Tocqueville Asset Management L.P.

Tocqueville Gold Strategy
Fourth Quarter 2012 Investor Letter

The bull market in gold remains intact. The metal rose approximately 7.14% in 2012 in U.S. dollar terms and has increased in each of the last 12 years.

Negative real interest rates incentivize capital to move into gold. It is difficult to imagine a world of positive real interest rates, absent a significant shift in monetary and fiscal policy in the Western democracies.

Gold and gold shares historically have been positively correlated. However, during the past few years, gold mining stocks have underperformed the metal due a host of issues that we have discussed at length, including in our website article *A Golden Mulligan*.(A Golden Mulligan | Tocqueville). Although the article was published a few years ago, the issues afflicting gold mining stocks mentioned then still hold true.

Gold mining stock valuations are at the low end of the historical range since the introduction of the gold ETF (GLD) in 2004, or roughly 10% (basis XAU/spot bullion.) This relationship is depicted on page 11 of the appended data section to this report. Significant rallies in gold mining shares have occurred in the past few years from this compressed valuation base.

We see evidence of fundamental change within the gold mining industry, which addresses many of the concerns that have caused negative investor sentiment. For example, cost pressures are leveling off, which should help margins. Investor pushback against major capital spending projects is leading to better capital allocation decisions. There have been a number of departures at the CEO level due to investor dissatisfaction, and this should heighten the sense of accountability to shareholder interests in the ranks of management. On the other hand, resource nationalism remains a strong headwind. Only the better managed companies will be able to deal successfully with these pressures.

Despite the steady rise in the gold price over many years, it has failed to exceed the 2011 high of $1901/oz. achieved during the debt ceiling crisis and U.S. credit downgrade. This lack of direction has hurt gold mining stocks, which do best when the upward trend of the gold price is clear. We believe that gold stocks will respond favorably to a new high in the gold price.

Gold needs to rise only 15% to trade at a new high. We believe that this is in the cards for 2013, and that such a move will be driven by the continuation of negative real interest rates and heightened concerns over the direction of monetary and fiscal affairs in all western democracies. Such concerns would be exacerbated by the continuation of extremely weak economic activity in 2013 and quite possibly the resumption of a recession, anticipated by few.

Most investors seem to expect a gradual acceleration of economic growth in 2013. We disagree and believe that the recent tax hike, one of the largest in history, will dampen economic activity sufficiently to widen the deficit and require the extension of debt monetization by the Fed for years to come.

Polarization of public opinion and the political process over austerity versus growth agendas will also serve to paralyze economic activity. Not only will this require continued monetization of fiscal deficits, but it will affect business and consumer behavior negatively. Intractable fiscal issues such as tax and entitlement reform, in our opinion, will only be achieved through political consensus. In the absence of effective political leadership, such a consensus seems achievable only in the aftermath of a financial and economic meltdown on the order of 2008.

Once gold demonstrates that it can trade sustainably above $2000, or 20% above current levels, we believe that gold mining stocks could trade at 13%-15% of spot bullion (basis XAU). That would translate into appreciation of 60%-90% above the current XAU level of 160. Investor sentiment on gold is extremely negative, comparable to the levels of mid-May 2012, when gold was trading approximately $100/oz. below current levels (see Fig.34 - Fig.35 on p. 8 of the appended data section). Historically, extreme negative sentiment levels such as these have provided excellent entry points for new positions in bullion and the mining shares.

Best regards,

John Hathaway
Portfolio Manager and Senior Managing Director

January 8, 2013

Gold Monitor

- Macro charts show bloated and still expanding central bank balance sheets, negative real interest rates in major currencies, and rapid growth of monetary aggregates. One could argue that these facts are well known, and that is certainly the case. However, the consequences of these facts are still unknown, and therefore undiscounted by the markets. This in our opinion is the basis for further upside in the gold price.

- Charts 16 & 17 reveal a potential time bomb for US treasuries. Interest on the public debt is close to historical lows, due in part to Fed manipulation, the "fear" trade, and old fashioned momentum. Think of what 300 or 400 additional basis points across the yield curve would do to the fiscal deficit. (Hint: what is 4% x $16 trillion as a percent of future fiscal deficits? Answer: it is very high).

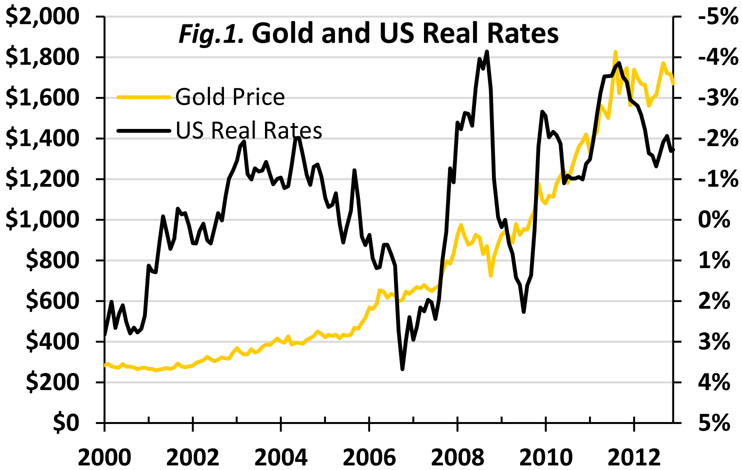
- Charts 22 & 23 reflect the declining willingness of foreign investors to invest in US securities. It may have something to do with the point above.

- Charts 27, 30 & 31 indicate that despite all of the talk about gold, it remains very underowned.

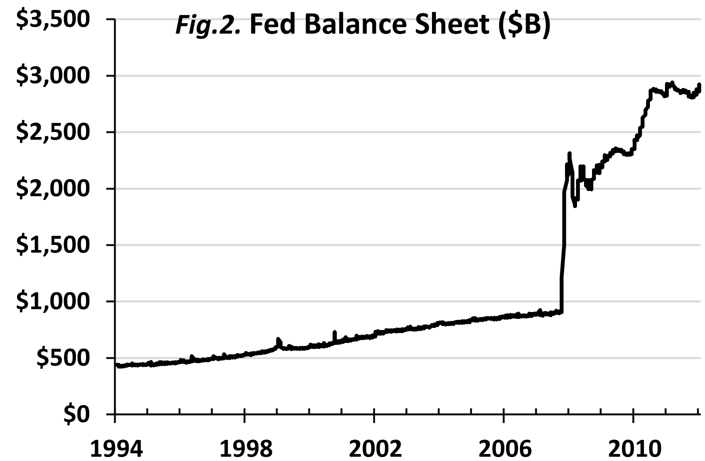
- Charts 34 & 35 show that sentiment is at, or approaching rock bottom levels from which rallies can be reliably be expected.

- Chart 44 shows that despite all of the sell side whining about rising costs (see Chart 45), profits are at record levels.

- The consequence of Chart 44 is reflected in Chart 48, a steady decline in equity issuance. We believe declining equity dilution is an important positive fundamental change in the industry that will help lead to expanding valuation of gold mining equities.



Source: Bloomberg



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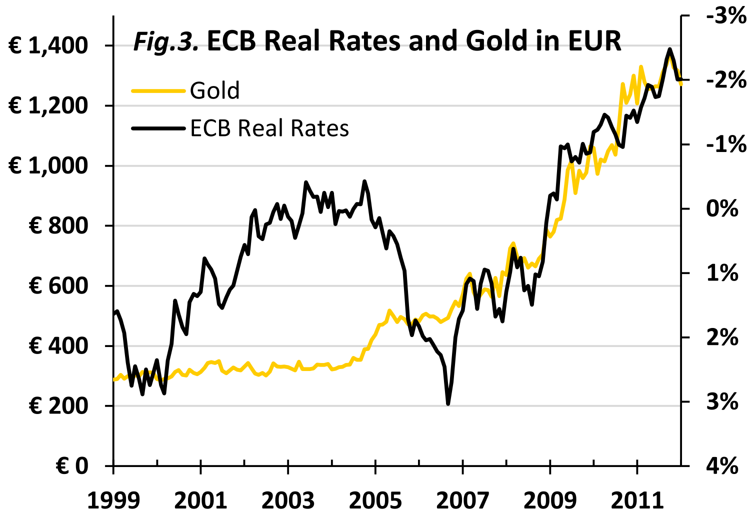

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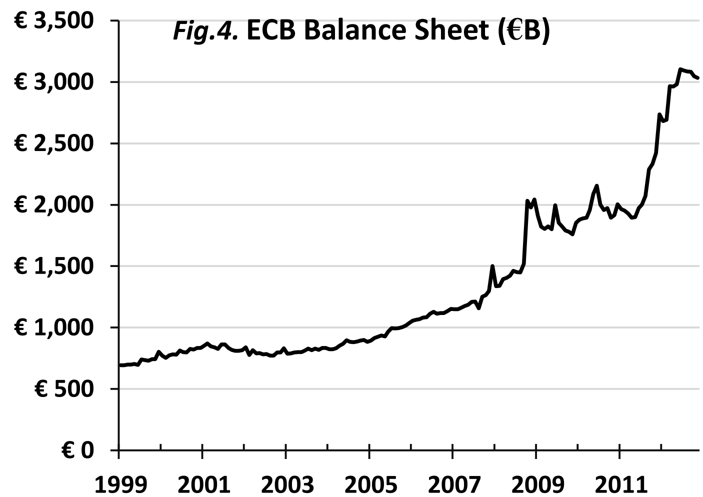

