Making Sense of the Mega Merger Mania

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 (the “Fund”) returned 0.24% for the one month period ending February 28, 2019 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR) returned -1.58% for the same period.

Average Annual Total Returns (%) as of February 28, 2019

<table>
<thead>
<tr>
<th></th>
<th>1 Mo†</th>
<th>1 Yr</th>
<th>5 Yr</th>
<th>10 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A: NAV (Inception 2/10/56)</td>
<td>0.24</td>
<td>-0.83</td>
<td>-2.46</td>
<td>-0.23</td>
</tr>
<tr>
<td>Class A: Maximum 5.75% load</td>
<td>-5.48</td>
<td>-6.48</td>
<td>-3.62</td>
<td>-0.83</td>
</tr>
<tr>
<td>GDMNTR Index</td>
<td>-1.58</td>
<td>5.32</td>
<td>-1.94</td>
<td>-2.84</td>
</tr>
</tbody>
</table>

GDMNTR Index: 10.77, -8.55, 0.95, -3.52

Market Review

The gold price had advanced in January with the U.S. Federal Reserve’s dovish response to the December stock market volatility. This provided the momentum for gold to move to a new yearly high of $1,346 per ounce on February 20. Gold then pulled back to finish the month with a loss of $7.90 (0.6%) at $1,313.31.

In early March, gold has fallen to the $1,290 level. Following gold’s strong 2019 performance, it is too early to tell if this pullback is a consolidation within an uptrend or a return to the sideways range-bound trading that has characterized the price pattern since 2013.

The strong central bank buying that characterized 2018 seems to be continuing. China purchased gold for the second consecutive month, buying about 12 tonnes in January. Azerbaijan has decided to nearly double its gold holdings to 100 tonnes. Meanwhile, Romania has announced plans to move its 103 tonnes of gold reserves from London to in-country vaults.

For the month, gold stocks slightly underperformed gold. The NYSE Arca Gold Miners Index declined 1.58%, while the MVIS Global Junior Gold Miners Index fell 1.23%.

Market Outlook

The stock market has become a headwind for gold as the S&P® 500 Index is once again poised to make a run at new all-time highs. Complacency is creeping back, which weighs on safe haven investments. Each Fed Chairman since Alan Greenspan has been accused of protecting the stock market with monetary policies. Chairman Jerome Powell was thought to be more hawkish and immune to the whims of the market as he took office. However, the Fed’s policy pause in response to stock market volatility in December has shown Powell to be as sensitive to the markets as his predecessors.

David Rosenberg of Gluskin Sheff believes the proliferation of leveraged exchange traded funds (ETFs), quantitative models, algorithmic trading, and momentum investing are all perpetuated by central bank suppression of risk.
now and our return to the junior sector. Ten years after the financial crisis, and economies are so fragile that central banks are still being called to the rescue.

Weakness in housing, automobiles, retail, and manufacturing combined with the lagged effects of the Fed’s tightening in 2018 could again weigh on the stock market in 2019. Another selloff may be the catalyst gold needs to break through its price range.

Examining the Potential Newmont/Barrick Merger

Merger and acquisition activity has now reached the ultimate level in the gold industry. It started with the September announcement of the friendly Randgold Resources/Barrick Gold (6.2% of net assets) merger, which was essentially a reverse takeover that left Randgold’s management in charge of the new Barrick. Then, in January, Newmont (5.8% of net assets) announced a friendly takeover of Goldcorp (1.8% of net assets), which goes to a shareholder vote in early April. In each case, the management of Randgold and Newmont believe they can do a better job of creating value than the previous management of their respective takeover targets.

Barrick and Newmont have spent the last five years downsizing by disposing of non-core properties, streamlining management, and strengthening their balance sheets. Now, in a stark reversal of strategy, they want to grow through mega-mergers. Newmont’s management style is akin to a modern corporate structure, while Barrick under Randgold is more decentralized and entrepreneurial. Each believes their respective management and assets are superior. We will look for evidence of their success, or lack thereof, in unlocking value with their quarterly reporting. In the fullness of time we will find out if their focus on shareholder returns, operating discipline, and innovation are enough to ensure success, and whether one is more effective than the other. We hope competition in the free market brings out the best in both.

