

VanEck

FUNDS

# Fear May Be a Headline, But We're Celebrating a Milestone

## VanEck NDR Managed Allocation Fund Review

By David Schassler, Portfolio Manager

NDRMX / NDRUX / NDRYX

### Summary

VanEck NDR Managed Allocation Fund (the "Fund") celebrated its first birthday, having launched on May 11, 2016. In its first year, the Fund has maneuvered through no shortage of exciting events: Brexit, the U.S. presidential election, rising interest rates, potential government policy reform, escalating geopolitical tensions, and the list goes on. All of this uncertainty can be troublesome. Fortunately, uncertainty works to the Fund's benefit since our investment process removes human emotion, which can often lead to the mistakes that can plague performance. This process has led to strong results. Since inception, the Fund has returned 11.27% versus 9.97% compared to its 60% global stocks (MSCI All Country World Index) and 40% bonds (Bloomberg Barclays US Aggregate Bond Index) benchmark. The Fund has also exhibited strong performance relative to its peers in the Morningstar Tactical Allocation category, ranking in the top quartile of the category since inception through the end of April.

In April, the Fund returned 1.29% versus the benchmark return of 1.27%. Asset class positioning was the largest contributor to performance, due to the Fund's significant overweight exposure to stocks relative to bonds. In May, the Fund's exposure to stocks has been reduced from 81.0% to 75.5% and the bond exposure increased from 18.4% to 24.3%.

### Average Annual Total Returns (%) as of April 28, 2017

	1 Mo <sup>†</sup>	Since Inception <sup>†</sup>
Class A: NAV (Inception 5/11/16)	1.29	11.27
Class A: Maximum 5.75% load	-4.52	4.89
60% MSCI ACWI/ 40% Bloomberg Barclays US Agg.	1.27	9.97

### Average Annual Total Returns (%) as of March 31, 2017

	1 Mo <sup>†</sup>	Since Inception <sup>†</sup>
Class A: NAV (Inception 5/11/16)	1.31	9.85
Class A: Maximum 5.75% load	-4.51	3.55
60% MSCI ACWI/ 40% Bloomberg Barclays US Agg.	0.75	8.59

<sup>†</sup>Returns less than a year are not annualized.

Expenses: Class A: Gross 3.60%; Net 1.38%.

Expenses are capped contractually until 05/01/18 at 1.15% 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 net asset value (NAV). An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made. Index returns assume that dividends of the Index constituents in the Index have been reinvested.

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## Weight-of-the-Evidence

The CBOE VIX Index is often referred to as the “fear index” and measures the implied volatility of the S&P 500® Index, or more simply stated, the near-term expectations of price fluctuations in the stock market. Higher index levels indicate that, in general, the market expects higher levels of volatility in the short term. Recently, the CBOE VIX Index has been in the news after plunging to a 10-year low (an intraday reading of 9.9) on May 1. But this is news that we do not use. Here is why.

To put the significance of this low Index level into perspective, the average level of the Index, since inception is 19.67. It has only closed below 10 on nine trading days out of over the 6,000 trading days since 1993. So the CBOE VIX Index at its current low level is indeed a rare event.

Does this mean that higher volatility is on the near-term horizon? Looking just at the 10 trading days when the index closed below 10 offers little to no information. However, if we look at slightly higher levels of volatility, but still extremely low relative to its history, we gain significantly more data points. The table below shows that, historically, very low levels of implied volatility have not translated into higher near-term market risk.

Index Level	# of Occurrences (Days)	Avg. Index Level 30 Days Later	Avg. Index Level 60 Days Later	Avg. Index Level 90 Days Later
<11	136	12.03	12.54	12.93
<12	602	12.36	12.78	13.04
<13	1172	12.80	13.13	13.36

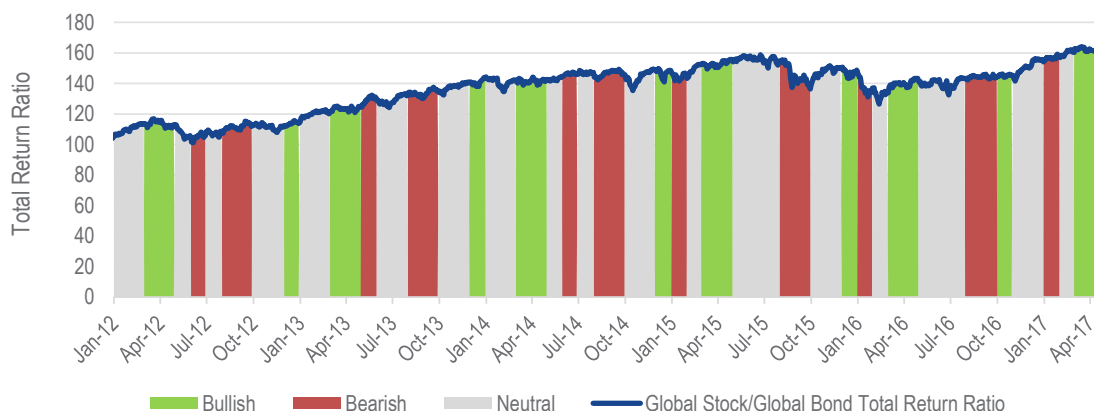
Source: FactSet. Data as of May 1, 2017.

