



Fund Manager Merk: Closed-End Options Can Figure Into Precious-Metals Decisions

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Chuck Jaffe, in The NAVigator podcast, interviewed Axel Merk, president and chief investment officer at the Merk Funds, and who recently became head of the ASA Gold and Precious-Metals closed-end fund. Read the Q & A below as Chuck discusses with Axel about what convinced him



Axel Merk

to make the move, the difference between traditional funds and closed-end funds for investors seeking precious-metals exposure, and more.

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CHUCK JAFFE: Axel Merk, president and chief investment officer at the Merk Funds, and as of recently, the head of the ASA Gold and Precious-Metals closed-end fund is here, and we're talking gold and precious-metals today in The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry, from users and investors, to fund sponsors and creators. And somewhere in that mix is my guest today, because Axel Merk is a veteran investor, he is president and chief investment officer of the Merk Funds and Merk Investments. But he also recently became the head of a closed-end fund, specifically ASA Gold and Precious-Metals. Now if you want more information, if you want to learn about his closed-end fund it's ASAltd.com. To learn about

the Merk Funds, it's MerkFunds.com, and Axel is on Twitter, he is @AxelMerk. Axel, great to chat with you.

AXEL MERK: Great to be with you, Chuck.

CHUCK JAFFE: So you have run a precious-metals fund for a long, long time. At some point maybe you felt a need to go off and look at the closed-end fund structure, but you didn't do it until recently. So I'm curious, what are the benefits of the closed-end structure that have you saying, "I want to offer that in addition to offering the traditional classic precious-metals fund"?

AXEL MERK: We continue to have a physical metals fund, and we have some other products. We were actually approached by the board and that's how it came about. And part of the challenge in the gold mining space, which this fund is active in, is that it had quite a few years of bear market during which period assets melted away. Closed-end funds don't usually have redemptions, but the performance was partially because of the industry, not good. And so the costs were just very, very high in the internally managed structure. There were some other issues, and so the board had for quite some time been looking for a way to make it more sustainable. We were one of the parties they approached and we went to the board and made a proposal on how to turn the ship around, importantly how to make the fund sustainable. When we took over the management and shareholders approved it in April this year, it coincided pretty much with a low in the market, and so there was some luck there as well. But we've done numerous things to right the ship, and that goes from everything from the investment allocation process to some structural administrative things. But the key thing, you ask me why the closed-end space? Well, there's several differences. One is, obviously it's clearly on the active management side. Then closed-end funds often, and this one certainly does, trade at a discount. And then there's also the difference that on the closed-end side, you can access illiquid investments more. And to just in this particular space, to kind of expand on that little bit on the open-end side, on the mutual fund side, there's some mutual funds that used to help fund the industry. The gold mining space always needs money, because you need to develop the next mine, and so some of the formally large funds, funded these projects. Well, not all these projects work out. And then these funds had redemptions in addition to

the depreciation of their net assets because of bad performance, and so they are then stuck with a disproportional large chunk of assets in quote/unquote "bad projects". In the closed-end space, you don't have redemptions, and so you have much more flexibility in working around things when things don't work out. And obviously you always hope everything works out, but in the gold mining space, you will always have some successes and some that don't succeed, some companies. And so you've got to have flexibility and the longer time period to try to manage that. And so one of the things we have done is we've become far more assertive. This portfolio was very defensively positioned, and so we've been able to take advantage of much of the move that has happened of late in the space.

CHUCK JAFFE: In terms of how closed-end fund and traditional funds work for a portfolio and for an investor, and admittedly you've got a precious-metals fund that is a physical gold fund in your traditional fund. My assumption would be that if somebody wanted to build a portfolio, that they can co-exist side by side. That you don't have to sit there and go, "Wait, I'm going to put precious-metals in my fund. I buy one or the other." This is a case of, "Let me get some gold and let me get some miners." And although I own them in different structures, what's important about the assets is, what are you getting and what's the price you're getting them at? Right?

AXEL MERK: Well, sort of, yes. I mean, obviously every product fulfills a certain purpose, and as you're well aware, we can't give specific investment advice here. My observation is, in the current environment, investors want to have their cake and eat it. And what I mean with that is, gold and gold mining provide diversification because those assets tend to be not correlated with traditional risk assets. But if you think that investors were scared, they would go to cash because cash is the only safe asset. Instead what investors do, is they take a small portion of gold, or if they want to have it on steroids, gold mining. And with that, aim to get significant diversification for their portfolio. And that's why I say they want to have their cake and eat it. Because if they were really defensive, they would go to cash. But we see a significant uptick in interest in this space because people look for diversification, the industry has turned around, they are far more cost-conscious than they used to be. And the idea you have of course with the gold miners is that the cost of mining is reasonably fixed. But if you believe the price of gold goes up, then you could potentially have disproportionate

profit on the way up. It's a highly speculative space. It's a space where one, I believe, should know the mining companies very closely. And that's why active management, I think, is of value there. The main alternatives in this space is the ETF space, and the challenge with the ETF space is they are top heavy so to speak, and the largest companies have under invested in recent years and that means they need to now acquire companies that are downstream. And our view is that it's far better to be on the downstream side with a good chunk of the portfolio so that they have the potential of being acquired.

CHUCK JAFFE: This is your first foray into closed-end funds. Do you expect that there will be more? Admittedly this was a chance to, as you pointed out, take over a fund. But you've got a chance to do some more things. Is your expectation that Merk, whether it's through your label or the ASA label, will wind up being a bigger presence in closed-end funds?

AXEL MERK: Well, we certainly have an appetite, let's put it this way. And there's two ways. I mentioned earlier that ASA had some challenges that we've addressed. Because of our experience in this regulated space, we believe we know what best practices are. We think we know how to run a tight ship, so to speak, with expenses under control. And so any other fund that's out there, that is looking for ways to improve their operational efficiencies, then we would be more than happy to help them, work with them, and make sure that their cost model works. With regard to new products, there are numerous areas where there are gaps in this space. And there are some investors that exclusively focus on the space, on the closed-end fund space. And they would like to have more products, so we are more than happy to work with them. One of the challenges though, typically if you were to raise money in a closed-end space, you work with a broker. And so out of the gate, there's a discount so to speak, because the broker needs to get paid through distributor shares. If we find a way around it, that's going to make it much easier. But if you do this at a discount, then obviously there needs to be another sales proposition so to speak, to buy a product. Usually these days, that's on the illiquid side because that's where people are willing to pay up, so to speak. But we certainly are keeping our eyes open, and if anybody has interest, desires, ideas, we are more than happy to talk to them.

CHUCK JAFFE: Axel, really interesting. I'm looking forward to seeing how it all plays out. Meanwhile, thanks so much for taking the time out to join us.

AXEL MERK: My pleasure.

CHUCK JAFFE: Axel Merk is president and chief investment officer at the Merk Funds. He also runs the ASA Gold and Precious-Metals closed-end fund. You can learn more at MerkFunds.com and at ASAld.com The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host Chuck Jaffe, you can learn more about my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday. Thanks so much for joining us, please come back and do it again next week.

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