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VanEck® VECTORS

# Gimme Shelter

By David Schassler, Portfolio Manager

## RAAX® VanEck Vectors® Real Asset Allocation ETF

**Summary**

*The VanEck Real Asset Allocation ETF ("RAAX") continues to measure rampant risks in real assets.*

- Market risk was elevated in December due to hawkish comments from the U.S Fed Chairman Jerome Powell, fears of slowing global growth, political uncertainty, and global trade wars. This led to significant sell-offs across all areas of the market including real assets, falling bond yields, points on the yield curve inverting, and widening credit spreads.

- While our indicators have become less bearish, they still point to lower prices for almost all real assets. These include negative price trends, falling commodity prices, widening credit spreads, and, in some cases, such as oil and real estate, weakening supply and demand data.

- We are bullish on gold bullion due to bullish technical readings. Gold rebounded in the fourth quarter, as investors sought shelter.

### Performance and Positioning

- Despite general market volatility, the VanEck Vectors Real Asset Allocation ETF ("RAAX") returned +1.13% in December.

- Real asset investments, with the exception of gold, were down significantly last month. Some notable losers were Oil Services stocks (MVIS U.S. Listed Oil Services 25 Index), down 20.79%, MLPs (Solactive MLP & Infrastructure Index), down 9.64%, and REITs (Dow Jones Equity REIT Total Return Index), down 7.87%.

- In January, RAAX remains allocated 20% to gold bullion and 80% to U.S. Treasury bills ("T-bills"). The strategy was effective at identifying the heightened risk regime early, before risk peaked in December. It allocated 33% to T-bills in September, 66% to T-bills in October, and has been in its maximum defensive posture, which is either 100% T-bills or 20% gold bullion and 80% T-bills, since November.

**Average Annual Total Returns (%) as of December 31, 2018**

| | 1 Mo† | YTD† | Life (04/09/18) |
|---|---|---|---|
| RAAX (NAV) | 1.13 | – | -1.00 |
| RAAX (Share Price) | 1.21 | – | -0.88 |
| Blended Real Asset Index* | -5.84 | – | -7.84 |

**Average Annual Total Returns (%) as of September 30, 2018**

| | 1 Mo† | YTD† | Life (04/09/18) |
|---|---|---|---|
| RAAX (NAV) | -0.31 | – | 0.83 |
| RAAX (Share Price) | -0.31 | – | 0.95 |
| Blended Real Asset Index* | 0.91 | – | 2.33 |

†Returns less than a year are not annualized.

Expenses: Gross 0.81%; Net 0.74%. Expenses are capped contractually at 0.55% through February 1, 2020. Expenses are based on estimated amounts for the current fiscal year. Cap exclude certain expenses, such as interest, acquired fund fees and expenses, and trading expenses.

**The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance.** Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the ETF incurred all expenses and fees, investment returns would have been reduced. Investment returns and ETF share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. ETF returns assume that distributions have been reinvested in the Fund at "Net Asset Value" (NAV). NAV is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV is not necessarily the same as the ETF's intraday trading value. VanEck Vectors ETF investors should not expect to buy or sell shares at NAV.

