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### Edited Transcript of the 4<sup>th</sup> Quarter 2018 Conference Call with David Iben

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4:15 pm EST

**Operator:** Good day, ladies and gentlemen. Welcome to Kopernik Global Investors 4th 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. If you wish to ask a question, it is star 1 on your telephone keypad. At this time, 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 for joining us today for the 4th 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 assets, as of the end of the year, were right around \$3.4 billion. To give you a slight perspective, that represents an impressive growth in net new assets that we saw around half a billion plus coming in during the last 12 months. As you know, several markets were down significantly during the fourth quarter, and although we were down also during the year, we had a very strong fourth quarter versus the market and many of our peers. This helped us further from an AUM standpoint as we saw new mandates and increasing allocation for many of our existing clients.

Overall, it's hard to say if value is finally turning a corner and coming back in favor. But as a firm with 38 people strong, we firmly believe our portfolios are well positioned to take advantage of this bifurcation as we currently own what we think are extremely valuable franchises, creating a deep, deep discount.

Lastly, during the quarter, we also launched an investor share class for our International Strategy and we also launched a CIT vehicle for our Global All-Cap Strategy. We're also proud to report that as a firm, we are now a UNPRI signatory. That is a big accomplishment for us as we've always incorporated some levels of ESG factors in investments, and this is very much in line with that.

Please note, Dave will be referring to the presentation, which can be found on our website at [kopernikglobal.com](http://kopernikglobal.com) under the news and views section. With that, I'll be handing the call over to Dave. Dave?

**David Iben:** All right, thanks Kassim and thanks to everybody for joining us. I want to start by apologizing for a little nagging cough I have. But hopefully it won't be too bad. And I thought that it might be good just to start with a few slides from a presentation I did a month and a half ago in New York, a conference on Value (investing). And after the last 5 to 10 years, what can one really say about value other than value is dead. And being the first speaker at the conference, this seemed like the perfect slide to launch everything with. And what to make of the fact, I know over the summer, various of you sent me different articles and we read different things from different sources about how we live in an era where it doesn't seem to work anymore and maybe accounting itself doesn't work anymore. So certainly, interesting times.

And let's face it, while value hasn't been working, momentum has been a lot of fun. We're at that point in the cycle where one wonders how many value guys are even left. It feels like the year 2000 did. Similarly, some of you have asked my thoughts on the pieces that were written by the various academics and by certain competitors. I'm sure you've all seen the articles, the articles that suggest that accounting is obsolete. The principals don't matter. That one firm said they would never even hire somebody that had a CPA to do any of their accounting work. It doesn't get any better than that.



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We've read where growth is the new value. We've read where intangibles are the new value. Ideas are the new value. The only thing worth calculating anymore we've heard. We've heard that value isn't even relevant anymore. Buying the right stock is all that matters. Who cares what price you pay?

So certainly interesting times. I've always liked this comic, but it's interesting, human beings are famous for thinking like this, but this time is different. Now, we've programed computers. We've created algorithms to take the worst of human emotion and magnify it. They're looking for the more momentum the better. The higher the price, the better. So, what do we do now if value is dead? Oddly enough, we would suggest celebrate. Celebrate value has always worked and value always works best by far when it's been way out of favor. When it is pronounced dead, it has always been a great time. And as this cartoon suggests, the fundamentals are awfully good.

So yes, it's been a long period of time but as we've seen over the last half a year, the winds, they're changing. And as we've talked about in the past, the seasons do change. You wait a long time but this has been a long developing thing. Now, we're seeing pretty much universally that bull markets are fading and many of them are long dead. The economies are slowing down around the world. It's more passive in growth. Stay tuned.

And quality franchises, that's one of the more interesting things to us is that not even value guys like value anymore, at least value as Graham and Dodd used to look at it. We say there's a time for everything.

