Operator: Please standby, we're about to begin. Welcome to the Kopernik Global Investors Quarterly Conference Call. All participants are in a listen only mode until the Question and Answer portion of the call. Today's call is being recorded. Here to introduce David Iben is Kassim Gaffar. Please go ahead.

Kassim Gaffar: Good afternoon everyone, and thank you for taking the time out of your busy day and for joining us for the Q4 call with Dave Iben, Lead Portfolio Manager and CIO of Kopernik Global Investors. We think it's important to start off the call by letting you know that we realize how difficult your role can be at times. Clients trust you to be there for advice and guidance. And at times you play the role of their psychologist and hand holder and our performance has not made your job any easier. We are truly grateful for your ongoing patience and support. We can make every effort and we make every effort to be as transparent with our portfolio and process as possible and appreciate you participating on this call.

Before handing the call over to Dave, I would like to provide you with a quick firm and strategy update. Overall, at the close of business last week we're currently managing around $1.2 billion in total firm assets. Majority of those assets are in our Kopernik Global All-Cap strategy which is right around on $1.18 billion.

At the firm, we remain financially viable and healthy and continue to invest in our people and firm and during the fourth quarter we added to our investment team and institutional services team. Also with the past couple of months we have seen institutional demand pickup with multiple new and reputable clients that funded us with around $400 million with an additional $250 million more assets that we have won and are currently on boarding for the first quarter of 2015.

This vote of confidence has been reassuring as some old clients and new prospects understand the opportunity that this drawdown presents. Overall, we remain steadfast in our belief and conviction that our portfolio holds tremendous upside potential. By almost any metric you look at, this is the cheapest portfolio David has ever managed.

What gets us even more excited is the fact that we own some of the most dominant businesses in their respective industry that happen to be trading at or close to all time low valuations. We are committed to our time tested process and discipline which has served Dave and his team well for many years as one of the leading global managers of the last two decades. And with that, I'll pass it over to you Dave.

David Iben: Thank you Kassim, and thank you to everybody for dialing in. I'd just start by saying, "Happy New Year" to everybody. We for one are very happy to welcome 2015, coming off the end of last year. We appreciate everybody's support and for calling in to hear our message. The investment commentary that was three quarters done back in October is finally finished and in final editing and compliance right now so hopefully we'll get that on the website before too long.

In that commentary, we're really looking at the market and analyzing why the market seems so detached from reality. Or maybe it's fair to say, why the market's reality is so detached from Kopernik's perception of reality. One can in these circumstances cavalierly dismiss the market as being wrong and trudge forward but we all know that arrogance is dangerous in our business. But the other extreme, assuming that the market is correct, is virtually equally as misguided and especially misguided at inflection points. Any time a stock goes
our way or goes against us, we always analyze where we were right, where we were wrong, when we were lucky, or when we were unlucky, or merely just too early. It's important to analyze those distinctions.

When the whole portfolio does really great or horribly relative to the markets, rigorous analysis is, of course, in order. Given our really high active share, really great and really horrible relative performance is a pretty common occurrence so we're always looking at such things. The fourth quarter of 1999 and the third quarter of 2008 were remarkably bad for us.

At that point, we did our own analysis and pretty much let the clients witness our self-analysis. Fortunately, we correctly concluded at those times that the market was really bonkers and stayed our course. And what followed were two of the best performance periods of our career. Once again, we are coming off a four month period that was equally appalling like to those other earlier periods of time. We have done a lot of self-examinations. That's what the commentary is about. But that's what we proposed to do with this call is to talk about the results of our self-analysis and if were we wrong or is the market wrong? We once again conclude that the market is probably off its rocker and that's presenting great opportunities.

But what we want to do is talk about what's happened and what we see and leave it up to each of you to make your own conclusions where the market might be right and where the market may be offering us great opportunities. Maybe people can argue whether the markets efficient or not efficient, but people I don't think could ever argue the market's not emotional and has wild extremes from one point of view to another.

So if we look, say, three, four years ago, let's start with gold and commodities. Three or four years ago, people were pretty excited about commodities. They were pretty excited about gold. And gold had gone up twelve straight years. Commodities had quite a run. Everybody knew that the emerging markets were going to grow very fast for a long period of time and they were going to have this voracious consumption and that was going to be good for gold and good for commodities.

They also knew that the central banks were likely to print a lot of money and printing a lot of money should be very good for gold and for a lot of commodities. We, having owned a lot of commodities in the past, have not bought commodities for the most part. For the last three years we have owned almost no industrial commodities. We've owned very little chemicals. We're sort of agnostic. We like the fundamentals, but some of that was priced in. It wasn't something we owned. And so, gold -- we sold half of it at the top. But over the last couple years, have gone back to very heavy investment in gold. What's happened over that time in the market's appraisal and what we think has actually happened couldn't be further apart. An environment that turned out to be a lot weaker than most people thought and industrial commodities have tended to disappoint people one after another, yet price of gold's right where it was three years ago. Gold has hung in there. Why, other commodities do not. On the surface, we got it right. And where people worried they might print a good amount of money, they printed way more money than anybody could have imagined.

So, there again, the fundamentals for gold actually improved more than anybody would have thought. We seem to have owned the right substance and have avoided the wrong ones. And, you know, we did avoid losing money and commodities stocks didn't do us any good because the market trounced the price of gold mining stocks. And our gold mining stocks are not worth less than they were three years ago. The market is selling them for way less than they were a few years ago. We view this as the market making a mistake. We think that with gold having had their 40% correction the stocks have fallen so much that we're in decent shape if the price of gold stays here. But we're also cognizant to the fact that the fundamentals argue for way higher prices of gold.

The incentive price if gold is a commodity would require probably a doubling in the price of gold. If gold is money, which it has been for 6,000 years or something, it will be priced way more than double. So if gold stays here, the stocks are probably too cheap. If gold goes to some sort of economic equilibrium over time, there is many multiples of upside on these stocks.