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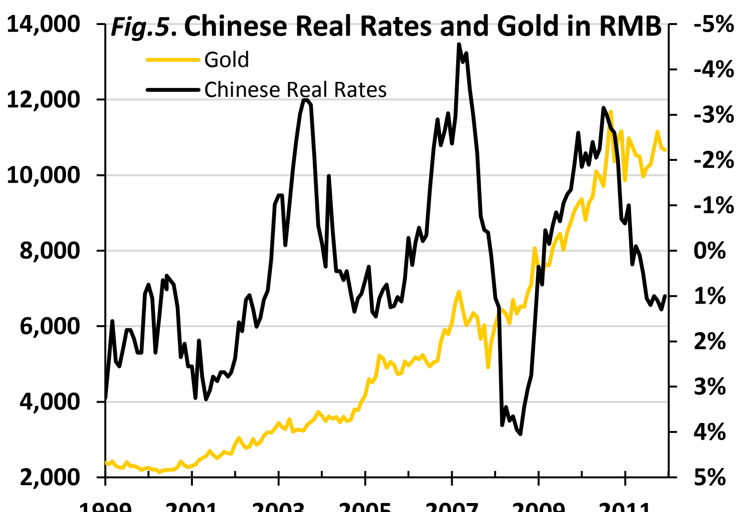

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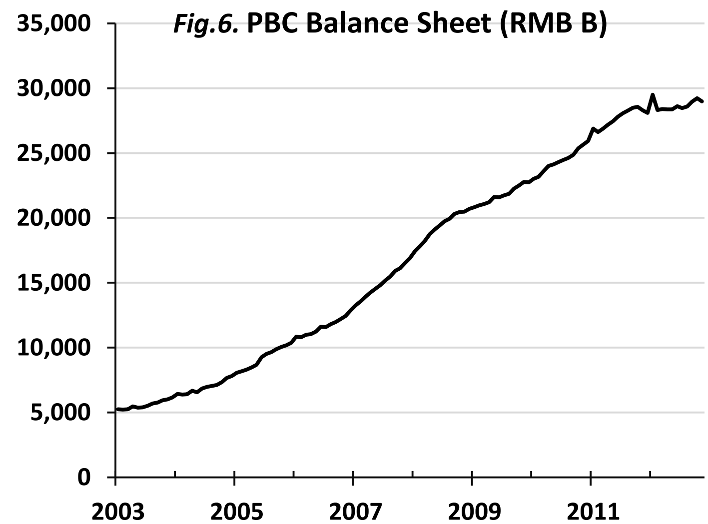

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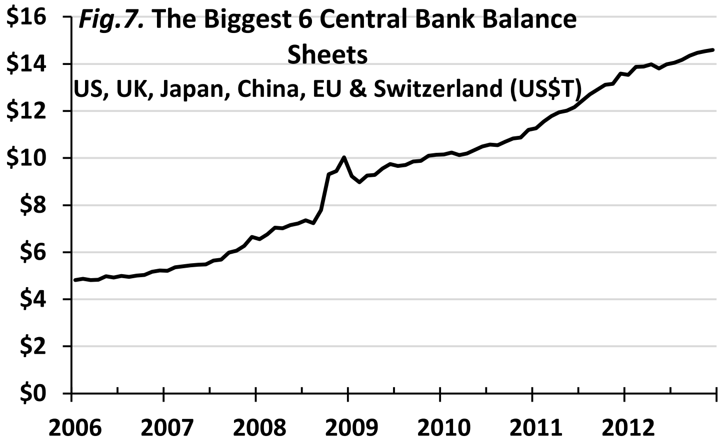

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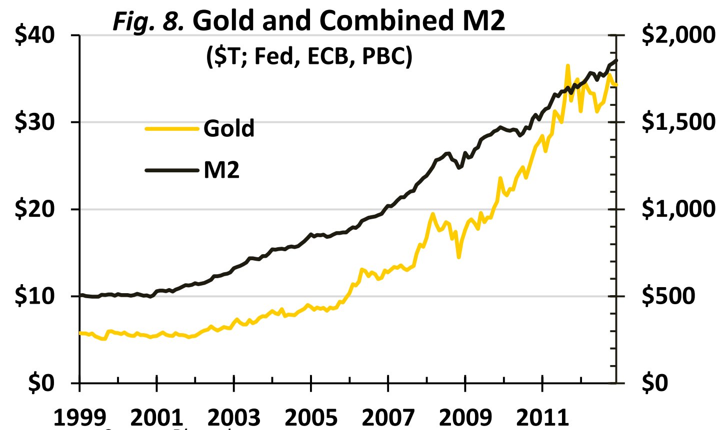

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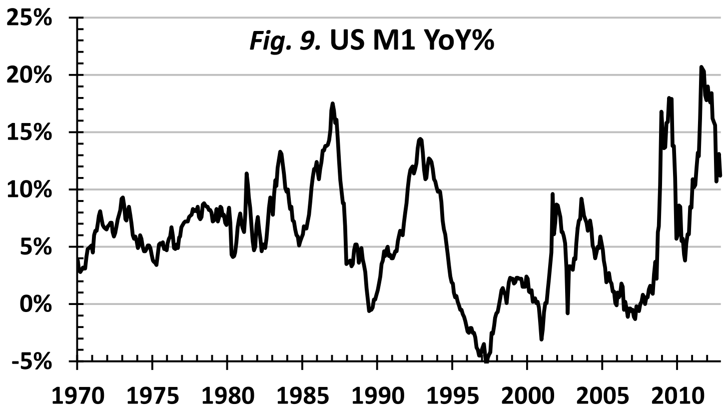

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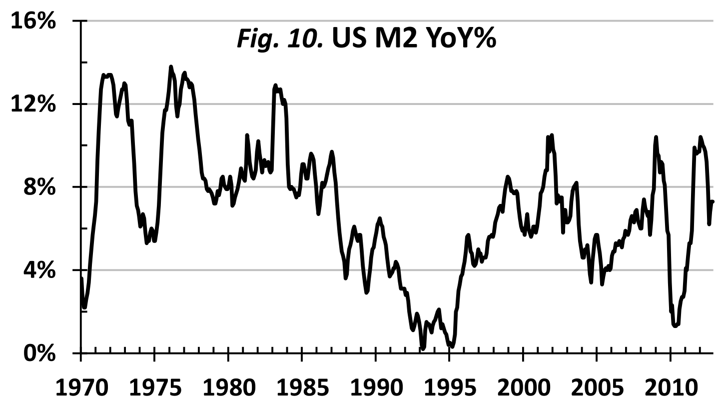

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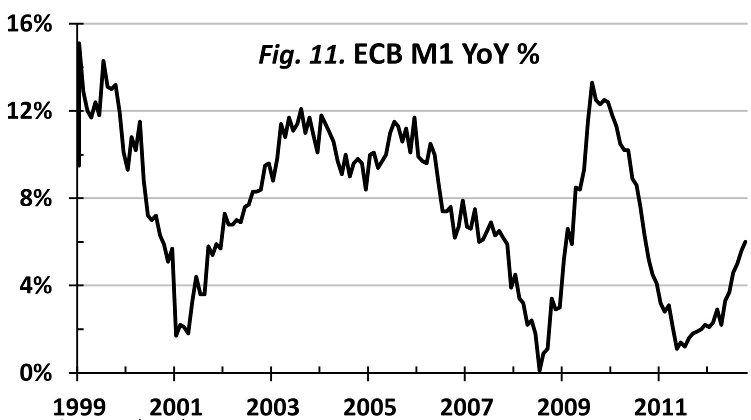

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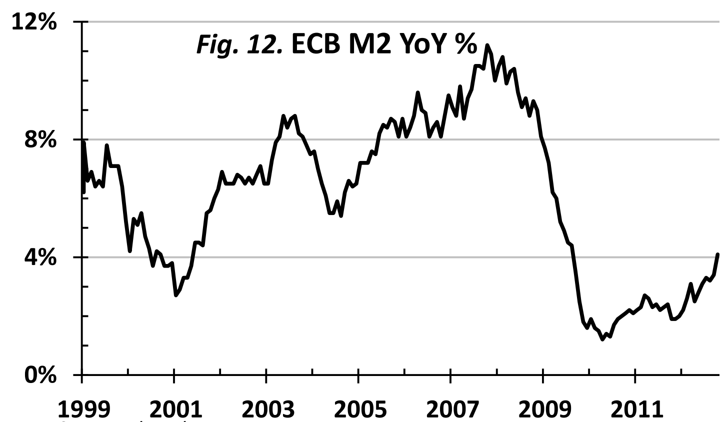

