



Kopernik Global Investors, LLC

Edited Transcript of the 3rd Quarter 2016 Conference Call with David Iben

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Operator: Ladies and gentlemen, good day and welcome to today's Kopernik Global Investors Third Quarter 2016 Conference Call. As a reminder, today's call is being recorded. At this time, I'd like to turn the call over to Neda Yarich, President of the firm. Please go ahead, Neda.

Neda Yarich: Thank you, Sarah. Good afternoon and thank you all for joining us. Before I turn it over to Dave Iben, our C.I.O. and Lead Portfolio Manager for his commentary on the Global All-Cap Portfolio and thoughts on the market, I would like to briefly update you on our firm. As a firm we currently manage just north of \$2.4 billion in assets under management. At the beginning of the year, we were at approximately \$1.6 billion and at the end of the second quarter we were at \$2.3 billion. This growth has predominantly come from market appreciation, given strong performance coupled with some positive net flows over the year. Interestingly, we've seen an increase amount of inquiries from large potential clients and consultants.

As for our team, we're now 34 people strong, including a new analyst, Todd Tosti, who joined the firm during the third quarter. Todd interned with us last summer, while he was getting his M.B.A. from Columbia Business School. Lastly, Dave will be referring to a presentation during the call, and the link of the presentation and actual presentation can be found on our website, kopernikglobal.com, under the [News & Views](#) section.

Dave, please go ahead, and thank you as always for doing this call.

Dave Iben: Okay, thanks Neda. Thanks to everybody for dialing in. Things as usual are interesting, although for the quarter, it was not a super eventful quarter in terms of transactions, and we'll get back to that. But, thought what I would do is go over some of our slides from the last commentary that generated some interest, then from the next commentary we're working on, and go from there and leave a lot of time for question and answer at the end. It's been amazingly, eight years since the first the US, and then the whole world really went all in, in terms of massive deficit spending accompanied by virtually unlimited money printing. The results thus far are mixed, from the standpoint of savers it's been a disaster of course, people that spent their whole life saving and have a nest egg now find that their interest rate is zero and in some cases less than zero. It's also hasn't worked that well in terms of economic growth. This has not created a whole lot in the way of meaningful jobs. It has succeeded in one of their primary goals, and that is to boost the price of assets across the board, whether it's bonds, or stocks, or high-end real estate, or art, or you name it, prices are much, much higher than they were eight years ago. So, they have succeeded there.

Looking at it all, what does it mean? My standpoint, I went back to the internet to see if they still teach economics the way they taught it back in the late seventies, pulled this question off. At least on this one, the answer is the same as it was back then. The answer is A, really economics is all about scarcity. This is now an interesting world, where people don't seem to care about scarcity any more, matter of fact it's an inverse, it's the more money they print, the more - the Dollar went up when they were printing Dollars, the Euro went up when they were printing Euros, the Yen had a nice bounce right there when they were printing the Yen, and so on and so forth. But, as the quantity of bonds around the world grows at an exponential rate, it's amazing to see the price of bonds go to all-time highs, the highest in the history of mankind. Fascinating.



Anyhow, continuing on the subject of economics, we are often thought to be an unconventional firm, and we're fine with that. But, when I go back and look at it, the things we're doing that are so unconventional are the things that for centuries really, were conventional. I think for centuries people believed that supply and demand were important, that scarcity matters, that bonds should really be priced based on, not some uttering of the Fed, or not some CPI number, but by the ability of the borrower to pay you back and the willingness of the borrower to pay you back. Now, it seems quaint, I guess. We were taught valuation matters that anything above intrinsic values is a speculative idea, so on and so forth. Incentives, we think as part of economics that people do respond to incentives. We think really, maybe we're not the unconventional and maybe societies become somewhat unconventional. But, of all the premises on there, one of them is that there is no free lunch and there are consequences, often unintended consequences, of government action and any other action. So, what happens when you print too much money? Where does it go? Well, in the early 1700's, they printed a lot of money in France under John Law's guidance - the money went into the Mississippi company, created quite a bubble. England, not to be left behind, the South Seas company experience were all similar, similar bubbles. And in 1929, in the US we had blind pools, we had all kinds of speculation on stocks, Japanese real estate in the late '80's and stocks, for that matter, something that many of us still remember. 1999, when they printed a lot of money, they printed money in response to the Asian crisis, and the Russia crisis, and the Long-term Capital crisis, and they printed money for the Y2K non-crisis, it all led to a spectacular bubble in the index, TMT (Technology, Media and Telecommunications) of course, but also the index. Passive investing became crazy. The next seven years were very, very good times for active managers.

This chart shows the last ten years or nine years, once again, been not so good for active managers, which started in the past as a cyclical phenomenon. There is good and bad things about the ETFs and index funds, and I think a little bit of it is a good thing, too much of anything can become a bad thing. Right now, there's been a lot of years of money increasingly going into highly liquid common stocks that can be held by ETFs, as the money's come away from active managers, forcing them to sell companies whether they're good or bad, or high-priced or low-priced, they are being forced to sell. This is the exact thing that created an incredible opportunity 16 years ago in the markets. We think that's the case again. Anyhow, when I was speaking at the London Value Conference, I was impressed with the presentation by a guy named Michael Keller that had a lot of great slides on ETFs and passive investing in general. And that points out that there are some great things. It's obvious, what's not like, to like, what's not to like about low cost, low turnover, minimal tracking error, tax advantages, liquidity, you know, less fees.