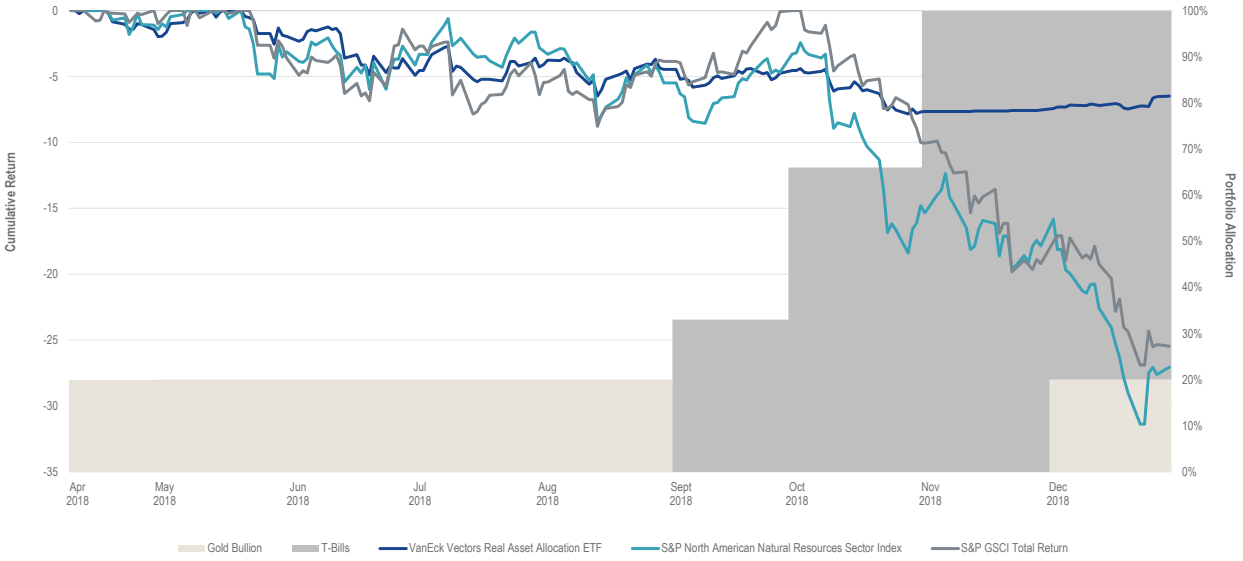
*The Blended Real Asset Index is calculated by VanEck and comprises an equally weighted blend of the returns of Bloomberg Commodity Index, S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. This is an appropriate benchmark because it represents the various real assets investments considered by the Fund covering natural resources equities, MLPs, infrastructure, real estate, and commodity futures.

## Digging Deeper into Real Assets

2018 ended not with a bang, but with a whimper. Global growth peaked, most likely in late 2017, and the slowdown became apparent in early 2018. From that point on, the market has been hyper-focused on every potential threat to growth and every data point that provides insight into the severity of the slowdown. By the end of the year, fear overwhelmed the markets and sent prices plummeting.

The following chart is neat. It shows that, by using a diversified mix of objective, data-driven indicators, RAAX was able to successfully sidestep the worst of the drawdown in commodities and natural resources equities. It did this by seeking shelter in T-bills and gold bullion.

**RAAX's Defensive Positioning Helped Avoid Commodities and Natural Resource Equities Drawdown**
Performance and Portfolio Allocation (4/10/2018 to 12/31/2018)




Source: VanEck; FactSet. Data as of December 31, 2018.

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Gold was the hero of the latest sell-off. It did what gold historically does when the world panics, it shined. Gold was up 4.9% and finished the year at $1,282 per ounce. RAAX's 20% gold allocation in December led to almost all of its positive 1.13% return last month. Even more impressive than gold's return was the equity return of companies in the gold mining industry. The NYSE Arca Gold Miners Index returned 11.04%!

Joe Foster, Portfolio Manager of the VanEck International Investors Gold Fund, writes a fantastic monthly commentary. In it, he covers all things gold. If you have an interest in the gold market, then you should consider adding it to your stack of monthly reads. Here are his latest comments on the impact of the Federal Reserve on gold:

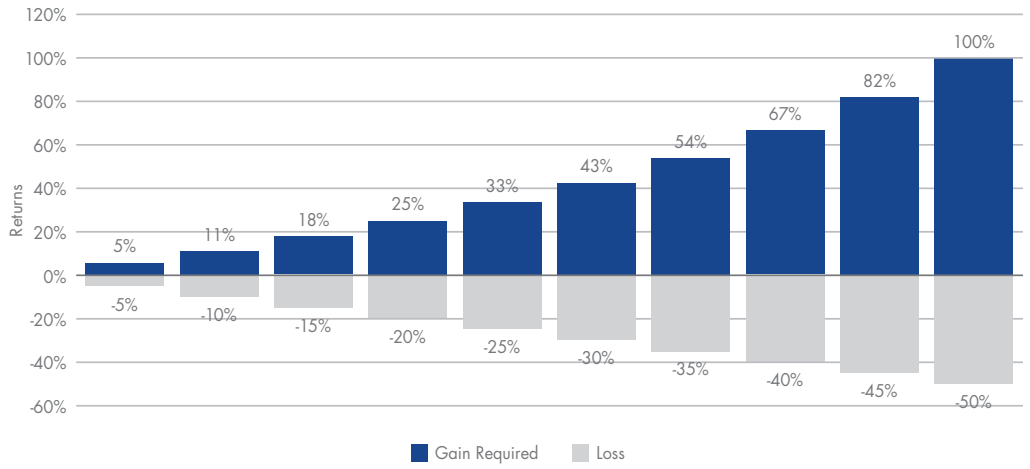
*"The stock market, crude oil, bonds, and Donald Trump all signaled that Fed Chairman Powell made a grave mistake by indicating more rate increases to come in 2019. We also believe the Fed made a serious mistake, but the blame should be placed on Mr. Powell's predecessors who waited far too long to normalize monetary policy. Now the Fed is tasked with normalizing rates late in the cycle and it is rapidly running out of time.*