So we don't think the stocks are worth less. We think they're selling for less. We think people have gone from kind of liking them three years ago to hating them a bunch - about as much as they are going to hate something. So, yes, gold has done fine and should do well. Gold stocks have been punished and should bounce back.
Fundamentals do not support the current price of gold stocks, we think. They support much higher prices. Energy -- pretty much the same thing. If you look at our portfolio in the last few years, recently, we bought Lukoil, but other than that, we have not owned oil. Yes, and that looked bad for a while because oil was the one thing doing really well.

We were, once again, sort of agnostic on oil. Sure, it could have been worth $80, could be worth a $100, could be $120 -- who knows? When it's selling at $120, where's our edge versus others? We've said any - but if people can drill for oil and make a lot of money at $110 and everybody is doing that and people are borrowing money like crazy, maybe we'll let other people do that and we'll go with the ones that have pretty compelling fundamentals and that haven't been expanding. Where demand is growing and supply is not, match and argue for the price holding up. And so, you know, we've tended to own some natural gas, and some coal, and uranium, of course, has been something we've been fond of for a while. And once again, if you just look at the facts, we've got it right.

You know, the price of oil is - plunged almost in half -- and over half in some grades. The price of uranium's is up. The price of coal is hanging in there. The price of natural gas in different parts of the world -- some going up and some going down -- but hanging in there. And so, we've bought really inexpensive stocks on commodities that didn't fall in price, and avoided the one that fell in price so we got it right except for the market punished us as they beat the hell out of coal stocks and have knocked uranium stocks down to multiyear lows too. We think the market's making a colossal mistake. And, once again, if we are in fact right, these stocks could go up many times. We're not looking for 20% gains, we're looking for multiples if the fundamentals are what they appear to be.

Another area, I think three, four years ago people thought that emerging markets grow faster than developed markets. And so, maybe emerging markets are a better place to be than some of the developed markets and that was all the rage. Must own the BRIC's and shouldn't own the U.S., as the U.S. is a basket case with too much debt and can't grow. And, yes, turns out people were right. Growing markets do grow faster than mature markets. And have and certainly will. But, boy were they wrong. The emerging markets grew, but at a rate that disappointed them. And investors don't like to be disappointed. And so they have slaughtered many of the emerging markets in the season -- this particular stock. The U.S. has gone up nicely. I guess from 2009 until now it probably started out too cheap and went up because people had priced in overly pessimistic views. The U.S. was the place to be when everybody hated it.

Now, people love the U.S. We love the U.S. But loving the U.S. and loving the U.S markets should be separate and distinct things. People should like markets because prices are cheap not because a company or a country is a good thing. And so, in the United States, in 1929, people were correct that there was going to be 90 good years on the way or whatever. But they lost 90% of their money owning the U.S. stock market. In 1972, they were right - the U.S. was going to be great. Then, the market dropped 50% in the next two years. Ditto for 1999 and 2007. The U.S. now is a great market. It's gone up six years, six and a half years. They've gone up because fundamentals have gotten better, a little.

Has it gotten because stock valuations have re-rated? Absolutely. History and logic would say, when valuations get re-rated to a high level, they are not safer. They are, in fact, much less safe. We love the U.S. We find the U.S. market to be risky. But in the short-term, not owning the expensive U.S. market has been painful for us because for the last six, seven months the world markets seem to be in a bear market, while the U.S. market is up nicely. I'm covering that later.

As I'd like to add, the U.S. is over half of the ACWI and that's really unprecedented. And yes, I think those of you that have listened to us in the past, we talk often about how markets are capitalization weighted so they reflect when too much capital is pouring into any one area, too much capital always overwhelms the possibility for meaningful returns going forward. They'll buy in energy at a third of the index in 1980 and buying tech in 1999 and Japan in 1989 and finance in 2007. All prove to be disastrous. And it's not just poor-disastrous. The U.S. is over half - it is worth more than every other country in the ACWI put together. U.S. is a good country and the U.S market is dangerous.
And if you look at it on price to book value and price to cyclically adjusted earnings (CAPE), and price to Tobin’s Q replacement, and price to sales, and you name it,—other than 1999, this is the most expensive the markets ever been. So, it hurt us not owning it last year. We do not think we made a mistake. We think it’s a matter of timing. These kind of valuations are unlikely to work out for people. Did the U.S. perform because it actually became a small growth economy that’s going to grow great for the next 10 or 20 years and the emerging markets became mature? No.

The U.S. is a big mature market that can’t go fast for a long period of time. The law of large numbers. One of the main reasons the U.S. did way better than other markets was currency. The U.S. currency was really hated four, five years ago.

You know, most, many I’d say, well-off clients who always came in saying, "How do we get our money out of the dollar? How do we protect ourselves from this QE and the madness of the U.S. and too much debt and the deficits year-after-year? Central Bank that seemed to think it’s a good thing to destroy purchasing power. Did we get our money out?" Sure. "How do we get it into emerging markets? How do we get into gold?"

Of course, when people are pretty much unanimously disliking something, often it gets to be too cheap, and with hindsight, the dollar, it was too cheap. It was a nice time to buy the dollar. And now the dollars had this big run. If it had a big run because it’s worth more? Being - had a big run because the U.S. hasn’t run trade deficits -- the U.S. hasn’t run budget deficits? The U.S. didn’t print $4 trillion dollars out of thin air?

