

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 1st Quarter 2020
Conference Call with David Iben**

April 16th, 2020
4:15 pm EST

Operator: Good day ladies and gentlemen and welcome to the Kopernik Global Investors First Quarter 2020 conference call. As a reminder today's call is being recorded. At the conclusion of today's presentation there will be a question and answer session and instructions will be given at that time. At this time, I would now like to turn the conference over to Mr. Kassim Gaffar. Please go ahead.

Kassim Gaffar: Thank you Operator. Hello and good afternoon. First and foremost, as a firm we wish the best of health to everyone and their families and we wanted to thank everyone for their continued support in this challenging time. Thank you for joining the call today for the First Quarter 2020 conference call. My name is Kassim Gaffar and I have with me David Iben, our CIO and the Portfolio Manager for the Kopernik Global All-Cap Strategy and co-PM for the International Strategy. Please note Dave will be referring to his presentation which can be found on our web site www.kopernikglobal.com under the News & Views Section. Before I pass the call over to Dave for the bulk of the time, I'd like to give everyone a quick firm update.

From an overall AUM standpoint the firm assets at the end of the first quarter were right around \$3.1 billion. The bulk of our change in our AUM have been due to negative market action but given our strong relative performance during this period, overall flows for the firm have been stable and the net flow basis is pretty much flat for the year.

Also, on a personnel level we are well staffed with 37 people strong with no turnover and also our portfolios are well positioned we believe to take advantage of the market dislocation. I also want to mention that Dave recently finished new commentary called [*The Call of the Wild*](#) and that can also be found on our web site.

And with that, Dave, please go ahead.

David Iben: All right thanks Kassim. Thanks to everybody for joining in. Certainly, every quarter is an interesting quarter but none more than this one. I'll start out, usually skip over this page but we've always prided our self on independent thought but never more than now when it looks like to us this is a period of group think and a period of market insanity. Fortunately, it's also a period with unparalleled opportunity.

Before we get in the opportunities though let's start with the bad news (page 6). After a number of bad years for value investing particularly the last three years have been very tough, this quarter was a massive acceleration of that underperformance. People didn't hit the momentum stocks that hard and they came back faster. Value got hit particularly hard. It's just even this week so far I would refer, the NASDAQ has outperformed the Dow by 6.5% in four days and the Dow of course has outperformed most every other market in the world which leads us to not only has it been bad times for value it's been bad times for anything outside the U.S.

As this chart shows (page 7) a dozen years of markets once you take the U.S. out, the markets have done nothing for a dozen years. Certainly, the economies have grown, businesses have grown. The number of bargains out there has grown. So we will let other people buy the market that is up 3 times despite the fact that pre-tax income in aggregate has not grown for a number of years in the U.S. The amount of debt has grown a lot. So that we think is a market to be avoided.

You might've seen this chart (page 8). It gets around from time to time showing that you get extremes when market tops. In '99 the top five companies became a huge percentage of the market, and less so in '07 because that wasn't really a bubble. It was a mortgage problem. But now here we are right up there at '99 levels. Five companies are 18% of the entire





S&P 500, only 14% of the earnings and we'll see how the earnings hold up. So, extremes in the market are also the right time we believe to run from index funds and get to actively managed funds that aren't mindlessly playing the momentum stocks.

Moving onto Page 9, this is a slide we showed before. We found it amusing a few years ago that one company, Apple, had a larger market cap than Russia, one of the top ten economies in the world, now it's bigger than Russia. And throw Brazil in there too, another top ten economy. You can get two countries for the price of one company. These are things we think you only see at market tops also. So, yes, they're throwing a lot of money at this market and somehow the economics are going to need to support that. Moving on, Page 10, this is an expanded version of the last chart. If you take the four largest market caps in the U.S., Microsoft, Apple, Amazon and Google, the four of them add up to \$4.2 trillion before today. Amazon last I looked was up \$50 billion today. So yes, that is what it is. Canada, South Korea, Brazil, Russia all in the top 12 economies of the world have a market cap of less than \$4 trillion. So four companies have a bigger market cap than four of the largest economies in the world and by the way, Canada, Brazil and Russia, I don't even know what percent of the world's land they own, what percent of the world's resources they own. So, when the market gets completely off its rocker like this, it's really the most exciting times to be an active investor, which leads us to the opportunity set. We'll start with a glimpse of the dislocations and then we'll dig deeper. But for starters, U.S. versus international versus global, we showed various forms of those before. 57% of the ACWI Index is in one country. And that country's purchasing power parity is 15%. 57% of the cap, 15% of the economics, another disconnect. The opposite side, the flipside of that coin, 12% of the ACWI is emerging markets. China alone is 19% of the economics on purchasing power and then you throw in India and Russia and all that, you're getting over half of the world's economy for 12%. And then as you might expect the valuations reflect that. The S&P right now is 2.5 times sales and 12 times cash flow, 10 times tangible book, 19 almost 20 times earnings and of course the earnings are vastly overstated as I'm sure you've read. If you move from the U.S. to the non-US companies, you get things at half price. You know 1.4 times sales, cash flow not quite half, tangible book 80% discount. And then, once you get into Global All Cap Value you can see our portfolio less than one-time sales, less than half of tangible book, 7 times earnings, 2.5 times cash flow roughly. So, by venturing beyond the U.S., you get way more opportunities at way cheaper price. So yes, when 57% of the index is in one country, be warned.

