



## **Kopernik Global Investors, LLC**

### **Edited Transcript of the 3<sup>rd</sup> Quarter 2017 Conference Call with David Iben**

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**Operator:** Ladies and gentlemen thank you for standing by and welcome to today's Kopernik Global Investors 3rd Quarter 2017 Conference. 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. And at this time, it's my pleasure to turn the conference over to Mr. Kassim Gaffar. Please go ahead, sir.

**Kassim Gaffar:** Thank you, operator. Good afternoon and thank you for joining us today for the 3rd Quarter 2017 Conference Call. My name is Kassim Gaffar and I have with me David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All-Cap strategy and co-portfolio manager for the International strategy.

Before I pass the call over to Dave, I'll be providing everyone with a quick firm update. From an asset standpoint the sum as of the end of the 3rd Quarter was right around \$3.2 billion dollars. This represents growth of more than 25% over the last 9 months. The increase in assets has come from a global strategy and also from an international strategy which, in a relatively short period of time, has grown to roughly \$70 million.

Both strategies have continued to attract smart and like-minded, long-term investors that realize the optionality and the tremendous opportunities our portfolios exhibit. We believe this is a case given the steep discount the portfolios are trading at. Also, from a people standpoint, we are very well-positioned with 36 people strong.

That pretty much wraps up the firm update. Please note Dave will be referring to a presentation during the call, which has been posted on our website at [Kopernikglobal.com](http://Kopernikglobal.com) and it can be found under the News & Views section. And with that, I will pass it over to Dave.

**David Iben:** Okay. Good afternoon everybody. Thanks, Kassim. Thanks everybody for joining us. It seems like a good time to continue the conversations on active versus passive. Early in the quarter it looked like maybe momentum was running out of gas but now it's full – strong as ever. So, here we have it in a nutshell -- people are given the choice -- would you rather invest with a state of the art global advisor or effectively an extinct asset.

And this is the second time in my career that I see the non-stop obituaries for active managers -- the last time being the 1990s. Here we are again. And the people are voting -- they're voting for passive. We've written letters about the pros and cons of passive -- there are many of each -- but we think, like a lot of things, it's cyclical.

If we move on, you've got active versus passive and we're not done talking about that, but of the few people who are still left doing active management -- even they have a choice. They can choose the excitement of growth investing or the drudgery of value investing. Value doesn't seem to have a whole lot of people listening anymore.

If we turn to Slide #6 -- now, let's talk about why we think -- not only is the current environment extreme and misguided, it's actually wonderful. It is awesome - good to think differently from the crowd -- when the whole crowd is going nuts together, that's a great time to think differently than the crowd.





So, seriously, we're at a point where you probably can't talk too much about active versus passive. It is really all that matters. We can start with a quote probably most of you know from one of my favorite investors – should be clear to everybody, “If you look the same as everybody else, you won't do better than everybody else.” So, it's often good to think independently. One, because things change. What has worked – sometimes people believe what has worked will keep working and that's true sometimes, but most things in this world are cyclical – which worked really well over the last half dozen to a dozen years, its inevitably time to get out. So, let's talk about some of the seasons.

We've talked a little bit in recent commentary and recent calls about how interesting it is that a lot of the cycles have all hit the dead of winter at the same time. Yes, whether it be value investing or active investing or gold or resources or small cap stocks or emerging markets – they all hit the dead of winter at the same time. Now that's probably really good news. Maybe they all hit summer at the same time.

Meanwhile, the industry's academic approach to things like risk and value – those present significant opportunities for our performance in the future – we believe. For one, the idea that people should place career risk as a paramount risk to the client portfolio is a fascinating thing. So, everybody seems obsessed with volatility, which the expectations of future volatility are the lowest on record. That's an interesting thing when valuations are the highest on record and turmoil around the globe seems to be something worth noticing also. We suspect people are making a mistake thinking volatility is risk and we think they're making a mistake – thinking it's going to stay low. That presents opportunity.