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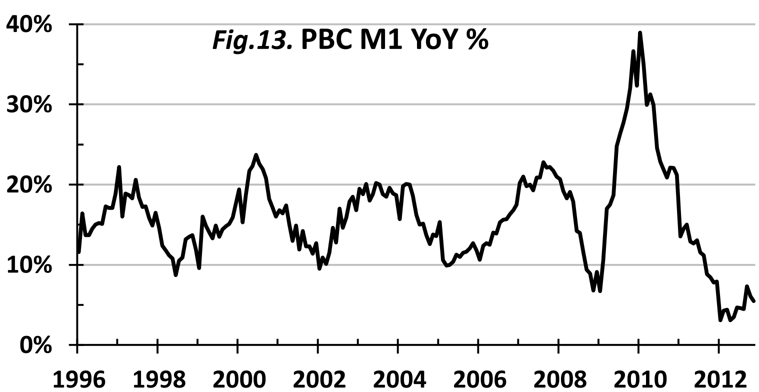

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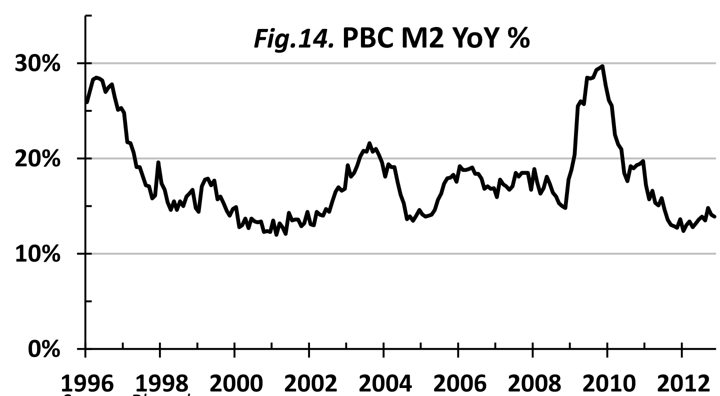
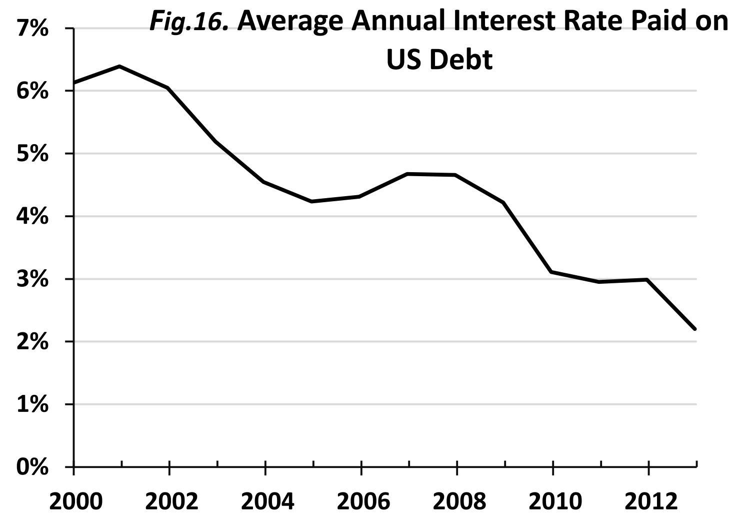


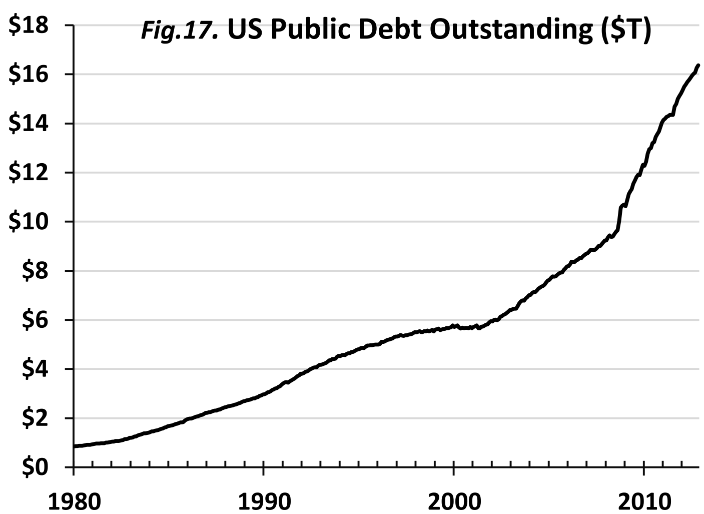
Source: Bloomberg

Fig.15. Inflation			
Dec-12	US	Euro Area	China
Headline CPI	1.80%	2.20%	2.00%
Core CPI	1.90%	1.40%	n/a
Shadowstats	9.41%	n/a	n/a

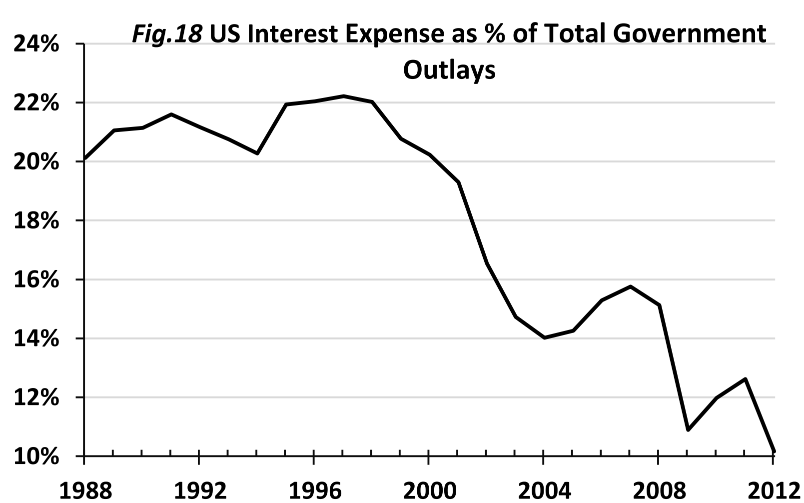
Source: Bloomberg; Shadow Government Statistics