The conclusion is that the CBOE VIX Index at these extremely low levels, in isolation, is not indicative of increased near-term risk. While the volatility of the market is eerily quiet and may feel like “the calm before the storm,” it is news that we cannot use.

One indicator that does give good insight into the direction of future price movements in the market is seasonality. It is a simple yet potent indicator that measures the historical price patterns that result from the market’s recurring tendencies. This indicator is important now because it changed from bullish to neutral in May.

As you can see from the chart below, March and April have been strong performing months for stocks, while the spring and summer months, starting in May and ending in October, have historically lagged.

### NDR Seasonality Indicator, 2012 to 2017



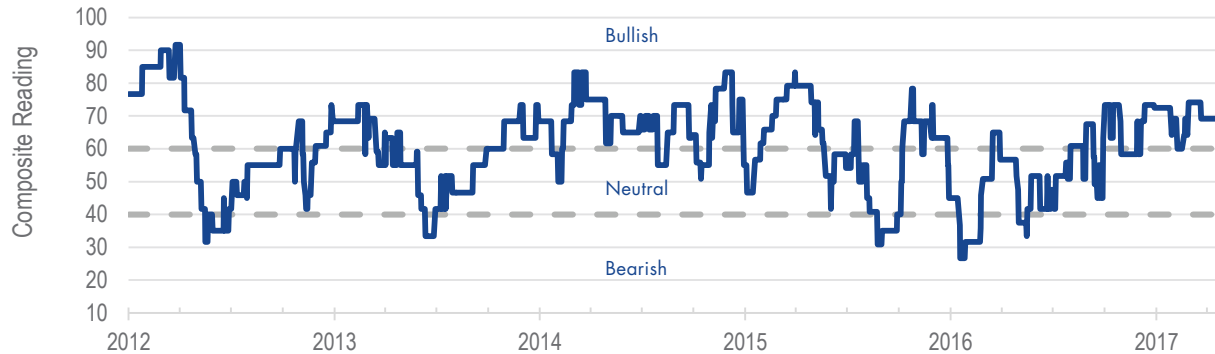
Source: Ned Davis Research. Data as of April 28, 2017.

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Past performance is no guarantee of future results.

Seasonality is the only indicator to change in May, out of 11 indicators that determine the allocation to stocks and bonds. The chart below shows that the Global Stocks/Bond Composite, or aggregation of indicators, is now less bullish. This caused the stock allocation to decrease from 80.9% to 75.5%.

**NDR Stock/Bond Overall Composite Indicator 2012 to 2017**



Source: Ned Davis Research. Data as of April 28, 2017.

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## April Performance Review

The start and end of April were very different. The first half of the month was dominated by geopolitical risks, primarily the escalating tensions between the U.S. and both Syria and North Korea. This sent the S&P 500 Index down 1.35% by mid-month. Stocks then turned the corner in the second half of the month with the S&P 500 Index returning 2.41%. Stocks were lifted by strong reported earnings and the French presidential election. In the U.S., the focus remained on President Trump's pro-growth agenda and the repeal of the Affordable Care Act.

## Global Balanced Positioning Relative to Neutral\*

The Fund's asset class positioning was a significant contributor to performance. The Fund began the month with an 81% allocation to global stocks and an 18.5% allocation to bonds relative to its neutral allocation of 60% global stocks and 40% bonds. This was the Fund's largest contributor to performance as global stocks (MSCI All Country World Index) returned 1.60% and bonds (Bloomberg Barclays US Aggregate Bond Index) returned 0.77%.

## Global Regional Equity Positioning Relative to Neutral\*

The regional equity positioning detracted from performance. The largest regional equity contributors to performance were the Fund's 4.4% overweight exposure to Europe ex U.K. and having no exposure to Canada. The MSCI Europe ex U.K. Index returned 4.26% and the MSCI Canada Index returned -2.07%. The largest regional equity detractors from performance were the Fund's 14.4% overweight to Pacific ex Japan and having no exposure to the Emerging Markets. The MSCI Pacific ex Japan Index returned 0.48% and the MSCI Emerging Markets Index returned 2.21%.