There's also tracking errors in other forms of career risk – not portfolio risk. We've talked enough about idiosyncrasies and whatnot in the portfolio. But then we've talked also about what is value and also the ability of people to forecast and whether they're very good at it.

Let's go through a few slides – some of these you've seen in the past. If we go to Slide 9, volatility. Is volatility risk? I think Howard Marks is right. Risk is something that cannot be boiled down to a number. People use things like volatility because it can be boiled down to a number, but volatility may be a risk to our careers, but it is certainly not risk to a client portfolio. And to pull this slide from a few commentaries back – if somebody was focused on volatility, the right thing to own over the last century has been cash. Yes, if you held cash you didn't have any volatility. You didn't have volatility in the 1930s when the stock market dropped 90%. You did not have volatility in the early 70s when the stock market fell in half. You didn't have volatility in '87 when it fell by a third in a few days. You missed the whole TMT [Telecommunications] debacle in 2000. You missed the 2008 meltdown – what a wonderful thing.

However, if investing is what you are after, and making money was more important than volatility, gold went up 300 something times while cash went up nothing. There's a lot of volatility. Stocks went up more than that – they went up more than gold and they had even more volatility. What we don't have here because you don't have 100 years of data, is emerging markets. But if you look back the last 20, 30 years in emerging markets, they were much more volatile than the Dow but they also made way more money than the Dow.

So, the fact that people are focusing on volatility and buying expensive stocks just because they have low volatility, and selling really cheap stocks because they have high volatility – that is a beautiful thing. That's a reason to be an active manager.

Tracking error – we'll get back to passive investing later, but tracking error is clearly a bull market phenomenon. When a market's been going up for more than eight-and-a-half years, it is deemed as risky to have looked at anything other than the indexes that go up. You know, who wants to miss something that's going up? But it is something people stop talking about in bear markets. If tracking error is low, you know, low tracking error is low-risk. That implies that the benchmark itself is risk-less – benchmarks get risky. You can see what happened if you tracked the benchmark after 1929 or after 1972 or after '99 or after 2007 – not a fun thing to do.

So, there are times where it's good to look like a benchmark, there's times when it's bad to look like the benchmark. It has been very good to look like the benchmark. When things go up fast, it's fun to participate.





When they go too far too fast – watch out. If you look at straight stocks – yes, they're up high. The valuation is more important than a nominal number, so let's look at valuation.

1999 and 2007 looked downright cheap compared to now on a price to sales. You know, we've talked about Jeremy Grantham's view that margins will stay high – he better be right because it'll take obscenely high margins for a lot of years to come to support a price to sales this high. Which is just the wrong time to be wanting low tracking error – people should be clamoring for high tracking error. And that goes beyond stocks – we can talk about bonds, we can talk about high-end real estate, we can talk about art. The central banks of course have printed massive amounts of money the last 10 years, and this is the result – things are predictable.

One more example – a few years ago, it seemed like Bitcoin was an interesting idea. You know, you have gold as money, then you have currency as money – which is maybe better, except for one problem – you can't trust politicians, they print the money. Then you have Bitcoin saying, "Well, not as good as gold but maybe it's better than currencies because they promised not to print it." But now you're seeing the ICO – the initial coin offering is what, 487 different virtual coins there – they come out of thin air. As soon as they got an idea, let's create this, there's nothing backing them so this I think is the current version of tulip bulbs.

Okay, moving from tracking error and volatility to owning things that are unpopular. None of us wants to own things that are unpopular. But because none of us wants to own them, you can get bargains. Another John Templeton, he's saying, "Everybody's asking me, where do things look good?" Wrong question. You know, where do things not look good? Where do things look the darkest? That's absolutely the place to be. Another chance to arbitrage the difference between what people are paying for popular stocks and what they're paying for less popular stocks.

