

KOPERNIK GLOBAL INVESTORS, LLC

Edited Transcript of the 3rd Quarter 2018 Conference Call with David Iben

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Operator: Good day ladies and gentlemen. Welcome to the Kopernik Global Investors Third Quarter 2018 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. And now I'd like to turn the call over to Mr. Kassim Gaffar. Please go ahead Mr. Gaffar.

Kassim Gaffar: Thank you operator. Hello and good afternoon everyone. Thank you again for joining us today for the 3rd Quarter 2018 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-PM for the International strategy. Before I pass the call over to Dave, I'd like to give everyone a quick firm update.

From an overall AUM standpoint the firm's assets as of the end of the 3rd quarter was right around \$3.3 billion. This presents an impressive growth of roughly \$300 million in net new assets since the beginning of the year. As we all know, value has such a tough quarter and maybe the recent uptake in value is here to stay. As value investors, we have seen value be out of favour for over ten years, with the exception of a couple of quarters in 2016, and the current severe bifurcation has presented to us what we see as an amazing opportunity.

We strongly believe our portfolios are well positioned to take advantage of this bifurcation as we currently own what we think are extremely valuable franchises at what we believe to now be trading at deep-deep discounts.

Please note Dave will be referring to the presentation which can be found on our Web site at KopernikGlobal.com under the News and Views section. With that, I'll be handing the call over to Dave - Dave.

David Iben: Okay, thanks Kassim and thanks to everybody for joining us. It continues, as always, to be interesting times in the market - maybe more interesting than most. This chart here probably says it all. For those who view the world as linear I guess it's easy - you can take the ruler and extend out the blue line which is the performance of growth. And predict good gains in growth in the future, maybe take the ruler and put it on the line for value and predict the continuation of the current highway to hell.

As you know we here try not to think of the world as linear. We think of it as cyclical. We've had a lot of presentations of late talking about cyclical in the world and that's what we'll be talking about today. For those who view things as cyclical you can see this is probably the longest and deepest under performance of value ever. So, one can help to be pretty excited by that.

In the meantime, as we know this too shall pass. While we wait for the inevitable turn, we can cry or we can laugh. We've decided in recent presentations to have a sense of humour about it. We know we live in a market where people are viewing passive as a bunch of modern technology and robots investing efficiently in an already efficient market. And active investors, of course, are on their way to extinction. Of the few people that are active managers, there's growth. There's quite a wonderful ten years and then there's people's views of value investing. And then within that we'll later talk about different types of value investing. But really this is a fantastic time because this is a very bifurcated market. If it's as bifurcated as we think it is people have a choice of buying really, really expensive things or buying really attractive bargains and we'll start with the first.





First, one more slide on value. That massive out performance of growth and you can see how long and how steep it's been. It still doesn't get back out performing over the long term. So, over any long period of time value has done better but this certainly is a long period now. That growth has done better.

Growth has done so well that people really ought to think hard about what they're buying. Past growth markets which have tended to go along with rapid money growth by central banks around the world created a bubble in the late 60's, early 70's – nifty 50 stock. They created a bubble in '99, that many of you will remember. And the current bubble that many people are calling the bubble in everything. Any market where growth has done very well, the U.S. has done very well. Momentum has done extremely well - the ten-year period where the NASDAQ gone of up over seven times the NASDAQ 100. That's massive - seven times. Okay, people can say you guys are value so it's not about price, it's about value. We say we agree. It's okay for things to go up but the fundamentals go up right with it. Housing can go up if rent prices go up and many things can go up if people's ability to pay for those things goes up.

This shows stocks versus how much people make working for a living. You can see how extreme that got in 1999 and you can see how badly that ended. This, as you can see, is way worst than 1999. This is wages. We can look at it versus rent. We can look at it versus earnings, versus cash flows, versus dividends, versus all kinds of stuff. Assets are very extended relative to the fundamental that support those assets.

So, what does that mean? Well we know that they've gotten expensive because people were pouring money into ETF and passive funds. We've written many commentaries and talked down these calls about how passive is a wonderful thing if very few people are doing it and it's not so wonderful if a lot are doing it. And when everybody's doing it, it's downright dangerous. And we can talk as much or little about that as people want, but in the meantime is it rational for everybody to be buying something without any analysis, without any evaluation. And you know our answer.

