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Strong Year for Gold Despite Post-Election Stress

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 0.69% for the one-month period ending December 31, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned 1.11% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	0.69	53.12	-12.93	-1.29
Class A: Maximum 5.75% load	-5.11	44.27	-13.95	-1.88
GDMNTR Index	1.11	54.35	-15.40	-5.14

Average Annual Total Returns (%) as of September 30, 2016

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	5.85	96.87	-9.72	2.83
Class A: Maximum 5.75% load	-0.25	85.56	-10.79	2.22
GDMNTR Index	3.77	95.20	-12.59	-1.83

†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.**

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

It looks as if gold is now consolidating the losses experienced since the November U.S. presidential election. Gold reached its lows for the month of December at $1,137 per ounce following the Federal Reserve's (the "Fed") December 14 announcement to increase the targeted federal funds rate[2] by 25 basis points. The Fed's decision also caused the U.S. Dollar Index (DXY)[3] to jump to new highs. Gold finished the month at $1,152.27 per ounce, down $20.98 (1.8%). Net redemptions in the gold bullion exchange traded products (ETPs) continued their post-presidential election slide, although the pace tapered at yearend. Since the Trump victory, there have been net outflows of 7.2 million ounces in global bullion ETPs, bringing net inflows for the year to a still impressive 11.8 million ounces.

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 for performance current to the most recent month end.

Gold stocks were also in consolidation mode, as the NYSE Arca Gold Miners Index (GDMNTR) gained 1.1% and the MVIS™ Junior Gold Miners Index (MVGDXJTR)[4] fell 2.0%.

There were two unrelated developments in December that the markets largely ignored which we believe could have positive implications for gold in the longer term. On December 4, Italian voters rejected a constitutional referendum that effectively became a vote of no-confidence for Prime Minister Matteo Renzi, who promptly resigned. This is the latest in a string of populist victories around the globe driven by voters frustrated with established political parties that have been unable to bring policies that generate needed jobs. Instead, post-crisis policies have brought an unprecedented coordination of regulations, monetary experiments, austerity, and debt expansion. The outcome of the referendum has empowered opposition parties in Italy who question whether the country should remain in the European Union (EU). The implementation of Brexit in 2017 poses significant risks to the European economy and the Italian referendum is further evidence of a broader movement that undermines the EU. Important elections will be held in the Netherlands (March 2017), France (April 2017), and Germany (August - October 2017). Gold could benefit if risks of an EU breakup increase.

On December 5, a second potentially favorable development for gold occurred when the Shari'ah Standard on Gold (the "Standard") was released by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).[5] The Standard, for the first time, sets out specific rules for the use of gold as an investment in the Islamic finance industry. Until now, there have been no such rules which has led to confusion over whether or not Islamic households are permitted to invest in gold. Those who wanted to own gold were compelled to invest only in jewelry. The Standard also rules that it is permissible to invest in gold mining stocks. This opens a significant segment of the global population that already has an affinity for gold to initiate potential investments in gold bars, coins, ETPs, and stocks.

Market Outlook

While the post-election performance of gold and gold stocks has been disappointing, 2016 overall remained a strong year and a major turning point for gold investments. Gold gained $91 per ounce or 8.6% in 2016 for its first annual gain in four years. But gold stocks stole the show, with gains of 54.4% for GDMNTR and 75.1% for MVGDXJTR.

There are several reasons for the spectacular performance of gold stocks including:

- A rebound from 2015 bear market levels that were very oversold as the industry fell out of favor with investors who had been avoiding the sector, driving valuations to record lows
- Gold companies impressed investors with their cost controls, operating results, and overall financial discipline
- Earnings leverage to the gold price

Strong performance like what was experienced in 2016 is common at major turning points in the gold market. For example, the GDMNTR gained 80% in 2002 and in 2009 the index rose 37%.

If 2016 taught us anything, it is that whatever the consensus says is going to happen in economics, investments, or politics in the coming year will probably be wrong. This year the Fed is again showing optimism towards the U.S. economy, guiding for three rate increases in 2017. The market responded in December by selling gold and driving the U.S. dollar higher. The Fed, however, has had a dismal forecasting record and we see no reason to believe that 2017 will be any different. At this time last year the Fed was guiding for four rate increases in 2016, yet there was only one.

The Trump honeymoon with the stock market is in full bloom, as the financial media prepares to celebrate should the Dow Jones Industrial Average (DJIA)[6] cross 20,000 points. The stock market is reflecting a consensus for robust economic growth, and the Trump administration certainly has the potential to implement policies that promote growth. However, it seems the market is ignoring many potential risks the new administration may face. These include attempting to change trade treaties, immigration policies, Democrats and deficit hawks in Congress, the national debt, and Fed tightening. Potential moves by China or Russia, disarray in the EU, and strife the Middle East could also impact the administration's efforts. We believe many of these risks will surface in 2017, reversing the positive sentiment in the stock market and U.S. dollar to gold's benefit.