We've updated a chart we've shown you a few times in the past (page 12). You know the market loves certainty but when it comes to the future, there is no certainty. So, what the market loves is the perception of certainty. A misperception of certainty is probably a better way to go about it. So we've shown them that – you know we've shown you in the past and as you've all read, ten-year bond, if you give them certainty they will take the certainty of a loss, you know, half a percent loss, guaranteed. That's what they'll take for that. And as you get a little further from bonds but still like acting like bonds, you still get next to no yield. Then when you migrate a little further to quality growth stocks and things like that, that are very bond-like in their characteristics, they of course have run to very, very high prices even with this correction. High yield bonds weren't yielding anything and that's changed quickly in the last few months so now it comes down to which ones are the beneficiaries of government largess and which ones are not. But what's happened since then is a wonderful bifurcation has widened. So, you still get nothing for bonds. Got a little better in Europe, it's gotten way worse in the U.S. where you now get a 60 basis points worth of yield for a 10-year bond. Meanwhile if you're willing to go into emerging markets or you're willing to go into companies that have lots of assets that are worth a lot of money, timing unknown, real bargains have just become bigger bargains after the meltdown of last month. So, with our portfolio, we'll let other people own bonds. You know how did Ray Dalio put it? That you have to be crazy to own bonds now. And we would extend that to derivatives of bonds, things that are closely related to bonds and priced like bonds.

But if you want yield, you have to have things that are really attractive, but people don't have the certainty. We've broken that into two forms (page 13). The traditional, what everybody else loves, everybody loves quality franchises. We do too. They're overpriced in U.S. and part of Europe. They are not other places. And so, we have bought market leaders, number one or two in the world, low cost producers, biggest, best at what they do at really bargain prices because they're not in people's first choice of where to be. And we have these asset rich companies that are likely to make 4 or 5 times our money, timing unknown. So, this gives a synopsis. It's roughly half and half, the traditional value P/E of under 7%, price to cash flow 4.5%, less than half of book value, dividend yield even of 5.3%. And then you segregate out the companies that have lots of assets but not might be selling them yet therefore no earnings or cash flow. And that part of the portfolio in aggregate still has earnings, still has cash flow but has what our calculation shows to be more than 400% upside from here. Throw it all together - 3.4% yield, bargain prices and, you know, 2.5 times upside from here.





So let's dig a little deeper (page 15). Like I mentioned, who doesn't like good, stable, solid businesses. And not a whole lot of things better than telecommunications. Yes. A lot of people are going to lose their jobs which is unfortunate. The last thing they're going to miss a payment on is their cell phone. And, you know, Verizon reflects that. It's a great company at a reasonable P/E but there is no book value. And the price you're paying per subscriber, \$3,700 is very high. We have no problem with Verizon. We just noticed that if we're able to buy the number one, two, sort of players in China and Korea and places like that, we can pay single digit P/Es and we can pay half of book value. And instead of paying \$3,600 per subscriber we can pay between \$2 and \$600 per subscriber. So, we're getting the same quality we believe. Technology leaders in the world at bargain prices.

Those of you that have known us for a few decades know how much we used to love the railroads (page 16). We've owned pretty much every one in North America except for the CN [Canadian National]. They were bargains. They had underperformed for decades. And now they're up a lot. They deserve to be up a lot, maybe not this much. Then we were able to buy Japanese railroads after the unfortunate events of Fukushima and now they've run up a lot. Now it's Hong Kong and China people are worried about.

And for that reason, instead of paying 5.5 times book for Union Pacific, we can pay .35 times book value for the Guangshen [Railways]. Instead of paying 17 times earnings, we can pay 13 times earnings. And, that's in a growth economy. That sounds interesting to us. We mentioned we're not a fan of bond proxies, utilities are bond proxies. And you can see that the Dow Jones Industrial Index has run up to over twice book value. It is 20 times earnings. Maybe it's worth it. We'll leave that to others.

We will buy similar companies (page 17), market share leaders, the biggest and best in the world where we have here the two biggest and best hydroelectric, cheap, clean, no greenhouse gases, not 2 times book, .8 and .46 earnings, 3.5 times. RusHydro had a write off. If you don't count that, 6.7 times earnings. And then, we have a distribution company at a quarter of book value and 2.6 times book value. Or that's 2.6 times earnings. I'm sorry, 2.6 times earnings versus 20 times for the U.S. utilities. You know our choice. We could go on and on. We have quite a few of these sort of companies in the portfolio, like I mentioned half the portfolio.

The other half was the beneficiaries of what we call latent value. Some of you who have sat through our presentations, with dams that on one side show a desert and on the other side show a bunch of water. And if one's looking for water and their analysis stops short of the dam; they're going to miss that value. We were finding a lot of things like that. Things that have been trading way below the incentive cost. Things that must go up a lot in price or supply will disappear in the future. And so, it won't surprise you.

We'll start with gold (page 19). Let's get that out of the way. Finally, the market seems to be figuring out that printing a boatload of money is good for gold. And so gold fortunately is having a run. Is it expensive? No. Let's look at this. This is gold. The red line is relative to the theoretical value that if we were back on a Bretton Woods System where you partially back gold. The – yes, you can see it's worth multiples of where it's selling now. If we ever went all the way back to a pure gold standard, not going to happen, but gold is worth way, way more than it is here. But yes, this talk of they're going to print \$2 trillion, another \$4 trillion, oh no make that \$8 trillion, yes. And what is it really going to be? Well they told us what it's really going to be. Whatever it takes is how much money they're going to print. And you guys pay attention to the fundamentals out there. Whatever it takes is going to be a colossal number. So gold is way undervalued. And if they print more, gold is much more undervalued. But that's not the interesting part. The interesting part and you've seen this before. Gold above the ground is cheap relative to dollar bills. And gold below the ground is really cheap to gold above the ground. So, once you mine this and bring it to the surface, people will pay a lot more for it. Even when they see a company producing, they'll pay more for that than the companies that aren't producing. So, we've taken advantage of that and own lots of, lots and lots of gold with companies that aren't producing yet and then we have a lot that are producing as well. So, gold's cheap. Gold miners are really, really cheap. And within gold miners, if one is willing to venture north of the border or into Australia or into South Africa, one can get bigger bargains, so Newmont [Corporation] is a good company. They'll do well. They're probably undervalued. They are nowhere near as undervalued as our Australian name, Newcrest [Mining] who's very well-run, one of the biggest in the world. But on a reserve basis, you're paying less than half as much. On a price-to-book, you're paying a lot less. On a price-to-earnings, you're paying a lot less so every which way, it's a lot cheaper





than those willing to venture into South Africa can get big bargains from there. All right, that's it for gold. We're not going to bore you with that anymore. Actually, for the first time in a long time it used to be gold was cheaper – cheapest money but it was also the cheapest, you know, “Commodity” we could find, no longer the case. Gold's been going up for the last 12 years. Commodities have been going down for the last 12 years. And so now we find a lot of things interesting. Now let's quickly go through some of this.