So, back to is it a cyclical world? For those that believe it's a linear world, probably no need to listen to the rest of this presentation but for people that believe in a cyclical world, yes, there are cycles. There's summer; there's winter. People in summer might know it's a good time to buy their winter clothes. And in winter it's a good time to prepare for summer because you know it's coming. Ten years into economic growth - people probably ought to prepare that someday there will be a recession. Ten years into a bull market I think it's wise to know that that there may be a bear market.

Also, we've talked about passive strategy do well in late bull markets. They do terribly in bear markets. Growth and momentum and passive is of course is a momentum strategy - do well late and in cycles. Value does well the rest of the time. And we'll also talk a little bit about within value there are the people which is most every day that still admits to being value has become a quality franchise person. There's very few Graham and Dodd people left. That's kind of interesting.

So, what to make of the quality growth that everybody's buying. Like I said, the world's cyclical - things change. Alright, we understand that a 100 years ago is a long, long time and not so relevant but the point's relevant. The Apple of 1917 was U.S. Steel. The Google was AT&T. What you've seen is companies become less relevant other than the oil companies, the steel companies and the commodity companies and the ad companies are really last relevant.

1960's haven't also, a long time ago, that maybe it's more relevant. But the Apple of 1967 was IBM which has struggled over the last 10-15 years; book value has consistently gone down. But the who-who, the ones that everybody wanted to own in 1967. IBM struggled. AT&T was broken up. Kodak went bankrupt. GM went bankrupt. The oil companies had to merge together. Sears went bankrupt. GE - I think you're all aware of what's become of them. Polaroid went bankrupt.

So, you know, you look at the crop of 2017 - they're good companies and we don't expect their demise. We suspect they will keep doing well for a long, long time. But unless things go perfect their stocks won't do as well. So, look a little more into that. We've talked about this in the past - the increase. This is not the market cap but the increase over the last two-and-a-half years - \$2.3 trillion! When I came into the business you could buy the entire market for less than a trillion. So, these companies should do well but people's opinions of these companies will change. Like we say, the world is a cyclical place.





This shows the percent of funds outperforming. Active managers do better, passive do better. Active do better; passive do better. That's the way of the world. You can do a very similar chart which as you know we have done in the past showing value doing better or growth doing better. You can do similar charts showing financial assets versus real assets and we've shown you those over the last few years.

And then even within value there's the - there is the quality franchisers that everybody's buying. And there is the Graham and Dodd, or as it's facetiously referred to, cigar butt investing. That was all the rage when I came into the business. Graham and Dodd was the bible and everybody paid attention to it. And now, nobody does.

It's amazing - the articles that have come to our attention over the last three, four months - questioning whether book value has any value whatsoever. Questioning whether assets should even matter. What should be capitalized now are ideas as if every idea becomes worth a fortune as opposed to just a few of them.

So quality - let's look at this. Coca Cola - quality company. Here it looks like a small blur but you can see in the Nifty 50 days that was one of the big ones. And then the company did really well. The stock did miserably. Then in 1998-99 under the Index Fund mania the company got very expensive again. Everybody loved franchises. Everybody was saying, "All right, Warren Buffett has redefined this. He's so much smarter than his mentor," which may be true. "He's buying franchises. He's aware that franchises have values beyond the assets." That is absolutely true.

They were saying Coca Cola is a Buffett stock - that is true. Where they got confused was Warren Buffett bought it at \$2 ½ bucks and people were buying it at \$44, feeling comfortable that they bought a Buffett stock and you can see what happened to them. They lost a lot of money for a lot of years. Now it's back up. Now everybody wants to own quality growth companies again. Quality growth is the new value. We suspect this will end in like the last two times that people felt overly comfortable in franchises.

But, fine - if people want to own them - at least own them with your eyes open. It doesn't matter what we think about that. What does matter is whether we're right about the alternatives. Others are buying quality which has been in a ten-year massive bull market. As I said at the beginning of this, people have a choice between things that have been going up a lot for ten years or things that have been going down a lot for ten years. It's an easy choice for us.

