Manager Q&A: Tocqueville Gold Fund

Tocqueville Gold Fund

Symbol: TGLDX
Total assets (6/30/15): $1.1 billion
Inception date: 6/29/98

John Hathaway, CFA
Co-Portfolio Manager

John C. Hathaway has been the portfolio manager of the Gold Fund since 1998. With more than 40 years of investment industry experience, Mr. Hathaway is a frequent lecturer and writer on gold and gold-linked equities.

Doug Groh
Co-Portfolio Manager

Doug Groh is co-portfolio manager of the Gold Fund. Mr. Groh has worked closely with Mr. Hathaway on the Fund since joining the Firm in 2003 as a senior research analyst.

Q1. Given the decline in gold and gold equities in July, what is your investment case for gold?

Negative sentiment appears to have reached an extreme, as hedge funds and speculative investors were net short for the first time in history. Gold has fallen to a five-year low and many mining stocks are selling at prices the industry has not seen in 15 years when gold was less than $300 an ounce. Many gold-agnostic technical services consider this price decline a full capitulation out of gold.

As contrarians, we believe the extreme negativity towards the precious metal that precipitated the major correction may represent an attractive entry point to initiate or increase exposure to gold and gold equities. We believe the long-term investment rationale for having exposure to gold and mining stocks remains unchanged. Quantitative easing in Europe and Asia continues and central banks’ balance sheets remain elevated, causing deflation to potentially become a greater risk. With a low correlation to many financial assets, gold could provide a form of insurance in a diversified portfolio.

Q2. Over the past few years, the gold mining industry has been making efforts to lower their costs to operate profitably. What could be the long-term implications?

At the current gold price of around $1,100, the economics do not justify building a new gold mine. Instead, significant reconfiguration has been taking place in the gold industry, including numerous merger and acquisition transactions. Large companies have been shedding assets to pay down debt and smaller companies with capacity have been opportunistically buying these assets at bargain prices and adding value to their companies.

As a result of this consolidation, we believe the industry will become smaller. As supply shrinks, the current production of approximately 3,000 metric tonnes may have peaked. Over the next five to 10 years, gold production could be precipitously lower, especially if prices stay at these levels. However there is a strong case for supply failing to meet demand, as physical gold demand across Asia, Africa and Latin America steadily continues to grow.

Q3. How has the Tocqueville Gold Fund taken advantage of this trend?

The industry is not a monolith; careful stock selection is required to be able to add value in the current gold environment. Our strategy is to de-emphasize bloated, large-cap companies and to focus on smaller mining companies with entrepreneurial managements that could provide more upside with an increase in gold’s price. As a result, the Fund has a significantly lower average market cap relative to the Morningstar Equity Precious Metals Funds category average.

(Q3 continued on back)
Specifically, we focus on the miners that are generating positive cash on a production cost basis and can operate profitably in a persistently low gold price environment. Currently, the “all-in” costs for the gold mining industry are approximately $1,150 per ounce, while the cash costs are around $860 per ounce. In comparison, costs for companies held by the Tocqueville Gold Fund have “all-in” and cash costs that are lower, at about $1,000 and $700 per ounce, respectively. Therefore, we believe our companies are able to withstand the current environment, and are well leveraged for upside from here.