So, all other things being equal, ETFs are real good thing. But, like I say, there is no free lunch, there's a cost to everything. What does one give up for these advantages? Well, they really give up efficiency; they give up active analysis, pretty much the money flows into the recent winners. I would say true investors, as something gets more expensive they like it less, and as it drops in price and then the prospective returns become higher, they like it more. Passive investing, of course, works the opposite. If a stock doubles and becomes, say twice as high a percent of an index, twice as high a percentage of the ETFs that means all their money is now buying twice as much of the now more expensive stock, that's an aberration. And it's something, that when you think about it, doesn't make a lot of sense. The redemptions, of course, from active managers they force wholesale, sales of things that might be very attractive. Index composition is done by a third-party, the third-party that we talk to them, won't even profess to do analysis. They don't claim that we've analyzed these things, they don't really evaluate these things, that's not their goal to pick the best investments. So, for people to rush in to buy things that were not even meant to be good investments is a weird thing. But at the very least, the assumptions that underline the efficient market hypothesis are nullified, once too many people start using active investments, just like '99, so many people are using passive investments right now that it's quite likely gone too far. If you look at the valuations, those ETFs versus the valuations of the non-components of ETFs, it's really extreme, and so, we think that bodes well.

So, basically, this slide, it points out this presentation that little attention is paid to divergences between market value and intrinsic value. Now, that's what Kopernik does for a living. We do pay attention to divergences between market value and intrinsic value. And when the market's not paying attention that allows the gap between what something's worth, and what the market's pricing it for, becomes very, very big. So, this is actually nirvana for active investors, the fact that this trend has gone as far as it has. So, he points out, we agree, value-oriented investors with a full-cycle mindset can benefit, we think that's the case.





Contextual awareness of form of risk management, quite valuable, we agree with that. So, there are times when passive investing is a good thing, certainly it has been in the last eight or nine years, but we think it won't be going forward, just like the last time it was very popular.

So, that's one unintended consequence of easy money, it goes into stocks that might otherwise be fine but they get to too high a price. Keeping along that case, ETF proponents, in general, become too expensive. The popular industries, popular sectors, but popular countries can become too expensive, particular regions can become too expensive. Certainly, six, seven years ago we saw emerging markets become kind of expensive, now we're at the other end, where emerging markets are arguably too cheap, and the US has become quite expensive. It's fine for money to go into the US, it's a lot of things to like about the US, we have no problems with the US. We have a problem when 20% of the world's GDP is capitalized at 54% of the world's market capitalization, judging by the all-country world index. This seems to be an accident waiting to happen. To further explore that, not only is 54% of the money in one country, 9% of the entire capitalization is in a mere ten companies, nine of which, of course, are in the US. That's a potential problem. The valuations of PEs 17.5 is not outrageous, it's aggressive but not outrageous. 17.5 PE on margins, that are in generally, are twice normal. That's pretty scary. So, that's something people should keep their eye on.

But, well, the other side of the story is, look at how little money now is in telecom. I think a lot of us can remember 1999, when people were willing to pay almost infinity for telecom, now it's the small part of the index. Real estate; 2007 wasn't that long ago, when people loved real estate. So, there are opportunities and so, with that let's put all the negatives behind this, and let's look at the positives.

The positives are, we've seen the story before, we know how it is, I often like to see movies and songs and things, and for all them, the theme, somehow, I see an investment message in everything. I'm a fan of most movies that Bill Murray's done, and certainly Groundhog Day. So, we're trying to weave that into our next commentary. But, the whole idea is the central banks, they are trying new things, things that have never been tried before. Now, they've tried hundreds of times, and it ends up the same way, it ends up with goosing assets to high prices, but only the popular assets. It leaves a lot of other things behind.

So, now let's go back and look at the last slide we're looking at throwing. But, throwing our current portfolio in there, you can see it looks a lot different than the index. So, if the world wants to capitalize one country at 54%, and then take most the world's population and over half the GDP, and most of the growth, and a lot of the resources, and you name it, and capitalize that at 10%. So, over half the world's GDP at 10% of market cap. And, of course, I'm talking emerging markets, what a beautiful thing. There's been a little bit of a bounce in material stocks, it's just a little dent, until the drop of the previous six years, they're still very cheap, Here Canada is expressing a lot of the opportunities and resources, we can come back to that. So, really the market's selling the fastest growth areas of the world for the lowest prices. They're taking some big industries and selling them for next to nothing, you know, over-capitalizing other things. It's not a market where somebody needs to be a deep-value investor and bill for the number seven player in an industry or the number fourteen player in an industry and hope things turn around, this is a market where if the market doesn't think it's popular, you can buy duopolists, oligopolists, monopolists in really good areas, areas that will be good five years from now, ten years from now, and buy them at discounts. So, this portfolio shows the number one uranium company will come back to – we have three of the top five gold companies, the largest gas company, the largest nuclear power company, some of the largest global trading companies, one of the largest, most profitable emerging market banks, the two largest hydroelectric franchises, and so on. These are the companies that are now selling at 11 times earnings, and a fraction of book value. That's pretty fascinating thing.

