Scoping the Progress of ESG in Gold Mining

By Joe Foster, Portfolio Manager

VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Positive Growth Outlook Depresses Gold

The gold price trended lower in February, as a favorable growth outlook caused a continued sharp rise in Treasury yields, driven by increasing odds of more fiscal stimulus, declining Covid infection rates and strong retail sales and manufacturing data. Higher rates also allowed the dollar to firm, adding further headwinds to gold. Gold reached its low for the month on February 26 at $1,717 per ounce and finished at $1,734.04 per ounce for a $113.61 (6.2%) loss.

Many of the larger gold companies have released their year-end results and guidance, which have been in line with expectations both operationally and financially. Moves to enhance returns to shareholders continue, as Newmont Corporation (6.6% of net assets*), Barrick Gold Corporation (5.0% of net assets*) and Gold Fields Limited (2.3% of net assets*) each increased their dividends to yields of over 3.5%. Despite that good news, gold stocks sold off with gold, as the NYSE Arca Gold Miners Index (GDMNTR)[1] fell -9.62% and the MVIS Global Junior Gold Miners Index (MVGDXJTR)[2] declined -8.32%.

Pressure on Gold Could Be Released with Excessive Inflation

Gold's performance this year has been disappointing. Gold prices have been under pressure since the Pfizer vaccine announcement in early November. This, along with the $1.9 trillion stimulus bill, created an outlook for strong economic growth and euphoria in the markets. Gold, as a safe haven, will continue to struggle so long as this outlook prevails, possibly through the first half. Consequently, we have downgraded our near-term outlook from a consolidation to a correction in which we expect gold to trade above $1,600.

We expect a catalyst to emerge in the second half that once again drives gold higher. The most likely catalyst would be excessive inflationary expectations. Inflation expectations have returned to pre-pandemic norms, although a number of developments suggest it could spiral out of control:

- $1.9 trillion of additional fiscal stimulus is likely to be introduced on top of past stimuli, some of which has yet to be spent
- The U.S. Federal Reserve (Fed) continues to purchase $120 billion of Treasuries and mortgage backed securities

Average Annual Total Returns (%) as of February 28, 2021

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-11.85	27.63	12.91	-4.76
Class A: Maximum 5.75% load	-16.29	20.29	11.58	-5.32
GDMNTR Index	-9.62	18.74	11.22	-5.26

Average Annual Total Returns (%) as of December 31, 2020

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	6.81	41.39	23.19	-3.13
Class A: Maximum 5.75% load	0.67	33.26	21.74	-3.70
GDMNTR Index	4.57	23.69	22.45	-4.17

The tables above 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.

†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.

Expenses: Class A: Gross 1.49%; Net 1.45%. Expenses are capped contractually until 05/01/21 at 1.45% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

each month

- Lumber, oil, copper, food staples and other commodities prices have been on the rise, many reaching multi-year highs
- Shortages of semiconductors, shipping containers and truck drivers have been documented
- Many people are content to stay out of the workforce, collecting generous government aid checks
- Purchasing power of American families has reached record highs

Further into 2022, once the trillions of stimulus dollars have been spent, other systemic risk catalysts could emerge, such as a weakening economy, debt problems, dollar weakness and/or black swans caused by radical fiscal and monetary policies. We believe the long-term bull market remains intact and expect prices to ultimately surpass $3,000 per ounce.

ESG Reporting Improves Though GHG Challenges Still Exist

Due to the nature of the business, gold companies have high ESG risks. In our April 2019 and January 2020 Manager Commentaries, we addressed the excellent job companies do in managing these risks. However, historically managements have done a poor job of reporting their ESG activities and accomplishments to the public. That is rapidly changing as ESG gains equal time to operations and finance in reports, meetings and calls with investors. Company websites have entire sections on sustainability, while the quantity and quality of information is improving. We invest in companies that do an excellent job of managing social issues, water, tailings, reclamation, safety and health.

