Tocqueville TOCQX

Short-term stumbles don't detract from this fund's strong long-term prospects.

4-23-13 | by Kathryn Spica, CFA

Moving differently than the crowd helps Tocqueville come out ahead.

Manager Robert Kleinschmidt has honed a sensible, contrarian approach to investing during his more than 20 year tenure on this fund. He has a preference for seasoned companies with strong balance sheets, but he exercises caution by trying to only purchase them when temporary setbacks cause prices to drop significantly. Indeed, many blue-chip firms fill the top slots in the portfolio, but the manager tends to scoop them up when investor sentiment turns against them. He typically looks for opportunities that offer at least a 30% discount to his calculated intrinsic value.

In late 2012, for example, the fund made its first purchase of Apple AAPL. The tech giant's pristine balance sheet and attractive growth prospects, along with a significant pullback in price, provided just the combination Kleinschmidt likes to see. He is patient as he waits for prices to recover, as reflectedby the fund's average 34% turnover during the past 10 calendar years, which is roughly half that of its typical large-blend peer.

Investors will require patience for this fund, too, as short-term setbacks can occur. The fund's 10.2% return during 2012, for example, ranked below 92% of its peers. The fund's stock picks within the generally unloved materials sector dragged on results, as did certain controversial names within the energy sector. Still, over the long-term, Kleinschmidt has earned an attractive record. Since he took the helm of this fund on January 1, 1992 through April 15, 2013, the fund's 9.7% annualized return beats the 7.2% and 8.5% returns of its average peer and the S&P 500 Index, respectively. Unsurprisingly given its against-the-grain strategy and Kleinschmidt's willingness to hold on to troubled names, the fund has been more volatile than peers. During the manager's tenure, though, it still comes out ahead on a risk-adjusted basis.

Aside from the fund's above-average price tag, long-term investors with the patience for short-term performance swings will find much to like here.

Process Pillar: ⊕ Positive | Kathryn Spica, CFA 04/23/2013

Robert Kleinschmidt, this fund's long-tenured manager, searches for blue-chip companies with beaten-down stock prices or small- and mid-cap stocks in overlooked sectors. Ideas can come from news about distressed companies or from a thematic take on a sector. He looks for companies with high free cash flow yields, low but improving enterprise value/revenue ratios, and strong balance sheets. These inputs are used to help calculate a firm's intrinsic value, and the manager tries to pick names he thinks will be able to double in price within three to five years. The fund's turnover reflects management's patience, as the fund's average 34% turnover during the past decade is around half that of the large-blend category average.

While the manager looks for against-the-grain opportunities, most of the names in the portfolio are large, well-capitalized, dividend-paying companies. Purchases typically start at 1% of assets, growing to a maximum allocation of 4% at cost. The fund is fairly well diversified, typically holding 50-70 stocks in the portfolio, and has a maximum allocation of 25% to a single industry. The manager will sell when a stock reaches its target price or a better idea is discovered, and, as part of the fund's risk-management process, if a stock's price drops more than 10%, or 30% in value from cost, it is automatically subject to additional scrutiny.

While mostly large, established companies fill up the portfolio, the manager likes to buy when he sees them as suffering temporary setbacks. Indeed, this fund's top holdings include Exxon Mobil XOM and General Electric GE, which seem to belie the manager's against-the-grain strategy. However, he purchased the stocks in 2010 and 2005, respectively, when their share prices were relatively depressed.

More recently, the fund made its first purchase of tech giant Apple AAPL in late 2012. The company still has the solid balance sheet and growth prospects this fund's management likes to see, and the pullback in the company's stock price proved to be attractive enough to make the cut for this portfolio.

Morningstar's Take TOCQX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Bronze
Morningstar Pillars	
Process	⊕ Positive
Performance	⊕ Positive
People	⊕ Positive
Parent	Neutral
Price	⊖ Negative
Role in Portfolio	
Core	

Fund Performance TOCQX

Year	Total Return (%)	+/–Category
2012	10.19	-4.77
2011	-0.48	0.79
2010	14.92	0.91

Data through 12-31-12

The manager looks for discount opportunities across sectors, and the fund often takes a distinctive stance relative to peers and its S&P 500 Index benchmark. The fund has long held an overweighting in the materials sector, for example, with roughly 10% of assets invested in the sector as of December 2012, while the benchmark and typical peer both have allocations of less than 4%.

Investing in out-of-favor areas can prove to be painful in the short term and can be a risk to the fund if a selected sector sells off. Investors should be ready to hold on through bumpy patches to take advantage of this fund's bargain-hunting process.

Performance Pillar: ⊕ Positive | Kathryn Spica, CFA 04/16/2013
This fund's focus on buying out-of-favor names and investing in ignored sectors can hurt in the short term. Indeed, the fund's 10.2% return during calendar-year 2012 may look decent on absolute terms, but it trails the 15.0% and 16.0% of the large-blend category average and S&P 500 Index, respectively. The fund's overweighting to the materials sector was particularly painful and detracted nearly 2 percentage points from the fund's results. Names such as Cliffs Natural Resources CLF and top-10 holding Newmont Mining NEM suffered large losses in 2012. The only other year during the past decade that the fund fell below the category average was during 2008's credit crisis, though it only slightly trailed the typical peer.

The fund's long-term results assuage concerns over short-term stumbles. Since manager Robert Kleinschmidt's January 1992 start through April 15, 2013, the fund's 9.7% annualized return beats the 7.2% and 8.5% returns of its average peer and benchmark, respectively. The fund has been more volatile than most under its current manager, although it still comes out ahead on a risk-adjusted basis. Part of the fund's strong long-term showing was earned while it had a smaller average market cap (it was in the mid-blend category until June 2004). While that smaller-cap orientation provided a boost to the fund's results within its larger-cap peer group, the fund still held its own compared with those mid-blend funds.

