



KOPERNIK GLOBAL INVESTORS, LLC

Edited Transcript of the 4th Quarter 2017 Conference Call with David Iben

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Operator: Good day ladies and gentlemen. Welcome to the Kopernik Global Investor Fourth 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. Instructions will be provided at that time. At this time I would like 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 4th Quarter 2017 Conference Call. My name is Kassim Gaffar and I have with me David Iben, our CIO and lead portfolio manager with the Kopernik Global All-Cap Strategy and a co-PM for the Kopernik International strategy.

Before I pass the call over to Dave, I will be providing everyone with a quick firm update. From an overall AUM standpoint the assets as of the end of 2017 were right around \$3.2 billion. This represents an impressive growth of roughly 30% over the last 12 months. The increase in assets has come from our global strategy and also from our international strategy which in a relatively short period of time has grown to right around \$100 million. Both strategies have continued to attract smart and like-minded long-term investors that realize optionality and the tremendous opportunities our portfolios exhibit. We do believe it is the case given the steep discount the portfolios are trading at.

Also from a people standpoint we are very well positioned with 38 people strong. During the year we continued to enhance our team where fit with the additional hires of three members in the research team and four members in the client service and business administration team. We are excited going into 2018 and very much appreciate the opportunity to serve you and your clients.

That pretty much wraps up the firm update. Please note Dave will be referring to a presentation during the call which has been posted to our website at kopernikglobal.com and it can be found under the [News and Views](#) section. Also we have recently added two new commentaries on our website of which one of them is Dave's latest piece called [Runaway Train](#). And with that I will pass it over to Dave.

David Iben: All right thanks Kassim and thanks to everybody for joining us. It's really a great time for a conference call because I don't know that many of us have ever seen a market like the current market. It's an impressive market. Momentum to the max, a market where real analysis and value inside aren't that important to most people nowadays. So, we have a lot of thoughts on the challenges and the great opportunities really.

To start though, it has probably been a long time since many of you have seen our presentation, but we have updated a few slides. I thought I would start with that and then get into the meat of the thing. But our presentation features what you all know, we're very different from other managers. Whether that's good or bad we'll leave it up to you but let's go through some facts where we're different all the way up to our name where we have taken Kopernik, most people know as Copernicus who is the epitome of independent thought of trusting his own analysis even if it was a very, very, very unpopular analysis. The people didn't want to hear that the earth was not the center of the universe. And so we believe in our own analysis, we believe in long term perspective, limited capacity that we think is very important especially in this market and of course value and bottom-up fundamental analysis, something that seems quaint nowadays but we think will come back.

With that, we have a few slides that show like I say what we all know, that we're a bit different. You probably haven't seen higher active share than this. Non-index holding is 2/3 of the portfolio, correlations to the index





0.1, close to 0, versus the peers that are fairly correlated. High tracking error, which as we'll get into, some people view as risk but when the index that you're tracking is at all-time highs we would suggest that low tracking error is high risk and high tracking error is low risk. So that presents opportunities.

This slide just shows what I think we all know intuitively also, that not that many people are willing to look different from the crowd so we think it sets us apart from many. Now importantly being different does not mean being better. Time will tell. We feel strongly there is a lot of competitive advantages but nothing is a better predictor of future performance in our view than the attractiveness of the investments in your portfolio.

Here we are in a time when the market on just about any metric you can look at is the first, second, or third most expensive market at all time. This portfolio of generally market share leaders and oligopolies is trading below book value, a matter of fact 25% below book value, even tangible book value. It's inexpensive on sales, it's inexpensive on cash flow, it's really something that we feel very good about we think portends good things for the future.

Now value seems like an easy concept, why doesn't everybody do it. I think David Swenson states why they don't do it. It requires being uncomfortably idiosyncratic. Human beings don't like discomfort. We don't like it either but we think we get well, well paid to put up with a little bit of discomfort. And so speaking of idiosyncratic, you guys all know the portfolio. In terms of sectors we own, very, very different. In terms of countries, very, very different. In terms of regions very, very different. In terms of being able to buy the smaller non-ETF populated values out there, very, very different. And in the U.S. too, we love the U.S. but there is a price for everything. We think people are making a mistake putting half their money in a very, very expensive market. Once again time will tell.

We also have a version of this portfolio that doesn't have U.S. or small-caps and the same thing really, you'll see the same over-weights and under-weights and willingness to look a lot different than the popular marketplace. Different, cheaper. Does that matter in a market where things look very, very good? There is as Keynes points out a willingness to want to look like everybody else no matter what the cost. Is this a time to go with the flow, maybe? Profit margins are at an all-time highs, growth has been good, the economy has done well for one of the longest periods in history, the bull market has lasted for one of the longest times in history. There is a lot of wonderful disruptive technologies that should grow for quite a while. What's not to like? Well what's not to like is valuations. Like I said before, valuations are an important thing. So, in addition to the fact that margins look like they are unsustainably high and debt all over, the world appears to be unmanageable, too high and valuations. This chart shows that we are almost as bad as 1999 in terms of the number of companies that are above ten times revenues. It's not ten times earnings, it's ten times revenues, it's just really an obscene level. So if you look at price to book or price to GDP or price to replacement value, there is about any way you want to look at it like I said earlier, first, second, or third in terms of most expensive markets in history.

