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INVESTING

Fund Manager Shares His Top Biotech Pick

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An interview with Tom Vandeventer, Portfolio Manager of the Tocqueville Opportunity Fund

I recently spoke with Tom Vandeventer, Portfolio Manager of the Tocqueville Opportunity Fund, to discuss his fund and stocks he favors now.

Wallace Forbes: Tell me about the Tocqueville Opportunity Fund and how it has changed since you took over the fund.

Tom Vandeventer: The fund is in the mid-cap growth space. I took over in June 2010, so we just celebrated our eighth anniversary. When I took over, the fund had about $25 million in assets and we've grown to just under $100 million over the last eight years. We look for certain kinds of companies; the most important thing is to try to find companies that we think are going to be in growth markets.

These are companies that are selling products and services with addressable markets—which may be new or may be existing—that are growing very rapidly. The kinds of companies we want are those that have innovative and transformative approaches to technology, process, and even distribution that can take market share and demonstrate the highest kinds of growth rates. These are what we would deem to be disruptive companies and we aren't the only ones who find them attractive. We have had about 90 takeovers in the fund since I started, including AveXis, Juno Therapeutics, Kite Pharma, Cavium, Oclaro and Callidus Software so far in 2018.

Forbes: Are your clients primarily individual investors or institutions?

Vandeventer: It's mostly made up of individuals.

Forbes: And where do you invest?

Vandeventer: The fund is largely invested in the technology and internet space. We have close to 50% of the fund invested in the technology space, which continues to experience massive secular change and innovation.

We increased our weighting last year due to three primary drivers from the corporate tax cut: the lower statutory corporate tax rate, has increased free cash flow to many companies and provided windfall funds to go into investment; the provision for changes in accelerated depreciation has allowed speedier recovery of capital costs; and the provision enabling repatriation buckets of stranded cash held offshore due to the prior tax structure. These benefits come at a time when many companies are compelled to invest rapidly to handle the digital transformation of their business models. The economic recovery and tax changes have coincided with the changing digital paradigm.

Forbes: Are these U.S. companies?

Vandeventer: Primarily U.S. companies, yes. Digital transformation means a lot of things to a lot of different people. It's kind of an alphabet soup: AI (artificial intelligence), SAAS (software as a service), machine learning (ML), IoT (Internet of Things), ADAS (advanced driver assistance). We see enterprises shifting workloads from private IT infrastructures to the public cloud either wholly or in a hybrid approach.

Today companies are evolving from hosting their own processes to external providers who are hosting those processes in the cloud. These hosts often provide the hardware and the software, and the companies reap massive savings and efficiency. This is the very disruptive software as a service model as opposed to buying licenses of traditional legacy technology companies.

Forbes: About how many companies do you have in the fund?

Vandeventer: We have quite a number of investments, but I like to emphasize the top 100 investments that comprise about 90% of the of the fund. The other holdings, which tend to be quite a bit smaller, are very diversified.

These are much younger companies that are much earlier in their discovery and developmental phase. But they have very interesting technology or science, and we want to have at least some initial exposure to them. The fund today is basically invested 45%-50% in technology, 25%-30% in health care, and then the balance of the fund is split among industrials, consumer discretionary and basic materials. We're very underweight in consumer staples, energy, utilities and telecommunications.

Forbes: Can you get into a few that you favor now?

Vandeventer: We seek to buy companies led by the best kinds of managements, which can exhibit the ability to gain market share, execute and expand their margins. And when we find these kinds of companies, we tend to stick with them. We don't have a target holding period and hope to be positively surprised by a long and successful period of growth. Today about 35% of the portfolio is in our top ten holdings, and most of that weighting, has come through capital appreciation over time. We love to find a winner and stick with it.

The first company I'd like to talk about is the $8 billion (market cap) clinical stage biopharmaceutical company **Sage Therapeutics** (Nasdaq: SAGE), which has been in the news lately. Its first compound expected to reach the market is designed to treat postpartum depression, an underdiagnosed and problematic condition for women.

One of the problems with the traditional approach to treating certain central nervous system (CNS) diseases and mental disease is that historically (over the last 30 years) they've been treated with serotonin reuptake inhibitors (SSRIs). There are problems with SSRIs. Number one, they take a long time to become systemically taken up in the body. Number two, once they are systemically taken up, they often aren't very effective, so patients need to switch to another drug.

SAGE announced it had received what is called "breakthrough therapy designation" in February from the FDA in major depressive disorder (MDD) based on data from a Phase 2 trial of a similar compound, SAGE 217; SAGE had expanded its pipeline with this product to include MDD and it appears the FDA will permit the company to pursue an expedited path to approval in this indication requiring the company to run only one Phase 3 trial.