People Pillar: ⊕ Positive | Kathryn Spica, CFA 04/23/2013
Manager Robert Kleinschmidt keeps busy: He currently serves as president, chief executive officer, and chief investment officer of employee-owned Tocqueville Asset Management. He joined the firm in 1991, after working for 13 years at investment management firm David J. Greene and Co. Soon after joining Tocqueville, Kleinschmidt took the lead of this fund, the firm's flagship offering, as well as the firm's similarly managed multicap, separately managed account. He also manages the French-domiciled fund, Tocqueville Value Amerique. In addition, he leads the firm's investment committee.

While he is the final decision-maker for this fund and is the only listed portfolio manager, he is supported by three other senior investment personnel on the firm's investment committee. In addition, a seasoned team of analysts pitches ideas to Kleinschmidt as well as the firm's other portfolio managers.

Kleinschmidt has a vested interest in the firm's success through his various executive roles, and he also shows his conviction in his strategy with his personal investment in this fund. He invests more than $1 million in this fund, and many of the firm's other managers also invest similar amounts in their respective funds, showing that aligning managers' incentives with shareholders' interests is a high priority at the firm.

Parent Pillar: ⊙ Neutral | Kathryn Spica, CFA 02/01/2013
This firm has some attributes that many other Tocqueville's high-conviction investment approach has served its mutual fund shareholders and high net-worth clients well over time, but there are a few areas that prevent the employee-owned firm from being best-in-class.

The asset manager's five Tocqueville-branded funds and the acquired Delafield Fund DEFIX are mostly run using a contrarian investment philosophy that has produced above-average risk-adjusted returns over time. Every fund has a manager with at least $500,000 of personal assets invested, and most managers invest significantly more, aligning the managers' interests with shareholders'. High manager retention reflects well on the strong culture built by founder and CEO Robert Kleinschmidt.

Still, the firm's relatively small asset base keeps fees above-average relative to most peers', although breakpoints are in place to lower expenses should assets grow. In addition, the firm's smallest fund by assets, Tocqueville Opportunity TOPPX, has struggled to find its feet following the 2007 death of the portfolio manager who had run it since its 1994 inception. After a series of manager changes, Thomas Vandeventer was assigned to the fund in July 2010 and revamped the strategy. The firm seems mindful of future succession issues, adding dedicated resources to several of its funds in recent years, which somewhat eases concern.

Price Pillar: ⊖ Negative | Kathryn Spica, CFA 04/23/2013
This fund's expensive price tag detracts from its appeal. At 1.26%, its expense ratio is well above the 0.99% of its typical large-cap, no-load peer. A management fee breakpoint is in place should assets grow, although even the potential 10-basis-point reduction wouldn't make this fund's costs competitive.

Still, the manager's low-turnover approach keeps transition and tax costs to a minimum.

This reprint is furnished for general information purposes in order to provide some of the thought processes and techniques that Tocqueville Asset Management uses to make investment decisions for its Multi-Cap Equity strategy, including the Tocqueville Fund (TOCQX). It is provided for illustrative purposes only. This material is not intended to be a formal research report and should not be construed as an offer or recommendation to buy or sell any security, which can only be made by prospectus, nor should information contained herein be relied upon as investment advice. Opinions and information provided are as of the date indicated.

*Mutual fund investing involves risk. Principal loss is possible. The Tocqueville Fund's investment objectives, risks, charges and expenses should be considered carefully before investing. The Fund's prospectus contains this and other important information about the Fund. The prospectus may be obtained by calling 1-800-697-3863 or visiting http://www.tocqueville.com/mutual-funds/download-information-literature-center#tab1.
Read it carefully before investing.*

***Past performance is not indicative of future results.** Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 1-800-697-3863.* The average annual total returns of The Tocqueville Fund for 1, 3, 5 and 10 years ending June 30, 2014 are as follows:

One-year	*27.92%*
Three-year	*15.08%*
Five-year	*17.67%*
Ten-year	*8.66%*
Gross Expense Ratio	*1.28%*
Net Expense Ratio	*1.26% **

The discussion in the reprint represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Information contained therein is based on information believed to be reliable. However, we do not make any representation as to its accuracy or completeness. Any statement non-factual in nature constitutes only current opinion, which is subject to change. Securities holdings that are referenced may be held in other portfolios managed by Tocqueville or owned by principals, employees and associates of Tocqueville, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by Tocqueville.

Fund holdings are subject to change at any time. As of June 30, 2014, the Fund's top ten holdings were:

Top Ten Holdings	***% of assets***
Microsoft Corp.	3.20
General Electric Company	3.03
Schlumberger Limited	3.02
Johnson & Johnson	2.68
NextEra Energy, Inc.	2.62
Exxon Mobil Corp.	2.58
Alkermes PLC	2.58
E. I. du Pont de Nemours and Company	2.51
XEROX Corp.	2.39
Applied Materials, Inc.	2.31

The Fund discloses its top ten holdings on the Tocqueville website no earlier than 15 calendar days after the end of each month. References to other mutual funds should not be interpreted as an offer of those securities.

The Tocqueville Funds are distributed by Tocqueville Securities, L.P. New York, NY 10019.

* *The Fund has contractually agreed to "cap" its expense ratio at 1.25% (excluding Acquired Fund Fees and Expenses) until 3/01/15. In the absence of these fee waivers, total returns would be lower.*