No, those things happened. The currency has been weakened and other currencies have been weakened also. But, they have weakened the currency a lot and it does take way more dollars than at any time in history to buy healthcare, to buy insurance, to buy tuition, to buy art, to buy collectables, to buy real estate in any areas that the well-off live and those sort of things. So the fact that the dollars had such a big run versus pound, euro, yen, and things like that, is not a reason to like it more. The time to buy the dollar is when everybody hated it. I suspect now’s a beautiful time to let go a few of those dollars. But, time will tell. But the dollar has not gone up because they didn’t in fact print a bunch of money. And the market sometimes get excited when they think that they’re going to stay easy for a long time. That’s not good for currencies. Time will tell.

One thing that’s come back is stocks like SkyWest. It was very interesting. The stock grows book value most every year. People like to look at earnings. But on cyclical companies we prefer to look at how much wealth is accruing over time as opposed to whether it's accruing at a faster rate one year and a slower the next and faster the next, which of course, cycicals do. For some reason, the stock -- well, it almost fell in half for no particular reason. Since then, it's bounced back. So it got down to 30% of book value. Now it's bounced back to half a book value. But, you know, we like things like that. Half a book value for a company that has a dominant niche? Yes, there's no reason why the market one day thought it was worth $12.5 and then thought it was worth $7.5 and then $12.5 again. I find it interesting that they teach efficient markets in school.

Phones. Phones are one of the best examples of inefficiency we've ever noticed. I think we might have pointed out in the past, NTT in Japan was the largest market cap in the whole world in 1987. A couple of years ago, we were buying it at four-times free cash flow and most of the capex was done. They had one of the most modern systems in the world that, you know, then it bounced rather than fell. Then in the next year, they liked that and they didn't like emerging market phones and we were able to buy emerging market phones. There's times like 1999 where every phone in the world was too expensive. There was times like 2002 when almost every phone in the world was too cheap. There are times where people would give away wirelines because they thought the whole future was wireless. And there's times that they give away wireless because it didn't grow as fast as people thought. Or there's too much competition. And so, over time, it's worked out pretty well to be able to do that. I think nine months ago, or whenever it was, they had taken China Mobile from one of the most - biggest market caps on earth to a value stock and we were able to take advantage of that. It's bounced back a good bit from there. But, yes, we like the fact that people always change their mind about whether you want to own emerging or developed a wireline or a wireless or whether you want to own cable or satellite or fiber optics. Yes, the market gets emotional. We like to be on the other side of such things.
Within emerging markets, one thing that has hurt really badly is our exposure to Russia. Once again, it pretty much comes down to the currency because of what we owned - we view ourselves as owning good businesses and we own some of the biggest, strongest, most competitively advantaged companies on earth, whether it's the world's largest gas company at three times earnings or whether it's one of the world's most dominant banks that are single digit PE's and at discount to book value, or owning utilities that are cheapest, cleanest on earth at a fifth of what it might take to replace those properties.

So we've owned companies like that. The companies have done okay and their stocks have done okay. The currency was murdered. Could be that over time we'll look and say, "Yes, the currency deserved to be murdered." But usually in those circumstances people just get emotional just like they did with the rupee a year a half ago when they pounded the rupee. It was a great time to be investing in India. And now they're pounding the ruble. There's a lot of things that matter on currencies and we can argue or not argue about them. We will just point out that, if you're comparing Russia to a lot of other countries in the world, they have trade surpluses that should be a positive. They have roughly balanced budgets and have been in surpluses for many years. They have almost no debt. They have a higher backing of gold than a lot of other countries. They have lots of other resources. And so a case can be made that the ruble actually should be a stronger currency than others. All we know is from a dollar standpoint the businesses in Russia have gotten a lot cheaper and we run negative interest rates in the U.S. and they run positive interest rates there.

Case can be made for the ruble. But we're just going to keep focusing on these really good businesses at really cheap prices. And, it might be, as an article came out last week saying some of the stocks in Russia are the bargain of a century. We agree. Yes, I think they went on to say that it didn't matter it was a bargain, that you should avoid bargains. But, yes, we've been in the business for 33 years of buying bargains. It works way more often than it doesn't. And we plan to continue to do that.

We can look at debt and what the bond markets have done. 33 years ago when I came into the business people hated -- I can't talk about how strongly they hated - the bond market at 14% interest rate on long bonds. Now bonds are priced at levels that make no sense to anybody. So people will say, "Well, so what? It's at higher yield than they have in Europe, therefore it must be good." Relative pricing never made sense to us. If something's way overpriced, we don't care that somebody can point out something else on earth that's more overpriced --- 2.5% yield or even 3% yield for a claim on a currency that's actively being printed when the Federal Reserve has a goal to make it lose purchasing power.

We'll let other people do that. I understand the market went up. I think our calculations show if the rates dropped to 2%, somebody can make another 16% this year. But if rates go back to 4%, people lose 20 some odd percent. If rates go back to where they were in the early 80's, people are going to lose 80% of their money in the bond market. So we're not going to predict that bonds go up or down this year -- any particular year. But, yes, sometime in the future bonds will be a disaster.

We'll let the people that are smart enough to time it, and we're just going to step to the sidelines and let other people risk 80% of their money thinking they can make 3%. You know, fundamentals for the bond market have not gotten better, they've gotten worse. The yield's gotten lower. Once again, I think the market is making at least as bad of a mistake buying bonds now as they did not buying bonds when the rates were 14 plus and people then said, "So what if Paul Volker's going to try to whip inflation? Can't be done." The Fed, "It's incapable of eliminating inflation." And everybody says, "The Fed is incapable of creating inflation and deflation is the risk."

One of the few things that I absolutely agree with is Ben Bernanke with his quote that we have a printing press or the electronic equivalent and any determined Federal Reserve can and will create inflation. We know they can. 2.75% is nowhere near enough compensation to take the risk that they will fail. They'll most likely succeed.
So we look at our portfolio now and say, "You know, tough four months in the market, but not a tough four months for the fundamentals of these businesses." These businesses are doing really well in most cases. The fundamentals have improved in most cases. And when you add it all up to be able to buy good oligopoly businesses and do so at 60% of book value. I don't think I've seen anything that good in 33 years in the business.