In our view, the most challenging aspect of ESG for mining companies will be greenhouse gas (GHG) emissions. The Paris Agreement has become the accepted standard, calling for net-zero GHG emissions by 2050. While such a goal will be a monumental challenge for all mining companies, some will be less challenged than others. GHG emissions are measured in millions of tonnes of carbon dioxide ($MtCO_2$) and classified as Scope 1 (direct – mainly from mine equipment), Scope 2 (indirect - mainly from the power grid) and Scope 3 (value chain – downstream from the mine). Jeffries Equity Research found 2019 Scope 1 and 2 emissions across 18 large mining companies totals 192.6 $MtCO_2$, while Scope 3 totals 2,467.3 $MtCO_2$. Companies involved in iron ore, bauxite (raw aluminum) and coal carry much higher scope 3 emissions. In the following table, we compare GHG emissions of Newmont, the largest gold company, with BHP Billiton (not held by the Fund), the largest diversified miner:

	Market Cap ($B)	Scope 1	Scope 2	Scope 3	Total ($MtCO_2$)
BHP Billiton (BHP)	$163	9.5	6.3	447.9	517.8
Newmont (NEM)	$48	1.7	1.8	2.1	5.6
BHP/NEM	2.7x	5.6x	3.5x	212.9x	92.5x

Source: Jeffries Equity Research, Bloomberg, VanEck Research.

The table shows that some miners are clearly in another league when it comes to emissions challenges.

ESG Integration Remains A Work in Progress

Amongst the gold miners, Newmont took the lead when in November, the company announced climate targets of a 30% reduction in GHG emissions by 2030, and a goal of net zero carbon emissions by 2050. We conduct ESG meetings with all of the producers in our portfolio and all are in the process of formulating emissions goals that we expect in the coming year. Looking at the large miners that have already set goals, we find strategies that are lacking in detail. The wave of ESG investing has happened too quickly for most heavy industries to get a grip on what exactly net-zero emissions will entail. It is a work in progress. According to a Wood Mackenzie study of 31 major gold mining companies published by the World Gold Council, around 95% of emissions are associated with purchased power or fuel combustion. This means that the miners will rely heavily on power companies and equipment suppliers to meet their goals.

Power Consumption - Based on the current status and known plans of the gold mining industry, Wood Mackenzie finds that the emissions intensity of power used in gold production is estimated to fall by 35% by 2030 as follows:

- The grid power mix of gold producing countries is expected to reduce coal usage from 25% to 18%, while increasing solar and wind from 7% to 19%
- Some companies plan to install solar facilities at mines where feasible, although this represents just 12% of the mines in the study
- A range of small scale efficiency initiatives, such as automation, big data and ore sorting will help

- Some companies have high emissions mines that will scale down or close by 2030

We regard this as the low hanging fruit. Advancements in technology and lower costs for batteries and renewable energy will be needed in order for power consumption to reach net zero by 2050.

Heavy equipment - The other major source of GHG emissions are diesel-powered trucks, loaders, dozers and other mine-site equipment. Kirkland Lake Gold (6.3% of net assets*) and Newmont each have underground mines in Ontario, Canada where most of the equipment is electric. Just five years ago, the battery technology did not exist to enable electric underground equipment to operate efficiently. Coupled with hydro-electric grid power, the carbon footprint is relatively small. These two mines are on the cutting edge of a trend toward electrification of underground mines that we expect to see in the coming decade.

Open pit mines present a bigger challenge than underground mines because they run such massive equipment. Two years ago the International Council on Mining and Metals (ICMM) announced an initiative backed by 27 of the world's biggest miners and 18 original equipment manufacturers (OEMs) to have GHG-free open pit mining vehicles used widely by 2040. ICMM members have reviewed over 650 mines to assess what's needed to reach the program's goals and this year they will look to integrate the initiative into corporate planning processes.

All company, sector, and sub-industry weightings as of February 28, 2021 unless otherwise noted. Source: VanEck, FactSet

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 (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.

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.

About VanEck Vectors® Gold Miners ETF (GDX®) and VanEck Vectors® Junior Gold Miners ETF (GDXJ®): An investment in the Funds may be subject to risks which include, among others, investing in gold and silver mining companies, Canadian issuers, foreign securities, foreign currency, depositary receipts, small- and medium-capitalization companies, equity securities, market, operational, index tracking, authorized participant concentration, no guarantee of active trading market, trading issues, passive management risk, fund shares trading, premium/discount risk and liquidity of fund shares, non-diversified and concentration risks, all of which may adversely affect the Funds. 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 Funds' return. Small- and medium-capitalization companies may be subject to elevated risks. The Funds' assets may be concentrated in a particular sector and may be subject to more risk than investments in a diverse group of sectors.

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.

Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333