



Kopernik Global Investors, LLC

Edited Transcript of the 1st Quarter 2017 Conference Call with David Iben

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Operator: Ladies and gentlemen, good day and welcome to today's Kopernik Global Investors 1st Quarter 2017 conference call. As a reminder, today's call is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session and instructions will be given at that time. Now I would like to turn the call over to Kassim Gaffar. Please go ahead, Kassim.

Kassim Gaffar: Thank you, operator. Good afternoon and thank you for joining us today for the 1st Quarter 2017 Conference Call. My name is Kassim Gaffar and I have with me David Iben, our CIO and Lead Portfolio Manager for the Global All-Cap Strategy and Portfolio Manager for the International Strategy.

Before I pass the call over to Dave for the majority of the call, I'll be providing everyone with a quick non-investment update. The firm as of the end of 1st Quarter 2017 was currently right around \$2.7 billion in AUM. This was due to a very strong quarter when, in addition to market appreciation, we saw roughly \$115 million in new net flows across all our respective channels, institutional, offshore and private client retail. To give you some historical perspective, the same time a year ago we were managing right around \$1.9 billion so you can see a nice healthy progression on the asset side.

From a staffing standpoint, we are currently 36 people strong and this includes recent additions we have made over the last couple of months across the various departments in the firm. We have added one individual to the investment team, we made one addition to the investor relations team and we have made two additions on the business administration side.

Also, as you may recall last quarter, we announced a soft closure of the global all-cap strategy. This decision was very well-received by our clients and the marketplace. Please note, the soft closure that went into effect March 31st only impacted the U.S.-oriented mutual fund and did not impact the other vehicles that are currently open for the Global All-Cap Strategy.

Lastly, our International Equity strategy is close to its two-year mark and we have been seeing a significant increase in activity and interest in that mutual fund. That pretty much wraps-up the firm update. Please note, Dave will be referring to a presentation which has been posted on our website and it can be found under the [news and views section](#) and with that I'll pass it over to Dave.

David Iben: All right, thanks, Kassim. Thanks to everybody for joining us. The plan is to quickly get the two negative slides out of the way. From then on, I think it's mostly a positive message we have.

Anyhow, this is the NASDAQ once again closes at a new all-time high, we can't ignore the fact that valuations have become challenging. You can see as a percent of the stock market now, the market's the worst it's ever been with the exception of the '99 mania. Also, when you look at the price of an asset relative to people's ability to afford those assets, that's also the highest it's ever been. So it's challenging for all of us, for all of you, for all the clients when interest rates are non-existent and the price of stocks and much real estate's at all-time highs, life is difficult for us.

That concludes the negative part.



This is mostly a U.S. phenomena and it's a big world out there. You can see on this chart many, many years of things tracking pretty well and the last 20 years stocks have gone nowhere, nowhere with the exception of one country that has really run up.

The challenge for people that must invest in the U.S. you know, as we always point-out, we love the U.S. It's a great country. Great businesses in countries are different from great investments. Great investment comes down to price. Investing in the U.S. in 1929 or 1966 or '72 or '87 or '99 or '07, we're not fun experiences. We're agnostic on what happens to U.S. stocks from here other than that it's highly likely that they underperform. We think they're are better valued stocks around the rest of the world. So where should one look? We talk a lot about everything has its day. There are cycles. People go back and forth on what's good and what's bad when they add. I just view them as being cycles. A lot of cycles now are very, very extended meaning good things for people that are positioned for when these cycles turn, well what cycles are we talking about?

Well, we already talked briefly about the U.S. This goes way, way back but isn't it interesting that 118 years ago that the U.S. was frankly about the same size as Germany in terms of market cap and the U.K. was 67% bigger representation. Japan was nonexistent back in 1899. What's not on here, is that by 1989 the market was 40-some-odd percent of the entire index was Japan. Now you can see Japan's gone from 40-something percent to eight. People change their minds. Obviously, investing in Japan when it was nonexistent was a good thing and if you had that wherewithal to sell it in the late '80s when it became over-capitalized, now it's much cheaper.

Interesting looking at the relative, Russia was 6% back then. It's basically not on here now as not that existent. The whole BRICs that people loved six or seven years ago, Brazil, Russia, India, China, three of them don't even make the chart and China's capitalized at less than 1/20th of what the U.S. market capitalization is. So, I think then (that's for people that don't have it on their screen, its slide Number 7 we're referring to and about to move on to slide Number 8 so a summary on slide Number 7) there's a time for everything. When market capitalizations become huge, that's a lot of capitalization to support and it's usually better to invest before they become not after they become big. We suggest Japan and emerging markets and Canada and other places that are underrepresented will probably provide better returns than the U.S.

