ValueInvestor INSIGHT

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Hunt for Value

There is no shortage of economic turmoil in the world – a state of affairs that attracts rather than repels Tocqueville Asset Management's James Hunt.

INVESTOR INSIGHT

James Hunt
Tocqueville Asset Management

Investment Focus: Seeks companies in obvious disfavor, with franchises, balance sheets and management teams that will allow them to more than weather the storm.

The contrarian nature his firm wears as a badge of honor has many practical benefits as well, says Tocqueville Asset Management's James Hunt. "Running toward fear and blood in the streets is a great mechanism for narrowing down potential ideas," he says. "That's a big advantage in terms of process."

Hunt's ability to distinguish between short-term disfavor and long-term challenge has paid off nicely for his investors. The International Value Fund he's managed since 2001 has earned a net annualized 11.8% over the past ten years, vs. 8.8% for similar funds tracked by Morningstar.

His global quest for value today is uncovering opportunity in such areas as industrial automation, energy services, billboards and consumer goods. See page 10

About Tocqueville

Formed in 1985, Tocqueville Asset Management is an entrepreneurial, employee-owned partnership that focuses exclusively on growing and preserving our clients' long-term capital. Our managers invest alongside our clients and therefore have more than a professional interest in producing results that meet and exceed expectations. Our investment process is built around identifying undervalued companies that possess long-term earnings power. In our experience, recognizing value before it is discerned by the market at large is the most certain way to build wealth and mitigate investment risk.

Tocqueville

Tocqueville offers the following investment strategies:

- Multi Cap Equity
- International Multi Cap Equity
- Mid Cap Value Equity
- Small Cap Value Equity
- Gold Equity

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Investor Insight: James Hunt

Tocqueville Asset Management's James Hunt and Jean-Francois Coste explain why Japanese equities may still be undervalued, what micro opportunities persist in a macro-challenged Europe, why their emerging-markets exposure isn't nearly as low as it looks, and why they see unrecognized value in Orkla, Omron, Clear Media, DCC Plc and Fugro.

You've said you "typically invest in boring old-world companies in mature industries." Can you elaborate on that?

James Hunt: The three legs of our discipline are stocks that are out-of-favor, that are cheap to intrinsic value, and that are backed by decent businesses that should increase that value through returns on capital over time. We put a premium on the strength and staying power of the business franchise, which is clearly informed by how it has performed over long periods of time and in different economic environments. We also like businesses where we can see through the cash flows and understand how the money is being made. This all points us to the more mature, cash-generative company that has been doing what it's been doing for a long time.

That means in practice we have low exposure to financials, which tend to be opaque and overly leveraged. We do very little in areas changing rapidly and requiring specialized expertise, like new healthcare or new technology. We own technology names, but it's less the-world-is-changing technology and more building-block types of technology with leading market positions and pricing power.

A good example would be Infineon [IFX:GR], a market leader in analog chips for power management and auto applications. The company has a lot of what we look for in ideas. Its business is somewhat cyclical and in the down part of the cycle, especially in Europe. It's overcapitalized after selling off its most commoditized businesses. Earnings have been depressed because it's been investing in R&D and in its manufacturing footprint, both of which will put it in a stronger long-term position. More recently, there's concern that the German automakers it disproportionately serves are vulnerable to Japanese competition due to the weaker yen. With the share price at less than €6, net cash of €1.50, and with an estimated 60-80 euro cents in mid-cycle free cash flow per share, we think the negatives are overly discounted and the positives overlooked.

Your idea-generation process has a more top-down focus than your research and analysis. Explain that.

JH: Our contrarian nature reflects a fundamental belief that you don't make money doing what everybody else is doing and that the balance of risks tends to be more in your favor when everybody is scared than when everybody is happy. So the starting point for new ideas is often a contrarian take on a geography or sector. A year ago, for instance, the market was scared about real estate in China. Whenever something like that happens, we look for where the broad-based valuation declines might cause something to be oversold. One we found in this case was Guoco Group [53:HK], a real estate and investment firm based in Hong Kong that we had followed for ten years but couldn't ever buy on the right terms. Most of its assets are publicly traded, so just looking at the market values indicated there was a huge negative value imputed to Guoco's Chinese real estate business, which was a very small part of the overall revenues, assets and liabilities. We were able to buy in at roughly half what we thought the stock was worth. The analysis was all bottom-up, but the impetus for the idea was top-down. [*Editor's Note:* Partly in response to a buyout offer by the family that controls Guoco, the shares now trade at around HK$93.]

Are there similar top-down themes attracting your interest today?