So being out of sync with the market for much of the half dozen years, it was nice to a year ago have written runaway train where we seemed to have been spot on. That one seems to be correct. We showed this pointer in the year suggesting that the train had been derailing for a number of months, if not more. That market after market had figuratively fallen off the tracks, derailed. And as that happened, the train kept going faster and faster, and the U.S. was doing so well, nobody much noticed that almost every other country in the world was well into a bear market.

And even in the U.S., just technology and then consumers, as people were conceding Amazon and Netflix to be a consumer. That's what was holding the market up. So not even the U.S. was doing well. And this, this of course was halfway through the year. What's happened since then? Those cars derailed. Nothing survived the year. Fascinating year. I think you've all seen the numerous reports that 2018 was the worst year on record in terms of the percentage of assets that were down. Over 90% of assets fell during the year. This was way worse than 1929, or '30, or '31, the Great Depression years, the Great Financial Crisis, you name it. So there has been a full derailing. Hasn't seemed to stop people from wanting to jump on board. I guess they're saying we've had a little correction, must be cheap, and must be time to buy. Is it? We've had for pretty much my 37-year career, stocks go up, and up, and up, and then there's a 10% correction and that's cheap. Now, this shows that we are just off of the highest prices in the history of mankind in terms of the price relative to the sales, i.e., the sales of the economy have to generate enough to pay taxes, and pay wages, and pay other costs, and pay interest rates, and have a lot - a lot - left over for equity holders to support those kind of things. A very high price. Dangerous. Not cheap.

All right, one metric. Here is another. We can use price to GDP, which we have here. We can use price to book value and replacement value, Tobin's q, normalized earnings, you name it. The U.S. market in particular is really, really expensive. So what's one to do? Well, we say don't be eager to buy into a ten-year bubble just because it dropped 10% when you have another choice. You have a chance to buy things that have been out of favor for years, things that are not getting cheaper for a long time. It's been, in some cases, many years of many percentage points of drops. There is a lot of value out there. And so now, when people have given up on active and given up on value, what a beautiful time to do active and value.

And just to give you a glimpse of it there, here's an aggregate of our portfolio. In this wildly expensive market, our book value is not that much above 50%. Even tangible book value is less than two-thirds. The price to sale is barely over 1. The price to cash flow is just 4-ish. So, the values are there. There is a lot of them. So, we've got this interesting dynamic. You've got this bifurcation that's caused by the crowd doing everything in a herd. We say when the crowd stops thinking, it's a good time to think. And if people want to pour their money into passive investments, be active. Be strongly active.



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When people give up on passive that's probably a good time to start thinking about it again. But when that kind of money is poured into it, buy the stuff that's not being bought by the algorithms.

And decision-making, it's based on knowledge. I think even a few hundred years before B.C., Plato figured it out. It's still good to this day. So if people are using robots and algorithms and getting rid of analysts, it's a good time to use analysts. Computers are really good at gathering data for crunching data but they can't think. And we've suggested the next few years is going to be an important time to think. And on that note, we put in some of our commentary, and we probably should do a whole new one on academics and some of the silly stuff that gets put out by professors, get into the articles I just mentioned. So people can use data and they can use their models, but we prefer judgment. They can have their efficient market duration. People can think that printing money works. Given that they like QE, they can use CAPM and other stuff. We suggest it's a good time to use your head and saying what is value, and where does it lie, and how do we find it.

Some of the capitulating value firms of last summer did make some excellent points. We would agree with some of their points and yet we come to a completely different conclusion than they do. When some of the data is bad, we say don't throw out the model. Use judgment. That is why I think we have an edge over computers for a while. But time to think about what works and what doesn't work in accounting.

For example, we've talked about this for a while, the idea that present value is merely the discounted value of estimated future cash flow. Well, great. But cash flow just one thing. Here, we're using water instead of money but whether it's water, electricity, money, you name it, flow is one variable. People looking for flow as a proxy for value are certainly going to like the beautiful green pictures of the right and they're not going to like the landscape of the left. We suggest looking for value, they should have looked at other side of the dam. That's where the value is found.