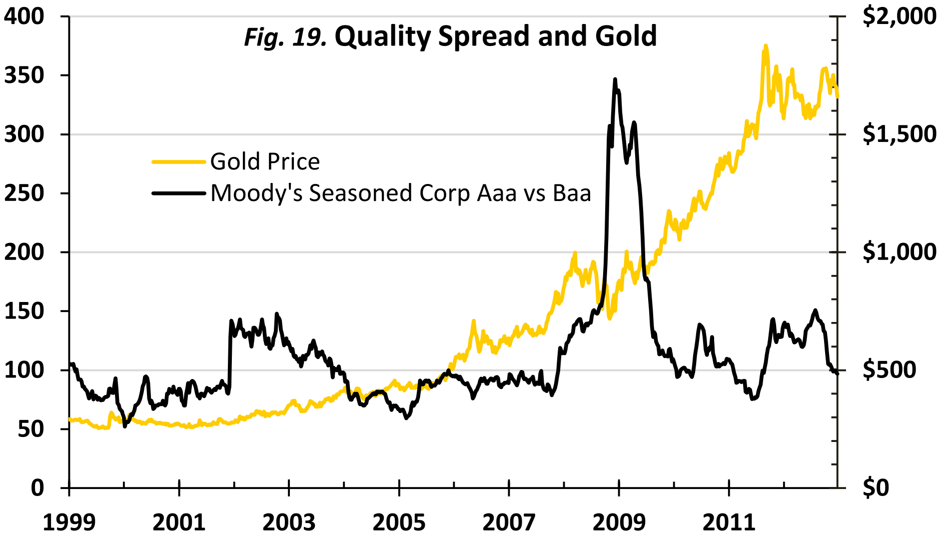
Source: Bloomberg; US Treasury



Source: Bloomberg

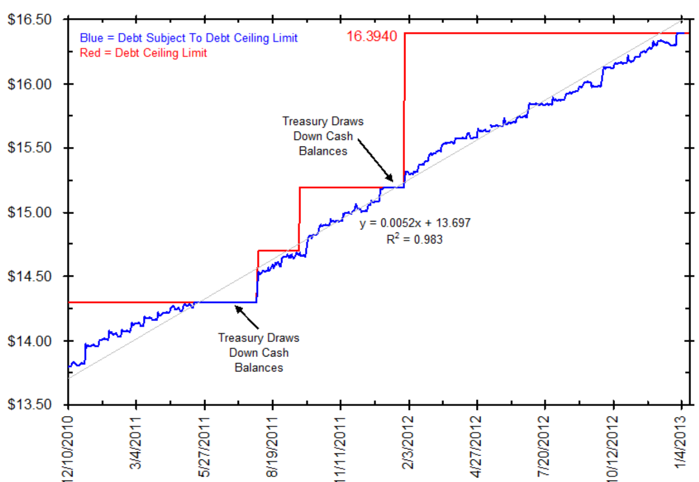


Source: Bloomberg; US Treasury



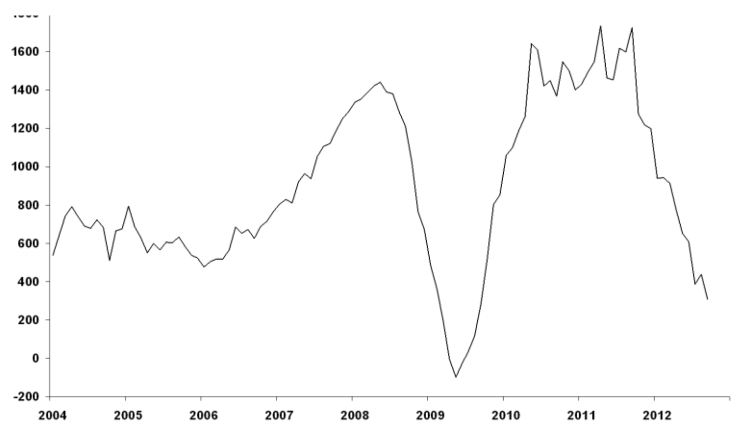
Source: Bloomberg

Fig.20. **The Debt Ceiling ($T)**



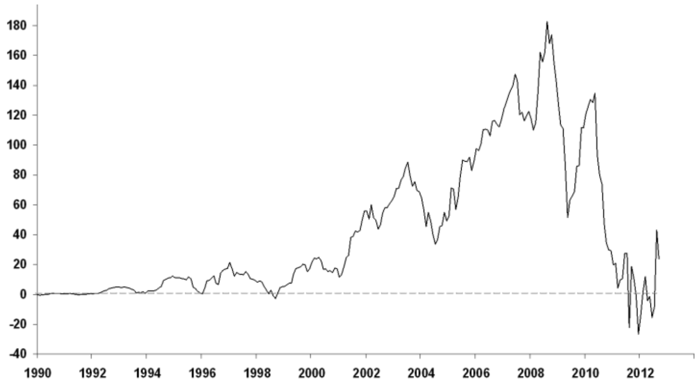
Source: Bianco Research

Fig.21. **Global Forex Accumulation. 12 months sum**



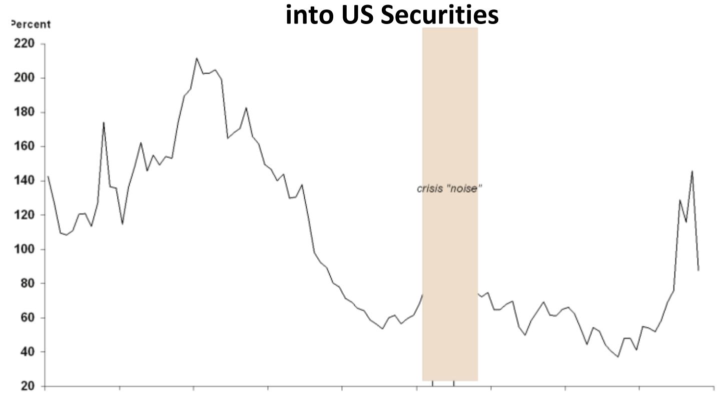
Source: MacroMavens, LLC

Fig.22. **China Net Purchases of LT US Securities (annual $B)**



Source: MacroMavens, LLC

Fig.23. **Share of Global Forex Accumulation Recycled into US Securities**



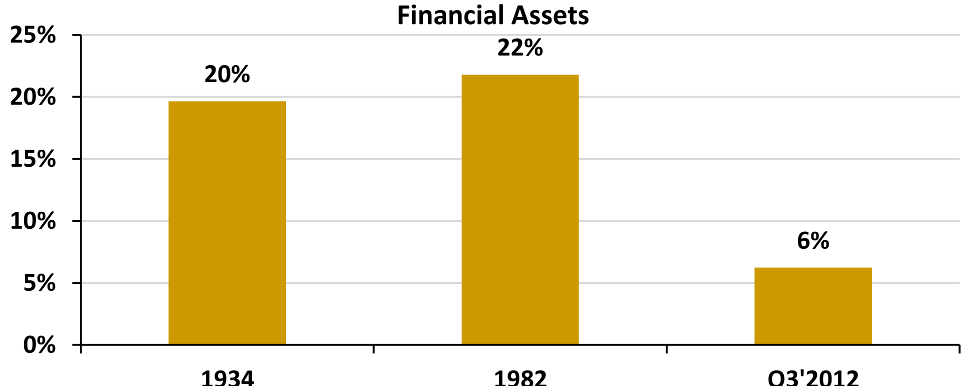
Source: MacroMavens, LLC

Fig. 24. **Gold Supply and Demand(tonnes)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Q32012
Supply											
Mine production	2,591	2,592	2,478	2,550	2,481	2,476	2,409	2,584	2,739	2,827	2,101
Old gold scrap	835	944	829	886	1,107	956	1,217	1,672	1,723	1,669	1,237
Traditional supply	3,426	3,536	3,307	3,436	3,588	3,432	3,626	4,257	4,463	4,495	3,337
Net producer hedging	(412)	(279)	(445)	(86)	(373)	(444)	(349)	(252)	(108)	10	(12)
Official sector sales	545	617	497	662	367	484	236	30	-	-	-
Total supply	**3,559**	**3,874**	**3,359**	**4,012**	**3,582**	**3,472**	**3,513**	**4,034**	**4,355**	**4,505**	**3,326**
Demand											
Jewellery	2,680	2,522	2,673	2,707	2,283	2,405	2,187	1,760	2,017	1,972	1,410
Other	360	385	416	431	458	462	436	373	466	453	327
Total fabrication	**3,040**	**2,907**	**3,089**	**3,138**	**2,741**	**2,867**	**2,623**	**2,134**	**2,483**	**2,425**	**1,738**
Bar & coin retail investment	373	314	396	412	421	446	649	743	1,205	1,519	942
Official sector purchases	-	-	-	-	-	-	-	-	77	457	374
ETFs & Similar	3	39	133	208	260	253	321	617	382	185	189
Implied net investment	143	614	(259)	254	160	(94)	(80)	541	207	(81)	83
Total demand	**3,559**	**3,874**	**3,359**	**4,012**	**3,582**	**3,472**	**3,513**	**4,034**	**4,355**	**4,505**	**3,326**

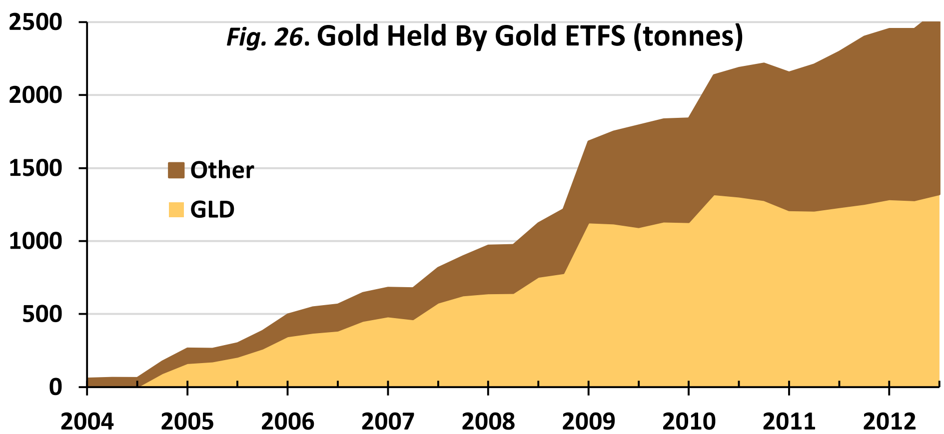
Source: World Gold Council

Fig. 25. **Market Cap of Above Ground Gold as % of Total US Financial Assets**



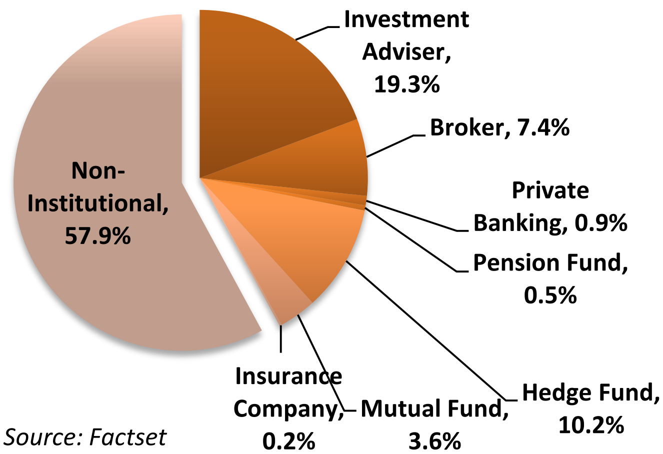
Source: Federal Reserve, World Gold Council