*It is widely believed that there is a 12-month lag for central bank policies to take effect. That means that the economy will feel the full impact of the Fed's 2018 rate hikes and $30 billion of monthly quantitative tightening (QT) in 2019. In addition, the Fed is set to raise rates further and has increased QT to $50 billion per month.*

*We expect to see one of two scenarios in 2019:*
*1) The Fed stays on course, possibly driving the economy into recession. This may bring increased financial risks from highly-indebted governments and corporates. 2) The Fed pauses or reverses its tightening cycle. This would likely bring U.S. dollar weakness. Both scenarios would be favorable for gold."*

At the time of this writing, risky assets are well into their recoveries off late-December lows. It is always frustrating not to participate in the first leg of a recovery. These moves are often the most violent. During periods like this it is important to remind ourselves of the simple math of loss recovery. The steeper the drawdown, the harder it is to recover. But, if you don't lose a lot, you don't need to perfectly catch the recovery to finish well ahead of the market. That is the goal of RAAX.

**The Greater the Loss, the Greater the Gains Needed to Recover**
Illustration of Gains Required to Breakeven from Losses



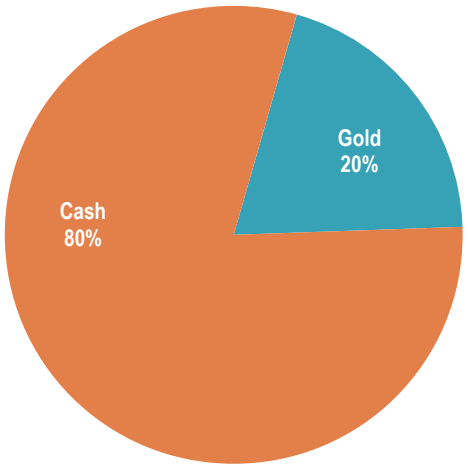

Source: VanEck. The figures shown above were achieved by means of a basic arithmetic formula for loss recovery and do not reflect results of any one investment. They help illustrate how, for example, a 100% gain can be eliminated by a 50% loss, and a 50% loss requires a 100% gain to recover that loss. For illustrative purposes only.

At this point, our indicators are becoming less bearish. However, it is too early to proclaim that the coast is clear. Indicators continue to measure extremely elevated risk . Investors should not be surprised, in the near-term, if the market loses steam and re-tests its previous lows or if we continue to rally from here. RAAX will continue to read the risks and adjust its exposures appropriately.

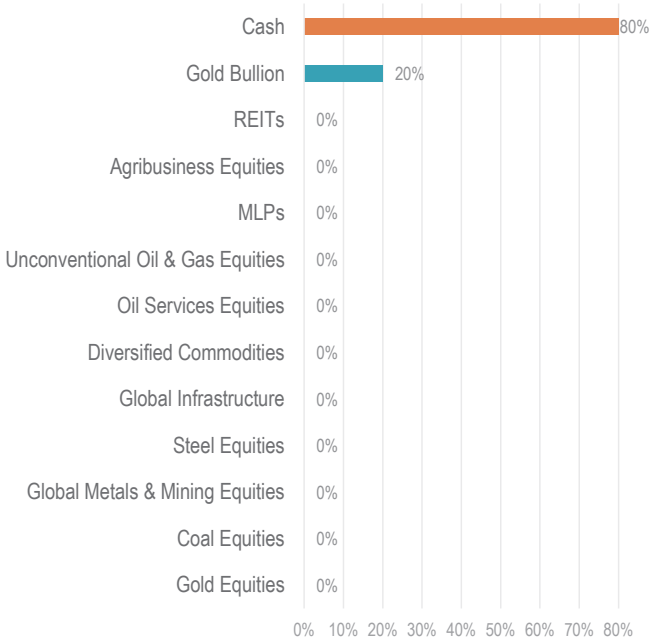
## January Positioning

RAAX's exposures are unchanged from December to January and remain 80% to U.S. Treasury bills allocation and a 20% allocation to gold.