JH: It's early, but the sabre-rattling from North Korea is the type of thing that has created great opportunities for us in the

James Hunt

Seeing the World

Though he'd landed a plum investing job at respected Delafield Asset Management just out of undergraduate school in 1984, James Hunt three years later was restless for a change. "There was no better place for me to learn value investing than at Delafield," he says, "but I was the proverbial young kid wanting to see the world."

After earning an MBA from Yale, Hunt spent ten years at Lehman Brothers and Dillon Read, much of it focused on emerging-markets corporate finance, including a three-year, mid-1990s stint in Buenos Aires. But the draw of buy-side value investing proved too strong, prompting him first to start his own emerging-markets hedge fund and then to join Tocqueville Asset Management as a portfolio manager and the firm's research director in 2000. He took over responsibility for its international equity strategy in 2001.

Hunt still credits Dennis Delafield and his partner Vince Sellecchia [*VII*, May 27, 2011] for instilling the focus on in-depth research, free cash flow and independent thought that he hopes characterizes his approach. A refresher course is always close at hand: after merging their firm with Tocqueville in 2009, their offices are now just down the hall.

past in South Korea. There's also a growing concern that the depreciation of the yen will make it more difficult for South Korean exporters. Where we think the macro worries are overdone, we might find something to do. We're just bearing down on this now.

Last November you made what has turned out so far to be a prescient case for bullishness on Japanese equities. Can you update your views there?

JH: The case I made was that given the storm of negative factors affecting Japan, the market's poor relative performance over the previous couple of years and the extent to which it was under-owned, one could legitimately ask if the de-rating of Japanese stocks had finally run its course. On a bottom-up basis, we were finding lots of absolute value in companies that were global leaders in niche businesses, such as high-tech auto parts and industrial-automation and measurement equipment. Omron [6645:JP], which we'll talk about later, is a perfect example.

Prompted by the more accommodating policies of the Abe government, the market has moved pretty far, pretty fast. We consider that a more or less appropriate reaction to the 25% devaluation of the currency – which is going to help the profitability of many Japanese companies – and reflects the fact that investors are paying attention to Japan for the first time in many, many years.

The big remaining opportunity revolves around the fact that Japanese companies by and large have not been managed for returns and for the benefit of minority shareholders. That's getting incrementally better, and there's an argument to be made that the pace of improvement is going to increase as a new generation of top management comes into power. We're seeing at the corporate level some of the same urgency you've seen from the Abe administration, that it's kind of now or never for Japan to modernize how it does things.

So when you have Japanese companies trading at the same valuations as their European peers but earning operating margins and returns on capital that are 40% of what they are in Europe, there is a huge potential opportunity to create value through more aggressive management. That's the multiyear story and why Japan is still interesting after a fairly dramatic run up. It's also the risk, of course. The restructuring at the corporate level needs to happen or it's likely to remain a long slog for investors.

ON EMERGING MARKETS:

Our exposure is not nearly as low as it looks. On a see-through cash-flow basis, it's probably more like 35%.

Your case for long-time laggard Hitachi [*VII*, December 30, 2010] was partly based on better management. With the stock up 45%, has it played out as expected?

JH: The basic elements of the thesis – business rationalization, margin improvement, greater return focus, cheap valuation – are all very much intact. One qualification is that the company made a good-sized acquisition of a nuclear-power company in the U.K., which we find interesting from a contrarian standpoint but the jury's still out whether that was an ideal use of capital. In general though, we still see great value in Hitachi, higher than the minimum ¥900 per share I suggested last time. [*Note:* Hitachi shares [6501:JP] currently trade at around ¥620.] I see this as similar to our investment in Unilever in recent years, a steadily improving story that can play out very nicely over several years.

Can you generalize about your approach today in Europe?

JH: We think Europe is growth-challenged for a long time and that there's still the remote possibility of a black-swan event in the financial system. From an analytical standpoint, that means we're very conservative in estimating prospective cash flows and are even more averse to financial leverage than usual.

If I were to generalize, I'd say one area of focus in Europe would be self-help restructurings. An example of that is Orkla [ORK:NO], a Norwegian conglomerate that is on its way to becoming a pure-play consumer-products company. Another area is European-domiciled companies that don't get the bulk to their cash flows in Europe. Fugro [FUR:NA], a Dutch geological-data firm serving the global energy business, would be an example of that. We're also finding value in businesses that are more insensitive to the economic climate and have shown a great propensity to compound value over time. I'd put DCC [DCC:ID], a distribution company headquartered in Ireland, in that category.

Your emerging-markets exposure appears low. Why?

JH: It's not nearly as low as it looks. For the past few years we've found the better way to invest in emerging markets has been through the shares of developed-economy companies. That hasn't always been true, but coming out of the economic crisis valuations in emerging markets got much fuller, much faster than has traditionally been the case, which meant we were finding the better risk/rewards on emerging-markets exposure with developed-market firms.