As Kassim mentioned, the commentary we sent out really asking the question of is tracking error a low risk or a high risk, in a market where all anybody cares about is how fast the market is going up maybe - and what really seems to matter is fear of missing out. We can't miss this bull market whether it's in the NASDAQ or in crypto currencies or art or you name it, you don't want to miss out where rather than looking at the speed of ascent they might want to look at whether they are headed the wrong way on the track.

Let's go a little more on specifics. 1929, 1972, and 1999 and for all the world it appears now people are confusing good companies with good investments. Good companies at outrageous prices have always in the past turned out to be bad investments. Time will tell on this but the magnitude of this is fascinating. This will be in the history books for decades to come.

These stocks - in 700 days - these stocks added \$1.3 trillion. That's the increase, that's not the whole value. You know, when I started in this business the entire U.S. market was about \$0.7 trillion so the increase in this new mania is a challenge. But I don't want to spend too much time on this because I'm not really good at spending a lot of time on people's favorite stocks.





But before moving on to the next thing one last thing, you know, the increase in the value of the world stock market in the past 18 months is \$25 trillion. Like I said, the U.S. market used to be \$0.7 trillion. So, it's truly phenomenal times.

Let's leave stocks. You have probably read over and over the various articles that this is a bubble in everything. Certainly the thing that is of most interest to all of us nowadays is crypto-currencies. A lot of things to love and then a lot of things not to like. Such as no tangible value whatsoever and unclear technologies, the confusion of Blockchain technology with a coin that just happens to use that technology. Two different things, as people learned in '99 that there was a difference between the Internet and the retailers that use the Internet such as Books-a-Million and eToys and Peapod and all the pets.com, all the bankruptcies. So interesting times.

A couple of years ago it did seem kind of intriguing. Here you've got a coin that is going to keep supply scarce and scarcity is very, very important. So was it going to stay scarce, wasn't it going to stay scarce. Well we now have the answer. They didn't call it split, it forked, it forked again, and then competitors came and then more competitors came. In the last year there has been about 3,000 new crypto currencies coming up. People can talk about what a mania is or isn't and I guess it's a subjective thing.

We've got a lot of points here, I'll just point out four of them. Life Coin up 75 times last year. A cigar company said we're going to start running crypto currencies anywhere from 3 cents to \$1 in one day. Really amazing. A struggling biopharma firm changed its name to Riot Blockchain and the stock went from 7 to 46. An iced tea company changed its name to Long Blockchain. Enough on this. You can read it all at your leisure.

Anyhow, the point is this is the mother of momentum markets. I don't think we have ever seen anything like it and certainly it will be at least a generation before we see it again. Is this good, is this bad? Well I guess it's good. It's allowing all kinds of new technologies to grow fast and changing the world in a positive way. I suspect it will work out well for everybody except for those that invested in the stocks. But time will tell.

All we know is logic and history suggest that what goes up too far, comes down. And so big technological change and easy money in the 1920s followed by the 1930s. Big money printing going on in the early '70s followed by the '72, '74 market. What is not on here is the money printing and massive technological change in Japan in the '80s which was followed by the '90s. Many of you will remember '99, massive money printing. We printed money to counteract the Asia crisis and the Long-Term Capital crisis and the Russia crisis and the non-existent Y2K crisis. But what goes up comes down. I don't know that '07 was a bubble but it was an overvalued market. And even good companies, maybe especially good companies come back to earth.

So what should our strategy be here? You know, fortunately we don't have to own these popular stocks. There are a lots of things. A picture here of two value investors. Anyhow, we do really hear people are assuming the end of active management, they're assuming the end of value management. I think they have got it precisely wrong. I think in the past when value stocks have gotten very, very cheap that was the wrong time to get rid of the value manager and absolutely the wrong time to go with the growth manager. As this comic says, what sustains me is that fundamentals are good.

So for the down and out stocks that people don't like, the fundamentals are surprisingly good. So investment strategy, there is a lot of interesting things. A matter of fact this is a time to get excited I think. Let's start with what we have done. For the second time in five years, even in a market that is buying tech and buying a lot of phones and buying a lot of emerging markets, we were able to buy one of the best mobile phone companies, a market share leader, and technology leader in a fast growth market at 12 times earnings. It was even cheaper when we first started getting into it. Those sort of things are interesting. Techs going to the moon but not if it's not popular technology. If crypto-currencies are going to take over the world then who needs ATM machines. So Diebold got really cheap but you don't need other transaction. Things like PAX Global that has slowed down in China but not slowed down in the rest of the world.

