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Investment Demand Sustaining Gold's Run

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 10.3% for the one-month period ending July 31, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned 10.1% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	10.28	116.26	-9.83	3.50
Class A: Maximum 5.75% load	3.91	103.68	-10.89	2.89
GDMNTR Index	10.06	124.13	-10.65	-1.24

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	23.19	58.06	-10.66	2.48
Class A: Maximum 5.75% load	16.07	48.89	-11.72	1.87
GDMNTR Index	22.74	57.93	-11.63	-2.17

†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

Following the June 23 Brexit vote when the U.K. chose to withdraw from the European Union, bond yields fell to record lows and gold rallied to two-year highs, reaching $1,375 per ounce on July 6. In the U.S., subsequent strong economic results in manufacturing, retail sales, and housing created U.S. dollar strength and gold consolidated its Brexit gains, declining to $1,310 per ounce on July 21. However, as was the case throughout the post-crisis expansion, good economic news doesn't last long and the month ended with disappointing durable goods and pending home sales reports, along with second quarter GDP growth of just 1.2%. The U.S. dollar reversed course and the gold market demonstrated its resilience, advancing to end the month with a $28.80 per ounce (2.2%) gain to finish at $1,351 per ounce.

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.

Silver is fulfilling its role as a leveraged proxy for gold with a new post-Brexit high of $21.14 per ounce and a monthly gain of 8.7%. The buying in silver was led by China with heavy volumes on both the Shanghai futures and gold exchanges.

As we have pointed out repeatedly this year, and discussed in detail in our June commentary, gold companies are well managed, and gold stocks provide leverage to gold since valuations remain attractive. Therefore it is no surprise that stocks enjoyed another surge higher in July. The NYSE Arca Gold Miners Index (GDMNTR) gained 10.1% and the MVIS Global Junior Gold Miners Index[2] (MVGDXJTR) gained 16.8%. Strong equity gains are typical in the early stages of a gold bull market. For example, VanEck International Investors Gold Fund gained 90.8% in 2002, the first full calendar year of the 2001 to 2011 bull market. While there were no subsequent years with returns in excess of 90%, there were many years with double digit returns that outpaced gold's performance over the same timeframe.

Market Outlook

We are beginning to witness, once again, the unintended consequences of monetary policies that have remained too easy for too long. Because of extremely low rates, bonds no longer fulfill their historic purpose of capital preservation and portfolio security. A *Wall Street Journal* article by Timothy W. Martin published on May 31 shows that the expected return of a portfolio made up entirely of bonds was 7.5% in 1995. To achieve the same return in 2015, a portfolio would need to hold only 12.5% bonds and 87.5% in stocks, real estate, and private equity. This portfolio allocation would carry nearly triple the volatility of the bond-only portfolio.

Policy makers seem to be focused on solutions to previous problems without realizing that excesses are going to create additional issues. For example, an odd thing happened after Brexit – stocks ignored the risks Brexit posed to the global economy and the S&P 500®[3] advanced to all-time highs. Markets rallied in the belief that more central bank stimulus would be forthcoming. Bonds also moved to all-time highs. The traditional negative correlation between bonds and risk assets, including stocks, no longer applies thanks to meddling by central banks that have caused asset price inflation (or bubbles) in both these asset classes.

Negative yielding sovereign debt in Japan and Europe totals over $13 trillion now, according to a recent Bank of America Merrill Lynch analysis. We believe U.S. rates are not far behind; from a firsthand experience, I recently received a CD rollover notice from my local megabank branch with a yield of only 3 basis points (0.03%). Negative yields lock in a capital loss if held to maturity. The only way to come out ahead is when negative yields are accompanied by deflation in excess of the yield rate. However, deflation comes with its own drawbacks, namely, bank failures, job loss, and depression. Without deflation, there is a limit to how much further yields can fall and for how long they stay in place before savers abandon the banking system to hold cash, despite the inconvenience that option brings. Or perhaps as an alternative, they look to hold gold since it exists outside of financial authority, cannot be a target of financial repression, and carries virtually no counterparty risk.

As central banks buy up more bonds and more bonds move into negative yields, investors search among a smaller pool of substitutes and trades get crowded for higher risk alternatives. According to the *Wall Street Journal*, higher prices for stocks, bonds, and real estate have caused net wealth to swell to over 500% of national income in the U.S. This has happened only twice historically – just before the tech bust and just before the housing bust. By definition, black swan[4] events are nearly impossible to predict. However, with the imbalances and extremes present in the markets today, we must assume that the odds are increasing for an unforeseen calamity. The further bond prices rise (and rates fall) the greater the risk is to bond values from even moderate increases in inflation and interest rates. One possible crisis scenario might involve higher than expected consumer price inflation that crushes negative yielding bonds, causing liquidity to dry up as investors rush for the exits and sell assets to cover losses.

Mervyn King, Governor of the Bank of England from 2003 to 2013, was interviewed in the World Gold Council's June edition of *Gold Investor* and said, "The risk is that we just muddle through with a prolonged period of very low growth. The longer that goes on, the more output we will have lost in the interim. And in the long run, it makes another crisis more likely because, if everyone is relying on monetary policy and it isn't the answer, we won't get back to a new equilibrium. We do need to make that jump at some point so the question is do we get there as a result of active, conscious policy decisions and cooperation between countries or will it only happen as the side-effect of another crisis."

There was heavy investment demand for gold following the 2008 financial crisis. We are seeing a similar level of investment demand in

2016, as many are preparing their portfolios for the next possible crisis. Gold and gold shares declined with other markets in the massive selloff in 2008. However, both gold and gold equities bottomed in October 2008 and then made a strong recovery. The action in the current gold markets indicates that investors have become more proactive, buying gold as a hedge against future turmoil. This suggests that gold is now more broadly recognized as a hedge against financial stress. With this recognition, if there is another crash, perhaps gold will not see the same selling pressure as the broader markets.

Historically, there is a seasonal pattern to gold prices dependent on physical demand trends. Often, there is weakness in the summer when jewelry demand, primarily from China and India, is low and trading volumes decline. Seasonal strength often occurs from August to January, beginning with the Indian festival season and ending with Chinese New Year. Gold demand from China has been weak and India has been even weaker. The Indian Finance Ministry reported 218 tonnes of imports in the first half, a 52% decline from the first half of 2015. This is to be expected as Indian, and Asian demand overall, usually declines when the price is rising as gold investors in these regions tend to wait for price weakness to restock. Changes to Indian demand may be coming though. The Indian monsoons have been good this year which boosts crop output and the ability of rural farmers to potentially increase their gold savings, and the Diwali festival begins October 30. In addition to the macro drivers, seasonal strength may provide a boost to gold prices as the New Year approaches. This summer, any seasonal price weakness has been offset by gold's appeal following the extraordinary Brexit rally which has delayed the return of the normal gold market patterns. This pattern has been absent for several years due to the relentless selling pressure during the gold bear market. However, shorting gold has been a very risky bet in 2016. Now that the gold bears are on the run, perhaps seasonality will again influence the market.

All company weightings as of July 31, 2016 unless otherwise noted.

[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 (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. [3]S&P 500® Index (S&P 500) consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation). [4]A black swan is an event or occurrence that deviates beyond what is normally expected of a situation and is extremely difficult to predict; these events are typically random and are unexpected.

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666 Third Avenue | New York, NY 10017
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