Fig. 26. **Gold Held By Gold ETFS (tonnes)**



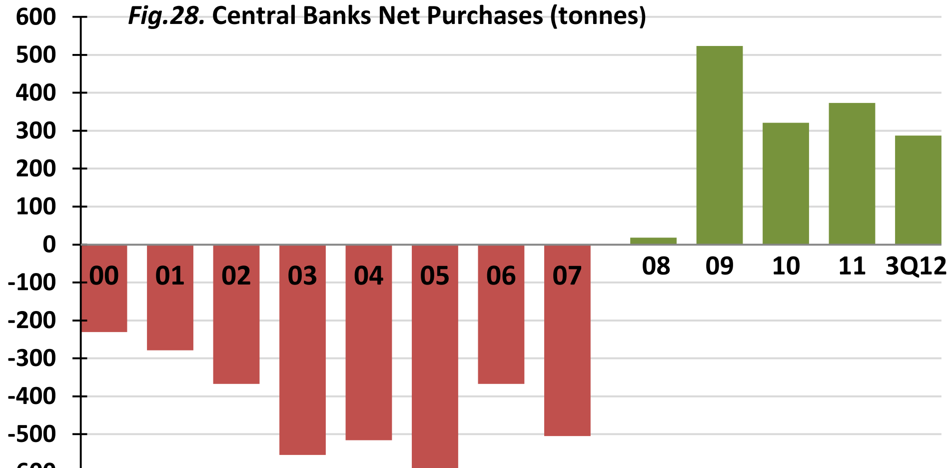
Source: Company Filings, World Gold Council

Fig. 27. **GLD Ownership by Type**



Source: Factset

Fig.28. **Central Banks Net Purchases (tonnes)**



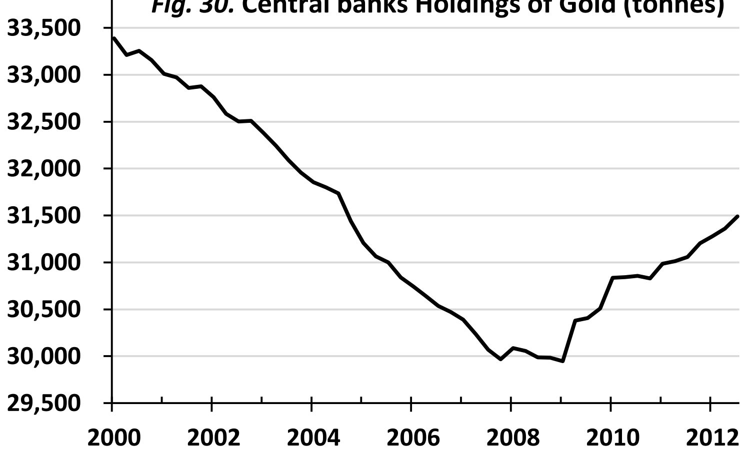
Source: World Gold Council

Fig.29. **Notable Transactions in 3Q12**

Country	Tonnes	Transaction
Kazakhstan	2.45	Purchase
Korea	16.00	Purchase
Russia	16.48	Purchase
Turkey	58.13	Addition

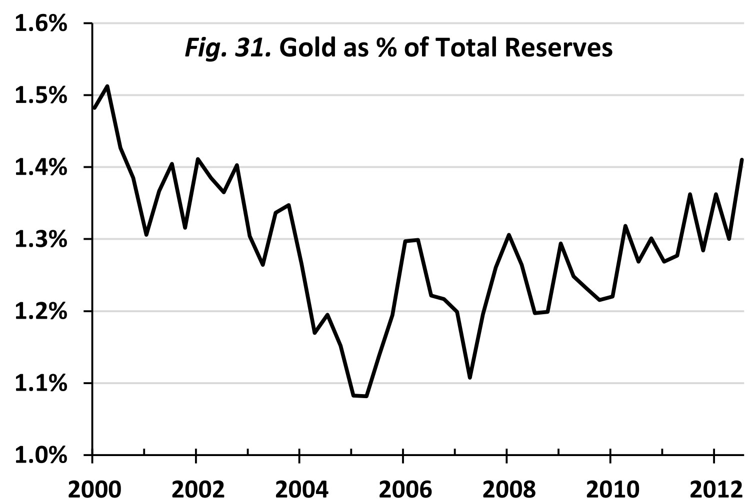
Source: World Gold Council

Fig. 30. **Central banks Holdings of Gold (tonnes)**



Source: World Gold Council

Fig. 31. **Gold as % of Total Reserves**



Source: World Gold Council

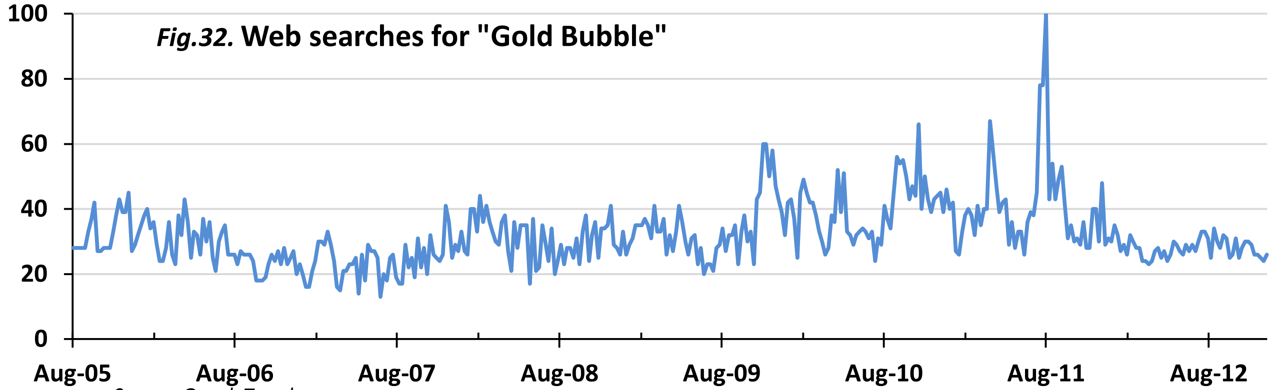


Fig.32. **Web searches for "Gold Bubble"**

Source: GoogleTrends

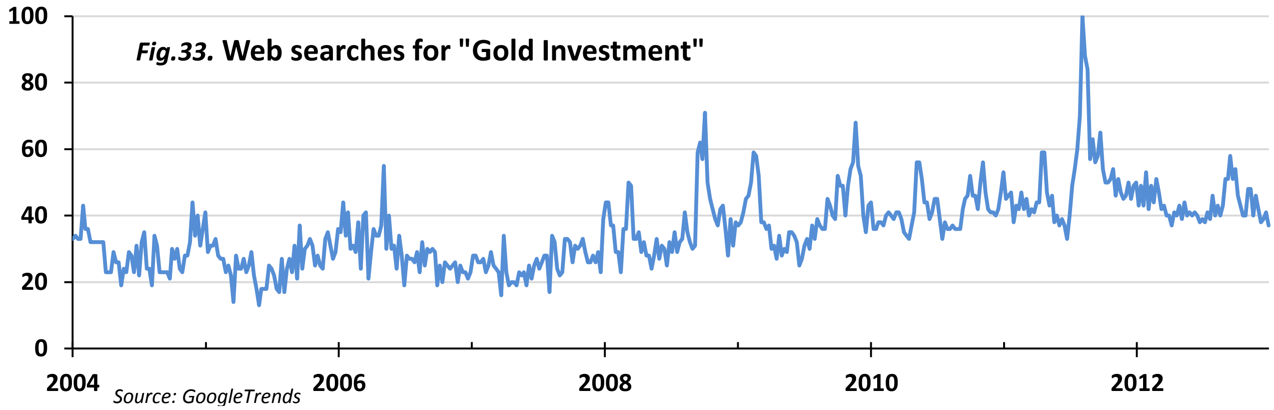
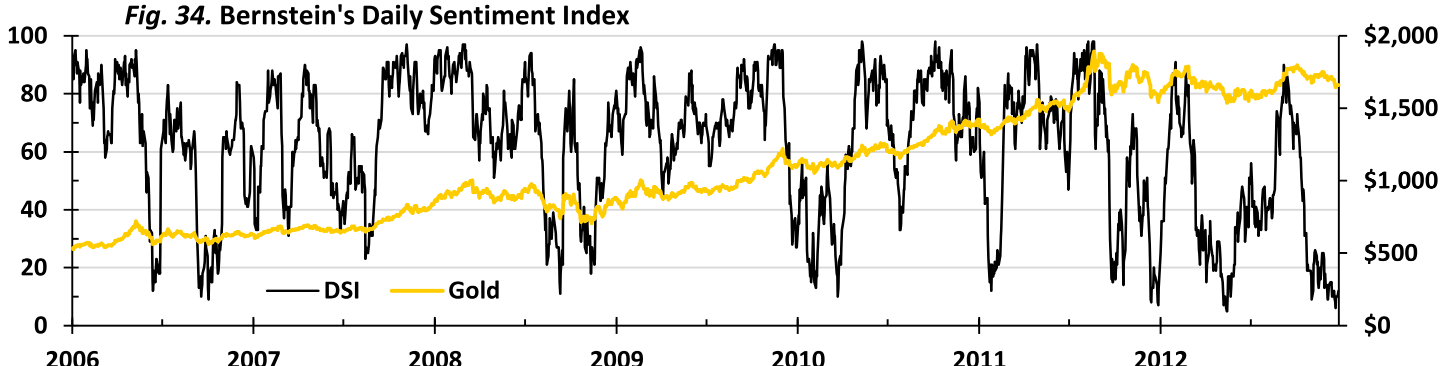