That's been an important part of our thesis for big-name holdings like Unilever, but also for companies like Sogefi [SO:IM], an Italian auto-parts producer that earns 40% of its operating profits from Latin America, or Shiseido [4911:JP], a Japanese consumer-goods company that has 20% of its sales in emerging Asia. Overall, while around 5% of the portfolio is in stocks domiciled in emerging markets, on a see-through cash-flow basis the exposure is probably more like 35%.

One obstacle for us in emerging markets is finding companies with long enough operating and financial histories to make judgments on how the business performs through the cycle and on how well management allocates capital. So even as relative emerging-market valuations come down, which is happening, we'll likely remain somewhat biased toward firms domiciled in developed markets.

Getting back briefly to idea generation, do you do any screening?

JH: We do screen, focusing on those three primary components of the discipline I mentioned earlier. Is the stock down significantly in price from its five-year high? How low are the multiples to current-year and historical free cash flows? Over a ten-year period, how attractive are the operating margins, returns on capital and returns on equity?

We're particularly interested in identifying companies that are underearning relative to the past, where the potential for margin recovery is high. We also like overcapitalized balance sheets – we wouldn't buy something just for that reason, but it's a plus from a resiliency point of view. It also provides the optionality to create value for equity holders through the distribution of excess cash or redeployment of it to higher-return uses.

You're market-cap agnostic, but have you gravitated to one end of the spectrum or the other over time?

JH: The only real constraint for us is on the small end, as we typically want enough liquidity that we're able to exit a position within three days if we have to.

Given our focus on our own fundamental research, we as a firm are more likely to add value in mid-cap or smaller companies that are less well followed. That's even more true in international markets, where research coverage for mid and small caps is relatively less than it is in the U.S., making the types of pricing anomalies we look for more likely. If you look at the return attribution, that's historically where we've added the most value.

In recent years we've tilted more toward large caps because we have found the risk/rewards in big-company stocks to generally be more attractive. That's changing, however, especially in Europe where the valuations on dependable mega-caps generating free cash flow and paying good dividends have gotten pretty full. Smaller companies, particularly those that are more economically sensitive, tend to be offering better value.

How do you handle currency exposure?

JH: We're generally unhedged, because we don't want to speculate on currencies. But we will hedge for reasons of capital preservation. What I mean is that if we believe there's little risk of losing money in being short a particular currency, but there's a much higher risk it could weaken significantly, we'll hedge against that.

We've been partially hedged in the Japanese yen – though not enough – and have actually increased that after the yen has come down. That may sound counterintuitive, but as the government's determination in terms of monetary policy becomes more clear, our view is that the balance of risks favors further depreciation.

Describe in more detail the "self-help" opportunity you see in Orkla?

JH: Orkla historically has had an unusual mix of businesses. It's the leading consumer packaged goods company in the Nordic region, with dominant market shares in such categories as detergents, frozen pizza and ketchup. In addition, it has had significant interests in extruded aluminum products, solar and hydro power, and specialty chemicals.

INVESTMENT SNAPSHOT

Orkla
(Oslo: ORK:NO)

Business: Primarily Nordic supplier of branded consumer goods, with separate interests in aluminum products, hydro power, paint and financial investments.

Share Information
(@4/29/13, Exchange Rate: $1 = NOK 5.81):

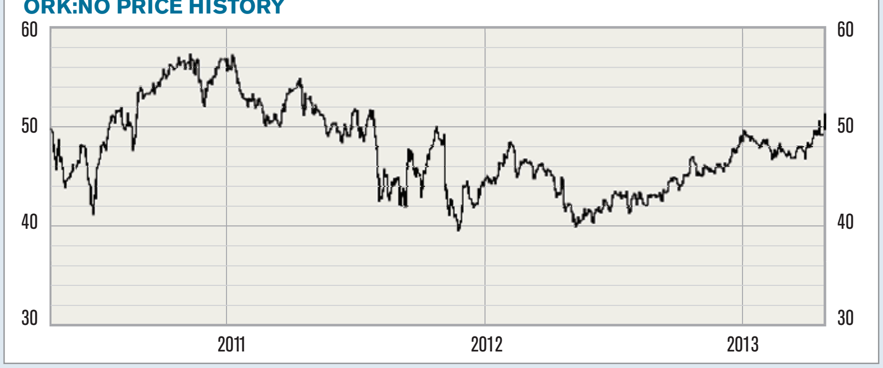
Price	**NOK 50.95**
52-Week Range	NOK 39.21 – NOK 51.80
Dividend Yield	4.9%
Market Cap	NOK 51.91 billion

Financials (2012):

Revenue	NOK 30.00 billion
Operating Margin	9.5%
Net Profit Margin	5.3%

Valuation Metrics
(Current Price vs. TTM):

	ORK:NO	S&P 500
P/E	15.6	18.5



THE BOTTOM LINE

An example of the "self-help" type of idea James Hunt is finding in Europe, the company should significantly benefit from focusing on its strong consumer-products business and then running it better. Assuming margin improvement, a balance sheet restructuring and a 15-16x terminal FCF multiple, he pegs the stock's current intrinsic value at NOK 70.