We wish that the last four months hadn't happened. On the other hand, we love the opportunities the last four months have created and in the last three years: unbelievable bargains; for unbelievable businesses; in the areas that people are going to want and need to be in over the next ten years, we believe.

So that's our analysis of the situation. The stocks are down because they're down, not because the businesses are worthless. And with that, I'll stop for questions.

Operator: Thank you. We'll go to our first question and that will come from Ben Clauss with Merrill Lynch.

Ben Clauss: Thanks for doing the call. I have two questions. The first one is on the gold miners. I understand you're a contrarian investor and that makes a lot of sense. Why do you think other value investors may not see that opportunity?

You know, I'm mainly a value investor and I have a lot of other managers and I'm curious as to what some of the other value investors what are their reasons for why they don't think gold miners are a good investment at these prices?

David Iben: Yes. Let's go at that from various ways because it's a very good question. On the one hand, as a sort of a contrarian leaning investor, the fact that no growth investors like it and no value investors like it is music to our ears. But, like I say, analysis is the important thing. We know growth guys don't like it because growth is impossible. That's one of the bull arguments that, yes, there is no gold out there. You can't grow any faster than you can pull it out of the ground, which is a percent a year, plus or minus -- not for growth value investors. We are big on the fact that value is -- absolute, it's imperative, it's prerequisite. But it is a very difficult thing. People make a mistake to say value is a low PE or value is the discounted future cash flows, or, you know, value is a lot of things but value is something that is worth something to people in the future.

And somebody wrote an article a few weeks back. It was fascinating. They were calling gold a "6,000 year old bubble". And they concluded they didn't like it going for another 6,000 years but it was a "bubble." I don't know what that means -- that 12,000 year old bubble, I don't see as really a possibility. You can look at gold itself and say, "Well, intrinsic value, as some people believe, is the present value of future cash flows and the cash flow thrown off by a piece of metal is zero and therefore it's intrinsically worthless." A lot of people believe that. We think it's ridiculous. We think it's backwards even.

We think that future cash flow comes from value. To elaborate, the Mona Lisa. I know very little about art, but I know enough to know that the Mona Lisa is valuable. But if you ascertained its value by the present value of the future cash flow, it's worth nothing because it doesn't generate cash flow. An empty building generates no cash flow. So is it worth nothing? And then you rent it out and all of a sudden it's worth something? I don't think so. Yes, if somebody is employed and has a lot of skills. So are they worth nothing until they get their job and then they're worth something as a human being? I don't think so. I think Warren Buffet, who doesn't like gold, but on some level he must, his views - if they own businesses that sell candy to people, people will exchange cash for that candy. It doesn't matter if cash is dollars or yen or euros or sharks' teeth, as he thinks. And so, I'd say that something that's held its value for 6,000 years is not a bubble, it is something that's valuable. And two years from now and fifty years from now and 150 years from now, somebody will be able to take gold and exchange it for whatever the currency is and generate cash just like the Mona Lisa could be sold for cash. I think if The Louvre took it down to Christy's or whatever they'd get a lot.
And so, I think that's one thing. Value investors make a mistake by thinking that somebody's estimate of future cash flow, discounted back at somebody's estimate of what the discount rate ought to be, determines the value. I think that's wrong. Secondly, gold is worth what it's worth. What is it worth above the ground? After all, you know, $1,200 or whatever. In the ground there are times -- most times actually -- in history where people say, "We will pay a nice premium for gold in the ground because it's got more optionality. It's got more leverage. If the price of gold goes up, as many people think it must when they're printing money, wouldn't you rather have optionality? Wouldn't you rather have a business? Wouldn't you want to own a business that has the ability to find more gold? And the most likely place to find gold is next to the gold that already exists.

And so, for many reasons owning a business is way better than owning a piece of metal. That's absolutely accurate. Now, their view, which is also accurate, is that owning a gold miner is a horrible way to own gold because you have gold in the bank, you don't have to worry about the geology not working out and the chemistry not working out. And you don't have to worry about a management team doing something incredibly stupid to destroy your value, and you don't have to worry, at least generally, you don't have to worry about government's coming in and confiscating that wealth from you and coming up with royalties and taxes and all kinds of things. So, there are lots of reasons to not like gold in the ground owned by some company in some country. And people's psychology will vacillate between only focusing on the negative and only focusing on the positive. Whenever they do that, there's usually an opportunity thinking the opposite of what everybody else is thinking.

So if you look now, I would say a lot of true value investors would go along with, "price is more important than anything." As Howard Marks points out you can take a portfolio of bonds that are distressed and none of them paying anything. They're all in default. And if you buy a portfolio as those things are five cents on the dollar, it's really low risk. You can get recoveries that are way more than five cents. You make thirty cents. You make a lot of money with a little risk. I would say if people are pretty much giving away gold in the ground because they have such disdain for the gold miners that value investors ought to say, "Maybe there's something there."

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Why? Well, let's do a DCF. If you do a DCF model and say, "Let's assume the price of gold goes to $800 and we discount it back at 10%, it's worth nothing." If you say, "Let's assume that gold goes up 10% a year, you discount it at zero because gold's money, then it's worth almost infinity." You're at a huge upside. The price of oil has just dropped. That's great for their costs, which is true. The incremental cost is $2,400. Let's put that in there. Or let's put $800. The DCF can give you any number you want. What we tend to do is say, "Well, what we've got is two things. We have sort of a margin of safety which we like because we're buying these things so cheaply that, if say just the price of gold does nothing and management's do a few stupid things and we just liquidate this thing out, these things are fairly priced and in many cases we have upside."