So, we say be thoughtful, look beyond the norms. Now, in New York, I went on with numerous pictures of dams and where we're finding value. I promise not to do that. As a matter of fact, this is the last one. But as you can see the net cash flow is nice. That cash flow is manipulated by management. The management of the dam may crank it down a little bit, they crank it up a little bit. Somebody that's interested in the value of the stem should look on the other side. They shouldn't say how much water is there. And in financial terms, I think they should be looking are profit margins too high to sustain? Is debt too high to sustain? Is competition increasing? Is there a lot of financial engineering? Is there disruption proneness? We suggest in those cases the cash flow in the future is likely to disappoint people.

So we'll look at cash flow as one variant. There's a whole lot of other things to look at and that takes us back to Graham and Dodd Value. Graham and Dodd were pretty much worshiped when I came in the business and I think nobody follows them anymore, it seems like, anyhow. So being a part of the crowd, you will have never found value in the midst of a crowd. So we think now is a pretty good time to look at the cigar butts or in a more positive framework, things that have incredible value. They just don't have a lot of cash flow that's apparent to people yet.

And that leads to the opposite what the market is excited about, tangible assets. We have no problem within tangibles but the market is now paying for those. They're giving away tangible assets. So whether it's ships, or electricity distribution, or generation, or the electricity, the uranium used to generate that electricity, or obviously gold and other resources, real estate. There are assets that would cost a lot more to replace. And if costs more to build a building than buildings are trading at, no buildings will be built. But eventually, you run out, the price must go up. It will.

If the price of corn is way below what it costs to grow corn, people will stop planting it. You will run out. If the cost of building a copper mine or a goldmine is way more expensive than the current price of those minerals, people will stop exploring. Supply will run out. Those prices will then go up. So, you're going to see as people are giving away these things, what a great time to buy what people don't like. And they don't like materials. And they don't like energy. And they don't like emerging markets. And they don't like Canada. There are a lot of places that are really out of favor right now where you can buy really good companies, market leaders, quality companies. Companies that have better assets than their competitors. So that is where we're situated now.



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And also, it's been a little more volatile lately. Volatility might be discomfort. Many people consider it to be risk. For short-term investors, sure. But for true investors, volatility is not risk. It's just the opposite. Volatility is opportunity. And so, if the prices go from too high to too low, to too high, and back and forth, this allows us to take advantage of that. So, whereas last year, they didn't like utilities in France and Brazil, they ran up. We're selling them and buying the utilities they don't like this year in Russia. Whereas in the past, they've liked the bigger or smaller gold companies and now, they're more back to liking the bigger ones. And now that Barrick has become even bigger that got a little bit of a bounce. So, it still looks reasonably attractive but while that was going up a little bit, a lot of really attractive names got cheaper -- Ivanhoe, and Polyus, and Turquoise Hill. And so we were able to take advantage of that.

We were able to buy a healthcare stock. That doesn't happen every day in this market. Dragerwerk in Germany. General Electric, I've not ever owned that and all these decades and here, it's gone from a few decades ago the largest market cap on earth. And now, it is hated with a passion. We don't argue with the problems. The problems are there. They were there even more so when people were paying high prices for this. Now, they're aware of them. They're over incorporating them and giving away some pretty attractive values on the biggest best aerospace engine manufacturer in the world and sort of the co-biggest, best healthcare provider.

Then they've got other areas such as power and energy that are okay. But to be able to buy really quality franchise because after all these years of focusing only on the positive, the market now is focused only on the negatives. Things change. We are able to buy the largest uranium producer in the world. For the longest time, we've had the second largest and the largest publicly traded, Cameco. Now, we have both of them.

So the market has been giving us a lot of opportunities. On the international side, it's the same thing, although volatility helped in even more ways there because we've been keeping a very healthy level of cash in the portfolio, knowing that there was a high likelihood that things would fall since valuations were so high. And so, we were able to take advantage of that. We were starting to take the cash balances down some and we'll be spending it down faster as soon as the next down leg of the correction commences.