We've also talked about value. What is value? Now is a really good time for value, mostly because nobody cares about value. No one's even trying to find values anymore – except for the few people that are trying to find value. Many of them believe that value is the present value of expected future cash flows. We think expectations seldom come true in the future, so, certainly value doesn't come from the expectations of cash.

We think that cash flow is likely to come from things that have value, so we focus on businesses that have strong, strong assets, strong management, strong brand, strong potential to generate cash in the future. We think that's always a good philosophy – especially a good philosophy when both value, management and active management are way, way out of favor.

Like I say, value can be created by smart people, by industrious people, by strong assets, by all kinds of things. It doesn't come from expectations with what may or may not happen in the future. Short-termism is an interesting thing and how to value that. What is the value of time? We've written about that in a recent commentary. There's been plenty of times in my career where you could get really high rates of return on things. You could have a pretty sure idea on what money supply and inflation and other things would be and a decent idea of what businesses were likely to do in the near future. But now we have central banks suppressing the rate of the discount rates, so they've depressed the ability of the market to give us much needed information – that also keeps zombie companies alive. So that suppresses the profitability of everybody. It also allows companies to build capacity that's not needed.

So, likely that central bank activities will do what it's always done – every single time in history that central bankers have gone nuts; it has caused excess supply and problems in the future – even if it messed up the discounting mechanism. So, rather than try to know what the rate of money supply growth is going to be over the next 10 years and try to know when and how that trickles down the economy and inflation, we think it's better to concentrate on what an asset is worth. Buy it at half price and calculate an IRR [Internal Rate of Return] if we have to, you know, wait only a year – we make 100%. If we're going to wait 2 years, we'll make 41%. If we have to wait 7 years, we're making double digit returns. That, I think is an opportunity. Nobody wants things that they may have to wait a couple years to see come through. Another chance to arbitrage short-term results of others.





Same sort of concept – if they're printing money like crazy, everything I've ever learned plus everything that makes sense to me – is supply and demand matter. If one thing's scarce and one thing's being created like there's no tomorrow, the scarce thing is going to increase in value. Yet what we've seen perversely over the last 10 years is the more money they print; the more money outperforms real assets that aren't being created. That will change. This shows, you know, almost 100 years of data showing these things do change. Printing money will eventually cause money to lose value. We think now is a good time to own quality assets.

Another way of looking at the same thing – they pull another 1 or 2% of gold out of the ground every year. The Japanese -- as we've all seen in the news -- are printing money at an unbelievable rate and people are just stunned that the Japanese could print that much money. What they don't talk about a lot is the Japanese are pikers compared to the ECB [European Central Bank], The Bank of England, the Fed, the Swiss Bank, the Bank of China – so lots and lots of money and this is over a 14-year time period. So, once again, if you're going to own bonds, you probably should be requiring some really high rates of interest. Maybe it's better to own gold; maybe it's better to own quality assets – franchises.

So, one last look at a chart you've seen plenty of times, but if scarcity matters, you can see that, yes, currency is becoming less and less scarce, gold is not. And if you should be wanting record-high interest rates for holding pieces of paper that are being printed, you're not getting record-high – you're getting things that are just coming off the lowest levels in the 5,000 years of recorded history. Which suggests it's not a good investment.

Let's go with another concept – growth versus value. All other things equal – growth is better than value. As I think Einstein said, "The magic of compounding is the eighth wonder of the world." We like growth. Growth is worth more. Growth has two problems. One, people think it can be sustained but it can't. And so, people get disappointed on their expectations of growth and that's a problem because they usually pay a high price for growth. And, just like in the late 90s, they're back to paying very high prices for growth. So, that we think is something to watch. Once again, you know, the time to buy growth we think was 2009. There'll be another chance -- that's not now, we suspect.