Active/passive - We've talked about this I think last time and the time before, I think it's something everybody wants to talk about nowadays. Is it, passive investments are a great way to keep your cost down and turnover down and risk down, and price something inexpensively that has been beating active managers anyhow and a great way to play efficient markets? Or is it... a momentum strategy that follows bull markets and becomes really, really expensive when bull markets become long and momentum stocks become outrageously priced and people stop doing analysis, thereby making null and void the assumptions of an efficient market. The answer is yes to both.

They are great when nobody's buying them and they're very dangerous when people are buying them. To go back in history, back in the, it was the late '60s and early '70s or the long bull market going on. Late in the bull market, people did what they always do late in the bull market, they started playing the popular stocks. They did the equivalent of passive investing back then. They all put their money in the same bank trust departments and all the main trust departments all about the nifty 50 stocks and then nifty 50 was the only place to be until the mid-'70s when it became a very, very bad place to be and as the chart on page 8 shows, active management did really well for a long period of time after that.

Then, as I came into the business, stocks were really cheap. A bull market took off and the indexes starting doing pretty well. By the late '80s, you had a bull market that had gone pretty far. People were piling into the popular stocks because they could be "protected" by portfolio insurance. There was all kinds of silly reasons why people wanted to play the indexes. In addition to that you had Drexel LBO'ing stocks, things were expensive. Following that, active management once again did really well through the mid-'90s, a lot of you may remember the late '90s when a hell of a bull market was going on. In the later stages of the bull market, passive investing was all the rage. Everybody was dumping active managers and going into index funds and at the height of the thing going into the legacy equivalent of the smart beta of the day filing into the hot tech funds and trying to tailor it to where the growth was.





After that, active management went from completely out of favor to outperforming strongly for the next decade or nine years to be expected as since by '07 people didn't like passive at all. They were paying two and 20 to pile into hedge funds that didn't look at all like the index. Now you've had a quantitative easing fuel a new bull market. Started in '09. We're talking a strong eight-year bull market, certainly the last five months we're starting to see some wild momentum come into play again. As always happens in momentum markets, passive investing becomes all the rage, people start pouring money into expensive stocks. The expensive stocks double. They became twice as big a percentage of the ETFs and the ETFs are the way people wanted to play passive now and the equivalent of the '80s LBOs is now private equity where any company no matter how expensive seems to be a takeover target.

We believe that as the chart implies and common sense would suggest, when passive gets to a place where it's too expensive, it's a good time to be going active so there's the second trend that probably is overextended and likely to go back the other way.

Another thing: sectors. That seems to be cyclical. One thing does well then another thing does well. We've shown you this chart before but it is interesting. Back in the early '80s people loved energy and materials. You can see here the two of them are over 40% of the index. Financials were 5% so it's interesting that resources were eight times as big a factor as financials were. Twenty years later, you will notice that they were no longer eight times more. Matter of fact, they weren't one times more, they were half. So, to go from eight times to half, that was a good time to buy materials and a good time to start looking for the exits on financials and five years later when they got to 22% and a third of the world index was a great time to be out of financials.

The important thing though, where are we now?

Where are we now? A lot of money has chased information technology. A lot of money has chased healthcare. They're well-represented in the index. We assume the industries will do quite well but they'd better because if they don't, the stocks are very vulnerable at those levels but importantly energy is no longer 27% of the index. It's 6-1/2% of the index. Materials are no longer 14% of the index, they're less than 3% of the index. Telecom, it was bubble-ish back in 2000, is 2-1/2% of the index, utilities 3%. These are infrastructure that provides the needs of the world so it's not what's good or what's bad, it is what is mispriced for the likely outcome in their share of the economy. We think certain sectors are very expensive and other sectors are very cheap so that we think is good.

Moving on to slide 10, on to the (fourth print). What's better, value or growth, and to us value is prerequisite. Why would you ever overpay for something? Growth is a wonderful thing. Sometimes the market overprices it. Other times they underprice it and growth and value become the same thing. But times when people are paying-up for growth, the growth stocks tend to do well. Eventually, the growth disappoints people and value stocks over time do better but more important than whether they do better over time, they have periods of time when they're doing better, periods of time when they're doing worse.

We've gone through now, a pretty long period of time where value's done worse than growth. So it's interesting to say what happens after value underperforms for five years? And moving on to slide 11, value tends to do really well when it's underperformed growth. The money that gets burned, having overpaid for growth, tends to roll back into where the values can be found. Once again, another trend in the favor of fundamental analysis we'll say.

Let's go on to another one, slide 12. Let's go back to 1925. You can see that people loved real assets then, and they hate them more than they ever have right now. Once again, what a contrast to when I came in the business in the early '80s. When I came in, the people wanted to own oil, they wanted to own gold, they wanted to own real estate, they really wanted to own agriculture, they wanted to own anything tangible and they did not want to touch stocks and they really did not want to touch bonds.