Now, things went into a long bear market, I think we talked last winter about how a lot of things have been in a bear market for since '07 in some cases, and you know, at least four, or five, or six years, in other cases, but long drawn out bear markets, and now some things have bounced back. The things that have bounced back big, we appreciate that, but they only got back to where they were a couple years ago. We think there's a lot of room, but rather than talk about the things that have gone up, let's talk about some of the things that haven't gone up.

Interesting enough, the fundamentals for gold, and coal, and oil, and gas, and copper, you name it, reasonably good. Fundamentals for uranium, absolutely compelling. A half year ago, or a year ago, we were





more bullish on uranium than anything else. And while everything else has gone up, uranium has gone down. We were flabbergasted when the price of something falls from a \$150 down to \$36, it seemed unreal. Then it fell to \$26, that seemed like it couldn't possibly go lower. Today, it went under \$20. We're possibly wrong, that's always a possibility. The fundamentals argue otherwise, the fundamentals are used strongly and this is one of the best places in the world to be invested, that simple supply and demand, if we're going to need uranium they're going to need to pull it out of mines. Nobody's building mines, nobody will build mines unless the price almost quadruples from where it is now, quadruple. We're in an era of 0% interest rates, and here is something that arguably could quadruple. Timing, not our forte, and so we'll see. But, we do know that there are a lot of nuclear power plants in the world. We do know some will come offline, we know most the Japanese ones have come offline, the German ones probably will. We also know that a lot of the Japanese ones probably come back online, and we know that they're building 80 new power plants around the world, 60 in China alone. Even if half of those actually go through and get finished, that's a lot of new demand, and we don't have enough uranium to meet the uranium supply to meet the demand of the existing plants. So, supply arguably is well short of demand, those of you that have been listening, I've been saying this for a few years. So, that hasn't stopped the price from dropping. But in the long run, commodities always get back to their incremental cost of future production, it's just a matter of when. So, we like that, we continue to view Cameco as the world leader, as one of our favorite names, we've also been able to add a couple of the junior ones, Denison and Fission finally come into price ranges that we're comfortable with. So, that we feel pretty good about. Outside of that, six months ago I did what I haven't done in my 35-year career, and that was show people that we had stocks that could go double, triple, up five times even. It's something we, as I say, haven't ever done, probably seemed outrageous. Since then, a lot of our gold mining stocks and our emerging market stocks are up to three, even five times. So, that part has happened, so we've toned it down. Instead of saying two times, three times, five times, we still think from current valuations that double is a reasonable assumption, that we're showing 50%, 100%, 150%. Once again, timing's not our forte, it turned out to be beautiful timing, in terms of oil, gas, coal, gold and miserable timing on uranium. But we do think there's good potential, once again we don't know the timing, we don't know if we wait a month, or two years. This shows that even if we have to wait ten years to be right on some of these things, it beats the heck out of what the bond markets are offering and probably what the major indexes are offering. So, we believe that kind of potential is there, we agree with Warren Buffett's quote on the last page, "The stock market is a device for transferring money from the impatient to the patient." There's a lot of impatience in the world, we think we can be very patient, especially for those kind of returns. So, that's where we are now.

I mentioned there's not a lot of activity in the quarter, but in general we did add to the uranium positions. We mentioned that we were able to add to some good positions in Asia, because Asia is quite well-lagged, so we're able to increase positions in Korean autos, in agriculture in Indonesia, railroads in China, you know, trading companies in Japan and so on and so forth. And then, of course, there are a lot decreases in the gold, the coal, the US airline, the emerging market names, they've had such a big run, we've consistently trimmed those, but still see a lot of upside from here.

So, as I said I'd like to leave most the time for Q&A, so let's pause here.

Operator: Thank you. To the audience, if you have a question or comment today, please press *, then 1 on your touch-tone phone. For those of you joining us today using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, to the audience please press *, then 1, if you have a question or comment today. We'll go first and Andrea Zilli of Merrill Lynch.

Andrea Zilli: Hey Dave, how are you? Thank you for taking the time.

Dave Iben: I'm good, how are you?

Andrea Zilli: Good, thanks. I was wondering if you can expand on Cameco, and particularly touching on the staying power of the company, while the uranium market recovers.

Dave Iben: Yeah, that's actually one of the good things about Cameco, it's a big stable company, a lot of market share. It was once only, it was once part of the Canadian government, it's got a lot of resources, doesn't have that much debt. They do have a contingent liability, like a lot of companies in the world, now that governments are looking at transfer pricing, and they do try to avoid taxation in Canada by making the profits happen





elsewhere. So, whether that gets resolved at no cost to them, or more likely \$600 million, some people think it could be \$1 or \$2 billion. Even under a worst-case scenario, they are in no problem financially, they are a profitable company, they have lots of long-term contracts, the long-term contracts do mean that when the price does go screaming up, that their profits will go up a lot slower. But it also means that they're continuing to make really good money now, even though the price has been falling for years. So, now that they won't be as high beta as they could be to the price of uranium, but they are very financially strong, and way stronger than anybody else in the business. So, that has lots of staying power, we feel very good about it.

