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Gold Bull Market Loses Some Shine, But Remains Healthy

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 5.85% for the one-month period ending September 30, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned 3.77% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

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

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	-11.62	-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

Gold was range-bound in September, moving in the $1,300 to $1,350 per ounce range. Economic news from the U.S. was generally weak and central bank announcements were supportive of gold. The Federal Reserve (the "Fed") kept rates on hold and downgraded its median GDP growth projection for 2016 to 1.8% from 2.0%. The Bank of Japan (BOJ) acknowledged that negative rates and quantitative easing are not working as well as planned, so it decided to experiment further with unconventional monetary policies. The BOJ is now targeting the yield curve and attempting to keep 10-year Japanese Government Bonds (JGBs) sufficiently above shorter-term negative-yielding maturities. This initiative is aimed at aiding banks, pension funds, and insurance companies who are having difficulty making ends meet in this low/negative rate environment the BOJ and other central banks have engineered. We believe that these

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.

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ongoing attempts to manipulate markets will lead to unintended consequences that raise systemic risk.

Gold bullion ended the month at $1,315.75 per ounce for a 0.5% gain, while gold stocks experienced more positive returns. The NYSE Arca Gold Miners Index (GDMNTR) posted a 3.8% gain while the MVIS™ Junior Gold Miners Index (MVGDXJTR)[2] advanced 5.8%.

Market Outlook

Gold had been consolidating in a narrow $1,300 to $1,350 per ounce range since hitting its post-Brexit highs in July. As we write in early October, markets are again pricing in a higher likelihood of a Fed rate increase in December based on comments made by Fed members following its September meeting. This, in turn, is lending strength to the U.S. dollar. As a result, gold has fallen below $1,300 per ounce and broken below the longer-term trend line that had been established this year. This leads us to be less aggressive in our gold price expectations for 2016. It looks like the current consolidation could persist through October, dependent on any economic news that develops. However, this price action changes virtually nothing in our positive long-term outlook for gold. Price weakness is likely to spur seasonal demand out of India and Asia. We continue to believe that a Fed rate increase would ultimately be seen as another misstep that puts global growth at risk. In addition, the U.S. presidential election, implementation of Brexit, and further loss of confidence in central bank policies should support gold through 2017 and beyond.

Each year in mid-September, top managements of gold companies converge on Colorado for the Precious Metals Summit and the Denver Gold Forum. Based on our 41 meetings, eight presentations, and numerous dinners, gatherings, and interactions with industry contacts, we came away with a more refined outlook for the gold mining sector. Here are some important takeaways:

- **Costs savings continue, margins expanding** – We questioned whether the cost cycle had run its course after all-in sustaining (mining) costs fell from roughly $1,200/oz in 2012 to $900/oz in 2016. We were surprised to hear companies anticipate continued savings in mining practices, technology implementation, procurement (the act of finding, acquiring, buying goods, services or works from an external source), and contractor costs. We now believe industry costs can trend towards $800/oz through 2018.

- **Companies focused on organic opportunities** – Low gold prices forced companies to look inward at existing operations and projects. Success with brownfields exploration (modification or upgrades based on a prior project) have led to expansions or extended mine lives. Revised planning has enabled development projects to require less capital with higher rates of return and phased expansions.

- **Heavy M&A cycle not likely until late 2017/2018** – With more organic opportunities, there is not as much pressure to make acquisitions in the near-term. That said, corporate development teams were quite active, suggesting some companies are preparing to pull the acquisition trigger at some point to replace future production declines.

- **Dividend increases to be limited in 2017** – We had hoped to hear of strong dividend growth in 2017, however, we now believe any increases will be limited due to capital allocations to existing property developments and in some cases to further help pay down debt.

- **Ongoing industry themes** – An emphasis on free cash flow over production growth, flat management structure, mine management focused on Net Asset Value (NAV) growth, use of double digit hurdle rates at conservative gold prices on new projects, partnering with juniors for exposure to greenfields (a property or project where no previous work has been conducted).