And back to, you know, what to do about this – the people that are forecasting can try to guess next quarter. They can look for the catalyst. We prefer to buy things that have potential to make a lot of money over the coming several years and decade and quarter century and you name it. And to miss the big gains because we thought we could out-guess everybody else on when interest rates would go up, or when the price of scarce assets would go up in value. So, once again, if other people are selling good things because the short-term outlook is bad – Excellent!

For people that want to learn more about the perils of forecasting, there's lots of books on it. Richard Thaler just won the Nobel Prize, a few years back [Daniel] Kahneman did – read what they wrote, read the many books on behavioral science. There are very few human beings that are good at forecasting, but we all tend to think we're good at it. We'll let others forecast. We will buy value.

Back to passive investing versus active investing – they've also written about this plenty, but just quickly, it is not that passive is better or worse than active, per se'. Passive is a bull market phenomenon and active is more of a long-term, enduring thing. It was a good time to be an active manager in the mid-70s and again, let's take that approach in the late 80s, and most of the last decade was a good time too. The last 6, 7 years have been a very bad time to be an active manager – relative to the index. That's now sowed the seeds for probably massive underperformance. But passive management in the future – passive management – extreme money as we showed you in the earlier chart, is pouring into un-researched buckets of securities – that can't end well. And so, yes, usually when everybody was buying passive in the late 90s – time to go active. When people are firing passive in '07 and hiring hedge funds at 2 and 20, it was time to go passive. Now when everybody's firing their hedge funds and going passive, we think it's probably a good time to reduce your passive and go active – that's our opinion. But these things are cyclical for a reason. They're self-fulfilling as Seth Klarman has told everybody. What's interesting is that the more people that stop doing the analysis, the less efficient the market becomes and the easier it is to beat the market.







So, the time to be an active manager is when everybody else is giving up on active management. So, if being an indexer is at an all-time high on the market, if that's a dangerous thing to do – people ought to be focusing on high tracking error right now, not low tracking error. Time to look for a good active manager – we believe.

Obviously, self-fulfilling what we're saying but we think all of the empirical evidence is there. People can follow the crowd – often it's the right thing to do but in inflection points, it's a disastrously wrong thing to do. And we're quite possibly nearing an inflection point on passive/active, inflection point on value/growth, inflection points on financials versus real, inflection point on scarcity versus un-scarce things – we like it.

So, with that, let's stop for questions.

Operator: Ladies and gentlemen if you do have a question at this time, please press Star 1 on your touch-tone telephone. Just a reminder, if you're joining us via speakerphone today make sure your mute function is turned off to allow the signal to reach our equipment. Once again, ladies and gentlemen, Star 1 for any questions and we'll pause for just a moment. And we'll go first to Mark Johnson at RBF Advisors.

Mark Johnson: Yes, good afternoon. Thank you for your time this afternoon. Quick question – you mentioned it would be important to identify good active managers, and you said that high tracking error could be one indicator – do you have any other suggestions, in particular around domestic managers? What would be some other things we should be looking for? Thank you.

David Iben: Right. I thank you for that. Obviously, anything I say will be biased but I can give you my input. I think, yes, the high tracking error, high active share what we didn't put in here, that we do put in a lot of other things – why it's important to be different. Being different isn't good enough. You can be different and be wrong. So, it's a bit biased but I think backed by empirical evidence – you should look for managers that own undervalued securities. I think you should look for portfolios that are fairly cheap relative to the asset value of their firm. You should look for things that are cheap on -- not PE, but normalized PE -- what if margins go up to normal – not cash flow, but normalized cash flow – those sort of things.

And, you know, you said domestic – yes, I don't know how to answer that other than to say if a domestic manager has the ability to get out of the U.S. a little bit, they should. And if you have the ability to own not only domestic, you know, we love the U.S. We think it's maybe one of the greatest countries in the history of mankind. It's got a good long-term outlook. However, I think the valuation of U.S. stocks relative to stocks in other countries has probably never been this out of whack and we point out that in 1929, people could correctly say the U.S. has a great future – Irvin Fisher incorrectly said we've reached a permanently higher plateau. The market fell 90% in the next 3 years. You know, the market fell in half in '72, it fell in half in '99 – so, in half in '07.