Silver (page 23), yes, 120 years ago William Jennings Bryan was running for President on bimetallic standard. I will not be crucified on a cross of gold. He wanted 16-to-1 silver. That was their issue back then, 16-to-1. Now it's 116-to-1. The right price people can argue but this is the biggest it has ever been. Silver has lots of uses and if current events continue, silver will be craved as money again. So, we have exposure to companies, some that are pure silver, a lot that are gold but have silver as well. Silver is undervalued relative to gold.

Platinum (page 24), wasn't that long ago it seems that platinum sold for almost twice the price of gold, twice. Now it's 60% discount. Yes, twice the price of gold to a 60% discount. We think platinum is undervalued. It wasn't that long ago you were hearing economists talking about maybe the Fed should come up with a \$1 trillion platinum coin. And we haven't heard that nonsense in a while. But I think if things continue, you will see more demand for platinum coins. It will be monetized. We got kind of lucky. Our platinum play also turned out to be a palladium play, so we made a lot of money on that. But, that was pure luck. Now it's platinum that people should be interested in, we think.

You hear so much about nickel (page 25) and how it's the most important component by far in these batteries for EVs [electronic vehicles]. If you look at Tesla stock, every one of us are going to own EVs in the next five years. And but yet the price of nickel is, look what it's done. It is a small fraction of where it was 12 years ago. That's in a time period where gold's gone up 2.5 times. Nickel has lost 70%, 80% of its value, so that we think is pretty fascinating.

Also, a battery nickel, look at how hyped batteries were two years ago where the price of cobalt is (page 26). Now it's down, a year ago we were able to find a small cobalt play. That got taken out. Not a whole lot of ways to play that.

Copper (slide 27) is of course another beneficiary of electronics, and especially electronic vehicles. You know it's helped us in recent years. When the market loves copper, we tend to trim our names such as Turquoise Hill [Resources] and Ivanhoe [Mines]. They have more copper. And then when they hate copper, we buy them. Then when they love it again, we trim them. And now they hate copper. And so, Ivanhoe and Turquoise Hill are in our opinion grossly undervalued. And if this keeps up, we'll be looking for others.

Leaving the metals, we go to Page 28. Oil is something we haven't owned much of in the last dozen years. But, you might recall in 2016 when oil hit \$28, we bought some. We figured, you know, reasonable men can argue about whether it should be \$40 or \$80 or \$90. But \$28 was a joke. And of course, it didn't stay there very long. And that worked out well. We sold most of them. Over the last year we're back in oil mostly in Canada. And you can see, we thought \$28 was cheap, \$19 is something all-together. It's not sustainable. We don't know timing. It's not sustainable. And the oil stocks of course are down as much or more than oil.

Something that we haven't done much with over the years other than Gazprom which is its own vehicle is natural gas (slide 29). But over the last year, the natural gas stocks were down over 80%. We bought one of them which fell another 80%. And we've bought others recently more timely. And same thing here, I've watched natural gas bounce between \$1.70 and \$14 back and forth my whole career. It's back under 2 bucks. Not sustainable. Demand for everything of course is down the last few months. But not counting that, people believe that natural gas was a dying industry when in fact it's been a growth industry. In the States, we've been selling it through LNG [liquefied natural gas]. We've been using it to make chemicals on plants that have been built on the Gulf Coast and elsewhere. And of course, if electric vehicles ever catch on again the electricity, the incremental electricity, a lot of its going to come from natural gas. These have a little more debt than we would like especially in this kind of environment. Fortunately, it's termed out. There is some risk to this. If anything goes right, these things are worth 20 times what they're selling at in our opinion. So, we like the risk reward.

Okay, switching again let's go to grain (slide 30). Grains have done better than metals. They've gone nowhere for 12 years which is better than all the other commodities I was showing you. But of course, less than the price of gold which isn't of





course a commodity. It's money. So relative to money commodities have become very cheap. There were times a few years ago and again now where we not only like the grains. We like the disconnect in the market. A few years ago and again now, it paid out a few years ago, we were saying why is it that companies that grow food sell for 5 times earnings and companies that take that food and roll it up in a burrito and sell it sell at 50 times earnings? And we are back there again. You know some of the companies we own are 3 times earnings. Chipotle is over 50. It's 85 times this year's projected earnings. You know same thing there. If you grow food, our company is 3, 4, 5 times earnings, throw it on a pizza crust and deliver it, now 38 times earnings. We love that disconnect. It turned out to be a good thing a few years ago when of course eventually Chipotle crashed and our stocks went up a lot. Since then our stocks are back down. Chipotle is back up. That's an opportunity, massive disconnects like that are an opportunity.

Saving the best for last (slide 31), the best being where we've been wrong the longest, I guess. But the fundamentals have been falling into place very nicely. Same thing here, you have a period where gold has held its purchasing power as they printed too much money and the dollar has lost 80% of its purchasing power. Gold reflects that. These commodities haven't. Uranium of course gone from \$137 to \$18, now it's around \$30; it's spent the last 5 or 6 years bouncing between \$18 and \$30. It's up 20% this year. Other than bonds, gold and uranium are the two winners this year. They're both up nicely. You know, good to see the market respond to money printing the way that, you know, the textbooks say they should.