Fig.33. **Web searches for "Gold Investment"**

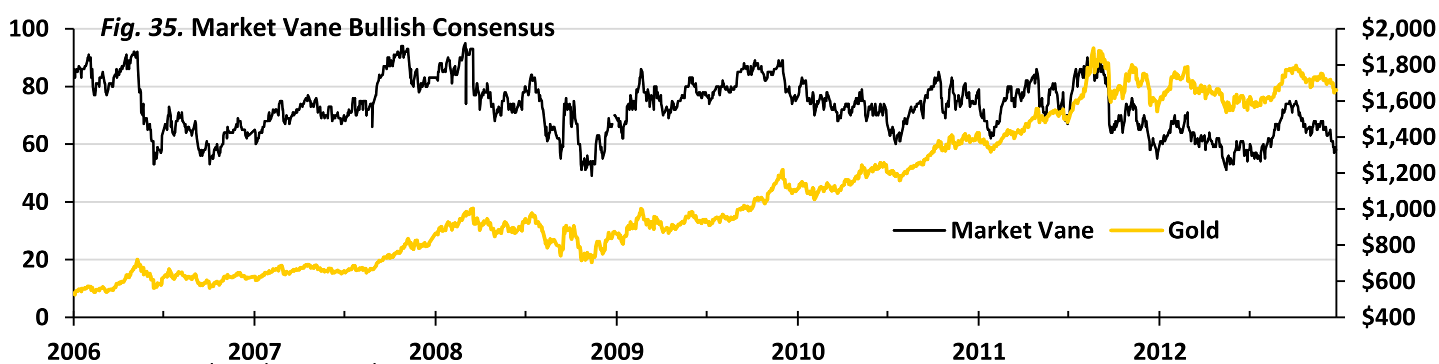
Source: GoogleTrends

Fig. 34. **Bernstein's Daily Sentiment Index**



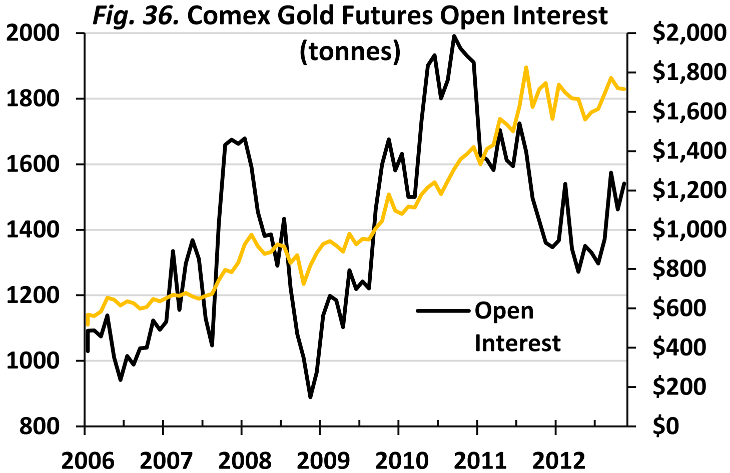
Source Bloomberg, Bernstein's DSI

Fig. 35. **Market Vane Bullish Consensus**



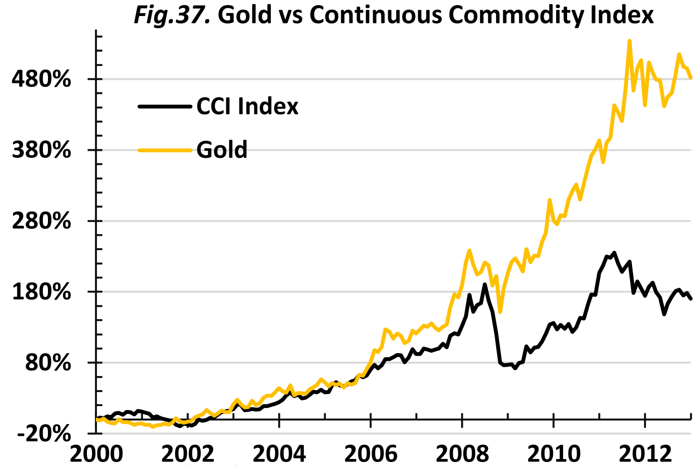
Source: Bloomberg; Market Vane

Fig. 36. **Comex Gold Futures Open Interest (tonnes)**



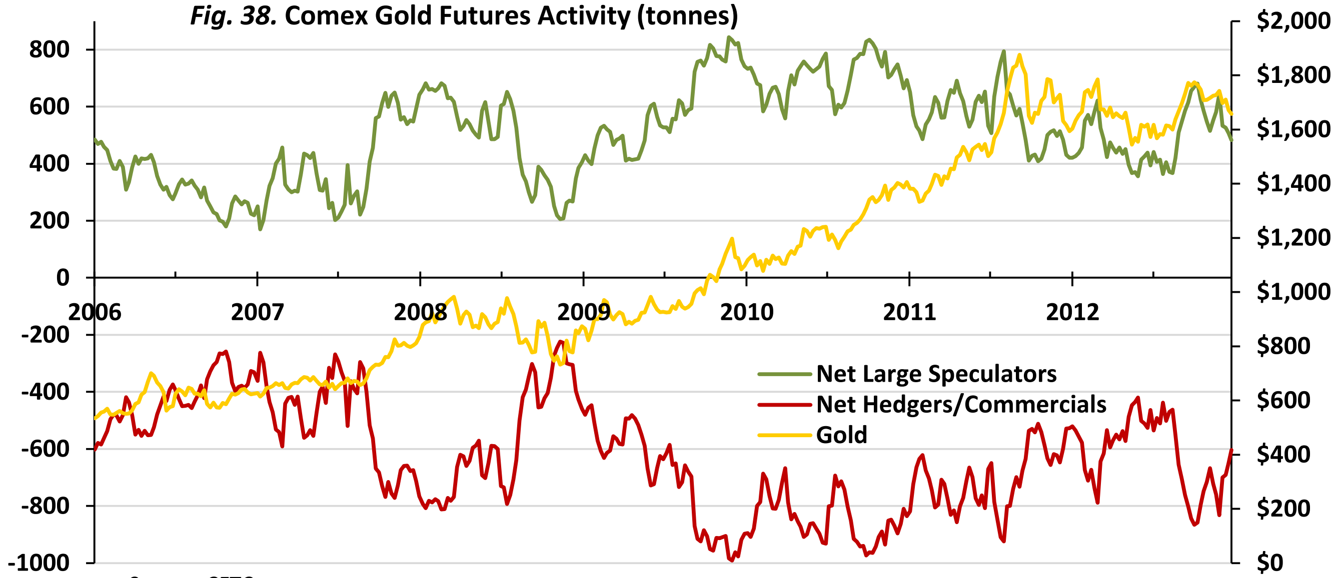
Source: Bloomberg

Fig.37. **Gold vs Continuous Commodity Index**



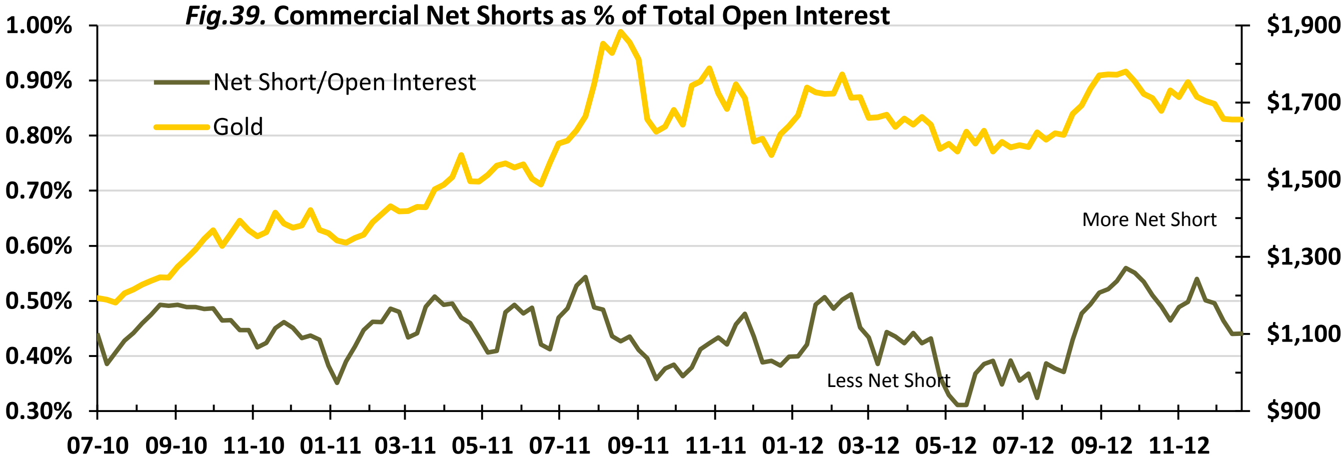
Source: Bloomberg

Fig. 38. **Comex Gold Futures Activity (tonnes)**



Source: CFTC