They didn't even want 15% on the long end or 22 on the short end, what a contrast. But you can see in 1980 on this chart you can see when people were very upset and worried about inflation that that was the wrong





time to buy real assets and the right time to buy financials. Now when people are worried about deflation and willing to pour money into bonds that yield 1-2-3% and real assets in many cases have done next to nothing for decades now. We believe that when deflation's baked-in, it's a good time to buy real assets at really cheap prices. If inflation comes back, you'll do really well. If it doesn't, you probably do really well anyhow from these kind of prices. This is a very extended trend. People have gone from hating financials too much to loving them beyond anything that we could imagine.

So, lots of trends are extended, lots of trends probably snap back, maybe they don't. But when things are not priced-in, you don't have much downside if it doesn't happen. Then there's tremendous upside if it does happen. We'll go through a few slides of things that you are probably bored of by now but we like it enough that we have to show you again.

Uranium of all the real assets is probably the best one. Once again the price 10 years ago was \$137 a pound. Now it's about \$24 a pound. That's all well and good except for there's new reactors going-up and there's not enough uranium sustainably to provide the existing ones. There's plenty of inventory. There will be no problems for the next few year as this chart shows but it does show unless we start bringing-on the planned and prospective uranium, there will be big shortages.

Plants that cost billions of dollars to build will sit idle unless you'll have uranium and in order to get the uranium the price needs to double probably even triple to bring-on the supply. So uranium tremendous outlook. This slide here on page 14 shows that the reactors are coming-on and what the low and high end of the needs are so we continue to be very excited about that.

Couple of slides to make our last point. The Federal Reserve after quintupling the money supply have taken a couple-year vacation. They're even talking about shrinking the balance sheet. Who knows, we doubt it but maybe but importantly, that doesn't even matter. We all know it's been a worldwide effort to print money, that's it been tag-team. We print then the Japanese print then the Swiss print then the Chinese print then the Europeans print and there's no inclination that the money printing is going to stop.

So, it is possible that real assets should be a part of everybody's portfolio and wouldn't be right not to make a quick mention of gold. That shows that since 1980 the amount of gold the U.S. has held has not changed. No change in supply. The supply of U.S. dollars has gone up ten-fold, ten-fold. Maybe if it was worth \$400 then, it should be worth \$4,000 now. That's not a prediction and we're using way-way lower numbers so we're going to use the incentive price but there is huge potential and the stocks are cheap enough that we think you make money even if the price of gold stays right where it is. So a little downside, massive upside and that finishes the story.

Now to do a little bit of the math. We continue to like any market that's otherwise the most expensive in history. This portfolio is trading at 11 times earnings and five times cash flow and 3/4 of book value. Phenomenally cheap prices. And to buy the stressed number 18 player in industries. It's buy the top players in almost every industry, worldwide leaders that own uranium and gold and gas and nuclear power and trading and hydropower, the worldwide leaders, people with strong barriers to entry that do meet the needs of a growing population.

And you would expect maybe to be high valuations to own the growing parts of the world which is what you see at the bottom left-hand of page 17. We're positioned in the growing areas and not so much in the mature areas of the world. It was mentioned that for people that like to make their own choice on whether to be in the U.S. or outside the U.S., we now have an international portfolio as you would expect that holds many of the same names, they're just larger market caps than without the U.S. ones but the same exposure to countries and industries, reasonably similar valuations so very effective valuations and able to offer the clients a change.

The market hasn't been too volatile so we really haven't added or subtracted names. We had tried to start buying Embraer but it ran out before we could get much of the position. We sold. We're adding Hollsys (Automation Technologies) which is the growing railroad business in China. They're a player providing the technology so that's gotten cheaper, that was pretty good.





Other than that, as the market has decided, in light of Trump's victory to like industrial materials and not like the non-industrial materials. We've been able to sell some of the base metal providers, and buy more of gold to sell or trim to the tanker companies, trim the tanker companies that have really run-up nicely off some of the most depressed levels they've ever seen. So little tweaks but nothing major in the portfolio. It's just fine tuning as the markets provided opportunities. Japan we trimmed some things and add other things as we're finally starting to see some signs of life there in terms of people wanting to improve the capital structure so that's encouraging.

But let's save most of the time for Q&A.

Operator: And ladies and gentlemen if you would like to ask a question, you may do so by pressing star 1 on your telephone keypad. If you're on speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment.

Again you can press star 1 to ask a question at this time. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

And we do have a question in queue, we'll hear first from Rick Speidel of Ameriprise Financial.

Rick Speidel: Thank you. Just curious about a couple of Canadian holdings if you could comment please on Dundee and MEG Energy, thank you.