Andrea Zilia: Thank you.

Operator: Up next from Royal Bank of Canada, we'll go to Lance Newlin.

Lance Newlin: Hey Dave, thanks for taking my question. Do we need to think of this portfolio, do we need a weak dollar in order for it to go much higher, or is the dollar something that we cannot obsess over?

Dave Iben: Yeah, our view, if you look back at the page, I went back to it, when you have a portfolio that's 11 times earnings, and less than five times cash flow and a 25% discount to very solid book value, companies that really meet the needs of the emerging economy around the world, the people in the growing parts of the world that can all of a sudden afford electricity, and cellphones, and railroad transportation, and you name it. I believe that a good economy, bad economy, high inflation, low inflation, weak dollar, strong dollar, these valuations for these kind of companies should lead to really nice returns. So, I don't think the dollar, over the long run, should matter that much. It is true that the strong dollar, in the last four or five years has lowered our returns, and if the dollar were to be weak, and/or inflation become much more visible, then I think good returns become great returns. But we have not designed this as a dollar play, we are just 100% bottom up looked for good companies at good prices, and it's just lucky aside that they are companies that will benefit when fiat currencies inevitably do fall, but that is not the way the portfolio is built.

Lance Newlin: Perfect, I had a feeling you were going to say that, but I appreciate you backing me.

Dave Iben: Oh, okay.

Operator: Is there anything further, caller?

Lance Newlin: Oh, no thanks.

Operator: Okay, thank you. Up next, from Aubrey Sharfman at Morgan Stanley is our next question.

Aubrey Sharfman: Hey Dave, thanks for always the great responsiveness, and thanks for the great year. Broadening on the earlier question, or who asked about the staying power for Cameco, could you speak to that same question, but address it with some of the smaller companies like Uranium Participation, Denison, Fission Uranium, etc.

Dave Iben: Yeah, Uranium Participation also has unlimited staying power really, because all it is, it is a corporation, but it should be considered more of an ETF that holds uranium. All it does is hold uranium. So, that staying power is not a problem. The other ones, yes, right now they own a bunch of uranium, they have no ability to get their uranium. It would cost them a lot of money to build up mines, this is similar to some of our junior gold companies. So, if these junior gold companies, or these two uranium companies decided right now that they want to build their mines, we would fight them with everything we have. We think that uranium and gold are very good things that, if the market's right, are worth where they are now, but that if economics still means anything, the price is going to go way higher. So, the optionality is worth a lot. So, why somebody would spend a lot of money to pull uranium out of the ground today, sell it for \$20 bucks, when they quite likely can get \$80 bucks, if they're just willing to wait one, two, three, four, five, six years, whatever. So, you know, their balance sheets are not a problem at all. It would be whether they decide to destroy their balance sheet and, or dilute the equity shareholders in order to raise the money to build a mine now. Most people would view it as a negative that these gold, uranium companies can't build the mine now. We view it as a positive, we don't want them building mines. We think we have massive optionality that we haven't had to pay anything for. So no lack of staying power, but inability to develop a mine in these, at these levels.





Aubrey Sharfman: Speaking towards your management point about them not having the ability right now, I know in the past we've talked about how many of the goldminers – there's a wide discrepancy in terms of the quality of management, company by company. How do you feel about the quality of management for some of these smaller uranium companies to be able to make thoughtful decisions like this?

David Iben: Yeah, I think they're probably better than a lot of the gold companies. So I would say neutral on management there and the gold companies, some were positive. A lot were pretty negative. But to go off on a tangent, which I often feel the need to do, when you look at mining companies, I think the positives are real. That they have something scarce, something that's hard to find, something that can't be replicated, something that's – that's going to hold its value in real terms and quite likely increase their value immensely in nominal terms. That's the positives.

The negatives are also real. The negatives are management teams don't always do what we'd like them to do, sometimes destroying a lot of wealth. Governments are making it harder to mine, whether it's, like, Cameco where they're coming after them for tax, or other ones where they're having to pay higher royalties to the governments. Cost of mining then used to go up. Geology and geography and chemistry, and all these things become problems. And so they're very little risk, in our opinion, to gold and uranium, there's very high risk to gold and uranium mining companies. But also – they taught me in school way back when, you can diversify business risk and so we try to do several things. We do try to buy the best management and the biggest reserves, and the ones that we think have the biggest chance of success, and we try to buy them at huge discounts to what we think they are worth intrinsically and we diversify. So we wouldn't want to have all our money in one of these little uranium companies, or all our money in one gold company. We love having a diversified portfolio of some of the greatest properties in the world for gold and uranium, and we have it diversified across managements, across geographies, across regulatory things and across currencies. So we think that a portfolio of volatile things are on their own can actually be less volatile and very low-risk on a portfolio basis. So that's our prognosis.