But anyhow, you know, this has been a long, long drawn out bear market which is perfect because that's what it takes to wash out the weak producers. You had just this last month, you had two high cost producers in Namibia close down, close the mines. Closer to home, you've had Cameco a few years ago close their best mine and just last month, closed their second best mine. You had Kazakhstan cut production growth a few years, well now they're actually cutting 10% to 20% of their production. Meanwhile, best I can read, demand for nuclear power is down 3% or 4%. It's pretty stable business. If you are a utility, one of the last things you shut down is your nuclear power plant, so pretty stable demand. Supply has disappeared. And that bodes well. And then as we told in the past, you know, the government, U.S. government is not selling any more, Russia is not selling any more. Investment funds are set up to buy it and have been taking supply off the market. Canada has been in buying instead of selling. And as you've got used to with us, we love undervalued commodities. But we love much more when those very same commodities are way more undervalued when they're still underground. And we mean adjust it for the price of bringing them above ground.

So, this is the uranium held underground relative to the spot price (slide 33). You can see uranium companies have been hit much harder than uranium has and that is a beautiful thing. Not only can you buy really, really attractively priced uranium but once again the beauties of being a global investor, the U.S. has a de minimis amount of uranium. Canada and Kazakhstan put together have over half the world's uranium and most of the world's low-cost uranium. So, it's a good time to be looking beyond the borders we believe.

All this volatility we've said for a long-time volatility is not the enemy (slide 34-35). It is not risk. Volatility is our friend. Volatility is what allowed us to buy GE below \$7 a year ago, sell it at \$11 in February and buy it back again below \$7 in March. So that's a great thing. Then volatility was mispriced in the put option. We've been saying for three years. And we don't know why it took longer than any time ever in history for the market to have its correction. More and more people were saying, corrections were impossible; we'll just let you know we are closing now. But, you know, we kept saying it seems like implied vol. should be \$20 or more with the markets that high. And we've periodically bought them as low as \$8 and mostly \$10 to \$12 and never higher than \$13.5. And, you know, unfortunately a few months ago it was closer to \$12, \$13 and then to \$8. But fortunately, we were still able to buy this thing. And it went up like 12 times in a month. And so that was helpful. That was a source of capital. Since inception we're still down about 2% so 50 basis points a year. But, you know, we made it all back in a month and at a very opportune time. We will not be rolling it [put option] over. What the market does from here, who knows, although we have our opinion on the NASDAQ.

But we can't buy these things at \$8 and play ball or \$10 or \$12. It's \$35 today, \$35. So, people went from thinking that a market drop is impossible to thinking it's inevitable. We never had strong opinions about which way the market was going to go. Only that it does go both ways from time to time and the option was mispriced. We're happy that it was helpful this year. But also, you know, can't just be in volatility. You can see the things that we reduced were mostly things reducing in February. And it's hard to believe right now that it was just February that the market was the highest in the history of mankind. And so, we were trimming things. And then March and early April, we're able to start buying things back and so





we were able to buy. You can see a longer than usual list of names that we were buying. And fortunately, we had the proceeds of the put option to finance all that buying. So, we've been able to take advantage of that and solidify a portfolio that's trading at a huge discount to book value and cheap on almost every multiple (slide 36). And in addition to that has a lot of optionality. And, you know, we plan to show you this slide for years to come. It's pretty good in any environment but especially an environment where interest rates are at zero. To be able to double your money it is something that is worth having patience for. Maybe that was a little long, but it was quite a quarter. And we're very, very happy with the portfolio right now.

So, let's stop for questions.

Operator: And if you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, that is star 1 to ask a question. And we will pause for a moment to allow everyone an opportunity to signal. And we will take our first question from Rick Speidel with Ameriprise. Please go ahead.

Rick Speidel: Thank you. To the natural gas stocks, you made reference to some balance sheet concerns and writing one stock down. I mean Range Resources when it was in the high teens comprised over 4% of the portfolio. And now with it, you know, I think sub-5 it's about 1.5%. So, I was just wondering if your conviction on that has changed and why it's not a higher weighting. And then, you know, are you comfortable with its balance sheet and that of Southwestern Energy? And then to the miners could you comment again on Northern Dynasty? It seems like that's something that you've viewed with a high degree of optionality over the years and would appreciate your thoughts.

David Iben: Sure. All right, let's start with that. Northern Dynasty I think is a posterchild for how we do things. It was back in 2015, we owned quite a bit. We owned it before that too. It's a problem child and people don't like problem children. They don't like the fact that the company back then was duking it out with the EPA and that Hollywood stars were badmouthing it. And that some of the big companies that had been involved with the mine had walked away and left it. They and we didn't like the fact that the company spent money faster than we would've liked to, so much to dislike. So, most people say don't buy it then. We say, well, what's it worth? It is maybe the biggest gold reserve on the planet, 100 million ounces of gold and I think it's 60 billion pounds of copper to boot. And the thing is theoretically worth tens of billions of dollars. Now they can't build it on their own so let's just cut half of that out of the equation and say they'll bring somebody in and give them half of it for a song. Then what is it worth? And we came up with a number. And we said, we risk adjust everything we do. We say all right, well what do we think of management and what do we think of the geopolitics and the battles with lawyers and the EPA and what do we think of the fact that it's going to take a while – quite a while to build this mine.

And we hit this as hard as we hit anything. We gave them a 90% discount. And after giving them a 90% discount we still saw upside of 40 times or something. And so, we bought it. And, you know, we had to keep buying as they diluted the shares out. But in 2016 the thing went up 20 times. And we took a whole lot of profit, did very well on that one. And, you know, had a lot of other names that were not up nearly that much but it did pretty well. So, you know, to have things where we have 40 times upside as a percent or two of the portfolio well, we're very happy to do that. And so that worked well.