## U.S. Cap and Style Relative to Neutral\*

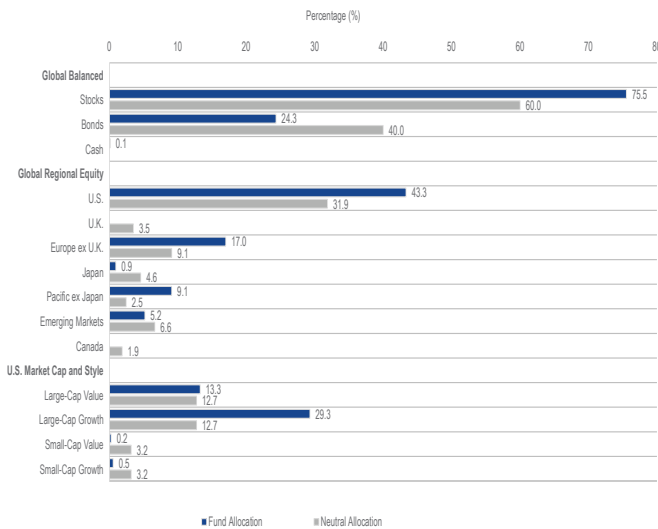
Positioning within the U.S. was a positive contributor to performance. The Fund was overweight growth over value and small-cap over large-cap. The growth bias was the largest U.S. cap and style contributor, as growth (Russell 3000 Growth Index) outperformed value (Russell 3000 Value Index) by 2.39%.

\*Positioning for each Model component relative to the neutral weighting of the Fund's benchmark of 60% global stocks, measured by the MSCI All Country World Index (ACWI), and 40% bonds, measured by the Bloomberg Barclays US Aggregate Bond Index.

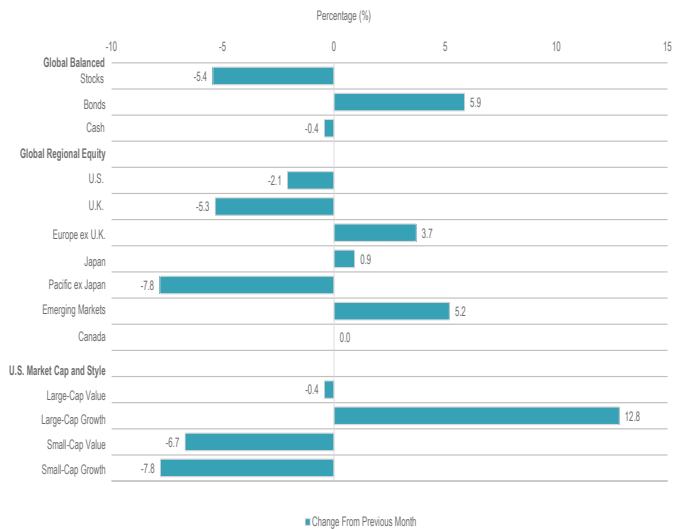
## May Fund Positioning

The Fund's exposure to global stocks was reduced from 81.0% to 75.5% and it increased its exposure to bonds from 18.4% to 24.3%. This allocation shift occurred because the stock/bond seasonality indicator changed from bullish to neutral. The largest regional equity allocation shifts were the reduction of the Pacific ex Japan overweight (from 16.9% to 9.1%), the removal of all exposure to the U.K., and the addition of exposure to the Emerging Markets (now 5.2%). The Pacific ex Japan position was reduced because the earnings yield indicator, which measures the earnings yield of the Pacific ex Japan region relative to the other equity regions, changed from bullish to bearish. The removal of exposure to the U.K. was due to the technical indicator composite reading changing from moderately bullish to moderately bearish. The addition of exposure to the Emerging Markets was due to the technical composite reading changing from neutral to moderately bullish and the macroeconomic and fundamental indicator composite reading becoming less bearish. The U.S. market cap and style positioning changed to favor large-cap over small-cap (based primarily on valuation indicators) and growth over value (due to strengthening technical, macroeconomic and fundamental indicator composite readings).