EM has bounced back but it's still cheap. We've had a chance to add the names like Etalon and Kernel and Lenta and Pax Global and RusHydro. Gold stocks have done way worse than gold which has given us a





chance to add back to some quality gold names. And while we're buying some of the things that are not popular now, some of the things that were really unpopular the last year or two have run up nicely and we've been trimming there. You can probably all remember the disdain people had for Japan a few years ago. Japanese names have run up a lot both in Yen terms and even more so in Dollar terms. So a lot of trimming going on with the Japanese names.

And if the Japanese names were unpopular, that was nothing compared to the absolute disdain people had for hydrocarbon companies two years ago. It was the end of hydrocarbon society and that gave us a chance to buy oil companies and gas companies and coal companies and engineering companies. And we have now sold the majority of those. They have had quite a run.

Even in a wild market just like there was in 2000, 2001 there is lots of opportunities to make money. We feel good about the portfolio investing outside of the U.S. similar sort of buys and sells.

What else looks good? We have liked gold for a long, long time. Fortunately, there has been some volatility to help us make some money. But things look pretty compelling now. You've got gold has had its huge run-up and its huge rundown, it's starting to go back up again and over seven years that has in a very exciting way gone *nowhere*. But that is gold above the ground. Gold below the ground has gone down and down and down. And so while gold has gone nowhere, gold held by companies that own reserves has dropped in half. The GDX is in half. If it's a smaller company it has dropped by 2/3. So we think maybe like a decade ago, and maybe like two years ago this optionality will pay off. There is massive optionality on a very, very bullish story buying gold in the ground for less than it is currently worth and maybe it's worth quite a bit more.

Those of you that have known us for a long time, you know that we look for equity-type returns or better everywhere we can get it and so in the past we have owned convertible bonds and high yield bonds, and you name it. But over the last year it has been amazing to watch the valuations of the S&P go up and up and yet a put option that would protect somebody from a correction has gone down in value. Theoretically the value of the put option should be the highest ever but because people are betting against the VIX Index that has allowed us to buy put options at the lowest price ever. So we're not predicting that the U.S. market does bad or good or that a correction comes tomorrow. We will go on record as saying that corrections have not been outlawed, that they are still part of nature and they will happen someday and that it has been one of the longest periods without a correction.

We put 1% of the portfolio in this and if the market wants to keep going up, that's great, we'll make money minus the 1% we'll lose on this put option. If a 30% correction comes, this shows here we could make about 25 times our money i.e. 25% of the entire portfolio value can be made back on one quick correction. This suggests that if we do this every two months and lose 1% every two months and one correction happens in the next four years we are quite likely to turn a profit. And if it happens earlier we are able to make a lot of money. So the market hopefully keeps going up but if there is a correction this will be a wonderful thing to have. So down 1 or up 25, this is our kind of investment.

There are opportunities as we put in our commentary last summer. The ability to arbitrage between risk to a portfolio and the risk that society cares about is really wide right now. It is really intriguing. We have talked a lot in the past about how Howard Marks' book from a few years back, *The Most Important Thing* and three chapters on risk and the idea that as things get cheaper they actually become less risky. And so when people don't like something or are afraid of something it goes down in value. That even defaulted bonds can be riskless if you're buying them for 1/3 of the recovery value.

And so people don't like volatility. Because of that they are willing to overpay for low volatility and underpay for high - so people view volatility as risky but right now the low volatility stocks we think are very risky. They are very overpriced. People are buying them mindlessly through these low vol ETFs and things where some of the volatile stocks are trading five times earnings, half a book, they are we think low risk. Tracking error I already talked about but if there are people that don't like tracking error, history will suggest they will change their mind the next time the market goes any other direction but north.





We already talked about uncomfortable things to own so if people didn't like Japan a year ago, they didn't like gold two years ago, they don't like uranium right now. If you're willing to hold some uncomfortable things, good things happen. People like clarity. We all like clarity. They tend to overpay for clarity but they will give things away if they don't have clarity on whether they're going to have to wait a month or a quarter or a year or two years to double or triple their money. A beautiful thing.

People no longer think that printing fiat currency is inflationary. That is I think a mistake people are making. People are all very big on catalysts and forecasting even though there's reams of evidence that human beings just aren't good at it. These are all wonderful things for the few value investors that are still out there. So that's great to further expand on some of this.

There is not even that many stocks left. There's more indexes than there are stocks. People are choosing to buy an index of stuff that somebody put on a list rather than actually have to roll up their sleeves and do the analysis on the stocks. And as companies do buybacks at high prices, that lowers the number of stocks available. We think that makes it tougher but on the other hand, in a way, it makes it easier for those people who are willing to go to other countries. Because the U.S. has less and less stocks, the rest of the world has more stocks and more potential growth and more resources and more people and more demand and so a compelling time to be willing to go beyond the U.S. shores.