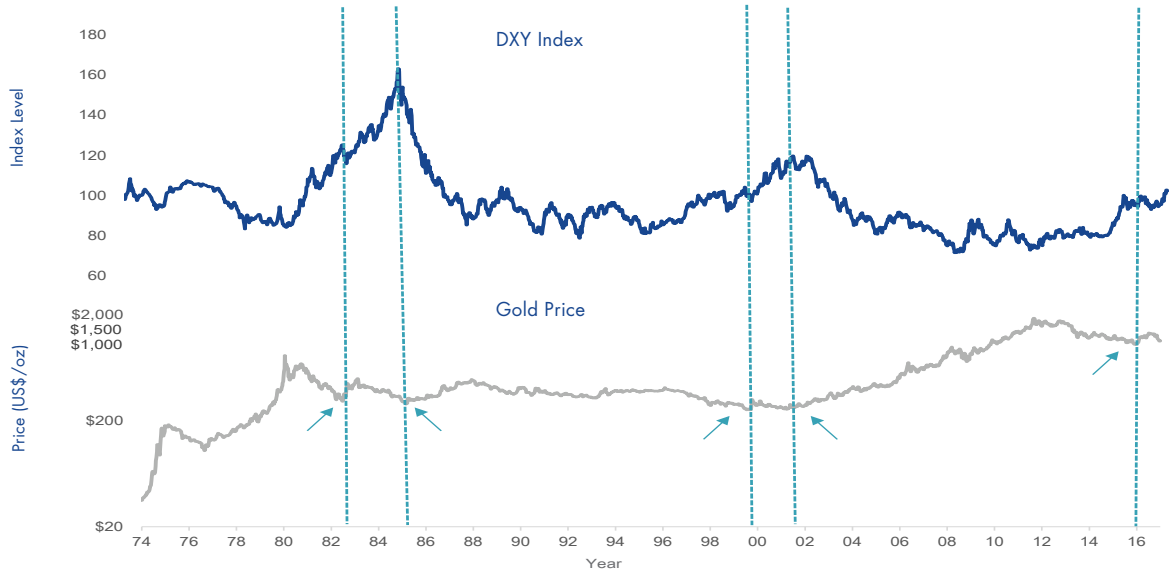
Through most of 2016 we had been very bullish on gold, believing it had embarked on a new bull market. This belief was based on fundamentals, which included unprecedented levels of peacetime

sovereign debt and monetary policies, such as quantitative easing[7] and negative rates, which distort markets and pose systemic risks. While we were premature in forecasting a new gold bull market, we continue to believe these risks will ultimately drive gold to new highs. However, the turn the markets took following the U.S. presidential election took us entirely by surprise. The positive sentiment towards gold proved to be fickle and it appears the market will need more substantial evidence that the risks we see coming are in fact imminent.

We now characterize 2016 and 2017 as a base-forming phase for gold, probably a precursor to a bull market. The bear market trend from 2011 to 2015 has clearly been broken and 2016 showed us that investors are becoming quite skittish of systemic financial risks.

The following chart shows where gold might be in the context of similar markets of the past. Gold has a strong negative correlation[8] with the dollar. This is shown by the peaks and troughs on the gold chart roughly correlating with the troughs and peaks respectively on the U.S. dollar chart. The U.S. dollar has been in a bull market since 2011 that is now similar in magnitude to bull markets of the early eighties and late nineties. These all correspond to bear markets for gold. As the dollar approached its peaks in 1985 and 2001, gold formed a double-bottom before embarking on new bull markets. In 1985, gold began a cyclical bull phase within a longer-term secular bear market. In 2001, gold began a historic secular bull market. It now looks like December 2015 was the first low for gold in this cycle. What remains unclear is whether the second low in a double-bottom was set in December 2016 or whether there is further weakness to come. In any case, it looks like gold is forming a base and historical analysis suggests that downside is limited.

Historically, U.S. Dollar Strength Corresponds to Weakness in the Gold Price



Source: Bloomberg. Data as of December 30, 2016

All company weightings, if mentioned, are as of December 31, 2016 unless otherwise noted.

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.

[1]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. [2]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. [3]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. [4]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. [5]The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is the recognized world leader in Islamic finance standards, and its rulings are widely accepted across the majority of Islamic markets. [6]The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. [7]Quantitative easing (QE) is an unconventional monetary policy used by a central bank to stimulate an economy when standard monetary policy has become ineffective. [8]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.

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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, 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.

Diversification does not assure a profit or protect against loss.

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 the 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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