David Iben: Certainly, thank you. Canada in general there are a lot more bargains there than in the States. You know, I've mentioned earlier that we have a lot of market share leaders and we're happy to do that. We also though do see the occasional deep value opportunities so MEG Energy is a very good company whose stock was I can't remember at least 10 times its price at one point. They have a lot of the oil sands. When the price of energy went from 100-something down to 28 that was not good for companies that had higher-cost projects and a lot of debt. The stock fell quite a lot. We think it fell way too much and we think they have adequate ability to pull through this. We also think it's not a surprise since the price didn't stay at 28 and found its way back to 50 and it wouldn't surprise us to see the price go up another 10 or 20 bucks to get closer to a long run sustainable value but this is a company with really good long-life resources. We like long life resources, I've just showed a whole lot of charts that show sometimes it takes a number of years for things to get into place but things eventually get to where they need to be. So long life resources with a stock down 90%. We think reasonably many strong quality projects but we do wish they had a little bit less debt but lots of upside.

Dundee is a company that was once highly regarded and there's been transitions and changes in management in recent years and they had also at least a quarter of their assets in oil-related projects which had a lot of optionality that now doesn't seem to be that attractive. So they've had various ventures here and there that haven't worked all that well so there's a lot of things that are very disappointing about that company and we'd like to see things go better. However, they have a lot of Canadian real estate. Canadian real estate's been doing pretty well. People keep worrying about it but it's done very well especially in the areas they are. That seems to be worth something they have a gold mining company that is well off of its lows and has huge potential. We view that as one of the more interesting one's going forward.

They have their hands in various agriculture and various businesses and the stock is trading at a small percentage of what we think its worth. It's trading at about a third of book value. Maybe there'll be some future write-offs that'll write-off a little bit of it but even adjusted for that, we think easily there's a big upside on this one. And I've mentioned earlier and showed the charts. The market right now underappreciates real assets in general and Dundee - another Canadian company Sprout corporation we also own - they are both well-positioned to do well if resources come back in vogue so tremendous upside if resources come back in vogue but they're both cheap enough that we don't see much downside if they don't.

So the two companies you asked about are typical for what we've owned over the last 35 years, companies with yes, some warts on it that keep people away but I think people are confusing warts with cancer and it gives us the opportunity to take advantage of companies that are well undervalued.





Rick Speidel: Thanks. Around the shipping companies, I noticed on the slide a trend Golden Ocean and Safe Bulkers do you view those as sort of core holdings and you're just trading around strength?

David Iben: Let's see how to answer that one. We view ourselves as long-term holders of pretty much everything we buy but we come-up with what we think is a risk-adjusted price that it will get to someday. We think it's going to get to a price that's three times where it is. That's the good news.

The bad news is we don't know whether it's going to take a month or a year or two years or three or four or five so we wait it out. Couple of years back, people didn't like oil tankers. We owned Tsakos Energy (Navigation Ltd), it went-up nicely, we trimmed a lot of it and they were killing the names you mentioned so Safe Bulkers and Diana Shipping and Golden Ocean became very cheap and we bought those. And that's a case of where deep value works. It was unimaginable to anybody including us that things were going to get better (in the near term) and we were seeing so much overcapacity but rates were down 90-some-odd percent, it was amazing how much rates were down. All the companies were losing money. Everybody was worried about viability. Rates have bounced and the stocks are up three-four-five times and so where we thought they might have been long term core holdings, it only took a few months to get all the way up to what we thought they were worth so we are out of one of them and we have severely trimmed the other two of them.

It all comes down to we're long-term holders unless they become too expensive or even fairly evaluated, we don't have interest in fairly-valued, we're looking for bargains and so over the last 20 years shipping has been something where we end-up looking like traders because they're so volatile they drop fast, they run-up fast.

Rick Speidel: Thank you.

Operator: And we'll go to our next question from Nam Nguyen of Battery Global Advisors.

Nam Nguyen: I actually have a question on the shipping equities and I think it has already been answered, thank you.

David Iben: Thank you.

Operator: Did you have anything further, Mr. Nguyen?

Nam Nguyen: I'm all set, thank you.

Operator: And so we'll go next to Matya Schachter of Battery Global Advisors.

Matya Schachter: Yes, I was hoping that you could comment a little bit more on, you know, what you're seeing out of Russia and whether any geopolitical concerns could, you know, start to impact some of the issues there?

David Iben: Certainly. Our whole approach to investing is bottom-up fundamental analysis so we never get a crystal ball out and say we like Germany and we like France but not Italy and Russia looks good or China doesn't and we don't do any of that. We have industry analysts and they look across the globe and they say in general things in this industry sell at X times earnings or X times book or X times replacement value or X times liquidation value and we say that's what they're worth.

We do say however we're not indifferent between a company with good management and one with bad management or one with a good balance sheet and one with a bad balance sheet or one that's headquartered in New Jersey versus one that's headquartered in Moscow.