Just examples, some people suggest that we give more examples. We arbitrage as I mentioned people's expectations of risk. We also arbitrage one country to another. So we can buy in some big growing cities and get real estate below 500 a square meter versus double that, five times that, ten times that depending upon where you go in the world. We are buying gold underground for 5/8 of the incentive price of replacing that mine with a new mine and that's really a phenomenal thing. We're still able to get electricity distribution at a 20% yield, earnings yield i.e. PE below 5. We're able to do similar with natural gas, 20% earnings yield. Telecom, as I mentioned, China Mobile is a high single digit yield, Korea Telecom is a nice double-digit yield. And so those are the things we like. Electricity generation at half of book, uranium at 1/3 of what it would take to replace these things that are being pulled out of the ground, tankers at 1/4 of. So there really is a lot of opportunity for people that are willing to shoulder idiosyncrasy.

Let's show a competitor's slide here. As I have mentioned in my commentaries it's been fun following everything that Grantham has been writing some really good points. But even they all conclude even if margins stay high for a long, long period of time and growth stays high and multiples stay high for a long period of time, even assuming those sort of things people can expect to, from these valuations, lose money on large stocks, small stocks, value stocks, growth stocks, quality stocks, you know, REITs, and lose money in international stocks and lose money in bonds and you name it. But a 6.7% return, real return in emerging market value. We think they're right. And if you noticed earlier we have 1/3 of our portfolio or more in emerging market value. So it is a compelling time to do that.

I mentioned one of the big arbitrage things is the fact that sure we can buy something at half of what it's worth but if you can't tell us when it's going to double a lot of people don't have the patience to wait. We'll wait. You know, bonds pay 2% or 3% and we're talking about making 20%, 30%, 40%, even 100% IRR depending upon whether we have to wait four years or three or two or one and if we have to wait ten years we're making 7% for God's sake. So this is like we say a really interesting time to be a value investor. Hopefully there won't be a bear market, but sooner or later one way or another value shall return. And when it's most painful to be value is when it's most lucrative to be value and so we're very happy to be value right now.

With that let's take questions.

Operator:

Thank you. Ladies and gentlemen, if you would like to ask a question please press Star 1 on your telephone keypad. If you're on a speakerphone please pick up your handset and make sure your mute function has been turned off to allow your signal to reach our equipment. Once again that is Star 1 for questions and we'll pause for just a moment to give everyone the opportunity to signal. And again that's Star 1 for questions. We'll go to Bradley Calder with TIFF Investment Management.





Bradley Calder: Hi Dave.

David Iben: Hi.

Bradley Calder: Could you go through your thesis with us on the French electricity generation company in your portfolio? Thanks.

David Iben: I'd be happy to.

Like I say, some of the best values are in very unpopular things and sometimes people have a tendency to be very binary. We like this market, we don't like that market, we like this company, we don't like that company. Whereas we try to appraise the business and then we say the more things there are to dislike, the more things they are that can mess up our appraisal, the bigger the discount we want.

So if we start with the French electricity company we say "all right, what is to like?" Well it's quasi-monopoly. That's to like. It has a nice installed base. I don't need to add a whole lot more, that's a nice thing. Once nuclear power plants are built the variable cost of nuclear power is next to nothing, it's 3% of the total cost is what they spend for the uranium so that's nice. I think a lot of us in this world like the idea of electricity that doesn't generate pollution. And there is a lot of concern about greenhouse gases and whatnot and nuclear doesn't have any of those problems.

So that we think is a real good thing. It's low cost, clean electricity provided by a monopolist. And also while technology is very exciting, things like food and electricity are nice because they don't go obsolete in a few years. They don't go obsolete in a few decades. And so we like that. So we start with that saying excellent, we would like to own this. And what does it take to build a new nuclear reactor, well maybe \$8,000 per kilowatt, maybe more. Prices keep going up. It would be very expensive to replace this thing. So theoretically it's worth a lot. And then we say all right, theoretically it's worth a lot but nuclear does have problems. We have all seen that. Let's ding them a little bit for that. And they have a lot of debt, let's ding them for that and a lot of their plants are pretty old so let's cut their value in half for that. Let's take all reserves and potential liabilities for problems with nuclear and let's ding them for that. And then while it's nice to be a monopoly it's not so nice to be a pawn of the state where the government can make you sell electricity for too cheap a price and they can make you build things that are unprofitable and make you bail out other things and so let's ding them for this.

So we cut them in half, and cut them in half, and cut them in half again, and we say we really don't want to buy this thing unless we can get a 60% discount. We were using a 60% discount from the appraisal value before we would even consider this thing. And the market says we'll give you a lot more than a 60% discount, we hate this thing. And we say there is a lot to hate but you hate it too much. You knocked it down to \$7 last year and now it's \$10 and \$11. We still think even with all those haircuts we give it we think it's worth twice what it's selling at and they can clear up some of the uncertainties and it's worth more than that. So there is some risk to this and yet there is so much value. It's got a massive upside.