This is a very large addressable market and would include depression patients who are taking SSRIs and there are lots of them out there. All of the big pharmas have drugs for depression—it is a huge market. What's interesting about this is because of a breakthrough designation, the FDA is working with SAGE in terms of getting this drug to market as fast as possible.

SAGE will be including data from the pivotal trials in Phase two, which really were kind of the thrust behind the approval in postpartum depression. They'll be including that data in the trials for MDD. This is a very fast-acting drug; they have an intravenous and an oral formulation.

They expect that with the patients they accrue into those trials that they'll have outcomes as quickly as two weeks later. This drug works through a different receptor pathway (GABA) than the current standards of care.

The most exciting thing is that there is a very good probability that this drug will not have to be taken on a chronic basis. Most of the current depression drugs are taken every day, for a lifetime. Some data indicates that SAGE-217 can be taken when individuals become depressed. And when those feelings subside, the patient can stop taking the drug, and yet the benefits of the drug would continue for some time.

It's early and I would say people are having a hard time putting numbers on it. But potentially I would say anything from $2.5 billion to a $5 billion drug one day.

Forbes: Any other stocks you like?

Vandeventer: The Canadian company **Shopify** (NYSE:SHOP), which has a market cap of $18 billion. Again, it's a longer-term holding of the fund. Shopify provides small- and medium-sized merchants/businesses with the ability to sell and market their wares on the internet. It's kind of a soup to nuts offering. Let's say individuals who start businesses want to have an online presence—what we would call a platform. Shopify has offerings in payments, inventory management and marketing.

Shopify introduced their service in what we would call one vertical, and now they're adding more verticals on their platform, which customers can take advantage of to increase their ability to sell their wares.

They are trying to increase their addressable market by going international and they're developing localized functions in payment processing, inventory, marketing and fraud protection. This is a Canadian-based company and they've increased their penetration in the U.S., U.K. and Australia. In terms of their marketing package—obviously small- and mid-sized companies need to spend money on marketing to drive demand to their online stores.

Shopify provides a "dashboard" for these smaller companies to upload, run and manage their marketing efforts. And they've recently started to provide additional data analytics to their clients. So, they're applying machine learning/artificial intelligence to analyze customer behavior, purchase patterns and click patterns to follow the way a customer moves across the site.

They don't always just sell direct. They also work with other companies and they integrate their software with, believe it or not, Amazon, eBay and Etsy. It's been a very successful company, and I think it will continue to lead the pack in terms of providing marketing and online platforms for small and emerging businesses.

Forbes: Thanks, Tom, for a couple of very different ideas.

Vandeventer: Thank you, Wally, for the opportunity to do so.

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The Fund invests in smaller companies, which involve additional or special risks such as small companies rely on limited product lines, financial resources and business activities that may make them more susceptible than larger companies to setbacks or downturns; and small cap stocks are less liquid and more thinly traded which make them more volatile than stocks of larger companies.

Fund holdings are subject to change at any time. The average annual total returns and Top Ten holdings for The Tocqueville Opportunity Fund ending June 30, 2018 are as follows:

Average Annual Rates of Return	
1 Year	27.76%
3 Year	8.79%
5 Year	15.03%
10 Year	11.45%
Annual Fund Operating Expenses	1.39%
Fee Waiver/Expense Reimbursement:^	-0.08%
Annual Fund Operating Expenses after Fee Waiver/Expense Reimbursement	1.31%

Top Ten Holdings	
NVIDIA Corp.	5.35%
ServiceNow, Inc.	4.94%
Sage Therapeutics, Inc.	4.57%
New Relic, Inc.	4.27%
Bluebird Bio, Inc.	3.29%
Sarepta Therapeutics, Inc.	3.06%
Workday, Inc – Class A	2.94%
Shopify, Inc. – Class A	2.41%
Amazon.com, Inc.	2.25%
Spark Therapeutics, Inc.	2.24%
Total	**35.32%**

Mutual Fund investing involves risk. Principal loss is possible. 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. The performance assumes reinvestment of capital gains and dividends. 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 or visiting www.tocquevillefunds.com.

Performance for periods before 10/12/10 is for The Tocqueville Small Cap Fund, which was renamed The Tocqueville Opportunity Fund on 10/12/10. The Tocqueville Small Cap Fund had different Portfolio Managers until 7/1/10 and different investment objectives and strategies until 10/12/10.

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 Advisor has contractually agreed to waive management fees and/or reimburse expenses in order to ensure that the Fund's expense ratio does not exceed 1.25% (excluding taxes, interest expense, acquired fund fees and expenses, or extraordinary expenses such as litigation) until at least 3/1/2019. In the absence of these fee waivers, total returns would be lower.