Aubrey Sharfman: Thanks so much. Much appreciated.

Operator: We'll go next to Gary Magnuson of Morgan Stanley.

Gary Magnuson: Hi Dave. Hey, I was wondering if you had any data about nuclear plants in terms of – and each year how many are coming online and how many are going offline, and kind of what the net number of plants each year is – how does that look to you? And in the last question, sort of tied to that, when uranium is produced, what percent goes to nuclear plants and about what percent goes elsewhere? I suppose medical and manufacturing or something, but was curious if you had anything.

David Iben: Yeah. The vast bulk of it goes to nuclear plants. We can try to come up with a number, but the vast bulk. Although interesting enough, it is a very small part of the cost of producing electricity for nuclear power. The capital costs are huge. The fuel costs are about 3%. Numbers from what plants are doing, what Cameco has, that stuff on their website. There's several books that have it. Maybe we should see if we can update that on the website or send it to you later. Yeah, we certainly should put a white paper or something on this. Something that comes up a lot. So that is one thing we're working on.

But yeah, the last numbers I saw it was about 80 that are at various stages around the world, 60 of which were China, you know, there's even one in the US and UK that have the go-ahead again. There's in Arabia, there's some in India, I think, four. But we can dig all that up.

Gary Magnuson: And how long does it take these days? I imagine it depends on the country to build one?

David Iben: Yeah, it depends on the country, it depends on a lot of things. And invariably it takes more time and money than people expect, which is one of the big drawbacks. And so we – we do think that most of these will get – that they – they are taking longer and probably will continue to take longer. So the schedule from two years ago is a little different than the schedule from most recent that we've seen. These things have been pushed out a bit.





Operator: Is there anything further, Mr. Magnuson?

Gary Magnuson: No, that's it. Thank you.

Operator: Thank you. Up next we have Mark Johnson of RBS Wealth Advisors.

Mark Johnson: Yes, good afternoon. Thank you for hosting this call. And I might be ignorant on this, but maybe there's another person on the line that could benefit as well. What happened to the price of uranium in – and I guess coal as well? Coal has had a nice bounce, but I mean, is it – was it just political stuff that drove down the price? Obviously it doesn't appear that demand has declined for either coal or uranium. Or am I wrong on that point?

David Iben: Yeah, I mean, it's a point where maybe it's not easy to have a single right answer, but about the last commentary, what I've been saying now, when you create a lot of money out of thin air there's unintended consequences sometimes. And there's so much money sloshing around the world right now, the – the money supply in the US quintupled in the last decade, and the Japanese are trying to put us to shame now. And every place else is – seems to be printing. Now, at some point the tail wags the dog, and so in the long run Buffett is right in the markets, you know, in the short run a voting machine, in the long run a weigh-in machine, but when all this money's printed, it really accentuates those short-term problems. And there's massive money out there and everybody says, 'Ah, time to hate coal. Wham.' Massive money shorting coal, and everybody pulling away, and the markets tend to be much more momentum, and people change their mind from six years ago saying China's going to grow 10% a year forever. Which, of course, is mathematically impossible, but they all believed that and they ran the price of coal to obscene prices. And so they came down – because they ought to – and then once they got to a more reasonable price, they kept going, and kept going, and kept going, and kept going. And it's really pretty crazy, I think, where prices of coal got to. People are actually believing that we weren't going to use coal anymore, the market share is falling, the market's going to keep falling – and it certainly should keep falling, you know, who wouldn't prefer solar and wind and stuff to coal? But there are 7.3 billion on the planet. It's funny, I just came back from a trip around Asia. I went to Pakistan and they were telling how couldn't wait to develop their coal, that it was going to make them not dependent on foreign economies, and they had all this coal and I went to Bangladesh and they were going to develop their coal. Went to Vietnam, they said yeah, we need to develop more of our coal, and people couldn't wait to develop. And in Indonesia I didn't go to this time, but they're building plants, they want to use more coal. So coal has problems it's going to share. Its future is less robust in the past, but the market got to – to really crazy low levels, I think. That's also the case, and most every – most every commodity, they all have good things about them, they all have bad things about them, and they were all, many of them, coming off too high prices years ago. But so the prices things got to last winter had no relation whatsoever with intrinsic value. In our opinion now, they bounced back. But so everything is going up now, except uranium, which keeps going down. I wish I had an answer for you on why it's going down, but somebody's driving it down for some reason.

Mark Johnson: But it's not a demand issue. There's not less uranium being used today than there was two years ago, or three years ago?

David Iben: Yeah. No, if you look at - if you look at demand side, yeah, it's been good for a lot of years. Then three, four years back, you had or longer now I guess, five years whatever, the Fukushima, that took demand up pretty quickly. And then the economy slowed down which slows growth. So demand slowed then. That was then, not now. Now, demand is okay.

The supply side was the big problem. The supply side was a couple years ago. You had the utilities that were shut down. Rumor is that some of them were selling their inventory into a weak market. We know the Department of Energy keeps selling their inventories into a weak market. For 20 years, the Russians were dumping a bunch of uranium on to the market for a contract under the Megatons to Megawatt Program where their bombs were being turned into fuel and so the price plunging down into below \$30. A lot of that was just the excess supply. The Russian program is done. I am not aware of any increase from the DOE and they – they are going to run out sooner or later and I am not aware of anybody else dumping inventories.





