in gold, silver, and other precious metals stocks. We are afraid that Vanguard is missing the gold boat once again. *The Wall Street Journal* reports that Vanguard forecasters have increased the odds of a recession, while warning of poor prospects for the U.S. stock market. Vanguard puts the chances of a recession in the next two years at 30-40%, its highest-ever estimate for that time frame. Vanguard has a noteworthy track record in this respect, having placed a greater than 40% probability of recession six months before the December 2007 recession. If these forecasts are right, perhaps Vanguard's shareholders will wish they had kept their precious metals fund.

Gold is a unique asset class due to its uncorrelated nature and its ability historically to perform well amidst global financial turmoil. We think of it as financial insurance. Like health or auto insurance, a small allocation can go a long way when hardship occurs. At VanEck, we have been committed to providing funds dedicated to gold stocks since 1968. There are times, such as now, when it might seem painful to hold a gold position. Some investors may, meanwhile, try to time their gold allocation to minimize the impact of market lows. Regardless of how investors choose to use gold, we aim to provide quality gold products for our clients whenever they feel the need for a financial hedge.

Market Outlook

While it was disappointing to see gold fall below \$1,200 per ounce, current extreme positioning (also characteristic of the lows in 2001) suggests the price will not remain at these levels. Gold has established a long-term base in the \$1,100 to \$1,365 range. We now expect some consolidation around the \$1,200 level, followed by short covering and seasonal strength that potentially moves the price higher over the remainder of the year. We believe the Turkish crisis is symptomatic of a larger trend that eventually benefits gold. According to a report by Gluskin Sheff + Associates⁴, since 2009, the world's central banks have injected a mind-numbing \$13 trillion of stimulus into the financial system. They are now beginning to withdraw that stimulus. The U.S. Federal Reserve has so far raised interest rates seven times and will likely increase its securities selling from \$30 billion to \$50 billion per month in October. The Bank of England has stopped easing. The European Central Bank plans to stop adding to its balance sheet next year and may begin to raise rates. As the liquidity that fueled the expansion is slowly drained away, those areas of the financial system that are most vulnerable will be the first to fail. We believe Turkey was the first domino to fall, with its years of monetary mismanagement and over-borrowing made possible by low rates and ample liquidity. Bank for International Settlements (BIS) data shows \$3.7 trillion of U.S. dollar-based loans have gone into EM countries. As central banks continue to tighten, we expect more Turkeys to come out of the woods. The U.S. may find it hard to remain an island of prosperity.

Most gold companies have ample flexibility to weather a slump in gold prices. Debt has been reduced to levels that are manageable at lower gold prices and many companies have no net debt. The average all-in mining cost for the majors and mid-tiers is around \$835 per ounce, while our portfolio is \$20 below the average cost. Mining costs exclude exploration, capital projects, and other administrative costs. When accounting for all the money companies are spending, using a gold price of \$1,200, BofA Merrill Lynch Research estimates aggregate industry free cash flow of \$2 billion in 2018, rising to \$7.3 billion in 2020. While we expect to see higher prices in the fall, we always consider industry fundamentals should prices decline further than expected. At \$1,100 per ounce, free cash flow goes to \$0 in 2018 and trends to \$2.7 billion in 2020. At the \$1,100 level we would expect companies to trim discretionary expenses and postpone new mine development. Approximately 10% of global production has all-in mining costs above \$1,100 per ounce; therefore, there could be a few high-cost mines that consider curtailed production or closure.

*All company weightings, if mentioned, are as of August 31, 2018, unless otherwise noted.

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¹U.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. ²NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ³MVIS® 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. ⁴Gluskin Sheff + Associates Inc., a Canadian independent wealth management firm, manages investment portfolios for high net worth investors, including entrepreneurs, professionals, family trusts, private charitable foundations, and estates.

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

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About VanEck International Investors Gold Fund: 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, or political, economic or social instability. The Fund is subject to risks associated with investments in Canadian issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, gold-mining industry, derivatives, emerging market securities, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

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Diversification does not assure a profit or protect against loss.

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Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider a Fund's investment objective, risks, 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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