So, if you have the ability to not do domestic -- there are times to do domestic -- but we think that not only in certain other countries there are similar companies, you know, phone company versus phone company, railroad versus railroad, oil company vs. oil company – you name it. You can get better valuations elsewhere and faster growth as a lot of emerging markets seem pretty interesting now. So, I would say, yes, look at valuations. Look at, you know, 20, 30-year track records of how that manager has done – not the short-term track record.

In '99 you wanted people with long-term track records. You wanted to avoid people that had a great 3-year track record in '99. You know, maybe now, I think 4 or 5-year track records can, you know, be a problem, whereas I think a long-term track record is a good way to go. But, you know, look at the companies they have, look at the valuations they have, look, you know, whether they're in the growing parts of the world and that's probably all I should say.

Operator: And ladies and gentlemen, once again, if you do have a question at this time, please press Star 1 on your touch-tone telephone. And we'll pause for just a moment. We'll go next to Trey Tune at Brown Advisory.





Trey Tune: Yes – hey David. Good afternoon. We've seen some well-known investors, you know, maybe get the value concept correct but get the investment outcome really incorrect. And I'm thinking about your fellow Floridian down at Fairholme is one example of that.

What gives you confidence that – besides the fact that you've done it successfully in the past – but I mean, this portfolio, this team, what gives you confidence that either the right catalysts are going to materialize or the market is going to begin to agree with you about the value of these assets and these companies -- in a sufficiently short period of time -- that we can all say, "It worked."

David Iben: Well, that's a very good question because sufficiently short is a subjective thing. Let me see, let's start with value has been out of favor for a long time, so, as far as competitors – I have no comment as to whether it's short-term and they'll bounce back or they won't bounce back. You know, I don't follow the other managers as much, so, no real comment there.

We are very different from most managers. We spend a lot of time on Porter's Forces. We spend a lot of time on barriers to entry on assets that should have the ability to earn a return on assets. If we can buy those assets at half or a quarter of what they're worth, then wait for their return to come, then they will revalue up to a valuation more in line with the value of the assets.

So, it's different. We think we do have a lot of scarce products. We think we do focus on things that don't obsolesce quickly. We don't have a lot of exciting tech companies and things like that. Tech is great but if it obsolesces fast, it's a different thing – it's both good and bad. But, we think that at 10 years from now, people will still eat food and still use electricity and still use natural gas. We even think they'll still use a little bit of gold – less so -- but we think they'll still ride on trains and those sort of things, so we have a lot of franchises that have oligopoly and things like that. It's something that makes sense to us and has worked over time, you know, that said we didn't look so smart in the late 90s and we certainly didn't look so smart in the late 2014 and '15.

I showed that one chart saying, you know, we think that we own lots of things that deserve to sell double where they're selling at, and so, if it takes one year, then that's wonderful – it probably won't. And if it takes 2 years, that's 41%. If it takes 6 or 7 years, we're still getting good return, so, we think it's a portfolio that will outperform.

Now I've already said people can't predict, so if I try to predict for you how well we'll do or how soon it will happen, then I'm a fraud. I can't do that for you, but I can say that my confidence goes up the cheaper the stocks become and so our confidence is very high right now. It's one of the cheaper portfolios – it was, you know, cheaper a year-and-a-half ago, but for the most part this is one of the cheaper portfolios in the 36 years I'm doing that.

So, we feel very confident if we're right. Does it happen in a meaningfully short time so that our clients don't fire us or your clients don't fire you – that's the fascinating thing about our business. You know, we try hard to communicate to clients that long-term performance requires some bad patches in the middle. And in the past, we've had really good, long performers and we've had bad patches in the middle.

I believe since the short-term is hard to predict and value wins out in the long term, all we can do is buy value and educate people so that it turns out that it is a sufficiently short time.