And then we get free optionality of, "What if the price of gold goes back to $1,900?" These stocks will be up three or four times. Remember when at $1,900 these guys had strong cash flow. People were loving these stocks. These could go up three, four, five times if the price goes there. If the price goes to the sort of incentive value that would actually lead to future supply growth, it's, you know, $2,400 -- something like that. Who knows how much these stocks can go? And so, if somebody, I say analyzes a DCF, you can get any answer you want. But if you do it on a bunch of optionals and you say, "What if the options are all worth nothing?" Then I probably don't even lose money. These stocks are so cheap.

What if I put in some simple, not even bullish assumption? Maybe I make three, four, five times my money. And, you know, what about the fact that they printed $15,000 dollars for every ounce of gold we have -- yes? What if the price of gold got to a third of $15,000? The upsides are almost indefinite.

So if somebody does a Monte Carlo analysis, different simulations, there's all kinds of "looked at it", we can all argue about what the fair assumptions are. But if the downside is effectively zero and the upside is many, many times, I think that's a value. But I tried to explain I think the various reasons others can have a different view and that's the beautiful thing about the markets. We can all have different views. We see tons of value.
Ben Clauss: I appreciate it. It's a complicated one.

Operator: And moving on, we'll go to Todd Brady with Oppenheimer.

Todd Brady: Hi. To circle and back and following up on your comments on gold and the value of gold -- if a commodity's in a truly deflationary spiral, and miners become cheap, one region might become cheaper than another region, but the underlying argument about the value of the commodity at the end of the day would remain the same. And where I'm going with that comment is a couple of things I've heard as an investor with your firm is buying companies below liquidation value. And these are foreign companies that you're buying at "Below liquidation value."

Can you maybe help educate me on what your idea of "below liquidation value" is? Especially in certain regions around the world which are experiencing pretty severe political headwinds and countries that are not afraid to repatriate assets and commodities that we all find as values here as Americans? And then I have one follow-up. Thank you.

David Iben: Okay, sure. I'll take a crack at that. As we talked about the last question, value is an interesting and complicated thing. We, like a lot of value investors, like the concept of a margin of safety. Yes, some people look at a margin of safety of, you know, "Can I buy it at 30% less than we think it's worth?"

We do several things. We can say, "Our margin of safety can be relative to other evaluations or other backstops." But one thing we do is use this concept of liquidation value as sort of a backdrop margin of safety. So, yes, a liquidation value, probably very few of these management teams are actually going to liquidate their company. But what we do is say, "Suppose they did?" If we went in and bought the entire company. We paid for all the equity. We assumed all the debt. We paid everything we would have to pay to finish building the mine. We paid all the cost of extracting everything. We put in the fact that some of the gold - that you don't recover everything. Maybe there's 80% or 90% recovery rates. So some of the gold is lost. Then you put in the taxes and royalties to other countries and how much gold could we get? So we pay all that money and pulled that gold out of the ground and just sold it for more than what we put into it -- that gives us some comfort. There's not a lot of businesses -- especially in this market. You don't go in and buy Proctor and Gamble and Johnson and Johnson and say, "Well, if it's something - if it hits the fan and everything goes there what if they just liquidate this company? Will I get my money back?" No, you get pretty much nothing back. Here, if they liquidate it, we get our money back so that gives us a nice comfort - margin of safety - and that makes it easier to own this massive optionality to where our upside is three, four, five, ten times if things go right. And our downside is somewhat protected by this margin of safety. So that's how we calculate it. All the cash it would take to bring it above ground and selling it at today's price.

And then, your other question's important. I've learned way back in school people feared markets but didn't fear business risk as much because business risk could be diversified and market risk can't and now people don't perceive market risk even if businesses are risky. They'll sell cheap businesses. But you can diversify it. And so, one thing we do, is say, "Yes, well, there's been times where Australia tried to throw a tax on. And Mongolia, they want more of the mine. And, you know, the U.S. we've had windfall profit taxes on oil and they've made money in the past. And Canada." And everybody has their thing. And we don't know who's going to do what to us when.

So we think it's good to own properties in lots of different countries where we don't want too many of them in any one country even if that one country is the U.S. As a matter of fact, two of our cheapest ones happen to be U.S. companies. They're running into more obstacles than foreign companies do. It is really - it's the regulation and, you know, and political backlash and stuff. U.S. sometimes a tough place to do business. So we want to do business here. And Canada and emerging markets and all over. That, we think, lowers the risk.
But also, we are not indifferent. If we can buy a nice mine in Canada or we can buy a nice mine in Ecuador, we want a way bigger discount for the mine in Ecuador. We've always done that. It's worked out well. We found out in the past that there's times where we can buy assets in risky places like Argentina, Brazil, DR Congo, Papua New Guinea, Mongolia, Romania and have ended up making a lot of money despite the fact that we lost on a Venezuelan business, because we were getting 90% margins of safety for these things.

And so, the winners went up four, five times -- ten times in some cases. So we do that. We look for - we want more upside less downside or whatever more upside relative to the downside to invest in Mongolia or Russia than we would in Canada. So that - we put a lot of time into that risk management.

Todd Brady: Sure, I understand that. And that's what excites me about being an investor with your firm. That being said, you know, currencies don't lie. Bond markets don't lie unless governments are involved, which they are. Assuming that this deflationary storm that seems to be happening globally, continues over the next six, nine, twelve months. Being a value investor Q1 of 2015, what are the top two areas of investment opportunities that you guys are finding? And secondly, the two best regions that you guys are finding investment opportunities within those two questions? Thank you.