Operator: Thank you. Our next question comes from Rick Speidel with Ameriprise.

Rick Speidel: Thank you. Thanks again for doing these calls. I'm curious about your updated thesis and appraisal on a couple of holdings, MEG Energy and Northern Dynasty.

David Iben: Certainly. MEG Energy is a little bit like the one we just talked about, EDF, in terms of this thing is potentially worth a lot. It used to sell at \$60 a share. If you give them just a small value of the resources they have underground it is potentially worth a lot more than \$60 a share. But that's potential.

Right now we're in a world where hydrocarbons are cheap, gas is cheap, oil is less cheap now. We're in a world where those that were foolish enough to take on a lot of debt when things looked better, it has been a punishing time and these guys were foolish enough to do that. With hindsight they shouldn't have taken on





the debt. With hindsight it shouldn't have traded for \$60 a share. But being down \$3, \$4, \$5, \$6 in the recent months it is, you know, worth multiples of that but there is risk.

Northern Dynasty is an example of when our way of discounting things pays off. We say if we're going to own a gold company what is the thing we really want. Well we want one that owns gold. These guys own more gold and this one mine has more gold than possibly any other gold mine in existence. I mean, it's a reserve, not a mine. In addition, there is 60 billion pounds of copper which is doing better nowadays. People tend to prefer lower geopolitical risk. This is in Alaska. And so lots of gold and it's in a safe place to be. This is worth a lot of money. So we have put our valuations on it and say it's worth a lot of money but it's not going to be mined for a long time. And the management team was at war with the EPA. And they had some legitimate points but being at war with the EPA was very, very expensive and they were issuing stock and issuing stock and issuing stock diluting the hell out of shareholders to fight their war. You know, it's hindsight, we don't think they needed to fight that war and now with changes to the EPA things are looking much better.

But, we had questions on the way things were being run and questions on the strategy and there's many questions on the timing. So we actually said we wanted 90% discount to even consider this thing and the market was giving it to us at I can't remember the number, probably 99% discount. It was this huge, huge reserve that could have been worth \$20 billion or \$30 billion was traded at \$40 million. So it went from \$40 million to \$1 billion in one year and now it has settled back to half of that.

But a really, really, really good property with management challenges and relationships and perception problems and all kinds of stuff not to like. But really, really valuable property selling at a huge discount. Like I say, the huge upside is available for those that are willing to handle idiosyncrasy.

Rick Speidel: Thank you.

Operator: As a reminder ladies and gentlemen, that is Star 1 for questions. We'll continue on to Robert Castellini with Morgan Stanley.

Robert Castellini: Good afternoon Dave. Thanks for the update as always. And I have always been fascinated with your fascination for the metals and mining, especially uranium and would love if you could just expand your thoughts in the uranium mining space, especially.

David Iben: Yes. You know, a central thing, we always say that value is prerequisite rather than a philosophy. We must pay less for things than they are worth. That requires an appraisal that requires having an idea of what it's worth. That doesn't mean just buy a P/E, you know, cyclical businesses you don't want to buy when there is an E for the most part and you don't want to sell when the P/E is low. And there's all kinds of ways to measure things and so we try to measure each industry appropriately.

We think if office buildings are selling at half of what it would take to build a new office building that provided the economy and people keep growing, eventually someone is going to have to build new buildings or you'll run out of capacity and that won't happen until the price of buildings doubles. And same thing with ships. We can have an oversupply of ships but if someday the economy keeps growing you'll need more ships. There will be more demand and the existing ones will get old. We assume that ships will eventually get back to the cost of producing it.

If we're looking at oil, we believe that \$75 is something that would put supply and demand in equilibrium. And we know that that's an approximation and we're not going to argue with anybody that says \$60 is the right price. We won't argue with anybody that says \$90 is the right price. And but when it was \$100 and something we didn't own it and then when it fell to \$28 a few years ago we were very happy to assume that the world was not going to wean itself off of oil in the next few years. And so we do this with everything. With gold, we said well you can pull it out of the ground for \$800, \$1,000, \$1,200 depending on the mine but to go out and build a new mine, a meaningful mine to make up for the stuff that is being mined then it's closer to \$2,000.





And uranium, the uranium price was \$137 and people were saying we're never going to find enough of this thing. We figured the same sort of thing there, \$75 was sufficient, maybe even \$60 is sufficient and maybe it's \$90, I don't know but \$137 in hindsight was ridiculous. So what happens with \$137, what happens if Kazakhstan puts a bunch of money in the ground and their supply goes up ten times? You get Russians agreeing to turn their bombs into fuel for a 20 year program, you get Cameco putting a couple billion into Cigar Lake over 30 something years. You have supply coming out of the woodwork. And just when that happens Fukushima happens and demand falls apart and the price doesn't stay \$137, it goes to \$18.