In addition to the considerable skills needed to manage so many mines, it may be geologically impossible to sustain a gold company that is as large as these companies are becoming. Absent mergers, the size of a gold company is fundamentally limited by geology. The tier-one properties (with low-cost reserves of over five million ounces) that make up the core of the supermajors portfolios are freaks of nature and extremely rare. Gold deposits are generally limited in size and often discontinuous, with chemistry and rock conditions that can be challenging to manage. Companies have been searching for tier-one gold deposits for nearly 200 years and the surface of the planet has been thoroughly explored. They must search deeper with less success as discoveries become fewer every year.

Now, coinciding with the BMO Global Metals and Mining Conference on February 25, Barrick announced a hostile no-premium bid for Newmont that is contingent on cancelling the Goldcorp deal. Barrick believes it can unlock value in Newmont that would not surface if the Goldcorp transaction is allowed to proceed. This would create a super-duper major the likes of which have never been seen before in this business. Shareholders will soon decide whether Newmont is better off with Goldcorp or Barrick.

Barrick figures that roughly two-thirds of the added value of a merger will come from unitizing their Nevada operations. Newmont and Barrick combined produce about four million ounces per year from the state of Nevada, one of the most prolific gold regions in the world. This comes from operations scattered within a 100 x 100 mile area centered on the Interstate 80 corridor between Winnemucca and Carlin, Nevada. Within Nevada, Barrick has higher production and lower costs, while Newmont has more processing infrastructure. Without Nevada, most of the rationale for the merger disappears.

While we do not know whether Barrick’s bid for Newmont will be successful, it does focus attention on the potential gains that unitizing Nevada would generate for both companies. My experience as a geologist in Nevada, and knowledge of the two companies, suggests there is significant value to be gained from merging their Nevada operations. However, shareholders do not have the data, resources, or technical expertise to comprehensively evaluate such a colossal project. We must trust management within the companies we own to do this work. On March 4, Newmont released a Nevada joint venture term sheet in response to Barrick’s hostile offer. Barrick has not yet responded. If these two adversaries cannot come to terms on Nevada, we call on them to prioritize their shareholder’s interests by publishing a joint definitive feasibility study that quantifies this value and articulates plans to unlock it for all to see. Once this is done, the best path forward should become obvious.

Commitment to Juniors

Finally, lost amid all this mega-merger mania are the junior companies at the other end of the spectrum. In this range-bound gold price environment, there is little investor interest in the juniors. However, we continue to maintain a portfolio of junior developers with good projects. Our latest addition is Bellevue Gold (0.7% of net assets), an Australian company with an exciting high-grade discovery that recently surpassed the million ounce resource threshold. In this market, we expect our patience to pay off once investors return to the junior sector.
All company, sector, and sub-industry weightings as of February 28, 2019 unless otherwise noted.

Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

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 MVIS Global Junior Gold Miners Index (MVGDXTR) 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. A “safe haven” is an investment that is expected to retain or increase in value during times of market turbulence. Safe havens are sought by investors to limit their exposure to losses in the event of market downturns. 3 Gluskin 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.

NYSE Arca Gold Miners Index is a service mark of ICE Data Indices, LLC or its affiliates ("ICE Data") and has been licensed for use by VanEck Vectors ETF Trust (the “Trust”) in connection with VanEck Vectors Gold Miners ETF (the “Fund”). Neither the Trust nor the Fund is sponsored, endorsed, sold or promoted by ICE Data. ICE Data makes no representations or warranties regarding the Trust or the Fund or the ability of the NYSE Arca Gold Miners Index to track general stock market performance.

ICE DATA MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE NYSE ARCA GOLD MINERS INDEX OR ANY DATA INCLUDED THEREIN. IN NO EVENT SHALL ICE DATA HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

MVIS Global Junior Gold Miners Index (the “Index”) is the exclusive property of MV Index Solutions GmbH (a wholly owned subsidiary of Van Eck Associates Corporation), which has contracted with Solactive AG to maintain and calculate the Index. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards MV Index Solutions GmbH, Solactive AG has no obligation to point out errors in the Index to third parties. The VanEck Vectors Junior Gold Miners ETF (the “Fund”) is not sponsored, endorsed, sold or promoted by MV Index Solutions GmbH and MV Index Solutions GmbH makes no representation regarding the advisability of investing in the Fund.

Please note that the information herein represents the opinion of the author, but not necessarily those of VanEck, and this opinion may change at any time and from time to time. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results. Current data may differ from data quoted. Any graphs shown herein are for illustrative purposes only. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck.

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.

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 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.

©2019 VanEck.