One of the dominant financial trends of the past decade has been a move by investors out of actively managed funds and into passively managed index funds or exchange traded funds (ETFs). The latest example is the Illinois State Pension Board, which according to *The Wall Street Journal*, decided to jettison active mutual fund managers altogether, leaving only passively managed choices for its state workers. The reasons cited for the move into ETFs included lower fees and potentially better performance as many active managers fail to outperform their passive peers. We have witnessed this recent preference for ETFs here at VanEck. This year we have seen strong net inflows into VanEck Vectors™ Gold Miners ETF (GDX), while our actively managed VanEck International Investors Gold Fund (INIVX) has experienced small net outflows.

Although both actively and passively managed options, including INIVX and GDX (and their respective peers), provide investors leveraged access to the gold market, there are distinct characteristics of each that must align with an investor's objective in making a decision to add gold mining exposure. All gold equity investment options may not provide the same benefits.

The rationale behind choosing the passively managed approach is evident in the genesis of GDX, which launched in 2006 as the first gold miners ETF offered in the U.S. The underlying index for GDX is the NYSE Arca Gold Miners Index (GDMNTR) and when VanEck partnered with the American Stock Exchange (predecessor to NYSE Arca), the goal was to create a new market-cap weighted index that would provide investors with a better overall representation of the global gold mining industry. The Index also included silver companies because silver is highly correlated with gold. As the only two monetary metals, all other metals companies were excluded. Importantly, in creating the Index, position size was capped so that the Index could not be dominated by a handful of companies.

VanEck Vectors™ Gold Miners ETF (GDX) soon followed the creation of this Index and certainly provides some unique benefits, potentially not accessible through most actively managed strategies. GDX offers broad, diversified exposure to gold miners, is highly liquid, easy to trade, carries low fees, and supports a deep options market. It may also capture broad themes such as exploration successes, operating improvements, and cost reductions that are ongoing across the gold mining sector.

Whereas GDX attempts to reflect the complete global gold mining space, the actively managed VanEck International Investors Gold Fund (INIVX) affords investors the opportunity to add gold mining exposure through a more specialized approach. In contrast to its passively managed counterpart, INIVX employs an investment methodology that spans nearly 50 years which seeks to identify specific companies from the broader universe, with a particular focus on junior and mid-tier firms that possess long-term growth potential. As of September 30, 2016, INIVX (at NAV) has outperformed its benchmark, the GDMNTR, in each of the 1-, 3-, 5-, and 10-periods and by almost 4% year-to-date. Additionally, INIVX has outperformed the benchmark in 10 of the last 15 calendar years.

Both INIVX and GDX share many similarities and provide investors with the ability to diversify their portfolios with an exposure to gold equities. Investors are able to benefit from the experience, research process, and active stock selection that drives INIVX. Likewise, GDX has a strong track record of performance compared to its passive peers and remains a cost effective solution.

Although gold has experienced some consolidation recently, we still maintain our positive outlook for the metal and believe that investors would be wise to consider their exposure to gold stocks, either passively or actively, as these equities typically outperform gold bullion in a rising market and underperform when gold falls.

All company weightings as of September 30, 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]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.

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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. VanEck International Investors Gold 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.

About VanEck Vectors Gold Miners ETF (GDX): An investment in the Fund may be subject to risks which include, among others, competitive pressures, dependency on the price of gold and silver bullion which may fluctuate substantially over short periods of time, periods of outperformance and underperformance of traditional investments such as bonds and stocks, and natural disasters, all of which may adversely affect the Fund. Foreign investments are subject to risks, which include changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, and changes in currency exchange rates which may negatively impact the Fund's return. Small- and medium-capitalization companies may be subject to elevated risks. The Fund's assets may be concentrated in a particular sector and may be subject to more risk than investments in a diverse group of sectors.

ETF shares are not individually redeemable and will be issued and redeemed at their NAV only through certain authorized broker-dealers in large, specified blocks of shares called "creation units" and otherwise can be bought and sold only through exchange trading. Creation units are issued and redeemed principally in kind. Shares may trade at a premium or discount to their NAV in the secondary market. You will incur brokerage expenses when trading Fund shares in the secondary market.

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, and 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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