So, volatility is opportunity and many of the opportunities continue to be in emerging markets and continue to be in asset heavy businesses, especially tangible asset heavy businesses. These things are selling at a half, a third, a fifth of what they're worth. And when you can buy things at those kind of prices, one doesn't need a catalyst. One doesn't even need to be right. They just need to be half right. All that's required is patience and we think now is a great time to think a little differently and have patience. So, we're pretty excited about 2019 and with that, I'd be happy to take questions.

Operator: If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

And it seems there are no questions in the queue. But again, as a reminder, it is star 1 on your telephone keypad to ask a question.

And we'll take our first question from Martin Carroll from Raymond James.

Martin Carroll: Hey Dave, good afternoon.

David Iben: Afternoon.

Martin Carroll: Just a quick question. Could you comment on the hedging strategies in both International and Global as far as are you still using those at this point?

David Iben: Well, we don't view them as a hedging strategy, but the last couple of years have presented this strange opportunity as the more expensive the market has got, the more they went up, the price of protection against it drops. The price of the put option instead of going up went down. So implied volatilities instead are going from 20-something to close to 30 fell to



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8. So, we kept buying these things and the market kept going up. So, it was not a very productive strategy when that market was going up. Last year had a few corrections. It went a little better and now, this year, yes, we're still doing it. It's up to a better start. Now, I should point out that where the implied volatility probably should have gone from 20 closer to 30 and then fell to 8. Now, it's back more in the 14, 15 level.

So, whereas over much of the last couple years this was one of the most compelling instruments I've ever seen, had the potential to go up maybe 25x if the market were to have a 30% correction. At current volatility levels, that's not going to happen. Making 8x to 10x our money on a 1% position would be about the best we could hope for. So, we're still doing it. It's got less upside than it did in the past but it's still attractive and it is interesting that volatility clearly doesn't mean volatility anymore. Volatility seems to mean down move. So, every time the market drops, the implied volatility goes up. When the market in a huge volatile burst goes up, the implied volatility drops, making these more affordable.

So whether we continue doing these things in the future will depend on the market for the indexes and also the market for implied volatility that goes into the options. The international is pretty much the same thing but instead of the S&P 500, it's using and Emerging Market index that's mostly Chinese tech.

Martin Carroll: Great. Thank you.

Operator: And as another reminder, it is star 1 on your telephone keypad to ask a question. We'll move onto Dan Gallagher from UBS Financial Services.

Dan Gallagher: Hey, Dave. Thanks for the pitch book and the slides are always interesting. For those of us who have a value tilt, we tell clients we should do a good job meaningfully participating in good markets. But in bad markets, we ought to do a better job protecting. After all, we're not caught up in all the fund flows coming in and out of ETFs. Yet, we find a way to give them 120% of the downside. And I've got clients pushback, you know, regarding that and I'm trying to hold people into this I guess the least valuable factor has been mean reversion. But as you develop arguments about why value will matter again, I was hoping for a little bit of coaching from you on that. And then my second real question, frankly, is on something like GE where in game theory I could see how this could make a lot of sense, were you able to analytically ring fence what is seemingly the opened ended liabilities on the long-term care contracts, and underfunded pension plans? Are you able to define that and come to some conclusion about intrinsic value? Or is this more of like this makes sense as a 2% type position. I'm wondering how deep you were able to get your arms around what many people haven't been able to solve.