So, buying really, really good companies that just happen to be in markets that have been dropping for a decade. It's certainly - China is a huge country. Brazil - very huge country. Even the best, biggest in the whole world, Russia is the 11th biggest in the country. Certainly, there's some companies there that are worth a lot. The market has been putting them on sale. Let's put this in perspective. People were kind of amused a few years ago and actually astonished the way the chart was saying that Apple was bigger than the entire country of Russia. Land wise it's the biggest country in the world - one of the top economies with the most resources. That seems almost quaint. Now you've got Apple at twice Russia. You have four companies, one - just one company market cap bigger than the eighth largest economy in the world -- fascinating.

What got me started on these analyses - I think I mentioned in the past, it was presentation that I heard in 1999 the last tech mania that compared Intel to India. They both had market caps of \$400 billion all these years later. Maybe you've gotten back your money on Intel, not quite. India's gone up a lot. So, you know, we hope the future brings good things for Apple and Amazon and Microsoft and Google but we suspect their stocks will not even begin to keep up with some of the real great companies we're finding in Brazil and Russia and China and other places.

So, that's where we are. We are well into it. But what's happened after 10 years of the rest of the world underperforming the U.S. It's accelerated. That's what's happened. So, here's the market this year - not counting the U.S. The NASDAQ is still up a lot this year and the rest of the markets are roughly up. So, this is continued massive. This feels a bit like a capitulation. It's amazing, a month or two ago - how quickly some markets were dropping - felt a little bit like January of 2016.

Here's another way of looking at it. The U.S. versus the rest of the world. The U.S. is now very expensive - the most expensive ever versus the rest of the world. We've talked in the past, in 1989 when Japan became worth as much as the





rest of the world put together. That ended poorly for Japan. The U.S. is now an ACWI worth well more than the rest of the world put together. The U.S. will continue to do well. The U.S. stock market might prove to be dangerous.

So, while the U.S. economy's been growing moderately and the market's gone up huge, the NASDAQ has gone up seven times, the emerging markets, being emerging, have grown a good bit faster than the U.S. has. So, ten years of growing much faster than the U.S., instead of being up seven times like the NASDAQ, it's not gone up at all. So, stocks relative to the size of the economy have become much, much, much more attractive. And also, it's worth pointing out that while people made no money on the emerging markets if they did what everybody told them to do (buy an ETF), they actually lost a fair amount of money. The ETF's there's no free lunch. They've underperformed the very markets they're supposed to be tracking. And so, a lot of good companies that happen to be emerging markets are on sale. There's also a lot of good companies that just happen to be asset rich. I mentioned earlier there seems to be almost a disdain for assets out there right now. That's a beautiful thing. Assets clearly still have value. So, real assets versus financial assets - we've shown you this in the past - but this is really mind blowing of how cheap real assets are relative to financial assets. Certainly, there are some good companies. This is commodities in general.

So, we like the fact that even though the population of the world has grown and the economy has grown and demand for assets and the resources has grown, the prices have gotten cheaper. But we're not buying commodities; we're buying specific things that happen to be undervalued. We like things that are trading not only low in price but way lower than the cost of producing incremental supply in the future. It's interesting that up until a couple of days ago, oil has bounced all the way back up to about its incentive price, while the price of natural gas continued to go down. People used to like the fact that natural gas is much cleaner and easier to use in certain ways other than storage. And so here you have a cleaner, cheaper fuel that's gone down relative to oil.

Another cheap clean fuel is uranium which also up until a few months back has gotten very, very cheap - down from \$137; this chart shows even higher - down to \$18 and now back to \$27. So, a third of what we think would be the price required to get people to bring more uranium out of the ground. Platinum not long ago traded at a higher price than gold and traded five times the price of palladium. Now it traded at a huge discount to gold and trades at less than palladium - fascinating.

Silver - twice during my career has traded at \$50 an ounce. It's an incredible bargain now. So, these in particular seem very, very under-priced. But it gets better. So not only are these under-priced, gas is under-priced if you buy it on the market. If you buy it on the stock market, it's even better. People used to love range petroleum. Now look how much it's underperformed, the very commodity they own. So, gas under-priced; uranium outrageously under-priced.

Uranium - after years and years of falling, starting to bounce a little bit. If somebody told me at the beginning of the summer that uranium was going to go up 20% and Cameco was going to win - flat out win a major legal battle with the Canadian government - I would have figured the stock might double. As you can see here the stock is down. So, it's worth way more than what it was earlier than the summer and it is trading for less.