And so, that's the only way I know how to answer that.

Trey Tune: Thank you.

Operator: We'll go next to Bruce Daigle at Raymond James.

Bruce Daigle: Hi Dave. Thanks again for these quarterly updates and your honesty and frankness – it's very refreshing. I appreciate it. I was wondering – do you use or think very much about potential changes for currencies going forward before you make purchases?





David Iben: Yes – thank you very much. Yes, currencies are a fascinating thing. For years you didn't really have to think about currencies too much unless they were a lost currency, but, whether one central bank was printing at 4% and one was printing at 6%, it didn't matter that much. And interest rates were more in line and maybe the bond markets were cheaper.

Now, we absolutely have to consider currencies. We have – we spend more time probably talking about currencies than anything else. As you could probably expect from my earlier comments – we do not forecast currencies. We never say, "Wow, we think the yen is going to go up 4% this year and the Swiss Franc's going to fall 8%" – we don't do any of that.

What we do spend a lot of time saying - all right, we are not buying a currency, we're not buying a bond. If we buy a bond in a country and that currency drops, we have a problem. We are buying businesses and if we buy a farm in another country and the currency drops (and they're selling food in dollars), things will rate up. We don't see any risk. If they have U.S. dollar debt then they're short-term risk, is you have losses on your book value that will probably be made up in the future. If you have a gold mine, currency really is not a risk at all. You have gold that trades in dollars and you really don't care what the currency is doing and actually perversely dropping currencies usually help. If we have an exporter, you're actually helped a little bit by dropping currencies for a little bit. But if you have a multi-national, you don't have to care about it. If you have an importing company, then as an investor sitting here in the States, if a foreign currency drops, they get hurt twice. We lose money on the currency drop and the business gets hurt because they have to import and so their business gets hurt too.

And so we, for every single company we have its part of our report to say, you know, are these guys more multi-national? Are they importer? Are they exporter? And, how much risk is there that we get hurt by the currency. And not to go too much in our process, but also everything we have, we say, How much risk is there in geopolitics? How much risk is there that management does something dumb? How much risk is their balance sheet isn't appropriate? And so on and so forth.

And currency is one of these factors, and the more risk we see from any of these, the bigger margin of safety we demand. And so, yes, we want a bigger discount for an importer. In general, we want a bigger discount for a new management team. We want a bigger discount for most emerging markets than we would want for Canada, and so, a lot of time and thought goes into the currencies but we don't predict.

Bruce Daigle: Thank you.

Operator: We'll go next to Scott Horton at J.P. King Advisors.

Scott Horton: Thank you. Thanks Dave. I've enjoyed your slide there on Bitcoin and your comparison to the tulip mania and was just curious if you might care to expand on that or have any further thoughts to entertain us with on that subject? Thank you.

David Iben: Certainly. I'm not an expert on it but I can say that there is money and there is technology and they are two different things. You know, the last time I mentioned that I had to live through active management being extinct, is in the late 90s where people confused the Internet with a pet food company that's using the Internet – they would call an Internet company where it was a pet food company that was using the Internet. And people lost a lot of money buying mundane retailers that they thought were Internet companies and so on and so forth. Money needs to be a medium of transaction. Gold is not very good. Fiat currency is way better. Bitcoin's arguably even way better. There are a lot of things that people should like about it. So, that's all good.

Blockchain – I'm out of my element here but Blockchain seems like a great technology – kind of like the Internet – that might transform a lot of businesses, but Blockchain is not money. Blockchain is a technology that some of these crypto-currencies use.





Now, Blockchain might help it be a better medium of transaction, so that's good. The even more important attribute of money, is it needs to be a store of value. So, gold, people are right – pretty worthless in a lot of ways, but, my God, it's good at storing value as it's done it for many thousands of years.