### Real Assets Sector Weights




### Asset Class Weights




### Monthly Asset Class Changes

| Real Asset Segment | Jan-19 | Dec-18 | Change from Previous Month | |
|---|---|---|---|---|
| Cash | 80% | 80% | 0% | No Change |
| Gold Bullion | 20% | 20% | 0% | No Change |
| Gold Equities | 0% | 0% | 0% | No Change |
| Coal Equities | 0% | 0% | 0% | No Change |
| Diversified Commodities | 0% | 0% | 0% | No Change |
| Agribusiness Equities | 0% | 0% | 0% | No Change |
| Oil Service Equities | 0% | 0% | 0% | No Change |
| Unconventional Oil & Gas Equities | 0% | 0% | 0% | No Change |
| MLPs | 0% | 0% | 0% | No Change |
| REITs | 0% | 0% | 0% | No Change |
| Global Metals & Mining Equities | 0% | 0% | 0% | No Change |
| Steel Equities | 0% | 0% | 0% | No Change |
| Global Infrastructure | 0% | 0% | 0% | No Change |

Source: VanEck. Data as of January 2019. Past performance is not indicative of future results.

The Blended Real Assets Index consists of an equally weighted blend of the returns of Bloomberg Commodity Index, S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. The S&P Real Assets Equity Index measures the performance of equity real return strategies that invest in listed global property, infrastructure, natural resources, and timber and forestry companies. The VanEck Natural Resources Index is a rules-based index intended to give investors a means of tracking the overall performance of a global universe of listed companies engaged in the production and distribution of commodities and commodity-related products and services. Sector weights are set annually based on estimates of global natural resources consumption, and stock weights within sectors are based on market capitalization, float-adjusted and modified to conform to various asset diversification requirements. The S&P 500® Index (S&P 500) consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation).



The Solactive MLP & Energy Infrastructure Index tracks the performance of MLPs and energy infrastructure corporations. The MVIS U.S. Listed Oil Services 25 Index is intended to track the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, which include oil equipment, oil services, or oil drilling. The Dow Jones Equity All REIT Index, designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. The NYSE Arca Gold Miners Index is a modified market capitalization-weighted index composed of publicly traded companies involved primarily in the mining for gold. The Index is calculated and maintained by the New York Stock Exchange. The S&P® North American Natural Resources Sector Index: a modified capitalization-weighted index which includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. The S&P® GSCI Total Return Index: is a world production-weighted commodity index comprised of liquid, exchange-traded futures contracts and is often used as a benchmark for world commodity prices.

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. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

You can lose money by investing in the VanEck International Investors Gold 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.

An investment in the Fund may be subject to risks which include, among others, fund of funds risk which may subject the Fund to investing in commodities, gold, natural resources companies, MLPs, real estate sector, infrastructure, equities securities, small- and medium-capitalization companies, foreign securities, emerging market issuers, foreign currency, credit, high yield securities, interest rate, call and concentration risks, all of which may adversely affect the Fund. The Fund may also be subject to affiliated fund, U.S. Treasury Bills, subsidiary investment, commodity regulatory, tax, liquidity, gap, cash transactions, high portfolio turnover, model and data, management, operational, authorized participant concentration, absence of prior active market, trading issues, market, fund shares trading, premium/discount and liquidity of fund shares, and non-diversified 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.

Diversification does not assure a profit or protect against a loss.

Fund shares are not individually redeemable and will be issued and redeemed at their net asset value (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. 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. Past performance is no guarantee of future results.

**Investing involves substantial risk and high volatility, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. An investor should consider the investment objective, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call 800.826.2333 or visit vaneck.com. Please read the prospectus and summary prospectus carefully before investing.**



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