Also, most other uranium stocks also are down. They're starting to bounce back but they're down way under. So, the uranium is trading at a third of what we think it's worth and uranium held in the ground by these companies is a big discount to that.

Gold. We've talked enough about gold in the past although maybe you can't talk enough about it now. It's become so incredibly cheap. There'll be more in the upcoming commentary that I need to finish. And, here you can see in one of three times in history where gold has been this cheap relative to stocks. We can talk about gold relative to stocks. We can talk about gold relative to the wages. We can talk about gold relative to everything. We've talked about the cost of mining. We've compared it to the amount of dollars - it's less than the cost of dollars. And, so - gold is very, very attractively valued but once again, where gold's gone down a bit over the last seven years, gold held by the mining companies is 85% off sale. That's a fascinating thing. So gold miners, truly, truly a bargain - right back to where they were in 2000 - January of 2016. That seemed like a once in a lifetime opportunity but sometimes you get a second chance. And all right it's cheap but I'm sure you're hearing everybody tell you, "Interest rates are going up and that's bad for gold." And if interest rates are up, gold is down, that's simple.





The facts are almost exactly the opposite. Interest rates went up a lot in the 70s and gold went up big. Interest rates went down in the 80s and 90s and gold went down pretty meaningfully. Interest rates gone up after that and gold went up. Since then there's been times where it's correlated and times when it's not correlated. But interest rates don't matter; it's real interest rates that matter. And easily when these rates are rising, they're lagging the inflation rate and so, don't pay attention to the people that are trying to mislead you on that.

So anyhow, the NASDAQ, the FAANG stocks and quality companies and a lot of other things are great. It's just that they're very, very expensive and we've given, you know, quick overview of some of the things you've heard before - the things that are real bargains. So, this shows just how attractively valued things in the portfolio are and are getting close back to January 2016 sort of levels. Most anyway you want to look at it many of these stocks are worth multiples of what they're selling at in our opinion.

So, people can go out and buy bonds and lock in their 3% or they can buy stocks that may double, but there's no catalyst. We don't know when. And so, what to do with that, many of the veteran investors of our time have pointed out that you can be patient. You can without patience, go out and lock in your 3% as we said or you can figure, "Alright, I'll make a lot of money; I'll just be patient; wait for it to happen." And we think the return on patience is always good - but it's unusually high right now.

If doubling your money takes a year, that's a wonderful thing. But if it takes two years, three years, four years, still a pretty wonderful thing. If it takes seven years, that's a double-digit return. If it takes ten years, that's more than twice what the bond market's going to pay you if you go out long term. So, it feels a whole lot like January 2016 again. We're liking what we see and with that, let's take questions.

Operator: At this time if you'd like to ask a question, please press star followed by the number 1 on your telephone keypad. If you're calling from a speakerphone, please make sure your mute function is off so your signal can reach our equipment. Again, Star 1 to ask a question. And first we'll go to Brian Wright with Morgan Stanley from Columbus. Your line is open.

Brian Wright: Hi. Have you guys got any thoughts on Italy and the banking situation there?

David Iben: Yes, our approach to investing is to look around the world and price businesses based on what we think the right way to value is. Some businesses will use book value and some will use earnings and some will use cash flow and so on. And we'll look at them. With banks we'll start with book value but you have to do a lot of adjustment to that sometimes. And then secondly, we risk adjust things. And so, we want a discount for everything we own. We might be willing to buy Johnson & Johnson at a 10% discount to what we think its worth. It's nowhere near that.

But with technology companies and retailers, we tend to want bigger discounts because they don't have barriers to entry. With banks we want big discounts because they're usually leveraged 10 to 1 - plus or minus. So, historically we haven't owned a lot of banks but when we have, it's been when you can buy some of the better banks in a country at a discount price because people don't like that country. So, in the past we've owned good banks in Thailand and in India and in Russia we still do. We currently nibbled a little bit in Turkey. So, as Italy keeps getting cheaper and cheaper, it's certainly on our radar screen. So, it's possible. But places like Italy and China and other places we tend to have less confidence than others do which means we need a bigger discount than others. So, yes, we're looking. Whether we buy or not, I can't tell you.