Like I say, if we say \$75 and somebody tells us \$60 or \$55 we're not going to argue with them, \$18 was a joke. So what happens at \$18, what happens at \$18 is Kazakhstan says we're going to produce less and Cameco goes we're going to produce less. And then, later on Kazakhstan says we're going to cut even more and Cameco goes we're just going to temporarily shut down the best mine in the history of mankind. And so the price starts to bounce a little but it is still going nowhere. We say the price is going to go to \$75 but like I said we won't argue with \$60 or argue with \$55, whatever the price is going to go way higher. It has to. If it doesn't, no one is going to build a mine. Is that a problem not building mines? Yes, because for 15 years now we have been consuming more than we've mined. And then so the Russian program, that's gone.

Like I said everybody else is cutting back. And nuclear plants are being built. There are 16 in China alone. They're being built other places, those will way more than offset what is going to come off in Germany or other places. And so there again is it going to be \$60 or \$80 or only \$40, don't care. There's more plants coming on and no fuel. The price must go up to its incentive price for future production. And so like I say whether it's buildings or ships or uranium or gold or copper, we anchor our self to a long term equilibrium price. And then, in a beautiful value world we're able to buy gold stocks and uranium stocks so cheap that we probably accidentally make money if everything I said just now is wrong. You know, current prices will support these things. And if I am correct, if the laws of the universe have not changed recently and these things get up to an equilibrium price, there is massive optionality. So, we really, really like gold and we really, really like uranium. There is massive upside with we believe limited downside.

Robert Castellini: Thank you.

Operator: We'll go on to Patricia Neubeller with Merrill Lynch.

Patricia Neubeller: Hey David. I want to thank you for being an anchor to reality for all of us in this never, never land we're in. So, I have a couple of two, three questions. One is stock specific. What's your attitude these days about New Gold?

David Iben: New Gold is interesting, because it was one a lot of people that really know and like gold have been fans of for a long time. And you had people that have been successful in the past and it carried decent valuations. And one thing we have always said we like about the gold companies is we don't have to be the explorer, we don't have to be one of the 3,000 people that fail for every one that succeeds and we don't have to put up with the cost overruns and the problems that just happen over and over and over. So these guys ran into problems and they ran into problems and the stock went down and down and down and down and everybody threw in the towel. And new management came in and we were able to buy the stock very, very cheap. And since then things are starting to go right.

They are actually meeting some targets, things are moving forward. The new team seems to be doing okay. And not to mention the gold price, with the exception of today, has generally been going up nicely. So everything is falling in place but this is no longer priced like everybody's darling, it's priced the opposite. Nobody likes this thing. We like it a lot.

Patricia Neubeller: Super, thank you for that. And the rest of these are theoretical just kind of asking for your thoughts about them. So oil you mentioned, and I kind of got a sense you were talking \$70, \$75 a price. But what do you think is really going on with oil at the moment? What's in the background? What is motivating, what is driving it?





And then the last couple of things and you can kind of manipulate this or massage it any way you want but what is your attitude about the dollar and what's going on there? And then lastly, land, land in South America, land in the U.S., land anywhere, elsewhere. It's not easy to find in terms of a way to buy it but any thoughts you have about that.

David Iben:

Certainly. Oil I don't know if this will be helpful or not but if you take Ben Graham/Buffett's view on the stock market that in the short run it's a voting machine, in the long run it's a weighing machine, that applies to many things so let's apply that to the oil market. Short term Russia cuts back, Saudis cut back, they don't, there is problems in Nigeria or not problems and Venezuelans are in trouble or they print more. And, you know, people's views on how fast solar goes. There's all kinds of things that make oil swing all over the place.

I have no opinion of where it is today and where it might go tomorrow. In the long run, it's a weighting machine and we believe that somewhere between \$60 and \$90 is a price that will keep it in equilibrium. And so I can't give you an opinion other than if it falls to \$35 we're going to be very interested and if it gets to \$105 we'll be long gone. If it gets low people, they don't drill in the deep water and they don't spend their money on oil sands. It doesn't even make sense to even drill as many wells and demand picks up and everybody buys SUVs and when the price goes to \$140 everybody does deep sea drilling and everybody drills all kinds of wells that maybe they shouldn't even have drilled and everybody shifts down to smaller cars. And so we believe the only time to have strong opinions is when the markets get way away from what seems to be an equilibrium. Right now, we don't think we're way away from a price. Maybe it's a little cheap but no real problem.

The dollar is a fascinating thing too. You know, it's so interesting that seven or eight years ago everybody was coming to me saying – "get me out of the dollar". They're going to do this QE2 and QE3 and the dollar is going to plunge. Get me out. Everybody knows you've got to be in foreign currencies especially emerging market currencies, you've got to be in agriculture, you've got to be in gold, get me out of the dollar. And then the dollar had a tremendous run for a lot of years.