David Iben: We've spent probably three-quarters of a year analyzing it and we did it business by business. And the most important piece is the aerospace engines and we, from the second we started looking at it, saying, alright, they're clearly the biggest and the best but we're not going to use their margin of 25% and maybe 28% they were thinking. So we used numbers that were way lower than that, numbers that were in the teens. And then we did scenarios of 14% to a scenario down in the mid-single digits. But we used lots of different scenarios. We said let's just assume no growth and way lower margins than they've had and more in line with what Pratt and Whitney make, and we valued it. And then we looked at their healthcare and we looked at their margins, and Siemens, and others, and we guided down to what we thought was more normal for the energy and the industry over time. In energy, we just said, all right, let's - what do we think of Baker Hughes. And we came up with a number lower than the market, although the market quickly came down to that price. And then on the locomotives, we gave that like a 70% haircut from day one just based on what we thought were average margins. On the finance, rather than to break each piece apart, we pretty much just gave them no value and then when we added it all up, we came up with a number.

And then with every stock, not just with GE, every single stock we do, we say we're value investors. We're not going to pay full price. And so we don't know whether the economy is going to be good next year, and we don't know the full extent of insurance liabilities. There's a lot we don't know. So let's give them another haircut. Let's not give a third.

And then we come up with a value and say, at that price we're sort of neutral. And so right around \$11.5 or \$12 I think we were neutral. We didn't start buying it until it was into the \$8s. We bought in the \$8s, and we bought in the \$7s, and \$6s, and now it's come back up. And it's not a big position. I don't know that it ever got to 2%, although it got close. And then



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when it bounced back, we trimmed a little bit. But we're always looking to do all the analysis we can and then we're always interested in giving ourselves a buffer and making sure that a lot can go wrong and we can still be right.

And the first part of your question?

Dan Gallagher: Was just the issue of having a value tilt and still giving people over 100% of the downside. The All-Cap world last year was down 9. We're down 11 and that's in your portfolio. But for a lot of us, we've been able to give people 80 some percent of the upside and a hundred and change of the downside and that doesn't make long-term friends.

If you're in front of an ultrahigh net worth client, and we can send them comics and slides about this is dead. From a - what do you think are the most cogent points to keep people from quitting and capitulating into what is a lot easier?

David Iben: I can speak from history. It's always good to convince people to be long-term but late '90s and now have been the only time where insanity lasts for five years and that makes it harder to talk to people about how you can be wrong for five years. But I can tell you it was really tough to be in the business in '98 and '99. All I would tell people then is I think I'm right, but if I'm wrong, so what. We'll double your money over time and the growth guys will double it in five months or maybe they'll lose it all. Who knows?

And fortunately, they all stuck with me, and sure enough, the growth guys lost 95% of their money and we were up every single one of those years in 2000, 2001, 2002. And then when the market bounced, we were up more than 100% better. Those were good times.

In the first half of '08, we didn't lose money when people were getting hit. Then the next four months, we were down 50% in four months. Brutal. But by late 2009, we had made it all back and then some. You add 2008 and 2009 and together, we were up. So, clients were safe.

In 2016, when there was that correction, I think bottom to the top, we were up 93% so we can do that. But like I said, 2008 was painful, 2011, and '14, and '15, we lost money in up markets. I mean we lost decent money in up markets. So just to say value does better against 80% on the upside and 60% of the downside now. I mean, I've found usually, we get way more than 100% of the upside and usually, we get next to none of the downside. But sometimes, we get downside when the market is up. That's what it's been. So, I think people need to decide, do we believe in value and do we believe in this particular definition of value. And if we believe in that, then it's highly, highly, highly likely to be both the safest place for my money and the most profitable place for the money. If we are dead wrong, people should get out. If we are right, what a really unfortunate time it would be for people to give up in this round of value. And I felt bad for the couple people that gave up on us in '99. That was unfortunate. Fortunately, most people stayed with it.