Now it's bounced around in recent years too, as they've had victories. And it's kind of interesting now because, you know, nothing went right for them four or five years ago. Now things are going right. The Army Corps of Engineers supports what they're doing. Under Trump, the EPA is an entirely different organization than it was under Obama, for both good and bad. You know mostly bad but very good for this company. They've been much more reasonable about their plan, developed a smaller plan, a better plan, a more efficient one and environmentally friendly plan. The price of gold has gone from \$1,050 to \$1,700 something. Everything has gone right. And yet the stock is back by its low. So, we own quite a bit of it. And as I was saying a little earlier if something is going to double or triple or go up 10 times or 40 times or whatever this is eventually going to do, we're willing to be patient. And I will also point out 2016 and 2009 which was very similar, we buy these companies at 90% off sales. Even if we stub our toe on one or two of them like we did with Apex Silver in '09 and like we did with Peabody in 2016, you can still make massive money if the rest of your names are going up 2%, 4%, 6%, 8% and a 20 beggar is nice also.





And as far as natural gas, natural gas is a typical commodity. It's a very cyclical thing. You know like in gold and copper and everything else people like to buy high and sell low. It's an unfortunate thing. The U.S. went from nothing to a big-time player in gas, financed by very low interest rates. People were pouring money in the ground. Presumably, the U.S., one of the low-cost producers in the world, the bears will point correctly out if that's so, how come debt goes up almost every year? Why are you guys borrowing more money that you're taking – then you're making in cash flow? The business was growing too fast for too long. And that was a time when we had no interest in it.

As you mentioned, we bought it. We started buying it around \$12. It bounced to \$17 and we trimmed a lot. We were feeling pretty good and then it went back to \$12, \$13. And as you mentioned, at that point stock's down 90%. It was cheap on earnings. It was cheap on comparison to the reserves they have, cheap on about every measure. Management's buying it. The debt growth had stopped, and they were paying down some debt. And so, we thought now is the time to get in, 90% off and things going right. Hindsight we were too early and of course it dropped to 1 something. And it's bounced recently. Yes, do we wish we had a crystal ball? Yes. However, you know, it'll move when it's going to move. And it's going to move into the \$20s we believe. All it takes is gas in the mid \$2s to make a lot of money. Gas in the mid \$3s which we think happens someday. This is easily worth in the mid-\$20s. So, you know, we're happy to hold that.

As to the other question, that's important. We do believe that when we can buy good companies at a good price, we are right a lot more often than we're wrong. But we expect to be wrong 30% of the time. We expect to be early most of the time. It's almost 40 years of doing this. Really is what happens with value investing. So, we don't believe in putting our eggs in one basket. So, we do not put more than 5% into one name. I think in 40 years we had about 4 names go belly up on us. It's a very rare thing. Peabody was one of them. It was a big position. We made a lot of money in 2016 despite the fact that that went under because our policy is when it's at 5%, we're done. If it falls in half, we don't take it back to 5% again. And so, we like Peabody a lot and it was 1%, but we weren't going to buy any more, thank God. So, we've had many, many names where we don't buy more. Then they shoot up and we wished we would've bought more. But it's good to be disciplined. And so, with Range [Resources] you mentioned it. We had a big position at \$12. So, when it fell in half, we could only buy 1% more. And, then we bought 1% more. And it fell in half again and we did not buy more and could not buy more.

Fortunately, a very similar company is Southwestern [Energy]. And we were able to buy that. We actually have a profit in that stock. We timed that purchase much better. And so, you know, just like with gold or coal or anything else we like to be buying cheap. And we also like to diversify amongst names. And so fortunately Range isn't the only name. But that is why you've seen Range not get build up. But when you have seen is our gas and oil position get build up to about as big as it's ever been, probably is the biggest it's ever been in my career right now. Stocks have never been this cheap. So, we're more diversified than we were a year ago and we own more. It's very, very cheap.

Rick Speidel: Thank you.

Operator: And as a reminder that is star 1 if you would like to ask a question. And we will take our next question from Mark Johnson with RBF Wealth Advisors. Please go ahead.

Mark Johnson: Thank you for hosting this call today. I've recently – I was introduced to you guys here just in the past two years. And so, I don't have a long track record investing with you guys. It's obviously been the last two or three years pretty difficult as the market's been going up. What do you think it's going to take before investors really appreciate the style of investing that you have? Because as we know it's just cash flow chasing stocks that drive stock prices. I mean we can talk about the undervalue of a stock. But if nobody is investing in that stock the price is going to stay down. What do you think it's going to take? I mean was this it? What am I supposed to be talking to my investors about in terms of when your style of investing is going to be rewarded in their portfolios?

David Iben: Well let's start with the caveat that timing is not my thing. If we were talking three years ago, I would've said I cannot imagine that value could underperform for another three years. So, what do I know? This is the longest by far that value has underperformed with the, you know, once again caveat that what do I know.





I suspect that what just happened was it. I – you know it's pretty typical and let's just say this is the end for growth, but growth is outperforming madly the last month or two. That happened in '99. In 2000, the tech bubble broke. And it broke the first week of March. I remember it well. It was a Godsend. But the – when people fall in love with stocks, they hang onto them so tech was done. Growth was done. It was over. Four months later, there were new all-time highs for Microsoft and Cisco, Intel and some of these guys. And that seems to be what's happening now. It's interesting how six months ago the market was priced for perfection. And instead of perfection we got this. And how much was the NASDAQ down the last six months? It is up, up, you know, and, you know, here we have Amazon and things like that hitting new all-time highs. And people are saying this is good for Amazon. In a relative sense, this is wonderful for Amazon. Clearly, everybody is staying home ordering from Amazon is a good thing. But when you have a stock that has, you know, not counting Microsoft or whatever, basically the highest market cap in the history of mankind. And we're going into the worst recession since the 1930s. There's a collision going to happen there.