The currencies of all governments are spectacularly bad at storing value and the U.S. during the last 100 years is one of the great empires in the history of mankind – has devalued the dollar 98% - that was during the good times. And most everybody else has done worse, so, the reason to like gold better than currencies is exactly that – it's scarce.

Crypto-currency comes along you say, Wow. This is a big improvement. It has liberty, people can use it and get around the government and the oppression and all that, what a wonderful thing. And it's scarce. We've got these algorithms that keep it scarce. Maybe it's just the perfect form of money.

Can we trust these people not to come up with more of them? You know, and so maybe we should like this, maybe we shouldn't, but like I say, we've had our questions answered. Bitcoin has spin-offs, there were different kinds of Bitcoins and then Ethereum comes along and you have 487 different crypto-currencies? And they're not backed by dollars or yen or gold or real estate or anything. Anybody that wants to dream these things up – so, on whether these things are scarce, question answered – they're not scarce. There are no barriers to these things being created out of thin air. Therefore, I think Howard Mark's and others are right. They are quite probably worth nothing. That's coming from a non-expert, but that's the way we see it.

Scott Horton: Thank you.

Operator: And we'll go next to Scott Berglund at Elk Hill Advisors.

Scott Berglund: Hi David. Thanks for your time today. My question is about – it seems like there's reading from several pundits, maybe most noted, Joel Greenblatt is making the argument that the U.S. stock market is essentially beginning in 1990, started a new valuation paradigm and so that, you know, the long-term mean or median PE going back to, like, the 1870s, it was, you know, we all hear is, like, 15, 16 times earning that no longer applies. I think the median or mean PE since 1990 is something north of 20 – obviously using that framework you would see a market that's not nearly as overvalued as, you know, what you would if you used the very long-term average. What are your thoughts on this argument that we're in a somehow new valuation paradigm in the U.S. and possibly other places around the world?

David Iben: You know, I've read his comments and I've read Jeremy Grantham's similar comments. I put some of it in the commentary that you can pull off the website but to answer your question, there's a lot of credibility to it. I think Jeremy Grantham and Greenblatt and others – they point out that anti-trust laws seem to have gone out the window.

You know, you've got capitalism and under capitalism, excess profit is competed away and now that we've – to overstate what they're selling us, capitalism is gone – it's been replaced by cronyism and so now you have a lot more monopoly power and as Grantham says, "If that's true, if you have cronyism and monopoly power, we can expect higher margins and lower growth." Then he looks and says, "Low and behold, that's what we have." And then if regulation is actually not meant to hurt the big guys but to hurt the small guys, then the big guys should make more money and hey, they have. And the small guys – when they show the chart – the small guys are not. The rate of creation of small companies is going off a cliff.

Yes, this as an American, that's a worrisome thing because that's a lot of what has made our country great and then hopefully we can somehow get back to less regulation and whatnot. But, you know, enough of the politics – I think that there's absolute truth to that.

However, I have always believed that governments and regulations and collusion and cartels and other things can, in the short term, make lots of money and in the long term, they break. I don't think you can suppress the laws of economics. I think the laws of economics are very strong. I think the laws of mathematics are very strong. I believe that the whole idea that if you have cost of capital and return on







capital and they get out of whack, people will arbitrage that away. And so, if I could borrow money at 8 and invest it at 10, I'll do that and I'll keep borrowing and I'll keep investing until those two come together.

So, maybe this monopoly of power means that you don't arbitrage 8 and 10 anymore. Maybe you arbitrage 7 and 11 or 6 and 12. Record-high profitability and zero cost of money, that is huge. I don't think that any amount of regulation and collusion and monopoly power can sustain that. So, I believe that the laws of economics are going to win and either the cost of capital goes way up or the return on capital goes way down, or quite likely – both. So, that's one point. The second point is that as you say, if you assume they're right, maybe the market's not that overvalued. I agree with that. If they're right, the markets not that overvalued, if they're wrong, it's hideously overvalued. If my two choices are I'm paying way too much or I'm just paying too much, I'm not that interested. I would rather pay too little which brings me to my last point.