David Iben: Sure. Well, there's a lot there if you look at sort of deflation. It seems to have taken on different meanings to different people. I'm more old school and Austrian or whatever. I believe that the act of printing money is inflation. And therefore, printing money is inflation. Shrinking the money supply is deflation. And by that definition, the U.S. inflation rate just went to zero. But over the last six years, the inflation was 400%. They quintupled the money supply, you know, five times new money. Massive inflation. Whereas Europe, deflated the last few years. They actually shrunk the ECB balance sheet, now they sound like they're going to want to print a bunch of money. They're going to follow with a bunch of inflation. So if you print a bunch of money, which the world has, and the Japanese are going nuts, and a bunch of money is being printed, so I would say that in general, we are in a massively inflationary environment. Or the U.S. is taking a breather now, but the world's not.

When you print the money, it debases currency, that's not the same as to say, "Prices are going to go up." Prices of something will go up. So, the world's been massively inflationary since 2008. And as we said before, the prices of assets that are most associated with where the money's going. Where's the money going? It's going to the governments and it's going to the rich. And so, what do governments buy? Governments buy healthcare. And the price of healthcare is screaming. They pay for education. The price of education is screaming. Yes, rich people buy real estate in Manhattan and West L.A. and Hong Kong and London and the prices of real estate are screaming there. While they're falling in other places.

Yes, I don't see deflation. I see various prices dropping. You know, I saw, you know, the price of oil from $10 to $147 to $34 to $120 back to $50. That's the price of quantity going up and down. That's not inflation or deflation. I wouldn't say over those thirty years we've had massive deflation. Those are times when the price of oil fell or didn't. So, that's just the price of a commodity going from one level to another.

That's all just interesting stuff. We, as investors, we look for bargains, you know? And you read in people's expectations and if they're really bullish or really bearish, they're probably wrong. If they're in the middle, then things matter. But, people can get really, really bearish to where they give things away. They seem really risky. But isn't it interesting how what seems the riskiest usually turns out to be the least risky whether it's, you know, junk bonds didn't seem risky before Drexel fell and they seemed risky after or in reality, turned out to be the opposite. And, you know, real estate was not risky in 2007. Everybody pointed out there's never been real estate dropping everywhere over a period. Then, of course, it dropped everywhere because people take a lot of risk when they don't see the risk. And then real estate was pretty cheap a few years ago and people viewed it as risky. You know, currencies and bonds you'd say would be fair if it weren't for government.

But as you pointed out, government's in there manipulating them. The currencies or oil doesn't mean anything. So, we look at all of them and say, "All right, fine. We can agree or disagree." But when it comes to straight valuation, I've never seen anything in my life cheaper than Russia is right now. It's just obscenely cheap. And the fundamentals for Russia are really good. I understand the emotions. I understand that people
passionately hate Russia. And, you know, I grew up hating Russia. The Cold War. I understand it all. But I think people let emotions get in the way. I think Russia will prove not to be all that risky. They'll prove to be maybe the bargain of my entire lifetime. We will see.

We've already talked a lot on gold so I don't want to spend too much time on it. But, well, let me just reiterate that it's not really often you'll see something that has the chance to go up many multiples on the upside, but the downsides probably pretty protected. And on almost analysis you can put on it. And so it's an extremely interesting investment to us.

Uranium and coal, people go back and forth. They like energy, they don't like energy. They like it, they don't. People used to think that seven billion people headed to eight billion was going to strain the economy. And Jeremy Grantham was right in these, what I think are great pieces, talking about the miracles of the last 200 years and where the next might be more challenging and now everybody ridicules him. All right. I think he'll be proven to be right. I think, you know, seven or eight billion people are going to consume too much energy. So I believe that energy is a good place to be.

Within energy, as like I say, half a year ago we were pointing out that oil was fine but we didn't want to own any. We saw real bargains in uranium. The price of uranium had fallen from $147 to $28. It's going to cost $70, $80 dollars plus to get anybody to build new mines and so much of our supply came from Russian bombs being turned to fuel and that program ended 14 months ago. That's over. The price needs to go up. Well, guess what? The price has gone up. It went up from high $20's to the high $30's and the price of the stocks has not gone up. So we love uranium. We find the fundamentals are interesting. I was going to decide whether we were talking Russia or we're talking energy.

I just finished a book that was recommended to me called, "The Colder War." Talks a lot about energy. It talks a lot about Russia. But also talks a little about gold and fiat currencies and what not. Really compelling read. I recommend that to all of you. But, yes, I would say uranium and coal, gold and Russia. Pretty amazing opportunities.

Todd Brady: David, couple of more areas of the world outside of Russia that right now are screaming buys?

David Iben: You've got in the rest of the BRIC's. India seems to have gotten away, but Brazil has really compelling values. China's mixed. There's still some really cheap stocks there and others just had their run I think. But we're still finding stocks there. Korea still has some pretty interesting things. So, that all seems interesting. Sectors of the emerging markets. Nowadays it's even hard to even talk about emerging markets because they're viewed as a "niche".

I don't view them as a "niche". I view them as "most of the world." Most of people. "Most of geography." "Over half of the economy." "Most all the future growth." Rather than saying, "emerging markets" let's just say, "We're finding lots of pockets in the emerging markets that are very exciting."

Todd Brady: I appreciate your time, thank you. And good luck.

David Biden: Thank you.

Operator: And next, we'll go to Aubrey Sharfman with Merrill Lynch.

Aubrey Sharfman: Hi Dave, thanks for everything over the years. Quick question for you. In the early part of your introduction about the portfolio, you cited the experience of the Internet Bubble and the 2008 situation. And in my mind, both those periods was a period where active managers, even vanilla active managers, had an easier time once things burst beating the market because the multiples were so high.

I find the challenge right now is given that the multiples are only like modestly above average. What do you think will be the catalyst, since in my view at least over the next year, year and a half, it will be still harder for thoughtful, active managers to outperform?
Thanks Aubrey, and good question. Let's come at it from a couple ways. We'll come back to the valuation, but let's just look at the market as a whole. Active versus passive. I view that as cyclical. Yes, I don't believe in efficient markets. But let's just start off they're somewhat efficient.