Sources: Company reports, other publicly available information

The company is now going through the deliberate process of getting out of its low-return, capital-intensive businesses and becoming an operation focused solely on consumer goods. But that's just the beginning of what we think the story is here. As strong competitively as the packaged-goods brands are, the operating margins there relative to comparable businesses are at least 300 basis points lower due to a lack of integration and rationalization of the supply chain. The additional synergies expected from the announced acquisition of Rieber & Son, the #2 packaged-goods company behind Orkla in the Nordic region, will certainly help. When Kraft bought Cadbury, they targeted 8% of the target's sales in synergies and ended up doing better than that. So our assuming a three to four percentage point bump in margin is not an aggressive position.

We also see compounding-value upside as proceeds from selling low-return businesses are reinvested in higher-return businesses or returned to shareholders in some fashion. In our analysis, we assume a balance sheet restructuring that takes what is likely to be a zero net debt position once all the divestments are done and modestly levers that to 2-3x net debt to EBITDA via buybacks.

Are they operating in an attractive part of the world, economically?

JH: The economies of Northern Europe in which Orkla is most active are fundamentally very healthy. They are not immune to the current drag from Eastern and Southern Europe and may not be fast growers, but consumer spending is stable and healthy and price competition has tended to be fairly benign. It's not at all a stretch to assume that as Orkla simplifies itself that it would attract the attention of any global consumer-products company wanting to expand in that part of the world.

With the shares now at NOK 51, how are you looking at valuation?

JH: We use a variety of valuation methodologies, but the simplest and most important is to develop cash-flow projections three years out and then assign a reasonable multiple to the out year before discounting back to the present. When we do that here, reflecting the margin improvement and balance sheet restructuring I spoke of earlier and a 15-16x terminal free cash flow multiple, we arrive at an intrinsic value today of around NOK 70. If you look forward three years, we'd estimate there's another 10-15 NOKs per share in upside from intrinsic value growth and the dividend.

Staying in Europe, what attracts you in Ireland's DCC?

JH: The core competency here is distribution, of heating oil, fuel and liquefied petroleum gas, of electronic products, of medical equipment and, to a lesser extent, of food and beverages. Energy distribution is the main driver, accounting for about 60% of annual EBIT. It's a scale business with good network synergies and generates on a normalized basis roughly 20% returns on capital employed, including goodwill.

Top management here is just great at capital allocation. They have a very clear and disciplined formula for rolling up fragmented distribution businesses and then integrating them to rationalize overhead and routes. They typically buy at 7-8x EBIT, which ends up after cost synergies to be closer to 6x on a pro-forma basis. If they can't find acquisitions at the right price they don't do them, using free

INVESTMENT SNAPSHOT

DCC Plc
(Ireland: DCC:ID)

Business: Marketing and distribution of oil and gas, IT and communications products, environmental services, healthcare products and food and beverages.

Share Information
(@4/29/13, Exchange Rate: $1 = €0.76):

Price	**€26.85**
52-Week Range	€17.76 – €28.99
Dividend Yield	3.0%
Market Cap	€2.25 billion

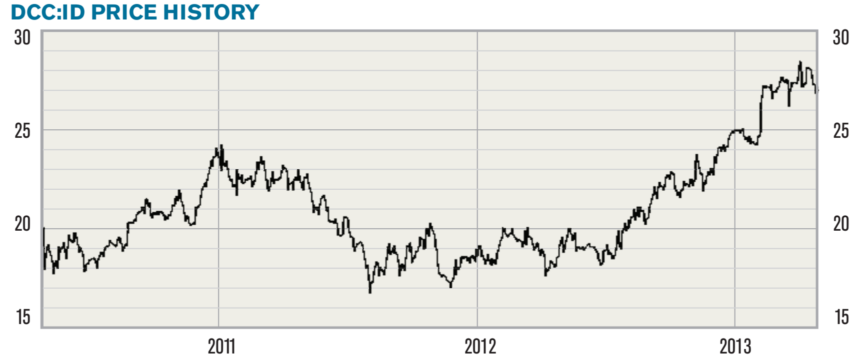
Financials (Trailing 6 mo., annualized):

Revenue	€12.11 billion
Operating Margin	1.0%
Net Profit Margin	0.5%

Valuation Metrics
(Current Price vs. TTM):

	DCC:ID	S&P 500
P/E	21.4	18.5

DCC:ID PRICE HISTORY



THE BOTTOM LINE

The market appears skeptical of management's continued ability to create value through consolidating its energy-distribution franchises in the U.K. and Continental Europe, says James Hunt. Assuming a low-double-digit increase in free cash flow per share and a 14x EV/EBIT multiple three years out, he estimates today's intrinsic share value at €35.