And then what was it, a year and a half ago or something, almost every meeting people are telling me why don't you hedge, why don't you hedge. You know, the dollar is - what was the thing, it was the cleanest dirty shirt everybody said. It's not perfect, but it's way better than every other currency. You know, get me in the dollar, get me in the dollar. And, you know, we said well it was a mistake to get out of the dollar whenever they wanted to get out and we suspect it's a mistake to get in and it turns out it was a mistake to get in. We tend to believe that, you know, whether you're talking dollars or yens or euro or franc or yuan or you name it, the last 50 years, the next 50 years, any 50 years they drop in price. They all drop in price relative to food and gold and medicine.

We have even seen it now, even during the strong dollar period versus ten years ago, it takes three times as many dollars to buy the S&P. It takes way more dollars to buy medicine, way more dollars to buy tuition, way more dollars to buy houses, way more dollars. So, you know, people don't tend to realize that fiat currencies always have and always will lose value over time. But whether it loses value faster than the euro like it has been lately or the euro loses value faster like the previous three years. And it is interesting that it is counterintuitive that when the U.S. was printing the dollar was strong. When the U.S. stopped printing and everybody else started printing, the dollar goes the other way. It's just - so we just look at it with amusement and don't try to guess it.

But what we do do, if we were in bonds maybe we would hedge. But we're in stocks and stocks as it said are ownership of business, we really believe that. So to say what somebody should do with a stock is too simplistic. We say, what businesses are we buying? If we're buying in Japan and we're buying a gold mine which they don't really have we would say we don't care if the yen drops because gold sells in dollars.

The same thing with agriculture. So they don't get hurt. They arguably get helped because their expenses are in the falling currency and so we don't worry about that so much. And if it's an oil company we don't worry about it so much. If it's a multinational then we worry a little bit but not that much. If it's a utility that is importing LNG but selling in yen then we worry a lot more.





So we say if the currency drops we're going to have to change our estimate of intrinsic value. Therefore, I mentioned earlier we ask for bigger discounts on things. We ask for bigger discounts on things that are going to be impacted by the dollar. So we don't hedge, we try to risk adjust appropriately.

And yes, we do think our stocks are in our opinion undervalued no matter what the future brings but I think the future almost for sure will see the price of food and gold and many other things go up in terms of all currencies. And that has always been the case and I don't think there is any country where there are fiscal hawks anymore.

Land, outside of our area of expertise. But I will say that it's sort of like stocks in the sense that it's bifurcated. In the stock market if people like it, history will probably show that they're paying too much for it. They're overvalued on most metrics. I have already talked a lot about where if people don't like it they're selling it too cheap. It does seem like the cities that everybody loves right now, they are paying some very dear prices for land in real estate but the less popular markets seem to be pretty cheap. And then we can say firsthand that buying publicly traded stocks we're able to buy land in, you know, farmland. In Brazil, Ukraine, Indonesia, places like that at 1/5 of what it would cost us if we were buying in the U.S. And it deserves to trade at a discount but that's not that much when you're talking houses or offices or things like that.

We understand that emerging markets are riskier but they also grow faster. And so if we can buy real estate companies in places like Russia at huge, huge discounts to what it would cost in the States we're happy to do that. So rather than have an opinion on land or stocks we say let's look at the piece of land, let's look at the stock, and let's wait for the market to make a mistake.

Patricia Neubeller: Thank you.

Operator: Thank you. We'll go to Jay Campion with J.D. Campion Asset Management.

Jay Campion: Hi Dave. My first question is about platinum. I know you have owned Impala for a long time and they have big reserves. I saw that Simvana was buying Runman for about \$400 million. Xtrata bid \$10 billion on this years ago so there's big changes going on there. And I'm wondering what you guys think about the industry and the price and buying at these levels.

David Iben: Yes, to the broader point, you know, you're right. It's a fascinating time. You know, 13D Research wrote a piece about how in the 70s you could buy New York real estate for \$10,000 or something because people were so down on it. It talked about many times in the past where resource companies would buy something for \$1 billion and turn around and sell it for next to nothing. There was some piece the other day that of all the money the gold mining industry spent at the peak in '09, '10, and '11 that 90% something of that has been written off already.

We talked about cyclical and wanting to buy cyclical when they're not making money and running for the hills when they're making mountains of money. Platinum went up and up and up and when catalytic converters and into jewelry, it was trading at a nice premium to gold, it was trading at more than five times palladium. People loved it. Now it's at least was trading less than palladium and at a huge discount so people don't like platinum anymore.