I cannot explain this drop. It feels a lot like what was happening to gold and copper and coal and oil eight months ago when oil was \$28. Somebody is pounding it for some reason. We always say when the market price differs from the fundamentals by a long period that we're going to take advantage of that. We'll be wrong sometimes but almost always economics wins out. And certainly the upside is big. What, you're going to fall 20 more dollars from here? Uranium is important and valuable past \$75, \$80 to bring on incremental supply. So I cannot explain short-term trades. I have never been good at explaining short-term trades. We've always tried to be good at taking advantage of short-term aberrations and that's how we view this. Time will tell.

Mark Johnson: Thank you.

Operator: We'll move next to Shawn Purdy of Morgan Stanley. Please go ahead.

Shawn Purdy: Hey, Dave. I wondered if you and you or your team have any thoughts or have looked at UEC, Uranium Energy Corp.

David Iben: Yeah. No, we've met with them and some of our people know them. And now that the smaller guys have gotten into, you know, now that they've been falling into this downdraft, maybe whether it's that one or a couple of the other ones, maybe we do add a few more of them. But, yeah, they have an interesting model. They have a different model. But we don't have any research complete and there's not a lot I want to say publicly on that.

Shawn Purdy: Okay. And thanks for all the insights and I notice you're increasing the number that you put up there each year. I enjoy reading.

David Iben: Yeah, thanks.

Operator: And once again to the audience, it is star then one for questions. Up next from Battery Global Advisors, we'll go to Matya Schachter.

Matya Schachter: Yes. I was hoping you could talk about the possibility the utilities are overbuilding on their electricity production relative to demand given energy efficiency and other aspects of what's been going on in the regulatory side and if so, how that would play out vis-à-vis your nuclear thesis?

David Iben: Yeah. Electricity is interesting. It's regional of course. Right now, we don't own anything in the states where returns are still pretty high but quite likely to be vulnerable to regulatory down pressure. You too, you know, have solar where solar is – makes sense. Solar should be laid out where there's a lot of sun and wind should be used where there's a lot of wind and, you know, coal should probably be only used where they don't have a lot of that. And then of course there is base power and there's peaking power.

How much is being built and needs to be built and how much the whole distributed electricity model works for the future versus how much it can be undermined by battery power, it is unknown. So, it is quite possible people are overbuilding in some areas of the world. It is also possible that we'll get to where we were six years ago where people start clamoring for enough energy especially in growth economies. When Brazil didn't allow returns on the investment, there started to be black outs and brown outs and then people started rationing in there's more.

Our view is that if you have enough rainfall and you have hydro dams, then there's really nothing better. If you have a nuclear plant that is built, there's very little that's better. And those should both be run baseline all the time. They're very little cost. It is next to nothing and there's rationally no pollution. So we – we don't see a lot of risk from that standpoint. There is other risk to some of the stocks we own but we don't see a risk of them being disintermediated.

Should there be overbuilding, what's going to get disintermediated, if you look at coal, newer coal plants are pretty efficient. Older coal plants are not efficient and they're very polluting and they should be shut down. You've seen even on electricity, demand was good over the last 30 years. You've seen heating oil all but





disappear from the market. And so, you know, we think you'll continue to see solar and we'll continue to see wind, maybe you'll see conservation. But if it's over building, that's a threat to high cost plants and we've tried to avoid high cost plants. And, with the exception of EDF, we've tried to concentrate on growing areas of the world where the problem is more likely going to be not enough electricity versus overbuilding of electricity. But it is regional. There's a lot of things to consider and it's a very good question you asked.

Matya Schachter: Can you talk to the Exelon closing the two plants in Illinois and how that's related given your comment that once the plant it built, you know, things should be up and running for, you know, extended periods of time?

David Iben: Yeah. I talked to our analyst and I haven't – I saw the news but I haven't looked in depth. But if a plant is up, you generally want to keep running it as long as you can. However, if a plant gets old enough, you have to put a whole lot of new money in it at various times. I know on EDF, we've been very, you know, conservative on our assumption on how much money they're going to have to put in to keeping those things running. Now whether Exelon was doing it because of politics or because it was going to cost them too much to keep the things going, I'll have to look into that. Like I say, it's been – we, you know, back six, seven years ago, we owned a lot of US utilities including Exelon but they've all been out of our price range for quite a while so I haven't really paid a lot of attention. So, I'll have to take a look.

Matya Schachter: Are the labor costs a significant aspect of the business there or is that also pretty low in addition to the low fuel cost?

David Iben: Yeah. Last I looked, it's not that big. Capital costs are very important which also adds to the interest of analyzing plants because a lot of people like to come up with their own views or, what can I say, their own, let us say, academic views on what cost of capital is. And there are all kinds of different assumptions on what cost of capital should be for a nuclear power plant and if you assume high basis and high risk and high cost of capital, then it is hard to make the case. But if you just say how much money was actually spent and how much cash we are allowed to generate, easily they're pretty good businesses. But capital far and away is the biggest cost.