Sources: Company reports, other publicly available information

cash flow to pay down debt instead. It's all pretty simple, but they've proven the model out over a multi-year period.

Jean-Francois Coste: The best ongoing opportunity is in the energy business, which has the most attractive economics. DCC controls roughly 20% of that business in the U.K., and management believes it could go to 25% before prompting any antitrust concerns. They continue to expand as well in continental Europe, building out franchises in Austria, the Benelux countries and in Scandinavia. There are assets to be acquired, including from oil majors who have concluded that distribution is not their cup of tea.

Are the financial resources in place for continued expansion?

JFC: The balance sheet is strong, with a debt/equity ratio of only 25%. The company also generates roughly €170 million in annual free cash flow on a normalized basis, a number growing at around 10% per year for the last decade. Even after paying a healthy dividend – the current yield is 3% – there's a good deal of capacity to invest in growth.

Why would the market misprice this?

JH: We think part of it is that it's smallish and serves several different end markets, which translates into not a lot of analyst coverage. The business also can be somewhat volatile because of the weather – returns in the energy business were down last year, for example, after an unusually warm winter. Some investors, including us, also worry about price deflation and structural decline in the company's second-largest division – focused on IT, communications and entertainment products – but that business has so far overdelivered and proven skeptics wrong.

What upside do you see in the shares, now at €26.85?

JH: Assuming a 14x EBIT multiple three years out – not at all unreasonable for a business with high returns on capital and that has been growing free cash flow at 10% annually – our DCF model pegs the current intrinsic value at around €35 per share. The particular appeal here is that we expect, with a high level of conviction, that intrinsic value to compound in the low teens as the company continues to execute on its business model. Given our confidence in management, we're more than comfortable letting them invest our clients' money.

What attracted your attention in energy-services firm Fugro?

JFC: What originally sparked our interest was the announcement in September of last year that the company was selling its Geoscience division to CGGVeritas. That was a sub-scale and lower-return business and signaled the company's strategic shift to focus on two areas in which Fugro has stronger market positions, its Survey and Geotechnical divisions. These two businesses essentially provide sophisticated mapping and geological data and information that energy companies use primarily in the offshore exploration and production of oil and natural gas.

Around the same time, the company was also having some internal management issues that understandably made the market nervous. In November the CEO left, saying he had a disagreement with the board about the direction of the company. Then a whistleblower letter prompted an in-depth and independent investigation of

INVESTMENT SNAPSHOT

Fugro
(Amsterdam: FUR:NA)

Business: Collects and interprets geological data for use by customers in exploring for oil, gas and minerals and in large building projects such as roads and pipelines.

Share Information
(@4/29/13, Exchange Rate: $1 = €0.76):

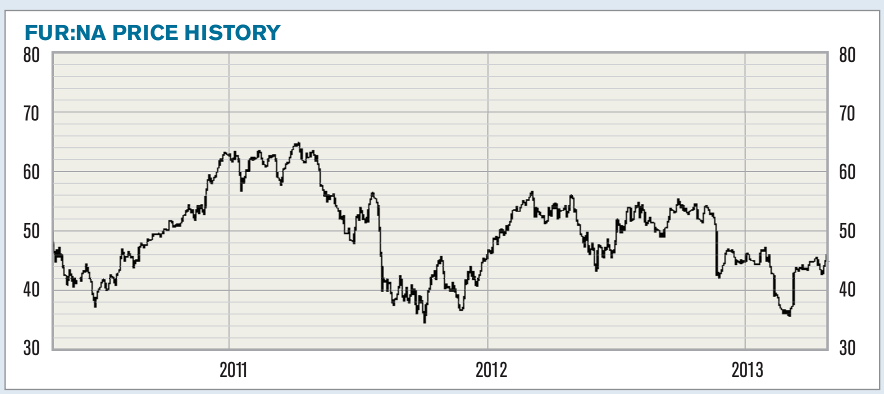
Price	**€44.44**
52-Week Range	€35.11 – €57.88
Dividend Yield	3.4%
Market Cap	€3.68 billion

Financials (2012):

Revenue	€2.16 billion
EBITDA Margin	21.6%
Net Profit Margin	13.5%

Valuation Metrics
(Current Price vs. TTM):

	FUR:NA	S&P 500
P/E	15.3	18.5



THE BOTTOM LINE
Having narrowed its service focus and resolved some internal management issues, the company is now even better positioned to benefit from increased oil-major capital spending on ultra-deep-water exploration, says Jean-Francois Coste. At 8.5x his normalized estimate of EBITDA on an enterprise-value basis, the shares would trade at around €60.