And then of course on the other front, you know, they lost their suit with Microsoft on the defense front. And everything better go perfect for these things. So, all these expensive stocks, yes, they might do fine. I hope they do fine. But there probably more risk than there is reward there. With value stocks, they've been underperforming depending upon what kind of value since '07. Yes, and our kind of value or for the last 7 - 7.5 years have been underperforming. That's a long, long time. Has it been underperforming because the fundamentals aren't there? Is it – you know are the phone companies in Korea, in China, down at these levels because those economies haven't grown or, you know? No. You know they've done pretty well. You know, if you take trading companies in Japan, you know they lost money once since the Second World War. The book value goes up and up and up and up. We've made a lot of money on these things. But now they've gotten pretty cheap again.

And the gold stocks, they're bouncing this month. But they fell in half last month. You know was gold down and gold stocks down because QE [Quantitative Easing] 1, 2 and 3 where they actually exited it and took the money supply away? No. They announced QE unlimited. And they were still hitting. Yes, gold is worth more than it ever has any time in history. And the gold stocks failed to reflect that. Meanwhile, you know, we talked the gas stocks. You know they all spent too much money at the top and now they're finding religion now. Now they're paying down debt and they're not spending money on things. The gold companies they spent way too much money ten years ago. They've been not spending on anything for years. Yes, there's no way that mine supply can do anything but drop in the next few years. That's a very good thing.

Most of these companies now are actually going to make a lot of cash flow this year, a lot of cash flow. While the rest of the world is seeing massive cash flow declines, is going to see big cash flow increases. So, does it make sense that they stay cheap? You know uranium prices just went up 50% and people are still taking supply out of the market. Fundamentals have gotten way, way stronger there. And so, you know, the point is it's not whether value is good or bad. As Jim Grant put it in this issue, he goes, you know, the last ten years could make one not believe in value except for the concept is so simple. Who could not believe in buying things for less than they're worth? Yes, of course that's a good strategy.

And growth is wonderful as long as you don't overpay for it. But in 1929 and 1972 and 1999 and I will go on record to saying now, people are massively overpaying for growth. That doesn't make them bad companies. From 1972 to 1982, the nifty-fifty almost every one of them grew nicely. The stocks fell 75% over a decade. So, you know nothing against growth stocks. They'll probably grow earnings although not this year. And the stocks 30 years from now will probably be fine. We'll let other people own them the next ten years. That's their deal. What we will be doing is to continuing to own companies. Like I say, most of the companies in this portfolio are number 1, 2 or 3 in the world at what they do. They mostly have competitive advantages. They, you know, have sustainability. And as I pointed out, half the portfolio are things that are, you know, pretty stable. And the other portfolio is stuff with massive upside plus positive cash flow, plus likely to benefit from all this money printing.

So, yes, I don't care if growth goes up 40% or down 40% over the next few years. Value stocks seem poised to go up a double, a triple. You know, not that it's going to happen. And like I say my timing is horrendous. But the longer these things underperform and the cheaper they get, the more they're likely. And, you know, the put option two months ago, boy was that unpopular. It's the time of maximum unpopularity that stocks do well. And this is sort of maximum unpopularity for hydrocarbon, you know, the oil, the gas. This is maximum unpopularity for emerging markets. People hate them. They think they're all going to default. And it's no longer maximum popularity on gold and uranium but we're still towards the





unpopular side. And these values reflect them. If one believes that buying good companies at a very, very attractive price is a money-making proposition, you have to think that we're near the turn that value is coming back.

Mark Johnson: Thank you.

Operator: And we will take our next question from Chris Matteini with TIFF. Please go ahead.

Chris Matteini: Sorry about that. Can you please distinguish between latent value and traditional value (slide 13) with a bit more color, maybe a quick example of each to paint the picture? Thanks.

David Iben: Yes. A lot of people say, you know, that cash flow is all that matters. And, you know, where value is the present value of future cash flows. And we say great, who can disagree with that except that we don't know the future so we don't know future cash flows. In this world, we don't even know the discount rate. But, you know, most traditional value managers will say, you know, show me the money, I guess. They like to buy things that are cheap on earnings and cheap on book value and cheap on cash flow and so do we. It's just in the United States and until recently a lot of other places you had to pay too much for that, you know, hence that I was saying earlier, I used to show all these pictures of a dam with a bunch of water on one side and a desert on the other. I would say once the person turns the valve and the water starts flowing through people will pay a fortune for that.

And so, we have this portfolio where we do own phone companies and trading companies and utility companies and these things are cash flow machines. That's what everybody else owns. But they don't own them in Korea and Canada and Russia and places like that, Ukraine. So, we get to own traditional value just like everybody else. It's just we are long priced out of the United States. The latent value is the stuff where you have cash flow. The valve is shut right now. Nobody can see that cash flow. And whether it's next year or two years from now or five years from now, the world will see the cash flow, you know. I talk about the present value of future cash flow. I say well if you have value, you'll get future cash flow. The Mona Lisa has no cash flow. So theoretically is worth nothing. But we know it's worth something. So, the Louvre could say it's for sale. They'll probably get a billion for it. The cash flow will come.

And so, if there's an ounce of gold underground and people are happily paying \$1,700 and now they're paying more because you can't even get to the gold. But \$1,700 is what it's worth. And so, yes, I dig a hole and I throw that coin in there and I bury it. And say what's it worth now? The marketplace is saying we can't see it. You know yes, we'll pay \$800 for it. You know well fine. I'm not going to sell at \$800. I'm a buyer at \$800. And then I'll dig it up and I'll sell them the coin at \$1,700. It's easy money with the exception of maybe I get to do it tomorrow or maybe next year or maybe two years from now or maybe five years from now. So, depending on the timing, I'm either going to make 100% return on my money or 41% if it's next year or, you know, 10% if it takes 7 years. But that's what I'm saying. We know what that coin is worth. People can't see it. We want to buy it before they can see it.

Once the mining company says instead of a company sitting on reserves, we're now an operating company making money, people will pay for that. Also, the world's a cyclical place. So, you have two forms. You have money underground that people can't see yet. And once you start bringing it above ground. The other thing is the fact that, you know, things go up and down in price. But they go up and down around an intrinsic price. An equilibrium price below once people stop producing and above once people bringing on extra production or cutting their supply and so, you know, if corn sells too low a price people stop planting it. And the price goes back up. And so, we like to buy commodities that have been way below a price that would make anybody produce.