Matya Schachter: Okay, thank you.

Operator: Next from JP Morgan, we'll hear from Stephan Rothe.

Stephan Rothe: Hi, Dave. Thanks for a good call. Two questions really, one is for your existing gold miners exposure, what does the price of gold have to trade up for them to be profitable? And then for your existing uranium miners, what does the price of uranium have to trade and what is the price of uranium today for those companies to be profitable? Thanks.

David Iben: Yeah, sure. You know, a more complicated question than it might sound. Most of our gold companies if they just cash flowed out, if they just pulled out of the ground and sold it and then closed their doors, we think most of them are worth a little more than they're selling it. So on a just cash-on-cash return, they're already profitable at current gold cost. So we look at that just in terms of what's our margin of safety. What's the likelihood that we lose money from where we are now? So that gives us a lot of confidence.

But profitability is a fascinating thing. If they pull it out of the ground and sell it then they subtract their historic cost, they are profitable. Ongoing businesses, if you're going to pull gold out of the ground or uranium out of the ground, you should be able to replace that. You need to go find a new mine and permit the new mine and build the new mine and come up with agreements on tax and royalty and all of these things. And we believe that in general it takes \$2,000. It would be the cost of building a new significant gold mine. We think \$75 or more is what it would cost to build a meaningful uranium, I mean, UEC, it was brought up they could do it a lot cheaper but not meaningful amounts. So meaningful amounts to replace for your pulling out would be \$75. And so we think that the price probably gets to \$75 and in the price of gold, probably likely it gets to \$2,000. And then we say to ourselves, how much money do we make or loss if we're just wrong and prices stay where they are now? And we think we actually make a little money if they stay where we are now. If they get back to the incentive price, then we have huge upside because one, the optionality we have; two, people will start to value these as growing concerns and put – they model this out on the future. And so we see very little downside, lots of upside.





The little uranium guys are kind of the same. Cameco is a bit different as I mentioned earlier. Cameco, they're not selling much uranium at \$20 bucks. They're selling it at \$30 and \$40 and \$50 under long-term contracts. And so if prices stay down for a long time, you'd slowly see their profits start to drop and if price shoots back, you'll slowly start to see their profitability drop. So that's much more stable. They're pretty nicely profitable today. But yes, in the long term, the price needs to go much higher otherwise they'll slowly drop.

Stephan Rothe: Did uranium price then – as you indicated, so it's trading in the like the \$20 range but Cameco has these long-term contracts like for \$30, \$40?

David Iben: Yeah, you're right. And 20 years ago, uranium got down to under \$10 bucks. Then it got as high as roughly \$140. And both of those prices proved to be unsustainable. I think \$20 now is equally as ridiculous as \$10 20 years ago. Like I said, the cost of production of building a meaningful mine is way, way higher. About a year ago, I would have told you it's all but impossible to see \$20 so, so much for my credibility. But I will say it cannot stay here for a meaningful period of time.

Stephan Rothe: I appreciate it. One more question while I got you on the line, any thoughts about the developments going on in Europe like particularly the banking situation in Italy and its potential impact on any exposure you may have indirectly?

David Iben: Yeah. We own only one bank. That's Sberbank in Russia. If you look historically, I think from 2003 through 2008, we owned no financials to speak of, no banks. That was something that came up a lot. Then in '09, we did buy one European bank but we've mostly bought emerging market banks. We, you know, we bought banks in India, in Thailand, in Russia and you know, those all worked out really well.

The reason I'm pointing all that out is we like banks. We like a lot of things about banks. We dislike certain things about banks. We dislike the huge supply of banks around the world. We dislike the supply of what they do and, i.e., debt is a percent of the worldwide economy. It's at levels that have never been seen in history. Therefore, there's too much supply. If we're looking at a copper company and there was just inventories of copper piled over around the world, people would worry about it. So we worry about that.

We worry about them being pretty much 90% debt-to-assets and when you dig in on what their equity really is, sometimes it's worse than that. And so when you put it altogether, we have lower degree of confidence and I have a higher degree of confidence that the price of uranium will go up to its intrinsic value than understand the balance sheet of Deutsche Bank. So, we think Deutsche Bank is arguably cheap. The US banks are arguably cheap. The Italian banks are really cheap. The Chinese banks are really, really cheap. We probably won't buy any of them. Because we probably need to see them at 80% discount is what we think they're worth. We might buy some of the British banks. We might buy some of the Korean banks. We might buy some of the Japanese banks. Some of the banks that are, you know, maybe a less exciting but it is easier for us to understand their balance sheets. So we like banks but we don't have enough confidence to pay anywhere near the fair price. We want our cake and eat it too, really want really big discounts. And so I don't know if that is much of an answer. We just try to know what our strengths and our weaknesses are and it's really hard to analyze a bank.

Stephan Rothe: Well, I appreciate the comments and keep up the good work. Thank you.

Operator: Morgan Stanley's Dave Oscar has our next question. Please go ahead.