So there is reasons to like it, there's reasons not to like it. But if you go back to what I was saying a little while ago, what does it cost to pull this stuff out of the ground. It's, you know, almost all the reserves in the world are in South Africa and Zimbabwe, not everybody's first choice to do business. And there is, you know, tough geology and there is tough labor problems and there is tough government issues to deal with. Whether Zimbabwe just got a little better or not remains to be seen. When you boil it all down the price needs to go way higher before anybody makes money on platinum. As we said before, prices will clear. It will reach an equilibrium where people can make enough money to start mines. So, the price of platinum we think eventually goes much higher than it is now.





And then to risk adjust this because Impala has debt and Impala has a management team that sometimes-made financial decisions different than what we would have and so we ding them for that. And we ding them for South Africa and we ding them for Zimbabwe, we pretty much give them no credit for it. And we still come up with a stock that is one of the cheapest relative in terms of intrinsic value of anything in our portfolio. So, we like platinum, we really like Impala. We view it as fairly risky with massive upside.

Jay Campion: Okay thank you. And then next I have some questions about Turkiye Halk Bankasi. I saw you guys just purchased it and I know you guys owned Turk Cell before and didn't seem to buy anything during the coup d'état but now are getting into Turkiye Halk Bankasi. I was wondering what you found so compelling there and if you think things are getting better in Turkey and what you guys think about the trial.

David Iben: Yes, everything comes down to our view of risk versus the market's view of risk. You know, there are times like 2003 where China looked a little bit dicey to us but very dicey to other people and all they talked about was SARS and child labor and things like that. And now things aren't that bad or a couple of years ago we found Russia to be challenging. The market value found it to be uninvestible at any price. That was a big opportunity.

To give you guys a view of our internal workings here, we decided that Turkey, the risk has gone way up. The market decided that the risk had gone way up. We said internally do we want a 50% discount or a 60% discount or a 70% discount? And that's for Turkey. And then on top of the Turkey how do we look at a bank that has got a good connection and a lot of wonderful things going for it. It also is not the biggest and probably not the best. And as you say they are under indictment and the U.S. government is after them. And I think internally some of us thought the market is giving us 60% off and we only need 50% and some of us said the market is giving us 50% off and we need 70%. Some of us bought it, and some of us didn't but it is right there in that range where it should be given serious consideration not because we're bullish on Turkey but because it is a good bank that is heavily discounted. And so, it's not like we have massive confidence but it is a company that has grown fast and made a lot of money that is at a big discount.

It does seem like this isn't just short-term turmoil in Turkey though, it does seem like - it was either a failed coup or it was a successful coup but I heard that Erdogan took out the military and took out the judiciary and took out academia and took out these men that didn't like them. And so it will be interesting. I love the country. I hope it's better than it appears that it is. And I can't add much more than that.

Jay Campion: All right thank you very much. I also loved your Real Vision interview. Thanks.

David Iben: Oh, thank you.

Operator: Thank you. We'll go on to Michael Favorites with Cantella.

Michael Favorites: Dave, again thanks for this call. It's always refreshing and I look forward to them. Back in your presentation you were talking about some puts and I should probably know this, I'm sure everyone else does. Are you buying market puts on the portfolio and, you know, sort of to hedge tail risk or can you fill me in on that?

David Iben: Yes, we are not doing it as a hedge. It might turn out to be a good thing that sort of serves as a hedge. If it was a hedge our portfolio owns almost no U.S. stocks or we would be out there trying to hedge Canada and hedge Korea and hedge Russia and things like that. No, our view is that if you're going to buy a put, one consideration is let's buy the most expensive market out there. And you look around the world and the U.S. is the most expensive market out there, one of the most expensive markets in history. Then secondly you say what the price of the put is? And despite the fact that the price of the put in the U.S. should be higher than anywhere else in the world it's actually cheaper than anywhere else in the world. I think it's just because so many people are selling short the VIX, trying to make a little bit of money. I think that will end for them about the same way as it ended for people selling protection on mortgages seven years ago or selling puts on the S&P in '87, but that's conjecture.





The point is that the most expensive market in the world has the cheapest put options on it, so cheap that I have mentioned that if the market corrects 30% we could make 25 times our money plus or minus. To say the market is going to drop, we're not saying. To say it will drop someday, we're absolutely saying that. Because markets go up, markets go down, you know, in an upward trajectory but corrections happen. And this thing is so cheap like I said that one correction in four years could lead to some profit. And I doubt that it's going to go another four years but I might have told you that four years ago. And so I'm not saying we're right, I'm just saying the risk reward is amazing.

Michael Favorites: Very good, thank you.

Operator: Thank you. I would now like to turn the floor back over to Dave for any additional or closing remarks.

David Iben: Well we thank you all for your interest and it is pretty interesting times in the market and we think with the bifurcation it's a great time to be a value investor. We appreciate all your support and thanks for dialing in.

Operator: Thank you. Ladies and gentlemen that does conclude today's presentation. Thank you all again for your participation. You may now disconnect.

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