Fig.39. **Commercial Net Shorts as % of Total Open Interest**



Source: Bloomberg; The McClellan Market Report

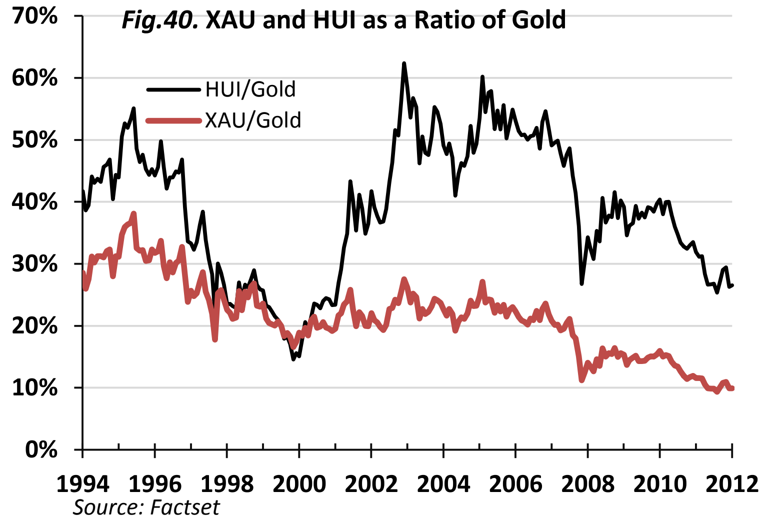


Fig.40. **XAU and HUI as a Ratio of Gold**

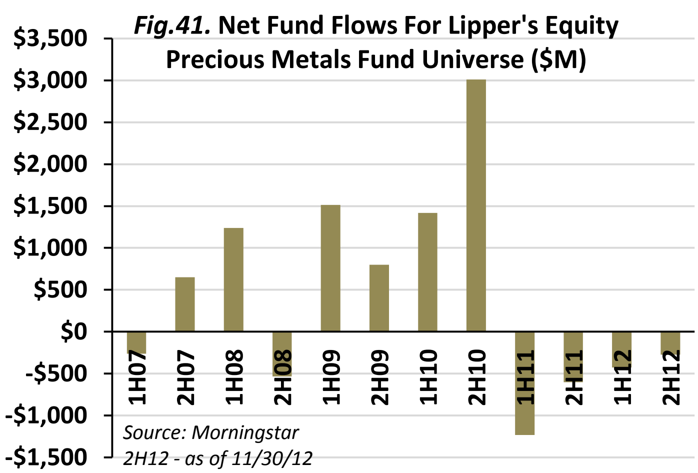


Fig.41. **Net Fund Flows For Lipper's Equity Precious Metals Fund Universe ($M)**

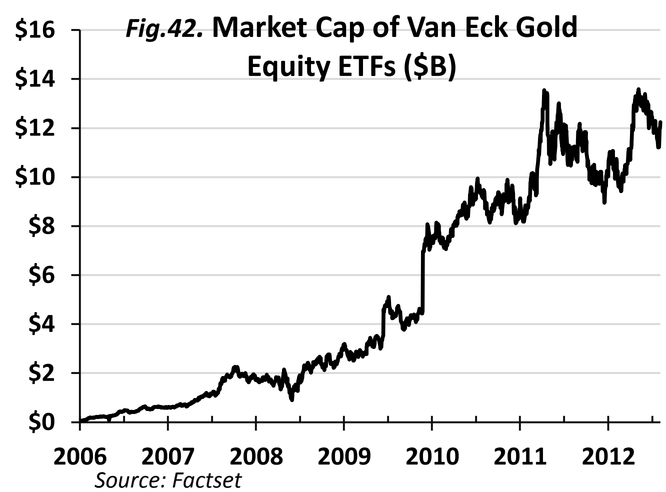


Fig.42. **Market Cap of Van Eck Gold Equity ETFs ($B)**

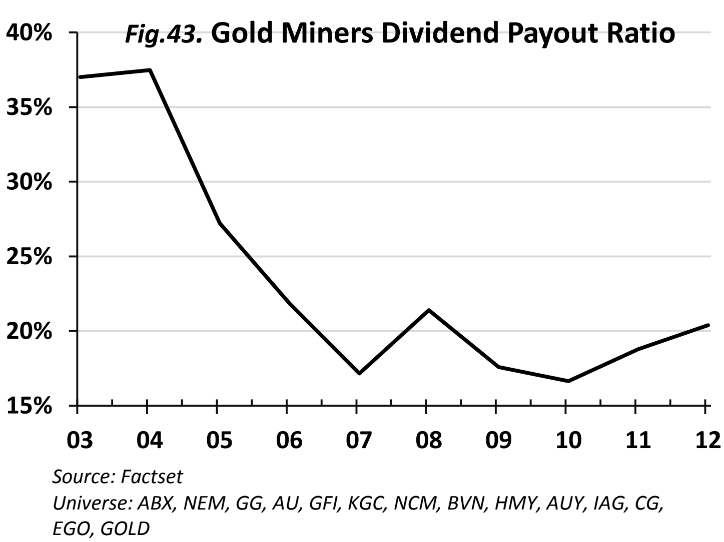


Fig.43. **Gold Miners Dividend Payout Ratio**

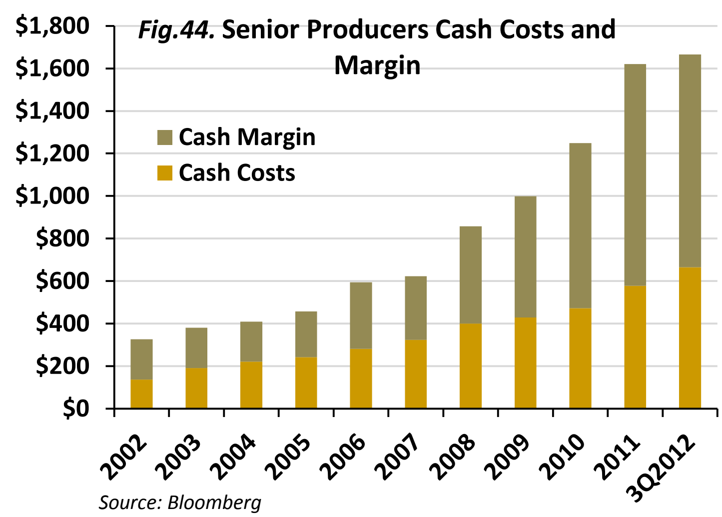
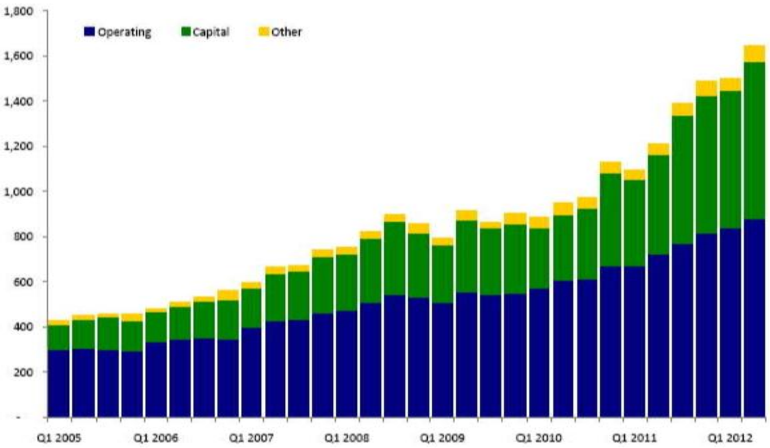


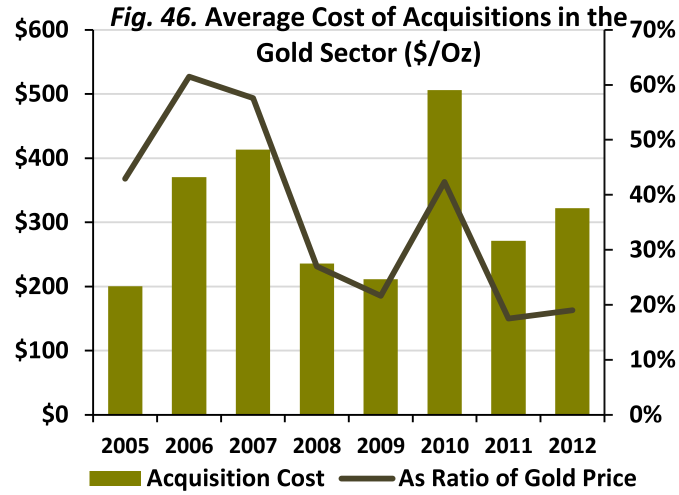
Fig.44. **Senior Producers Cash Costs and Margin**