We say for various reasons we want a fairly big discount if we're going to leave the U.S. or Canada or places like that and venture into Brazil, Russia, China, places like that. There is a little less rule of law and there's more corruption and more uncertainty so what we'll do is say, we have no particular interest in investing in Russia, then we say well, huh...we can buy the biggest gas company in the world for about 10% of what it would cost us if it was in the U.S. or Europe based on price to reserves and probably 70% discount if it's





priced to earnings or priced to cash flow so we say all right, how much of a discount do we want for Russia, 10%, 20, 30? We've been generally looking for 50% discount so we want 50, the market gives us 90. So if we end-up with a gas company that just happens to be in Russia, when we look around the world and say electricity that can produce carbon-free electricity whether it's nuclear or hydroelectric, those tend to trade at big premiums. But a year ago people said big premium everywhere but not Russia, not Brazil, we hate those two countries and so we're able to buy things at 80% discounts there. Now they run-up a lot but they're still fairly cheap. Now it's France that people seem to be afraid of so we have more exposure there than we do in some of the other places in the utility space.

We look at healthcare. We don't really own healthcare anywhere in the globe. They're a great industry but they run-up a lot but in Russia we were able to buy a little healthcare distributor at a very cheap price. That's doing pretty well. The financials, the stock market there, there's a monopolist that's traded very cheap for a long time, Sberbank is one of the most dominant banks in the world, trading at a very cheap multiple even after the big run so we've said we want to own these businesses but we'd rather not because they're in Russia and the market said well how about if we sell it to you at an obscenely low price and we said okay, we'll do that.

And that's what we do and that's the same approach to say Japan where five years ago there was a lot to worry about, four years ago there was stuff to worry about but the stocks were trading at a third of book value so we bought them.

Then they went up and we ended-up selling a lot of those that it's let's make sure we know what we're getting into and let's make sure that we're getting a good discount but let's buy companies, not countries and we think there's some very good companies that (for good or bad) are in Russia and that's how we get there at still remarkably good prices.

Matya Schachter: Can you talk to whether the discount that you demand for Russia that you talked about has gone up or down over the past couple of years or any other countries where you've seen a significant change in, you know, what you would demand in order to be able to be willing to buy the equivalent company in that country relative to somewhere more established or however you would refer to it?

David Iben: Yes, I think if you look over the last 10 years or so it's gotten a way bigger discount but the last three years have been sort of interesting. Russia became one of the cheapest markets I've ever seen in 35 years and proceeded to fall in half and then it doubled and now everybody's saying did we miss it? Well, I don't think we missed it. People say why did it double last year? I'd say why did it fall in half? Who knows? All we know is that instead of being able to buy the utilities at 20% of book value, now we pay 45-50% of book value instead of getting a bank at five times earnings, we got up to eight times earnings. It's still very, very cheap.

So the discount you know, versus a year ago, yes, it's not as good a bargain as it was a year ago but not counting that year it's one of the greater bargains that I've ever seen.

Brazil similar, very similar and I would say the same thing for gold and uranium too. They all, everything, emerging markets, resource, everything, they got ahead of themselves six or seven years ago. They fell as they should have, then as often happens in the markets it's like a pendulum that just keeps going to the other side and went from too expensive to fair to too cheap to obscenely cheap and now they're just back to too cheap.

Matya Schachter: Okay, thank you very much.

Operator: And moving on we'll go to a question from Vitali Nazlymov of UBS.

Vitali Nazlymov: Yes, hi, thank you for the update. Most market strategists talk about pro-growth agenda and how growth will support the overstressed valuations in the future or delays in implementation of tax regulations, the structure of packages might cause them temporary corrections, etcetera, etcetera. A, it was refreshing not to hear you mention once and we are to understand that you are bottom-up but still curious as to kind of what goes through your mind as you hear those kind of arguments?





David Iben: Yes, thank you for that question. You know, sometimes I feel old because when I came into the business, everybody said value is what matters and people would quote Warren Buffett, Howard Marks, Munger and Ben Graham, you name it, everybody will be saying forecasting the future is a fool's errand and why you even try. Just look for value and buy value and that's what everybody did. Now there are almost no values investors left in the world. Everybody's trying to play the trend, everybody's macro and now we as you've suggested we don't try to predict the future. We don't anticipate growth. We do anticipate a fair price so I'd say if it cost \$50 million to build a new ship and we can buy it for 10, we'll assume it gets back to 50 someday, we just don't know when. If it costs \$70 to pull uranium out of the ground, we'll assume it will get there someday, we don't know when. We assume over a 20, 30-year period of the time that the population will grow slowly and the economy will grow a little more but we don't try to address when.