And they're somewhat efficient, passive management makes a lot of sense because if in fact information goes out equally to everybody and everybody rationally analyzes and everybody comes to their rational conclusion and then everybody buys the thing that makes sense, then why not buy the index and, you know, and save the fees and the transactions costs and everything else? And so, everybody starts doing that in the 90's.

And once you buy the index, the assumptions for the efficient markets are gone because you're not doing analysis anymore. You don't even know what you're buying. Yes, in 1998 people didn't know that they were buying Coca Cola. A beverage company. The second largest market cap on earth. They were buying it not based on any analysis, they were buying it because of the index. And so, yes, the more money goes into the index, the less efficient the market is. If the index goes up and so then people say, "Well, not only because the index's efficiently tracking the market, it's going up more than the market so it must be really good. Now let's fire our active manager, and let's hire the index."

And so, then the index goes more. And the non-index stocks fall more, which makes people fire another active manager and buy the index manager. And I think the fact that stocks were really expensive in 1999 is a secondary point. What was important is stocks in the index no longer represented the market. They were roughly four times as expensive as the stocks that weren't in the index. So, as that was happening, active managers looked stupid and the index looked like a godsend. But in 1999, like I say, it's four times as expensive as non-indexing. So then for the next seven years, we all get to look like geniuses.

And it wasn't that we all became geniuses. It was the index went from stupidly overvalued to eventually fairly, if not undervalued, relative to other things. And so active managers had their heyday and everybody was getting tired of passive management. And the - they did that at the wrong time. So the last, you know, five, six, seven years has been pretty good time to be an indexer again.

Now people aren't so much buying the index fund, they're buying the ETF. But the same sort of thing. If you look industry by industry, the stocks that are in the consumer ETF are more expensive than the consumer stocks that aren't in it. And the stocks that are in the emerging market ETF are often more expensive than the ones that aren't in the ETF. So people are wheeling and dealing and they're buying; no one's buying an ETF because they analyzed every company in the ETF. These are good businesses. They're not prices I want to buy. And they say, "Yes, I'm bullish on consumer. Hey, I'm pretty bullish on India, let's go buy it." And that's been happening for a number of years now.

So, I think once again, stocks that are in the ETF's are too expensive relative and we're pretty, I hope and believe, far along this process of "fire the active manager and just do the smart beta" and all that stuff. But, I think we're at the end of that trend, not the beginning. Time will tell. But that's the most important thing.

To quickly go back to your evaluation of, I think 1999 was pure price bubble. You have stocks sold at infinity in many cases. Yes, it was ridiculous. Now, it's a profitability bubble. So, if profit margins can stay double the normal forever, then stocks are not cheap. But to your point, they're not that expensive. So I think it's fair to say, "All right, so they're not that expensive on PE, but they are expensive on price to book and they are expensive on price to liquidation. They are expensive on price to GDP. And so, why is it that the PE's not so bad?" Like I say, it's the margin being double. And so if somebody looks at a Shiller or a CAPE adjusted PE instead, most of them are expensive. They're like 27 times or something like that. So we are not bad as 1990, but we are worse than 1929. We were worse than anything in history on a normalized basis.

Are we in a new reality where profit margins can stay double? No. You know, profits -- you have to have to some barriers to entry but cost of funds are zero and somebody is making 25%, lots of competition's going to come in and they got unlimited access to capital to go after that. And the people that are making 26%, that money can't be reinvested at 26%, so their margin gets tight.
Our profit margins over the next 20 years are very likely to do what Japanese profit margins have done in the last 20 years as they've tried zero interest policies. So, I do believe that profits normalize and if profits do normalize then we have a very expensive market. More importantly though, I don't even care so much if I'm right or wrong about the U.S. being expensive is that I'm very confident I'm getting way better bargains going outside of the U.S.

Aubrey Sharfman: Dave, these are very compelling points. If at any point, your analysts are able to put some of those points into like just two or three charts, I think that really helps us make your case. So, very helpful.

David Iben: Yes, we would be happy to do that. Matter of fact, you know, twice a year, right now we have off-sites. We get everybody together and we work on what we can do to help our process and help you guys. And one of the topics was what more we can put up on the website in terms of charts and white papers and those sort of things. So, we will do that and we appreciate any feedback you have.

Operator: And moving on, we'll go to Scott Wilson with Morgan Stanley.

Scott Wilson: Hi. The question I had is if interest rates remain low for longer and Europe continues and arguably at deflationary mode how does that affect how you think your strategy might do?

David Iben: You know, we're bottom up and there's a lot of moving pieces there. You know, I saw a headline the other day that euro drops on the deflationary concerns where, I don't know, it seems to me that deflation by definition is an increasing currency relative to products and things out there by supply, so I don't know. I would think that if, you know, prices and money supply deflate in Europe and the euro should actually go up against the dollar and buy out everybody, I was damn sure that printing a bunch of dollars is going to make the dollar drop and instead it went up. Now they're damn sure that the fact that we've stopped printing dollars then they're going to print a bunch yen and euro and francs, the dollar then must go up and these other ones might fall. But, I don't know?

It didn't work that way here. So I'm agnostic. The dollar might go up, might go down. Might do whatever. But, people tend to be using the prices of oil and a few other things dropping. They want to call that deflation. They use that as an excuse to inflate. You will see that throughout the history.

The 1999 bubble was the fact that prices were dropping because technology was making them drop. That was a good thing. But the Fed's said, "Oh, we can print a bunch of money." So, I believe that every Central Bank owner is just itching to have their turn to print money. And when it is all said and done, the dollar may go up or down against the euro and they might print and they might not and what not.