David Oscar: Dave, I just wondered if you would, excuse me, touch base on Arch Coal and them coming out of bankruptcy, I know that was a position you had at one time and what your thoughts are today.

David Iben: Yeah. Arch Coal a couple years back, we decided on a risk-return basis that Arch seemed riskier than Peabody. So we went out of the frying pan and into the fire, we've been out of Arch for a long, long time. So, we haven't really stayed on top of that. Peabody, we colossally lost a lot of money on. We thought and we continue to believe that Peabody has assets that are worth way, way more than their liabilities. The market has a different opinion. None of that really matters. What matters is management decided to file for





bankruptcy at the bottom and nailed it. They bought properties in Australia at the top and they filed for bankruptcy at the bottom. Now, there is speculation maybe something will happen. We have no idea.

Status quo is it'll eventually be worth zero and if somebody can make something happen, then maybe it's worth a lot. We don't know. But, you know, Arch and Peabody and a whole lot of others that took on debt at an inappropriate time and they filed for bankruptcy at probably the wrong time also. We, as I said earlier, we think that coal is not that great but it's way better than what the market thought it was a year ago. It's not going away. So we see a lot of value in some of these stocks. It's, like I say, been a couple of years since we actually owned Arch so I can't give you a real good answer on that one.

David Oscar: Okay, thank you.

Operator: Shannen Quinn of Merrill Lynch has our next question. Please go ahead.

Shannen Quinn: Hey, Dave. You guys add any non-equity securities to portfolio this year and going forward do you have any plans to do that and make any, like, debt-for-equity swaps or anything like that out of any of your holdings?

David Iben: Yeah, we don't do debt equity swaps. Historically we've been happy to use bonds when we think we can get equity-like returns. We had a lot of bonds, busted convertibles and things in 2003 and also in 2008. With the interest rates at zero it makes it harder to find the really good opportunities. So not really with the exception of Gabriel, which is a gold company where we were really in a good position to fund them with a bond and later have the option to increase that bond when it was already based on the converted price were twice what we were buying the bonds that we have a pretty big position in that one. That was just sort of advantageous position we found ourselves in. And so that was the best of both worlds. We're buying stock at less than the stock was worth with the safety of a bond. So, yeah, we view ourselves as appraisers of securities and businesses. We're trying to buy things at less than their worth. And if we can buy a bond that are way better value than the associated stock is, we're happy to do that. But the world central banks have made that much harder to do. So not likely to see a lot of that until the next meltdown whenever that is.

Speaker: Thanks.

Operator: Gary Magnuson of Morgan Stanley have the next question.

Gary Magnuson: Hello, Dave. Just had a follow up. You mentioned that you had bought some trading companies and I assume it was like Mitsubishi and Mitsui, I guess was the trading companies. Can you tell us a little bit about trading companies and why they're undervalued? I assume maybe the yen had something to do with those or maybe that's not the ones you want to talk about, if you could just fill us in on that area, that'd be great. And then how much cash do you have left to buy stuff?

David Iben: Those are the two. They're both big companies, had been around a long time that are very global in nature. The question came up earlier on banks. So if you take the pros and cons of banks and apply them to these companies, they have half-of-life. They're kind of bank-like, more a merchant bank-like. So they trade and they buy and they sell but they also end up owning properties at various places, all around the world. What you had earlier in the year was sort of a perfect – well I wouldn't say a perfect negative situation, but from an investor standpoint, a perfect situation. People hated Japan. They hated the yen. They hated banks, and they really, really hated national resources of all kind. And so, how about a Japanese company that's yen-based that has properties and exposure to natural resources all around the world. People couldn't hate them more.

And then you take these companies that for half a century have never lost money and then you throw in some write-offs, you know, what's to like, I guess. And so, we say, well, here's companies that really have done great for half a century and they own resources and resources are underpriced, and they pretty consistently make a lot of money with the one exception to be able to buy franchises that own good properties around the world. Yeah, the currencies are – I won't get in to it a lot now. We spent tons and tons of currencies here, but here in our resource business or an ag business or a trading business or a resource business, the currency of domicile doesn't matter that much. So I think people were too afraid of the yen and way too afraid of resources and looking in the rearview mirror. So we were able to buy world-class franchises





at nice discounts to book value and five, six times normalized earnings. Good business but a little more difficult to analyze than Johnson & Johnson.

Gary Magnuson: And how much cash would you have if you wanted to go buy a Gabriel or something like that?

David Iben: Yeah, our cash tends to fluctuate between 0% and 10%. It sort of goes up and down as we're finding more or less things to buy. In February our cash was pretty much down to zero as we were finding a lot of things. But 6% is where it is now. So we have cash if a few things want to get hit here.

Gary Magnuson: Thanks.

Operator: And as a final reminder to our audience today, it is * then 1 if you have question or a comment. We'll pause for just a moment. And it appears there are no further questions at this time. I would like to turn the conference back over to our speakers for any additional or closing remarks.

David Iben: Okay, well, a lot of good questions and we definitely appreciate everybody's support. Thank you very much and we'll talk to you in three months.

Operator: And that does conclude today's conference, we thank you all for joining.

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