We're getting real bargains in emerging markets because people say, "My God. They're corrupt. They have these big oligopolies and they have governments that let them create monopolies and they have this excess profitability due to their connections and stuff." And because of that, they're four times earnings. And in the U.S., we say because of those very same things they deserve to be twenty five times earnings, I think if concentration of power is good in the U.S. concentration of power is also good in emerging markets – it's either good both places or it's bad both places. So, even GMO after all this writing concludes that even if we're right, we much prefer emerging markets, we're in complete agreement with them. So, a lot of merit to it but you're paying for that argument right now and in the rest of the world you're not paying for that argument.

Scott Berglund: Thank you.

Operator: And just one final reminder to our audience, if you would like to ask a question, to please press Star 1 at this time. And we do have another question, sir, from Bruce Daigle at Raymond James, again. Please go ahead, sir.

Bruce Daigle: Hi Dave. Were you planning on updating your uranium article from a year ago – or earlier in the year or are you still as positive of that going forward?

David Iben: I'll have to look at it and see whether it needs some updates, but to your question, absolutely still as positive. I think what we've said is, no matter how you look at it, we're a year closer to things being good and people that talk to me 3 or 4 years ago heard my view that things would be a lot better by now. Once again, forecasting doesn't work. Economics in the long run does work. So, there has been no negative developments. It's been almost all positive developments over the last couple years. So, while the Japanese have been slow to bring their reactors back on – they're starting to. We've wondered for a long time, why is the Department of Energy of the U.S. selling at these ridiculous prices. They came out and said, "We're not going to sell as much at these ridiculous prices."

Kazakhstan where they were selling a bunch of it, they came out and said this doesn't make any sense, we're going to cut back. And they might cut back some more. Cameco [Corporation], one of our big holdings, it said the same thing, "We're going to cut back what we're selling. It makes no sense to sell at these things."

After a long wait, China's getting pretty close to getting a couple reactors up and going. If they have problems, that'll set us back another year or so but they seem to be on schedule. If that goes well, then I think you'd see a big speed up and then all these developments of the 80s – reactors and they're different plans, so – demand is slowly coming back. Supply is that much closer to going off a cliff. And once again, the price of uranium has fallen from 137 to 20.

You know, if they need new mines and they will, because we're not mining enough and haven't been for a long time. Whether the price needs to go to 60 or 80 or 100 is debatable. But it's not 40 that will bring supply up, that's pretty clear. So, we're not going to predict when, but as I said earlier, if you can make two, three, four times your money -- it's worth waiting a few years.

Bruce Daigle: Thank you again.





Operator: And we'll go back to Mark Johnson at RBF.

Mark Johnson: David, same question basically on your coal article – do you still feel good about that?

David Iben: Yes. I think we feel pretty good about that. I mean things have obviously improved quite a bit in the coal arena and, now you hear China worrying about prices going up too fast – what a change from a year and a half ago. Like I say, the world is a cyclical place.

We have had a chance to make some good money in some of the coal names and unfortunately, we lost a lot in Peabody [Energy] when management decided to, in my words “steal the company” at the wake of the bottom. But we still feel that coal deserves to lose market share, coal is losing market share. It will continue to lose market share.

The growth will be in solar, the growth will be in wind, and there'll be some growth in nuclear – maybe in gas. And no growth in oil, no growth in hydro. Coal is a long, long, long way of going from zero and so because of all the obstacles, we only want to own it when it's very cheap, but some of these names are still very cheap.

Mark Johnson: Thank you.

Operator: And sir, I have no additional questions at this time.

David Iben: All right. Well, thank you to everybody for calling in, good questions and I look forward to talking to you next quarter.

Operator: And ladies and gentlemen, once again, that does conclude today's conference. Again, I'd like to thank everyone for joining us today.

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