I think that will all prove to be less important than if anybody decides to actually start printing interest rates to way above inflation rates and stomp on the money supplied everywhere. If that happens, it won't be good for our portfolio, it will be worse for anybody else's portfolio. It will be, of course, the death of the banking system. There'd be no banks or real estate companies or anything else left. So, it's less likely to happen. I would say, as long as the central banks of the world take time using any excuse to print more money, I think that will be very, very good for our portfolio.

If not, I still like our portfolio because I believe the most important predictor of future prices is the valuations now. And the valuations now are the best I've ever seen. So I tend to feel pretty good about things. The dollar's move will make us look a little bit better or a little bit worse than we otherwise would is my view.

Scott Wilson: Thank you. That's very helpful.

Operator: And moving on, we'll go to Nikesh Kadakia with Morgan Stanley.
Nikesh Kadakia: Thanks for taking the call. Quick question. In the past, I was going to get your thoughts on the steel industry and I know you hold some positions in steel. You know, obviously right now the world steel industry facing low capitalization. These margins obviously caused by steel prices.

And, you know, with the overall supply situation currently in China, you know, it’s currently priced in today? You know, we’ve seen essentially the price of iron ore which has collapsed. You know which is going to - should benefit some of those producers in terms of lower input costs. There’s some major opportunities you think with some of the steel companies. You simply mentioned Korea. And obviously a name that comes to mind which, you know, you may or not consider, of course is Posco which is trading pretty much the lowest price to book in essentially in the last 25 years.

Could I get your thoughts over all on the steel industry? Maybe a recovery in terms of commodity prices in steel? And obviously the world’s not going to stop using steel and essentially if you believe in that, are there some tremendous opportunities in that sector?

David Iben: Yes, no there’s a lot of things to think about there. In general for the last 13-14 years, we’ve looked at materials in processing and we found that the market makes mistakes in the processing area and has made huge mistakes in the materials area. So we’ve generally preferred materials. We preferred iron to steel. We preferred petroleum to chemicals. And, you know, that’s what we’ve generally done. We preferred copper and what not to the people that are processing. We haven’t owned a lot of chemicals. So we have a higher level of confidence, I guess, in materials than processors.

However, we take what the market gives us. And so we have often owned Posco. We have often owned chemical companies or owned uranium and we owned aluminum as opposed to bauxite, and so we're happy about that.

I mentioned earlier on the call as much as we like materials, with the exception of precious metals we really have not even owned materials for very much of the last three or four years. But, at these prices, we have to start relooking at iron and relooking at some of the base metals and relooking at energy, oil at these prices. So we are looking at some of the materials.

Processing, once again, well, we're looking at some chemical companies and things that we haven't done in the past as they've come down. And steel -- same thing. Iron -- we like the fact that it is big mines in a few countries that are hard to replicate versus steel that can be replicated and many kinds are replicated. And the Chinese have built lots of steel plants that didn’t make any sense to us. Why would a high cost country with expensive energy do that? But they did. So we haven't. But, Posco is the sort of thing we look at it these sort of prices getting more interesting. But we haven't done much in a long time. We have owned Japan Steel, which is part steel.

But a lot of it is a play on the fact that people believe there's no nuclear reactors being built and there are 60 some nuclear reactors being built. Japan's fuel has more competition than they used to. And enough is getting built that we think they are going to sell a lot of the pressure vessels and containment vehicles and so that's more of a play on it.

But steel and processors have gotten a lot more interesting and we are looking at it. We're not far enough along that I can give you a concrete answer.

Operator: And next we'll go to Hall Haselton with Merrill Lynch.

Hall Haselton: Thank you very much. Just curious. A lot of your stocks are, you know, all over the world and do you guys have the opportunity to visit these companies? Or do you do most of your research, you know, down in Tampa?
David Iben: All right. You know, yes to both. And let me explain. We do travel the world. We go out and we see lots of things. As to what and whether it's mandatory, there's some competitors we respect that don't want to meet management. They want to do their own analysis and not be swayed by a very gifted presenter versus a very bad one.

And then there's other people that will buy nothing unless they've had a bunch of meetings with management and conferences. We say, "What are we buying? And why are we buying it?" And so, if we were to Nestle's, we would be happy to buy Nestle's without zipping over to Switzerland and spending a lot of time with them. We think we know the product. And we can talk to them on the phone. And we can read their reports. And know the products. We don't happen to own it. But if we did, we would do that without meeting management. In turnaround situations, managements are very important to me. Yes, we want to make sure that they can articulate a strategy that makes sense to us. Yes, like tough balance sheet combined with bad management is a bad combination.

Yes, so we want the management team to be good. We like on technology companies to go out there and see how it's used or talk to customers -- that sort of thing. We also, you know, we struck plenty on gold already but gold is an area where we agree with the bears that there's challenges and some of the managements aren't so good. We meet with them. We travel out and we've been to most of these mines.

Yes, we always pass along Mark Twain's joke, "That a mine is a hole in the ground with a liar standing next to it." So we do like to go out there and make sure that it's not just a hole in the ground. That there's hundreds of millions of dollars' worth of the ball mills and autoclaves and infrastructure being put in and it's for real.

Tampa is kind of nice. We like Warren Buffet and John Templeton and people like that as they say we want to be in Omaha or Bahamas and not get deluged with the short-term mentality. We like that. But we also like the fact of, you know, very often we are in New York, L.A, London, Asia. We do travel a lot, but we do it when we think it's important and we don't do it just to check a box.

Hall Haselton: You bet. Thank you.

Operator: And there are no further questions at this time. I'll turn it back to our presenters for any additional or closing comments.

David Iben: Well, I just want to thank everybody for listening in. These are particularly challenging times, but that often leads to particular compelling times too. We're pretty excited but as you know, it has been a tough time and we appreciate everybody's support and thank you very much.

Operator: And that does conclude today's conference. We'd like to thank everyone for their participation.

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