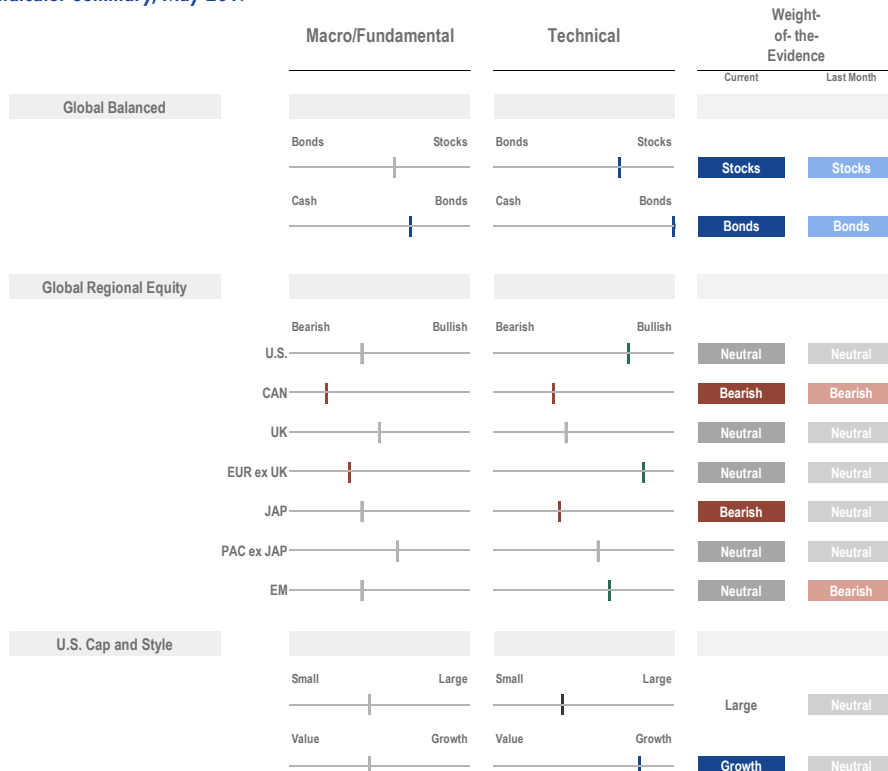
### Asset Class Positioning vs. Neutral Allocation, May 2017



### Asset Class Positioning, May vs. April



### NDR Indicator Summary, May 2017



Source: VanEck; Ned Davis Research. Data as of May 2, 2017. Positioning for each Model component relative to the neutral weighting of the Fund's benchmark of 60% global stocks, measured by the MSCI All Country World Index (ACWI), and 40% bonds, measured by the Bloomberg Barclays US Aggregate Bond Index.

The Fund's benchmark is a blended index consisting of 60% MSCI All Country World Index (ACWI) and 40% Bloomberg Barclays US Aggregate Bond Index. The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries and covers approximately 85% of the global investable equity opportunity set. The MSCI benchmark is a gross return index which reinvests as much as possible of a company's gross dividend distributions. The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

Global stocks are measured by the MSCI ACWI and U.S. bonds are measured by the Bloomberg Barclays US Aggregate Bond Index. Large-cap stocks are measured by the Russell 1000 Index, an index of the largest 1,000 companies in the Russell 3000 Index. The Russell 1000 Index comprises over 90% of the total market capitalization of all listed U.S. stocks. Small-cap stocks are measured by the Russell 2000 Index, an index which measures the performance of the smallest 2,000 companies within the Russell 3000 Index. Value stocks are measured by the Russell 3000 Value Index, a market-capitalization weighted equity index based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates. Growth stocks are measured by the Russell 3000 Growth Index, a market capitalization weighted index based on the Russell 3000 Index. The Russell 3000 Growth Index includes companies that display signs of above average growth. Companies within the Russell 3000 Index that exhibit higher price-to-book and forecasted earnings are used to form the Russell 3000 Growth Index. The Russell 3000 Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market. It measures the performance of the 3,000 largest publicly held companies incorporated in America and is based on market capitalization. VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. The MSCI Canada Index is designed to measure the performance of the large and mid cap segments of the Canada market. The MSCI Pacific ex Japan Index captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries.

The Morningstar Tactical Allocation category includes portfolios that seek to provide capital appreciation and income by actively shifting allocations across investments. These portfolios have material shifts across equity regions, and bond sectors on a frequent basis. To qualify for the tactical allocation category, the fund must have minimum exposures of 10% in bonds and 20% in equity. Next, the fund must historically demonstrate material shifts in sector or regional allocations either through a gradual shift over three years or through a series of material shifts on a quarterly basis. Within a three-year period, typically the average quarterly changes between equity regions and bond sectors exceeds 15% or the difference between the maximum and minimum exposure to a single equity region or bond sector exceeds 50%. Class A shares of the Fund ranked #79 out of 319 funds in the category for the period of May 11, 2016 through April 30, 2017.

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