So we don't try to guess anything but we think it's interesting that more and more people are piling on to trends in growth even though we all know that eight years into an economic recovery. It's been an anemic one, eight years into a recovery and eight years into a bull market, historically and logically is the wrong time to be betting on growth.

And so we feel better than ever buying assets for half of what they're worth and we'll let other people try to guess the growth and if they do that well, wonderful but we'll stick to what we think our strength is and that's appraising franchises.

Vitali Nazlymov: Thank you very much.

Operator: And our next question comes from Ken Peters of Stearns Financial Group.

Ken Peters: Hi, thank you for the presentation that was very informative. I was wondering if you could comment on TRQ, the Turquoise Hill resources and Northern Dynasty Minerals, just curious as to your thoughts on those two companies. Thank you.

David Iben: Certainly. Turquoise Hill back in the days when it was Ivanhoe, we found that way back when, that was controversial because people didn't care for resources or the guy that was running it even though he had a history of almost always being successful. And Mongolia was a place people were worried about, caught in the middle between Russia and China. What would happen for a lot of reasons that was very cheap and we bought it and it ran-up and we got-out when Rio came-in to invest. And they changed the name to Turquoise Hill and we waited until the stock got very, very cheap again which it did and we're happy to own that. It's a world-class mine.

Now one thing that we've done with Turquoise and Ivanhoe and others, a year ago people were starting to warm-up to gold and didn't much care for copper or platinum and so we were buying more Turquoise Hill and more Ivanhoe and trimming the gold companies.

Now after the Trump election people as the last question suggested everybody said ooh, growth is back and the ones that were exposed to copper did better so we trimmed Ivanhoe and the Turquoise Hill, the TRQ and backed into the gold but we still own it, we still like it. It's very cheap and I think people still worry and they should worry but they worry more than they ought to about frontier markets like that and so here's a good franchise with good management and with a big company backing it and a lot of value.

Northern Dynasty is one of the more fascinating companies out there. They have one of possibly the best gold reserve out there in the world. Lots of ounces of gold, lots of ounces of copper and that's the good news. The bad news is they've had battles with the EPA and they've had battles with Hollywood actors and they have not stewarded the capital the way we would have liked to see them do it.

They've spent more money on lawyers than we thought they needed to and they've done offering after offering and diluted the pie. It's been a very, very frustrating experience for us and for others involved. However, keep in mind it might be the best gold mine of that potential gold mine out there in the world so what's happened in the last half of year has been pretty amazing. First people liked the Trump election thinking that he'll be a little more favorable to mining companies than Hillary might have, who knows.





The EPA has backed off, that's been good. Alaska's given them it's not that meaningful but land use permit that's of value. A lot of the big majors that don't have any way to get gold seem to be snooping around saying we'd be happy to own this if you can clear-up your problems with the EPA which they're working on so for a lot of reasons, the stock went up a lot.

Now at one point I think top to bottom it was more than 25 times so a short seller put out a report saying negative things about it and the stock fell more than in half so it's up, it's still up more than 10 times off the bottom. It's trading at a market cap of \$400-some-odd million. We think it's worth billions but it'll be a long time before a mine is built. It takes time to get permitting. It takes time to raise the capital. It takes time to get the feasibility. There will be no mine in five years so we think the upside is ten-fold, twenty-fold. It's massive upside but there's risk involved. Who knows what management will do? Who knows what the EPA will do and it'll take a lot of years but fascinating reserve. It's very interesting to us.

Ken Peters: Thank you.

Operator: And our next question comes from Rachel Gladstone of TIFF.

Chris: Hi, this is actually Chris, I'm sitting next to Rachel. Do you perceive any viable threat to traditional energy sources from renewables at this point? Are they gaining any share and if not, do you see any realistic timeframe around them being a threat? Thank you.

David Iben: It's definitely a threat, for society it's a good thing. I think with the changes in technology that have brought the cost of solar energy down a lot. It is positive for all of us, the similar ability to bring the price of wind down has been good for all of us. The changes that are happening in battery storage is going to lower the need for electricity so coal has lost lots of market share. I think it was 50-some-odd% of all electricity, it's lost a lot of that market share. We used to use oil for generating electricity. That went out the door quite a while ago so now I guess the gist of your question is oil and coal the equivalent of let's say whale oil 100 years ago, you know, maybe 10% yes but we think 90% no.

We have slides I think that we did last quarter showing that over the last 115 years or so the population of the world had gone from I think 1.3 billion to 7.4 billion people headed to 8 billion people. We believe that the incremental growth will be mostly captured by wind and solar and other things maybe we can't even think of and efficiencies and greater utilization and we're really happy about that and seeing coal drop-off further would be a good thing. Places like China where the Chinese are tired of that pollution and they're making changes.