Sources: Company reports, other publicly available information

the company's financial reporting. Then the head of the board's audit committee resigned. Many investors sold, expecting bad news and bad numbers.

Why didn't you?

JFC: As we dug into it, we essentially concluded the more likely scenario was that the board was just taking a stronger hold on a company that had been underperforming operationally. Its reputation and market positions have been well maintained, but the returns in the Survey business in particular have declined steadily and we believe are now 25% from a normalized level. From this perspective, a more hands-on approach by the board is a good thing.

The company has since reported its 2012 results and the numbers turned out to be fine. The investigation was completed and there were no material adverse findings, only some recommendations for improvements.

Do you have to have a positive view on oil-and-gas capital spending to like this company?

JFC: We don't go overboard with macro projections, but oil is getting harder to find and the capital spending of the oil majors, given the move to ultra-deep-water exploration, is increasingly focused on technology. Those trends should work in Fugro's favor long term.

What intrinsic value are you putting on the shares, now trading around €44.50?

JFC: Assuming the 25% improvement in EBITDA for the Survey business, adjusting the net financial debt for the Geoscience-division sale proceeds not yet reflected on the balance sheet, and applying an 8.5x multiple to our estimate of normalized EBITDA, we arrive at a current intrinsic value of €60 per share.

JH: This is an example of something we put on at a half position, subject to our getting more comfortable on a couple of important issues. I just met with management in the Netherlands to better confirm our understanding of the business and left with a higher level of confidence regarding both the strength of the business franchise and management's low tolerance for underperforming assets.

Why is Omron one of your favorite current Japanese ideas?

JH: We've owned Omron in greater or lesser amounts for the past ten years. Its core business is industrial-automation, measurement and testing equipment, which accounts for around half of total revenues. The rest is fairly evenly split between electronic components, automotive electronics, healthcare devices and what they call social systems, which makes things like traffic-control technology and automated ticketing gates. The general focus is on automation and improving efficiency in any number of processes and systems. It's a global company – 50% of sales come from outside Japan – with an excellent overall reputation for quality products and service.

The company's global strength in industrial automation is a key part of our interest. As developing markets evolve, shortages of skilled labor put significant upward pressure on wages. That's why you're seeing sharp increases in spending on industrial automation in China, for example, where Omron is already well established. That's not likely to be a passing trend and it's one that will be abetted in

INVESTMENT SNAPSHOT

Omron
(Osaka: 6645:JP)

Business: Diversified global manufacturer focused primarily on industrial automation, electronic components, healthcare and public infrastructure markets.

Share Information
(@4/29/13, Exchange Rate: $1 = ¥97.96):

Price	**¥2,915**
52-Week Range	¥1,433 – ¥2,932
Dividend Yield	1.2%
Market Cap	¥662.06 billion

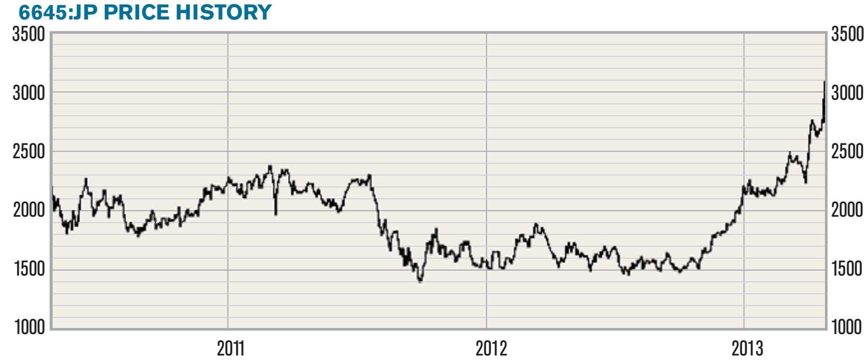
Financials (Trailing 9 mo., annualized):

Revenue	¥618.24 billion
Operating Margin	6.0%
Net Profit Margin	4.5%

Valuation Metrics
(Current Price vs. TTM):

	6645:JP	S&P 500
P/E	21.2	18.5

6645:JP PRICE HISTORY



THE BOTTOM LINE

The company's ambitious margin-improvement plan should be abetted by fast-growing demand in emerging markets for productivity-enhancing equipment and by the yen's ongoing depreciation, says James Hunt. Assuming an improved 10% EBIT margin and an eventual 11.5x EV/EBIT multiple, he estimates the current share value at ¥3,650.