So, you know, people are cutting back production like crazy in natural gas now. They're cutting back production in oil right now. Like I mentioned almost everybody stopped producing uranium right now. People have deferred so long on producing gold, that it's going to take a decade before you see any increase in mine supply. So, the prices will go up. And after the price goes up, people will pay for it. They all know it's going to go up. They all know it's cyclical. So, if we can buy something that's going to bounce between \$2 and \$6 for the next 10 years and we can buy it at \$2 and sell it at \$4 we are happy to do that. And so, we do a lot of that. We buy things at a discount to incentive price and then we buy it underground at a double discount to that incentive price. So that's what we mean by latent.





And as I highlighted in here, that part of the portfolio. And our estimation is towards 5-1/2 times what it's selling at right now. So really extraordinary. And I've been in the business since 1982 and some very cheap markets. Never seen anything like this.

Operator: And we will take our next question from Dan Gallagher with UBS. Please go ahead.

Dan Gallagher: Hey Dave. Just a couple questions, we have clients that are, you know, uncomfortable with EM, emerging markets. You know, our country has certain strengths that foreign countries don't have. You know, some of these countries have a lot of dollar-denominated debt and their healthcare system, you know, probably can't handle, you know, what could happen. And I'm wondering on your point of view, I know that you guys do buy things at discount rates but is there any of that macro - do you have any of those macro concerns about EM, you know, having a serious issue here from, you know, money abandoning that area?

David Iben: Let's do the short answer and then a longer answer. Macro related to others, we're 100% bottom-up so, we don't have the macro concerns. But as bottom-up investors, we watch other people's macro opinions. You know we don't have much opinion of our own until every now and then people's macro concerns seem outrageously optimistic or outrageously pessimistic. That's where we get involved.

You know when Lula became President of Brazil 15, 20 years ago, people were so bearish on him. We were buying companies. We said all right, maybe he's bad. Maybe instead of a 30% discount on our stocks, we should ask for a 60% discount. Then you can have a 90% discount. We said we'll take it. You know, when Obama became President everybody said that's the end of healthcare. We owned no healthcare. After they elected him we were able to buy Lilly and Pfizer and Amgen and Aetna. And I was saying all of a sudden, it's one of our biggest holdings. We're buying these things at 5 times earnings, you know. We didn't know how good or bad Obama would be. We just figured he was not going to be the end of the healthcare system. You know there was four years ago where Putin was considered, you know, the most evil man in the history of the world. Well, we figure, yes, certainly he's a guy to be concerned about, as are most politicians. But probably him more than most. The market though went from in '07 saying you must own the BRICs, Russia being the R in BRICs, you must own it, to five years ago, you must not.

Both of those are missing the most important variable, price. At what price did you own it? And so, we owned none of the BRICs really when people loved them. And five years ago, how could you not want to buy a bunch of them. So, what we said is "Yes, we don't want to own Russia because of the corruption and because of the malinvestment and because the geopolitics that's been going on for 100 years and because there might even be sanctions and all these other things. We don't want to own it." On the other hand, it's a growth economy with tons and tons of resources with lots of world-class businesses with an educated population. And almost no debt as a part of the economy. So, paying full pricing seemed stupid. Not being willing to buy anything at 10 cents on the dollars seemed stupid. So, we want half off. And the market said in the case of Gazprom you can have 95% off. That worked out pretty well.

And we were able to buy, you know, some of the biggest and best utilities, fund companies, banks, you name it. And that worked out really well. So now we think the U.S. is a great country, love it here, always lived here. It's productive economy with a reasonably good rule of law. The market views it on a scale of 10 as maybe a 15. And yes, so things are kind of expensive here. So, we just don't have a lot here. But country by country we're saying all right, well, you know, if Exxon moved from here to Canada how much of a discount, and from here to Australia, from here to France, from here to Russia? And we said all right, well, you know, we want bigger discounts in Russia than other places. Now we're seeing that everywhere. Like people go from emerging markets are the place to be. They grow faster. They got a lot more potential. The rule of law might not be great but it's improving and "blah, blah, blah" to times like now where people say they're just corrupt horrible places. And they've borrowed too many dollars. And, you know, there's hell to pay. Well yes, that's all true.

But they're forgetting about the earlier stuff that they're vibrant economies that are going to grow faster than the U.S. the next 20 years. And we don't just buy emerging markets, we buy companies. And so, we buy a good company that just happens to be in Brazil. And just happens to be in China and those sort of things. And then we say how much of a discount do we want? And how much of a discount because of management? How much of a discount if they have dollar-denominated debt, how much bigger discount? We've tended to avoid most of that. You know but yes, it's attitude though





because when it comes to having too much debt, it's really hard to one up Japan and the United States. You know we're the champions of having too much debt.

And so, you know, our approach is bottom-up. Find a company. Find a company we want to own. Find out what we think it's worth. Discount it. Discount it for debt. Discount it for the emerging market. And right now, in many places, we want half off. And we're going 40%, 50%, 60%, 70% off. It's sort of crazy. So that's our approach.

And, you know, I think the last two months should tell people anything can happen. You know two months ago if you said guess what's going to happen in the United States? The United States is going to announce they're printing \$6 trillion out of thin air and they're going to have some government people dole it out to their buddies and decide who gets what. And in the meanwhile, small businesses we're going to make you close and we're going to order people to stay in their houses. You know and whether that's a good thing or a bad thing they did, that's not my point. The point is who could've imagined it happening. And it's happening everywhere.

So, I would say the U.S. is great. Having 100% of your money here or anywhere that's the dangerous thing. Having 100% of your money in one country is way more dangerous than if you have 2% in the Ukraine or 5% in Russia or, you know, that's my opinion. I think somebody right now should want to diversify across currencies, across debts, across Management Teams, across geopolitics, across industries. Now is the time to insist upon values and insist upon diversification. But it's up to each individual to decide what they're comfortable with.