If value doesn't work anymore then it doesn't work. But if it does, you can see - I showed a few things but I can just show you chart, after chart, after chart of value versus growth. It is a huge, huge, huge gap. If price matters for anything than the vast majority of U.S. stocks are dangerous. That doesn't mean they're going to go down. It means that they're dangerous. They could go down a lot. And the value stocks, we're talking oil peaked I think 12 years ago. Uranium peaked 12 years ago. I think Brazil and Russia probably peaked 12 years ago. You had a lot of things at a secondary peak like seven or eight years ago. I think gold peaked seven or eight years ago. A lot of other industries have been dropping for two or three years now. So, somebody I guess needs to ask themselves are these things dropping because they're just inherently bad countries, and bad elements, and bad businesses, or have they been sold because we're in a world right now of momentum and good companies go down if they're going down. And good companies and bad companies both go up if they're going up. That's what the computers are doing. They're saying, if this is going up, buy more. If it's dropping, sell. So, in the short-term that's been a painful thing. I think in the future, we'll all think of this right now as the good old days where we were able to take advantage from that. But a biased opinion.

Dan Gallagher: One other thought. I see in this upside potential chart, you have - it looked like you added a new column. Instead of just 2x, 3x, you have a 5x now. And I was wondering if you could give an example or two of things you think are five times mispriced?



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David Iben: The first time I pulled out this chart, and it was this chart, was -- what is this -- three years ago today pretty much. It was in this first quarter call and we've never been really boastful at all, but we've never seen any market like this. We have all kinds of names that we think could go up 5x or more and I bet that sounds insane. But then let's look, if I'm right, in 5 years or 10 years, what does that mean. I got really lucky on that call, because in the following six months or so, we had I think Eletrobras go up more than 5x. I think Federal Grid went up more than 5x. And RusHydro probably went up more than 5x. Some of our gold stocks went up 5x. One of them went up 25x. Some of our shipping companies went up 3x. That's what happened off of that bottom.

We are almost as cheap as we were back then, not quite. But I told people then and I stuck by it, I came in this market at the end of '81, I came at the bottom of a 16-year bear market. Stocks were the cheapest thing you'd ever want to see and our portfolio in 2015 was way cheaper. It was just amazing. And so, I put those outlandish numbers up there, and they did go up that much. And I say the whole portfolio went up 93% from the low to the high in a six-month period.

Now, after it did that, we changed the chart and we cut the numbers down to 50, 100, and 150. Just recently, we say value has become ridiculously cheap again. It's been a number of years of gold stocks getting cheaper and cheaper, despite the fact that gold is not. And we've had continued growth in the emerging markets and shrinkage in the companies, and then as these currencies drop, that makes them even cheaper. And so, if we look at a ship and say how much it costs to build a ship, what's this mine going to be worth if uranium gets to \$60. And we can talk as long as you want about why we think it goes above \$60. Or if farmland is worth \$8,000, \$10,000 in the U.S. gets to \$2,000 in the Ukraine then how much are these companies worth and the numbers are more than 5x.

So we're not saying the portfolio is going 5x. We're saying there's a number of companies that could go up 5x.

Operator: And we'll move onto Thomas Walsh from Merrill Lynch.

Thomas Walsh: Hi, Dave. I was just wondering if you had any thoughts on economic strength, you know, globally, having any thought on that, and interest rates.

David Iben: Probably not any worthwhile ones. But it's nice that the market was priced for economic growth forever everywhere and now, the market is, I guess no growth anywhere except for the U.S. And even their expectations for the U.S. are coming down. So, stocks have gotten cheaper. I'm sure there's been a little bounce these last few weeks, but stocks have gotten cheaper. So, I think that's good. It's helping us find value sometimes.

I would, if I were a top-down person, I would not want to be too optimistic on ten years of economic growth becoming eleven years of economic growth. I think the odds are against you. And I also think when the Fed has been shrinking its balance sheet for a couple years, that's a tough time to be predicting an increase in growth in the future. That's probably difficult. Interest rates are way up from where they were a few years ago and I assume the Fed is going to have to choose between whether they let rates go up or whether they come back with QE. I assume it will be the latter. But what do I know. But it's going to have to be one of the two because they're going to have to borrow a trillion dollars a year. Got to come from somewhere.

So, I'm not going to make predictions. I would just say now is a tough time not to want to buy at really cheap prices if people are buying U.S. stocks.

Thomas Walsh: Okay, thanks.