Operator: And we'll go to our next question. Again, if you'd like to ask a question, please press star one. Next is Rick Speidel with Ameriprise from Bend. Your line is open.

Rick Speidel: Thank you. Two questions actually. You talked about your price target on something like Cameco predicated on the price of uranium going to certain levels - I was wondering if you could do the same thing for Range. What your price would be if the price of natural gas went to, you know, to four, to seven, that sort of thing?

And then secondly, you just stated you risk adjust things. I was just wondering if you could comment on the level to which you stress test ideas that you put it into the portfolio. Now I understand the commodities have been out of favour for gold miners and such but there's a number of stocks that are really - hit some air pockets - and I'm thinking specifically of the





Diebold Nixdorf, Dundee, you know, things like that. And I was just wondering if those were just one off or if there's a little bit more rigor that you maybe apply to the process.

David Iben:

Yes, certainly. Those are very good question to get to the whole crux of what we do. Let's start with Range and natural resources in general. Natural resources we tend to, as you mentioned, look at the incentive price for what it will take to get people not to just pull it out of the ground but to replace it as they're pulling it out. Growing concern kind of things. And so, Range used to always sell at a premium to what we thought it was worth, but it took a big hit and we were able to buy it cheap - a lot cheaper than it is now. Although we still find it very attractive here and so, we'll run numbers like \$3.75 gas. Yes, we'll stress test it to other levels. We'll also assume that commodities always have and always will get to their incentive price - but as we talked earlier we don't know when. And so, we want bigger discounts because we don't know the timing. So, we do want decent discounts but things like gas usually don't stay depressed as long as things like uranium. And so, we do put those in there. I don't know that we give out the exact numbers but we do think that gas is falling below what it's worth and that Range is worth quite a bit more than what it's selling even after the recent bounce. We do view them as pretty well managed and so it doesn't have as steep of a discount as some other ones.

But I'll also point out again, we research companies especially - this doesn't apply to Range - but ones that are dealing in other countries, especially some of the ones with less developed rule of law. In 2008, and again in 2016, we were able to create diversified portfolios of resources around the world. And then in 2008 we lost out on a couple of them. One in Venezuela and one in Bolivia and the rest of them went up a lot, so we had a really good year.

And then some of you can remember in 2016, the same thing, diversified at really distressed prices. Unfortunately, Peabody decided to steal the company from shareholders and that was unfortunate. We still had a really, really good year because the rest of them went up a lot. You know, we've had success doing the same thing with utilities and phone companies, and you name it. And one country will do something that hurts our profitability. Another one will do something that helps and it usually works out very, very well. But the point is we expect to be wrong on a third of our names. You know, we are humans. Humans are wrong, so are computers. But we expect to be wrong. We're doing our best to appraise a business - the market place which is millions of people thinking as a herd come up with their own appraisal. The herd has lots of lots of people with lots of knowledge and input from all over and sometimes gets it very right, better than we can. The herd quite often does what herds are famous for and that's losing their minds and that's where we get a huge advantage and that's why we have been over the decades right two-thirds of the time plus or minus and plus been able to make more money when we're right than when we lose when we're wrong. But we expect to be wrong sometimes.

Diebold, we still hope things turn out pretty well for them but right now, it's worth less than it was - what we thought it was when we came in because they had this option to - for next door people to put things back to them. So, they had a high level of debt and now it's higher because they had to make good. So, what was possibly an ordinary downturn has become more than an ordinary downturn and so, I don't know that we'll ever make our money back in that one.

Meanwhile we've made some good money in other ones. So, maybe the same can be said for Dundee. You buy some good franchises but then they change management and they change management again and they end up buying oil in Africa and then selling it at the bottom and building a casino that costs a lot more than anyone of us thought it would cost.

Yet there's still lots and lots of value there. We suspect its worth a lot more than it's selling at now but I don't think this is going to go down as one of our big winners. It's not been a good one. So, with our way of doing things we expect to have plenty of them where we're wrong and we expect to have hopefully a lot more of where we're right and more importantly, tremendous upside especially in this market. We like the fact that there's really tremendous upside on most of what we own. Because we do think the danger in the market is unusually high right now. As you all know the level of debt in the U.S. is the highest ever. The level of debt in most of the developed world is the highest ever and I'm not just talking about nominal. I'm talking about as a percentage of GDP. It's over a 100 here. It's outrageous in Japan. It's outrageous in China. It's very challenging in most of Europe. Interest rates have been going up. Governments across the world have become more nationalistic.