So I think if we're talking 10-15 years ago from now, I mean, we'll be telling you how there's a very different mix but I think in absolute terms we will find that we're using more gas than we're using now and probably as much oil as we're using now and conceivably not that much less coal than we're using now. The mindset at some point might go back to what it was four or five years ago when people were worried about whether every kind of electricity we can imagine put together would be enough to meet the needs of the world so we're hopeful that alternatives continue to capture share.

Now if we get into a recession and governments are more stretched and easy money goes away, then maybe you'll see a slowdown because solar and wind still make no economic sense from an all-in capital cost but once you put them up, the very low cost is about zero so I guess one of the advantages of this zero interest rate bubble economy we have is it's actually leading to good things like alternative energy.

But in summary alternative energy's got a good future but that does not mean the end of the energy we all use now.

Chris: Thank you.





Operator: And we'll hear next from John Shelton of Oppenheimer.

John Shelton: Hi, I'd like to go to the slide 16, the gold reserves versus the monetary base and could you help me get my head around the construction of that? Is the gold line just simply the gold reserves and the point is it's been static and I guess what should we do if the construction is this slide of just academic curiosity or is this thing really scary?

David Iben: This is the U.S. only. If we looked the worldwide, you'd see the gold line going up roughly 2% a year less than that now, it's at closer to 1% now but the amount of gold pulled out of the ground has been growing at 2% plus or minus. That does go up. The U.S. itself we've made-up a lot of gold. In the '70s we were starting to lose our gold. People realized that we were cheating and printing a bunch of money that we didn't have the gold to back so they started wanting the gold and that's when Nixon reneged on our promise to back the dollar and we've had free-floating currencies ever since.

To the best of anybody's knowledge, the U.S. had neither bought or sold any more gold since then so the amount of gold the U.S. has stayed the same. Let's say for sure it's academic, I mean, academically they could have 100% backed the money supply with gold for \$400 an ounce. That could have happened back in 1980. They of course didn't do it and gold was overpriced at \$800 at one point but now academically now they have printed so many dollars that if they wanted to fully back the dollar, it would cost \$15,000 so academically yes, gold's worth way, way more.

How much this academic applies to the real world and whether this is scary or not, we could get 100 different experts and get 100 different answers so we're not to say our answer is right. But since you're asking, our take on it is whether you want to view it as scary or exciting or both, you know, we wrote a piece 10 years ago or so, I can't remember saying well if you have a bunch of people living downstream from a dam and there's a major rain above the dam and all the water gets caught behind the dam, the people downstream will think that there is no water but there is water. It's just latent energy stored-up behind the dam that can be released whenever so if you print \$4 trillion dollars out of thin air and it gets dammed-up at the bank level, then what do the banks do? They put it all on the bond market. Where's the inflation? The inflation's in the bond market, that's for sure. The bond market, who could have even imagined in the past that interest rates where they are now?

The bond market is where the symptoms of the inflation are and as the Fed hoped the inflation has spilled out of the bonds into stocks where the NASDAQ hit a new all-time high today, it's spilled into high-end real estate, it's spilled into art, it's spilled into collectibles and it has certainly spilled into healthcare costs which have been skyrocketing. It's gone into educational costs so you got this latent inflation that's seeping past the dam and started to get into the economy mostly at the asset level. Eventually it's highly likely that it finds its way into other things and to your question I think the markets would find that scary.

In the past people have, you know, won Nobel Prizes for suggesting that printing money creates inflation but now no one believes it any more. We just find it kind of interesting because we're buying stocks that are underpriced even if inflation ever happens again, we're buying things for less than they could be liquidated at. But if this latent inflation that this graph suggests continues to seep through, it'll be scary and exciting.

John Shelton: Thank you.

Operator: And as a reminder ladies and gentlemen you may press star 1 on your telephone keypad if you'd like to ask a question at this time. At this time we will hear from Niley Shrestha of Oppenheimer.

Niley Shrestha: Hi, Dave. I just wanted to ask a question about the holdings for this Global All-Cap Portfolio so we pulled-up a sheet from your Website. We needed to send this to a client and the sheet from your website shows Cameco as the third-largest holding and this is also as of 3/31/2017 and the presentation that you have on page 17 it shows Cameco as the largest holding at 5%. I'm trying to figure-out which one is correct.





David Iben: All right, this is going to take an explanation. One, stocks bounce around a lot so it can be bigger one day and then smaller another day if something else goes up. But also you know, to foolishly bring up something that didn't work-out for us, Peabody Energy, we built a whole portfolio of resource stocks. They got more depressed. We bought more of a lot of them but we have this policy where we don't put more than 5% in a name at cost and so fortunately when Peabody went down and we had 5%, we didn't buy any more. A year later when the management stole the company from the shareholders that turned-out as a loss for us. We added it all up and on our resource companies we actually made a lot of money because we limited our losses by never putting more than 5% in one name why we made a lot of money in Consol and Cloud Peak and the gold companies and some other things that bounced back.