Sources: Company reports, other publicly available information

Omron's case by the yen's decline, making its products increasingly cost-competitive outside of Japan.

We also like that management is focused on margin expansion. Even before the yen started coming down, the company was implementing a plan to increase EBIT margins from around 7% today to more than 13% in the next two to three years. This may be too ambitious, but we see no structural reason why Omron can't match, for example, the 10% through-the-cycle EBIT margin of a peer like Delta Electronics in Taiwan. Part of that is expected to come from basic blocking and tackling, such as shifting production capacity to lower-cost countries and increased use of automation itself. The margin should also benefit from incrementally higher growth in emerging markets and in the industrial-automation business.

Is management sufficiently "modern?"

JH: The CEO who took over in 2011 has had senior positions in both the U.S. and Europe and appears appropriately focused on margins and returns. The company also has a longstanding history of paying dividends and has even retired more than 10% of its shares outstanding over the past ten years – not always at the best prices, but they've done it.

At a recent price above ¥2,900, how cheap do you consider the stock?

JH: The shares on this fiscal year's estimates trade below 10x EBIT on an enterprise-value basis. In our model we're using top-line growth of an average 4% per year, assume 300 basis points in operating-margin improvement, and expect the business to be re-rated to closer to an 11.5x EV/EBIT multiple. With all that, our current value for the shares is around ¥3,650. That assumes no explicit benefit from the yen's depreciation, which should be a helpful tailwind.

If the company hits its margin goals, Omron's return on invested capital would move from the high single digits more to the mid teens. The benefits from that obviously compound over time.

From Japan to Hong Kong, describe your investment case for outdoor-media company Clear Media [100:HK].

JFC: The company is based in Hong Kong, but all of its assets – which consist of some 37,000 advertising panels on bus shelters – are in mainland China. It's the dominant market leader, seven times the size of its nearest competitor. The panels are in roughly 30 cities across the country, with the majority in Beijing, Shanghai and Guangzhou.

The bus-shelter concession rights are granted by local governmental agencies. Clear Media is responsible for the construction and maintenance of the bus shelters and pays annual rent to the local agency. In return it has the exclusive right to sell advertising on the shelters during the term of the concession. As of the end of last year, the weighted-average remaining concession term was eight years. As the first mover, the company has established solid relationships with local governments and has a very good reputation in the industry. As long as that's all maintained, it's likely to retain the rights as they come up for renewal.

JH: We see this as an excellent way to play consumer-spending growth in China, without having to own a Chinese con-

INVESTMENT SNAPSHOT

Clear Media
(Hong Kong: 100:HK)

Business: Outdoor media company operating solely in China with a bus-shelter advertising network located in 30 key cities throughout the country.

Share Information
(@4/29/13, Exchange Rate: $1 = HK$7.76):

Price	**HK$5.60**
52-Week Range	HK$3.82 – HK$5.82
Dividend Yield	2.7%
Market Cap	HK$2.96 billion

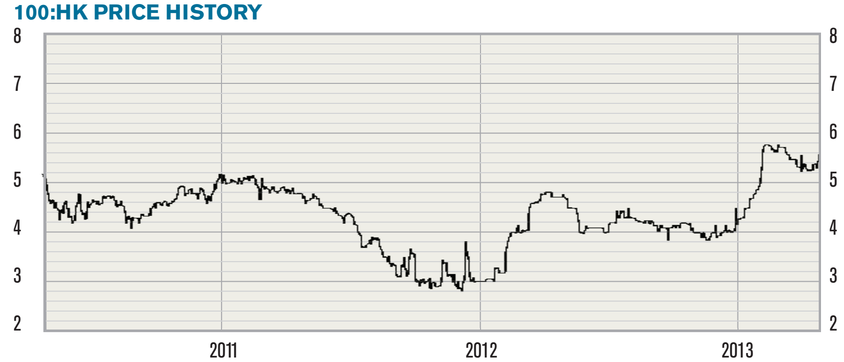
Financials (2012):

Revenue	HK$1.52 billion
EBITDA Margin	40.7%
Net Profit Margin	14.4%

Valuation Metrics
(Current Price vs. TTM):

	100:HK	Russell 2000
P/E	13.5	34.2

100:HK PRICE HISTORY



THE BOTTOM LINE

Jean-Francois Coste sees the company's stock as an excellent way to play consumer-spending growth in China without having to own shares of higher-risk, higher-valuation Chinese consumer-products firms. At the low end of the 11-15x EV/EBIT range at which global peers trade, he says, on trailing company results the shares would trade at HK$9.

Sources: Company reports, other publicly available information

sumer-products company that is likely to offer less visibility into earnings, less-transparent management practices, and a stock that trades for 25-30x earnings. With Clear Media, you've got broad exposure to the consumer through advertising, in a medium that is less susceptible to online competition. You have the security of a controlling U.S. shareholder in Clear Channel Outdoors, which owns 51% of the company. Last but not least, after netting out cash, you can buy the stock today at 6x trailing free cash flow.