We think all of us are going to continue to stub our toes into the future but we also think that possibly significant profits can be made on portfolios because people are so afraid that they're selling things at a real bargain. And then, as Howard Marks





always points out (and he's got a new book out) but, he's always pointing out that the real money is lost in the things that people think are safe, you know. My words not his - the quality franchisers

And so, we think what's - you know, that people should not avoid risks. They should minimize it, diversify it, get over paid for it. And I think we're taking average risks and getting way above average returns. And we think people that are buying the popular stocks are prospectively getting below average returns with a lot more risks than they can imagine. But, yes certainly, we've got a few companies that have not worked out so well.

Rick Speidel: Thanks very much.

Operator: And next we'll go to Gary Magnuson from Morgan Stanley. Your line is open.

Gary Magnuson: Yes Dave, I was wondering if you had the opinion on kind of the Holton building area out here in Seattle - like warehouses supply the homebuilders and the homebuilding stocks are cheap and so is work. It seems like warehouses come down. And I was curious on the auto industry, they're all kind of down in the dumps. So, it is - had a lot of auto sales except for maybe Tesla, I guess. Curious as to what your opinion of those two areas in terms of looking at them long term.

David Iben: We have homebuilder in Russia and as homebuilders keep getting cheaper here, they get more interesting to us the more they come down. Now, one area of the country to another, right - I can't tell you. But a lot of these have business in a lot of places. So, whether it's the lumber companies or the forest product companies or the people that actually build the houses, certainly the cheaper the better. That's one of the things we've talked about this time and the last couple of conference calls why the NASDAQ might still be up there. Homebuilders are getting cheaper and a lot of consumer stocks are getting cheaper and a lot of utilities are getting cheaper; and a lot of other things are getting cheaper. And so, if this continues certainly you'll see homebuilders in there. Now, emerging markets tend to - you get more growth for cheaper value. So sometimes we get there first but we're happy to look at good homebuilders at good prices but I can't give you a specific answer.

Autos are a fascinating industry. There's few barriers to entry. There's dozens of companies. Probably hundreds of companies have gone bankrupt over the last century and now you've got different technologies. You know, is it going to be electric or hybrid or fuel cell or continued internal combustion and its very capital intensive. So, it's another one of those industries I alluded to earlier that we want a fairly big discount.

But as you suggest, the market's given us big discounts so we do own Hyundai. We've got another one that we've spent a lot of time on them that we might buy. And there's a few others that are on our radar screen. So, there are good companies that have survived and grown that are trading at massive discounts. Not just on P/E because it's a cyclical business but big discounts to the net assets down to book value they own. So, there's a price for everything and - you know, we agree with you, autos are getting into interesting prices.

Operator: And we'll take our next question. It comes from Chris Matteini from TIFF. Your line is open.

Brad Greer: Hey Dave. It's Brad. I - just one question for you on your put program that you've had on during various times of the year - in the last couple of years. Could you just talk a little bit about how you feel how that's gone and sort of what you've learned from those investments. Thanks.

David Iben: Oh certainly. We like to take what the market's giving us.

For most of my career the premium on options was pretty high. So, there's been times in the past where we wrote options against the portfolio and that's worked pretty well. After 30 some odd years of premiums being mostly too high, most of everybody is very reluctant to want to buy premium. They'd rather sell premium. But as anybody that has ever read or seen the *Big Short*, they can see that sometimes premium gets too small and it easily gets too small actually when it ought to be big. It's amazing that when the housing and mortgage market was clearly at an unsustainable level people like Paulson and Burry and these guys were able to buy premium at a cheap price. And of course, as inevitably happens to people that





buy value, you have to suffer for a few years before you get rewarded. And they suffered and then they got rewarded big time.

Now, with the market defined by the S&P is far and away the most expensive it's ever been on the price to sales. And amongst the first or second most expensive ever on price-to-book value, price-to-GDP, price to replacement value, price to cyclically adjusted earnings, you name it - the market would have to be viewed as more vulnerable than usual. And since it's been first or second, depending on how you define it "the longest time without a correction" maybe it's more due for a correction than it ever has been. So, we are not predicting any correction at all other than to say we are predicting that it's not been outlawed. And it will happen. We don't know when or how much but the price of a put should be at an all-time high right now because the risk is at an all-time high right now.