Dan Gallagher: In that regard, in our global portfolio I think we're like 5% U.S., and my understanding on this big setback, 30%, you know, the S&P and small stocks down 45%. The one, you know, stock that you bought was GE on the dip back and, you know, obviously, you've done work on that. But were you close to doing something in healthcare or banking or any other sector? It doesn't seem, I know that you got things at huge discounts overseas, I just was wondering, you know, when that correction happened was that just the one U.S. stock that you got off?

David Iben: Healthcare and social media and high-tech we never got close. At the very worse cheapest day, not close. Outside of that, yes, it's become a lot more interesting world. We're looking at a lot of retail. We haven't looked at retail in the past. We're looking at a lot of banks. We seldom own banks. Haven't owned much since like 2010 or something. We are looking at industrials. We're looking at things that aren't tech that might be considered as tech like companies in Japan. They're trading below net cash. That sort of thing. And we, you know, also in the U.S. we did add to our energy names and in Canada, we added two energy names and in emerging markets.

Oh, and then also just to reiterate in case some of you don't know. We generally don't disclose the things we've done in the last month. So we're not disclosing. And there was a fair amount of activity in March some of what you're seeing but the later stuff you're not seeing. So we were pretty active. But in the U.S., it was mostly gas. It wasn't other things. There are a few things that got approved that we looked at. So, there are names in the U.S. that are new to the approved list that we haven't bought so I won't name them. But industrials and retail and things like that. GE you're right. We were fortunate. We spent a year doing research with a new analyst we had. Figured it was a good way for her to get her feet wet. We did in-depth analysis on every division they had. And then the stock fell from \$20 to \$9 so we bought it and then went to \$8 and we bought more and so we bought more at \$6 something. And then it ran to \$13. I mean \$11, well it got to \$13 but we sold it at \$11, figuring \$12 and we figured \$18. I talked about risk-adjusted, so our risk-adjusted price is around \$12. So, we're happy to buy at \$6 and sell at \$11. We'll keep doing that. But yes, I would say most industries now we are looking at with the exception of healthcare and a lot of the high-tech. Our one healthcare name, they make ventilators. So that did pretty well. We sold half of that. But that's about it.

Dan Gallagher: Thank you, Dave.

Operator: And we will take our next question from Dan Gallagher with UBS. Please go ahead.

Dan Gallagher: Hey Dave you did a great job buying SkyWest once. I remember that trade being fantastic. I was wondering if - what your thoughts are in general on the airlines? Are these investable anywhere?





David Iben: SkyWest a few weeks ago hit \$10. You know we originally bought it at \$6 and sold it all the way up to, you know, \$35 or whatever and then it went up to \$60 I think after we sold. At \$10 we started scrambling. And then it went to \$25, which is still really cheap. But just today, I was with our airline analyst going through a bunch of cash flow assumptions, what if their sales are down 90% and then bounce back in two years or one year? It's really, really cheap and it's a really well-run organization. I think it'll do pretty well. But we suspect that their debt level may need to double or triple before this goes through. So we're going to have calls with management and talk to them about what the capital needs are and what the plans are. But that sounds pretty interesting.

Airlines, we've in the past, we owned American once. We owned JetBlue once. In the Asia crisis Cathay Pacific. We, you know we like industries that are really important. And I think all of us think our life is better off that they exist. And when people hate them, we get pretty interested in them. So yes, we are looking at them. Although this is interesting because, I think you've all seen all the articles that the problem for the airlines isn't the cycle. The problem is that they spent the last five years borrowing a bunch of money, buying their stock back at really high prices as management sold into it. And now they're begging the government for money which I guess they got. But it looks like it's about four or five months of cash flow that they got. And so how long this lasts and how fast this picks up and how they're capitalized and I still can't figure out what those warrants that the government may or may not take are worth.

But we like airlines. We don't like too much debt. And there are a bunch of many, many companies now where, you know, trying to figure out who the government is going to give money to and at what rate and for how long. That's difficult. So, we're not buying a whole lot of companies that have a lot of debt and are going to have negative cash flow this year. But we have a few. We've got Range. And so yes, we like the idea. It'll probably take us a while to get on top of these names and they're flying sort of speak all over the place. So, that's a good question. I wish I had a better answer. But it certainly has our interest.

Dan Gallagher: Thanks.

Operator: And with no further questions I would like to turn the call back to Mr. Iben for any additional or closing remarks.

David Iben: All right. Well, it's interesting times. April is starting out a lot differently than March. Certainly, we think the volatility has created a lot of opportunity. We're feeling good. We, you know, wish as Kassim said all the best health to you and your families and hope everybody is doing well. And thank you very much for calling in. Have a good day.

Operator: And this concludes today's conference. Thank you for your participation. And you may now disconnect.

Kopernik reviews the audio recording of the quarterly calls before posting the transcript of the call to the Kopernik web site. Kopernik, in its sole discretion, may revise or eliminate questions and answers if the audio of the call is unclear or inaccurate.

The commentary represents the opinion of Kopernik Global Investors, LLC as of April 16, 2020 and is subject to change based on market and other conditions. Mr. Iben is the managing member, founder and chairman of the Board of Governors of Kopernik Global Investors. He serves as chairman of the Investment Committee, sole portfolio manager of the Kopernik Global All-Cap strategy, lead portfolio manager of the Kopernik Global Unconstrained strategy, co-portfolio manager of the Kopernik Global Long-Term Opportunities strategy and co-portfolio manager of the Kopernik International strategy. These materials are provided for informational purpose only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. These materials and Dave Iben's commentary include references to other points in time throughout Dave's over 38-year investment career (including predecessor firms) and does not always represent holdings of Kopernik portfolios since its July 1, 2013 inception. Information contained in this document has been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any investment or security.