Fig. 45. **Total Cash Outflow ($/oz)**



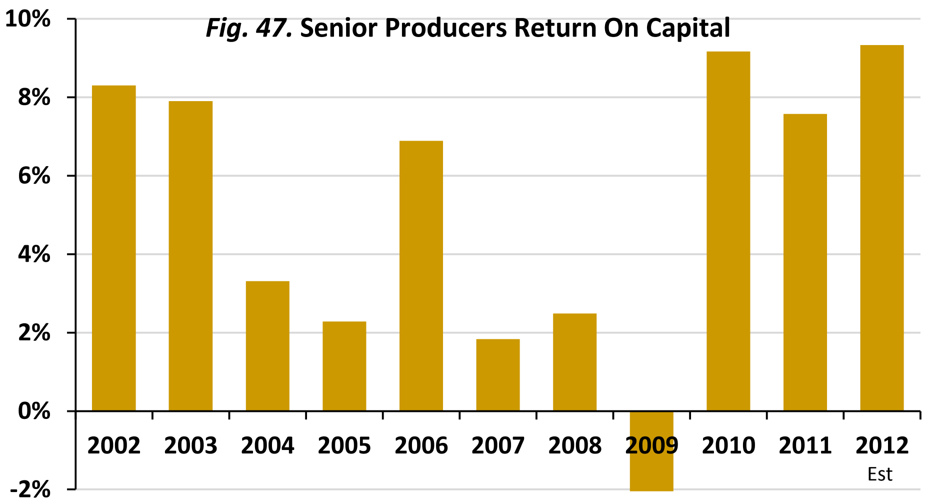
Note: Operating = Operating costs + Exploration costs + Royalties;
Capital= Ongoing+Expansion capital; Other = Finance costs + Other costs
Source: Gold Fields

Fig. 46. **Average Cost of Acquisitions in the Gold Sector ($/Oz)**



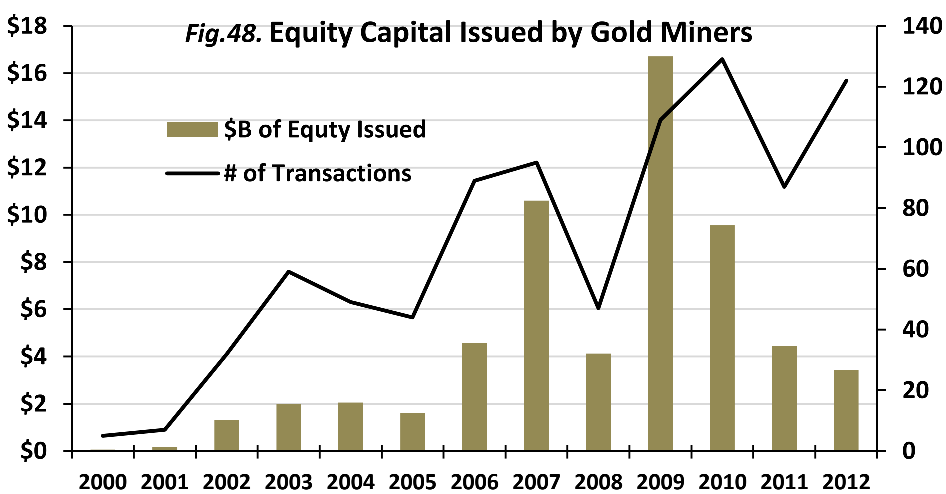
Source: RBC Capital Markets

Fig. 47. **Senior Producers Return On Capital**



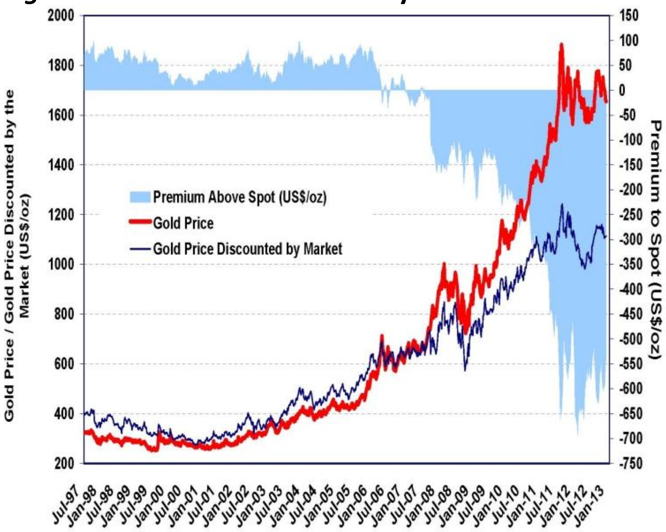
Source: Factset
Universe: NEM, ABX, GG, KGC, AUY, NCM, AU, GFI, HMY

Fig.48. **Equity Capital Issued by Gold Miners**



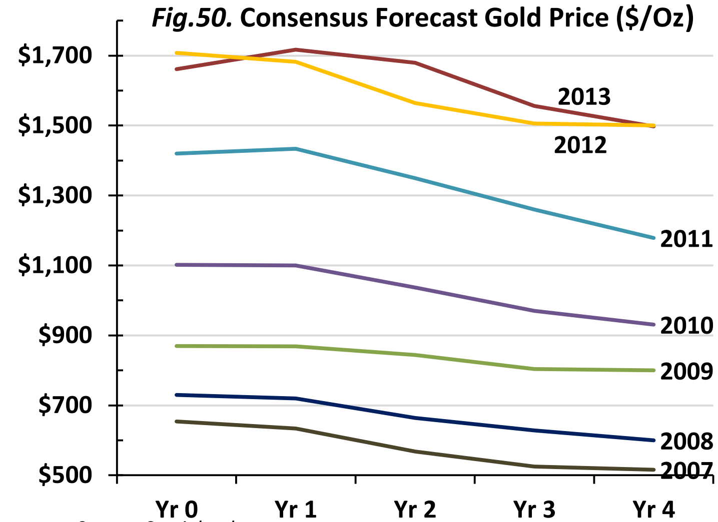
Source: RBC Capital Markets

***Fig. 49.* Gold Price Discounted by Market**



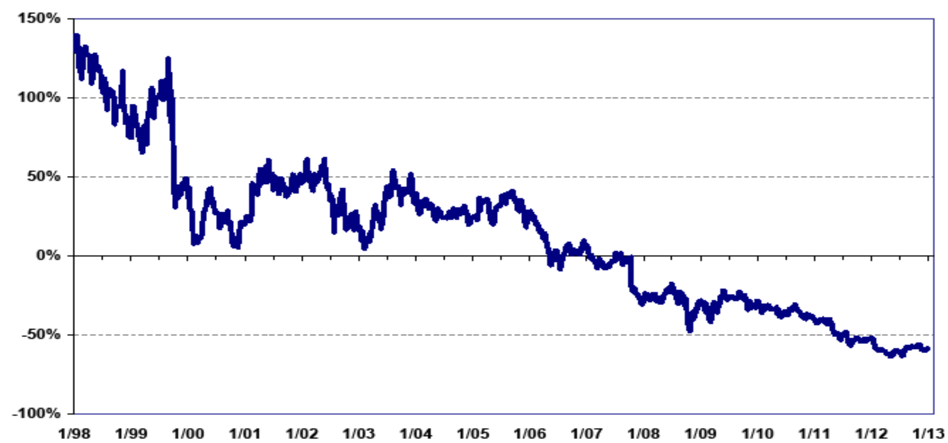
Source: BMO Capital Markets

***Fig.50.* Consensus Forecast Gold Price ($/Oz)**



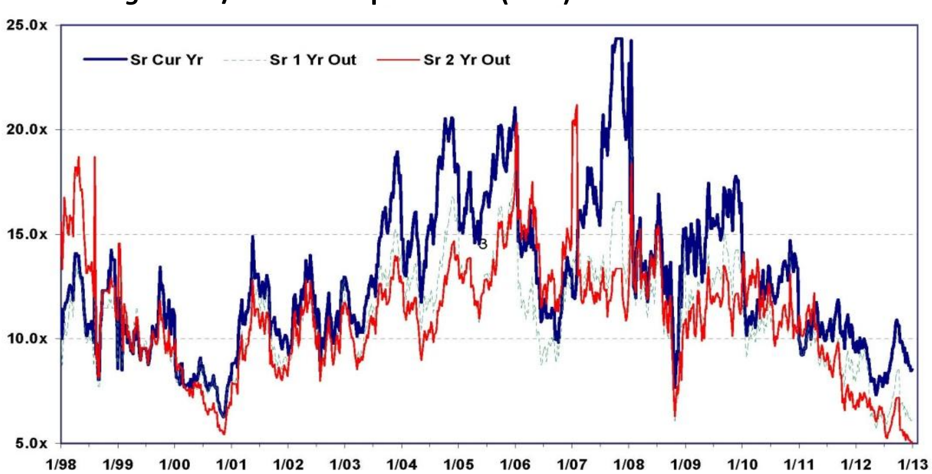
Source: Scotiabank

***Fig. 51.* NAV Premiums - Senior & Intermediate producers (N.A.)**



Source: BMO Capital Markets

***Fig. 52.* P/CF - Senior producers (N.A.)**



Source: BMO Capital Markets