And so we looked into, "Is it at an all-time high?" No. Is it even normal? No. It's the lowest - the lowest ever. So, we're value people; buying very valuable things at very cheap prices is what we do. And we win some and we lose some but we like to make a lot more when we win. So, we've been buying these options and what was already one of the longest markets without a correction has become in some people's opinions the longest. It's gone on for almost two years since we started doing this. Up until two years ago, we had never done this. Now we've been doing it and the plan has not changed at all. The plan is to keep buying these until either the market gets around to correcting or the market comes up with a more realistic price. But if they want to keep selling this thing until its way too cheap a price, we're happy to own them.

And as to what I've learned, I can't answer that until the cycle is completed. When it's completed, we'll see how much we made or lost and then we can talk about what we've learned but right now we're still thrilled to be able to pay record low implied vol for a market that undoubtedly is going to have record high vol in the next few years. We just don't know when.

So, unlike brilliant Paulson and those guys were just doing one percent. We're not losing that much and when it works out for us, we're not going to become billionaires. But we think the return could be nice.

Operator: And again if you have a question, please press star one. Next, we'll take Anthony Eichler from Stonebridge Capital. Your line is open.

Anthony Eichler: Hey Dave, how are you?

David Iben: Good, how are you?

Anthony Eichler: A couple of your holdings - I have a quick question on. First, with all the options you have in gold and gold opportunities - you sell Barrick with a merger and Newmont - clearly where all the minors are - a Newcrest consistently is one of your largest holdings - what in terms of risk reward there do you like - in terms of why that's one of your largest holdings. And my second question would really be on Gazprom and it was proposed to me by an investor. The level of confidence you have when you look at something like in Russia like a Gazprom which clearly trades at a huge discount - when you start looking at numbers - the confidence you have in numbers - the confidence your team has in numbers - just a couple of quick comments on that. Both of those are very large holdings of yours. And clearly you have compelling reasons for them, I'd be curious your thoughts behind that.

David Iben: Yes, they're very different. As I was talking before on some of the resources or technology companies where some have worked well and some haven't - Gazprom is pretty similar. We look at risks on a portfolio basis, not on a company by company basis. So, if we have ten companies and a couple of them don't work out for us and the other seven or eight make us a lot of money, we view that as low risk/high returns. So, we've been very happy to go into emerging markets that we think are risky enough that we want a 50% discount. And we've wanted 50% discounts for many years in Russia and Brazil and India and China. And some smaller countries and from time to time even parts of Europe we wanted 50% discounts. And that served us well because we've been burned a few times and we've been rewarded - had some layovers over the years.





And so, let's pick Gazprom - you start out with the best gas company on earth. Arguably they have the most gas; some of the cheapest prices; the longest reserves; the best infrastructure. They're located in an area of Europe - who needs it. They're building pipe lines to China who wants it. Great company.

The bears will be correct too. You need a big discount because this thing is corrupt. Russia has corruption in there. If you pay three billion for a pipeline and you look at what you've got, you probably cannot identify a \$3 billion worth - maybe a half a billion or more will be siphoned off somewhere. And they've had to help finance the Olympics and what not. So, we think that it's good to have a discount.

Now, they can point out different things when Jim Grant was writing about it and said, "When we say this is three times earnings, we mean three times the earnings that is left over after stealing." So, not that we approve of the stealing, we don't. But this thing is cheap. Three times earnings - if you - in a report we read the other day says if you subtract out their subsidiaries, it's the one times the remaining earnings. If you look at it at a book value basis, it's more than a 70% discount. And book value growth every year after the dividend is paid even. If you look at it on the reserve basis, what are you paying for the reserves? With most of the big majors you're paying \$15 to \$20 per barrel. Now, we wouldn't touch Russia with those prices. We would want half price before we think about it - so, \$7 ½ to \$10 per barrel. But certainly \$5 is interesting. \$3 would be amazing, wouldn't it? This thing is less than \$1 per barrel. So, this is a great company that is very profitable with massive reserves. It's trading arguably at a 95% discount to what it's worth. Happy to own that.