And so risk management and diversifying, buying a lot of stocks that we think can go up three or four or five times and making sure we don't lose too much on another one. Cameco's our favorite name. We'd like to own 5% of the name. We have clients that have already lost the money on this and we are committed to nobody loses more than 5% on this name should a disaster happen so we have stopped buying new Cameco for them and fortunately have made money buying Fission, Denison and NexGen and some other ones and diversifying out and continuing to buy other things.

So we can actually have one portfolio that would own a little more than another one because new account could buy more when it's already less money wouldn't so our model portfolio has a little more Cameco than the actual funds do. That's the reason...

Niley Shrestha: I see, okay, I see the difference, the one in your presentation is the model portfolio, and it's not real...

David Iben: Yes, correct.

Niley Shrestha: ...Portfolio so I guess what you're saying is it goes in at 5% but if the stock were to go down, that could be down to four, 4-1/2 or in this case it shows 3.7% so okay, I get that, thank you very much.

David Iben: Sure, thank you.

Operator: And we'll hear next from Tim Sant of Summit Strategies.

Tim Sant: Well, it's interesting so my question has to do with Peabody Energy, living in Saint Louis followed this bankruptcy pretty closely. How do you factor this potential for "management" to steal the company and do you see this as an ongoing risk or more of a one-off?

David Iben: Our fear is it could be ongoing because Peabody's not the only one this has happened to. Similar happened at Arch and there's three or four gas/energy companies where the same thing has happened. This is the reason to diversify because things happened that nobody could have imagined before.

The idea that, you know, if you buy a company or you run a company or buy a house or anything else, if you can't make the payments, then the creditors get to own your house if that makes sense. That's rule of law, that's a good thing. But just imagine if you owned a house and you had lots and lots of money and it was easy to pay the payment and if you hired somebody to manage your affairs for you and they made a deal with somebody and they missed your payment on purpose and bank foreclosed and stole your house and gave it to a hedge fund, I think you'd be very upset and that's exactly what happened with Peabody.

Peabody absolutely positively did not have to file for at least another year and a half, how sad that they did it right at the bottom before coal went running to the moon and every coal stock went running to the moon after that. It was pure theft. It was management owned very little of the stock, being promised by hedge fund tell you what, miss the payment on purpose, we'll steal the company and we'll give you 10% of the new company and that was allowed. So you know, we always tell people that when we're looking at emerging markets we're happy to get this 50% off because we know the rule of law isn't perfect. But we think people make a mistake when they think the rule of law is perfect in the U.S. Stuff happens. It'll be interesting because our experience and other experience with that and other ones is you go to the judges and say we need representation and we're told no! How can that be? A year ago I couldn't have imagined these sort of things





happening. But and now unless somebody passes a law or somebody does something about it, hedge funds will probably start doing more of this and why not? It is an additional risk for indebted companies that didn't exist before and we think in the current world and when you look at resources in emerging markets and the debtor companies, the bad news is I think it's more dangerous than it's been in the past.

The good news is that the valuations are so cheap on some of these things that like I just mentioned it was a very painful experience on Peabody and we've made pretty good money on resources over the last year and two years. I think people relative to the past, I think all of us (this comes back to the very beginning of the call), people are giving-up on value right when they should be coming super value because I think we need to demand really cheap values to compensate for some of the problems that have been caused by (let's all blame it on the Fed) but on all kinds of reasons why things have changed and now you're here. The question's a very good one. We are much more aware of those things.

Tim Sant: Thank you.

Operator: And we'll now go to Andreas Ballestas of Ballestas Group.

Andreas Ballestas: Yes, hi. Good afternoon. Are you finding more values in Latin America other than Brazil? Is Mexico becoming attractive? Are things popping-up in Latin America for you?

David Iben: Yes, we do everything sort of bottom-up but we're finding values here and there. You know, we bought some from Argentina back when it was run by lunatics and things bounced when they finally moved on. You know, we've been looking at Colombia and Peru and Chile and Argentina. Mexico has actually been a pretty strong market, you know, in recent years so we're finding less there than we're finding the rest of Latin America but Latin America and emerging markets in general, yes, we're finding lots of value in emerging markets and it's more difficult in the developed and it's really hard in the U.S. to find value.

Operator: Did you have anything further, sir?

Andreas Ballestas: Thank you very much, yes.

Operator: And with no further questions in the queue, I would now like to turn the call back over to David Iben for any additional or closing remarks.

David Iben: All right, thank you. I just want to say thank you all for taking the time and for the good questions and the markets as always continue to be interesting and we look forward to the future and thank you all for your support.

Operator: And again that does conclude the call. We would like to thank everyone for their participation. You may now disconnect.

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