The company has been criticized for hoarding cash. Do you agree with that?

JFC: Excluding a 20% share for non-controlling interests, net cash per share is around HK$2 on a stock price of HK$5.50, so there appears to be excess cash. Our view is that the company still has room to grow – it's been increasing its bus shelters by 10% per annum – so we're fine to have it invest cash at the high-teens return on invested capital it's been able to earn. They have started to pay a dividend – the current yield on the stock is 2.7% – which is an acknowledgement by management that they should have the cash and cash flow they need to fund growth or to invest in new display technology.

What do you think the shares are more reasonably worth?

JFC: The stock trades at only 5x EV/EBIT, when global outdoor-advertising peers go for 11-15x. If it operated in Europe with the same economics and growth profile, the multiple would be much higher, but even using the low end of the peer range you get a share value of HK$9 based on last year's EBIT.

Risks?

JFC: There is domicile risk with any company operating exclusively in China, where the rule of law is less established and the potential for government interference is higher.

Another specific worry at Clear Media is accounts receivable, which appear to reflect overly extended payment terms. The company says that's a function of large clients by common practice in China taking a long time to pay, but it is a potential concern.

JH: One other thing I'd add is that the shares are thinly traded and don't pass our liquidity guidelines. We're making an exception because of the dirt-cheap valuation, the overcapitalized balance sheet and the magnitude of the potential upside.

ON OPPORTUNITIES:

We worry when the sailing is relatively smooth. But things certainly aren't so upbeat we can't find ideas to invest in.

What have been your more common sources of mistakes?

JH: We've made all kinds, but two categories come to mind. One is just when things come out of the blue that we haven't adequately contemplated. One famous story at Tocqueville is about the South Korean rice-wine company, Kook Soon Dang, that had a lock on the market and great returns year in and year out, until the president of South Korea started drinking fruit wine and rice wine ended up going out of favor after 30 years as a staple. We won't eradicate those kinds of mistakes completely, but they're a constant reminder that you can never give short shrift to the "What can go wrong?" part of your analysis.

The second category would probably be overestimating management's ability to execute a turnaround. We're working through one of those right now with Nexans [NEX:FP], a French producer of wire and cable. The earnings potential is there, but the first management team we were betting on, now replaced, just wasn't successful in addressing project-execution and manufacturing problems that were weighing on the stock. We still own it and believe it will work out, but more time has passed than we expected.

Your timing in buying commodity giant Freeport-McMoRan [FCX] in the third quarter of last year hasn't looked great so far. A mistake?

JH: This is a stock in which we've made a lot of money over the years – that can be dangerous when you revisit something with too many preconceptions.

Our thinking at the time was that Freeport might be oversold on China fears. Copper prices had declined from around $4.40 per pound to $3.50, and the stock fell from the high $50s to the low $30s. We like the long-term fundamentals for copper because supply is relatively concentrated, as well as increasingly costly to come by. We also like that Freeport is a low-cost producer, with returns among the best in the industry.

Since we bought the stock, copper demand has been slightly weaker than expected, largely due to weakness in Europe. Freeport also announced plans to acquire Plains Exploration and McMoRan Exploration for $20 billion, which puts debt on the balance sheet and begs the question of what management thinks about the future prospects for copper. We still like copper and Freeport's copper assets, but this is one we're watching very carefully.

There have been some glitches in recent weeks, but is the positive equity market environment of the past six months making you nervous?

JH: As contrarians, we can't help but worry when the sailing is relatively smooth. We're viscerally drawn to where there's fear, and there's less of that lately. But if you're true to your discipline as a value investor, you're responding when complacency is reflected in valuations. And I'd add that things certainly aren't so upbeat around the world that we can't find ideas to invest in. VII

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 International Multi-Cap Equity strategy, including the Tocqueville International Value Fund (TIVFX). 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 International Value 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.

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The average annual total returns of The Tocqueville International Value Fund for 1, 3, 5 and 10 years ending June 30, 2014 are as follows:

1 Year	27.87%
3 Year	7.03%
5 Year	13.92%
10 Year	8.47%
Gross Expense Ratio	1.55%
Net Expense Ratio	1.25% *

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
Schlumberger Limited	2.93
Hitachi, Ltd.	2.84
Novartis AG	2.66
Samsung Electronics	2.35
Sanofi S.A.	2.34
Bollore	2.33
Shiseido Company Ltd.	2.31
Compagnie de Saint-Gobain	2.21
Statoil ASA	2.19
Infineon Technologies	2.17

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 International Value Fund is 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.*