Newcrest is very high quality. Arguably the best gold company in the world although it is a subjective thing. But they've been one of the better ones and the bigger. They're pretty diversified. You know, several good mines in different countries and they've been smarter than most - setting the bar low - they've been smarter than most management teams in terms of their asset allocation.

So, we've looked at resources but especially at gold and we're saying, "the bulls are right", that the price needs to go up a lot, and "the bears are right" that it's a poorly managed business but there's lots of obstacles - lower reserve grades, higher costs, bigger geopolitical risks, bigger management risk, chemical risk and geological risks. And so, that means two things. That means you want to buy these things at big discounts and it means you want to diversify. So, we've done two things. We've bought Newcrest - the did the diversification for us and are better managed than most. So, that's a rare thing - a big well managed company in this industry so we're happy to have that as one of our big holdings. But we also want to diversify. And so, we have big reserves that are attached to small cap companies which that's sort of like 1999 was when you can buy small caps that are actually big companies. And so, we're buying big reserves all over the world. We're getting different - we're diversifying the geopolitics. We're diversifying the management. We're diversifying the ore grade risk and the chemistry risk and you name it.

So, we've got our Newcrest and we've got a portfolio where we're kind of building our own Newcrest if you will by providing our own asset allocation and diversification. We're pleased to have both of those in our portfolio.

Anthony Eichler: Thank you.

Operator: And again, if you have a question, please press star followed by the number one on your telephone keypad. I'll pause for just a moment to give everyone a moment to signal. We'll go next to Patricia Neubeller from Merrill Lynch. Your line is open.

Patricia Neubeller: David, it's always wonderful to get into your head. So, I'm going to toss out a couple of questions just to see what kind of thoughts you might have about it. So, what is budding pot industry particular in Canada that's just gone live. And then the other one would be infrastructure should it ever come to pass in this country.

David Iben: Would be happy to talk about both.

Patricia Neubeller: Thank you.





David Iben: People tend to refer to us as contrarian. We're not offended by that because most of the time we are somewhat contrarian. Although we're not contrarian for contrarian sake. If everybody hates something, often they're right. But it's a good place to fish for ideas. So, we think independent. We don't buy things just because people don't like them. On the other hand, when everybody loves something -- when people are going nuts and paying crazy prices for things -- people I know tell me stories about land that they've sold to some of these cannabis companies at ten times of what it's worth because these guys are swimming in money - and when you see so many start-ups - and if we were talking a year ago, we'd be talking about crypto currency and how they were popping up left and right every day. There's a lot of things to like about crypto currency when they're popping up left and right.

If everybody is doing something and the scarcity value is gone and if everybody is stampeding and the things are higher and higher prices, then - you know, you're unlikely to find a bargain. So, I have not paid very much attention but I'm aware that everybody is pouring into the cannabis stocks and I don't see the barriers to entry. I don't feel like when it's all said and done Philip Morris or the alcohol companies or the Pfizer's and Lilly's aren't going to be the ones making the money. I don't know. That's not a prediction. I'm just saying, I don't see the barriers and I do see people pouring into the things. And I'm not against them. I hope they do find it. We let other people play the popular things and we'll sit it out.

The infrastructure - you know, infrastructure needs to be built. The U.S. needs it, Europe needs it, Japan needs it, whatever. We agree with that. But all those countries are effectively broke. We like infrastructure in the emerging markets. Mostly we're happy to buy it in the U.S. if we can get a bargain someday. But the U.S. tends to have a habit of sending the money into transfer payments instead of into investment. Where emerging markets they tend to be building trains and dams and railroads and highways and airports.

And, you know - depending on how you define infrastructure -- we own ports, and we've looked at airports and we own phone infrastructure and we own railroad infrastructures and we like infrastructure. We think it's important. We think it's a good use of capital. But I don't think we're on the verge of buying any U.S. infrastructure right now.

Patricia Neubeller: Thank you.

Operator: At this time I'd like to turn it back to David Iben for any closing remarks.

David Iben: Alright, thank you and thanks to everybody for joining us. It certainly is an important time to be talking about some of the values and anti-values in the market and we'll see what the market has in store, but we're really pleased with the valuations we see and we're also very thankful for all of your support. Thank you.

Operator: And that concludes our call for today. Thank you for your participation. You may now disconnect.

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