Operator: And we'll take Jay Campion from JD Campion Asset Management.

Jay Campion: Hi, Dave. I'm just wondering what you looked at with a company like Gabriel Resources.



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David Iben: Certainly. When we look at gold companies, because gold is scarce, hard to find, and nobody has found much really for many decades now, the most important variable is gold. So we look for a lot of companies that actually own a bunch of it. And that often requires us having to invest in all kinds of countries around the world that have their own challenges. And that's led to some really good and really bad quarters and things.

So this has been a mine that's been there a long time. There's a whole lot history of way back in the communist days, Ceausescu and those guys, they destroyed the environment and there's a lot of anti-mining sentiment in Romania. So, Gabriel came in and said, here, let us mine this mine we own, and we'll fix all this stuff for you. So, there was a lot of interest in that, but then there was a lot of people against it, and they were going to do it, not going to do it. The government seems to have changed once or twice a year. And so, there's pro-mine, anti-mine, back and forth, back and forth. And so we've actually made a little money on this one even though it's gone down the last few years just because we've had some good opportunities in the past.

But what's happened now is a lot of the other shareholders have come to the conclusion that they're never going to be allowed to do this mine and a lot of people have had success in international arbitration. So, they've gone the international arbitration route saying let us mine it or pay us billions of dollars. And that's where it is now. It's spending a lot of money on lawyers, and in the end getting however much money they get. And we'll see how that works out.

Jay Campion: All right, thank you.

Operator: We'll take Gary Magnuson from Morgan Stanley.

Gary Magnuson: Hi, Dave. I was just wondering when we saw that active versus passive and all the money going into passive and money coming out of active, have you lost money or gained money, stayed flat? And maybe in prior times when you were at Tradewinds or otherwise, what was it like when you did lose money, I mean when it goes out the door because people get nervous? Is it harder to manage? Any comments there? Thank you.

David Iben: Certainly. Thanks for the question. And thanks to all of you, we really feel blessed and fortunate that we have not lost money. I mean, certainly we've had some clients leave, but every year, we've had more money come in than go out, and that has already been pointed out during a particularly painful five years for our style.

So, I did not expect that we could have had this performance without money going out. And so yes, I think our team has done a good job of helping people understand what we do and why, and whether that makes sense for people. And I think a lot of you have done a good job of figuring out what you own and why, and how it fits into the portfolio, whether people should invest with us, or the next firm, or any other firm. People make up their own mind.

But to buy a value investor and then terminate them after value has had a couple tough years, that's just unfortunate for everybody. And so, we really feel it's great for us, and for you guys, and for your clients, and everybody else that people have held in and at least through 2016, we were able to make a lot of money for people. And we feel confident that there will be a next leg of that rotation back into value.

As far as Tradewinds, yes, there was I think a lot of money poured out of there in 2008 and between market drops and money going out, I cannot remember. But it was painful but we all I think handled it very well. If we wanted their money back, we gave it to them and we adjusted the portfolio to keep the better stocks, and things bounced back pretty quickly. And I think we were down less than two-thirds of the market in 2008 and we were up way more than the market 2009. So, we were glad that most of the people stayed with us. But certainly people left.

Here, I think when we first started, there was some excitement and maybe a good time to get in at the ground floor with us, and maybe we could repeat what we did the previous decade, and money came in and we have just a god awful fourth quarter of 2014, and some money went out. Since then, people have been giving us money on the downturns. So, it makes me feel encouraged about it. A lot of the people who are investing with us, I think we've got a lot of true value investors, and in our opinion, smart investors. And so, it makes me feel good about the world.





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Gary Magnuson: Thank you, Dave. We've been long-term holders. Can you also just say where the money - what countries it's in? Though I know you do more of a company-by-company approach. How does it kind of divided up from a country exposure today or last quarter?

Dave: Our clients?

Gary Magnuson: No, I mean you own some Gazprom, that would be in Russia. You probably own someplace else. I was just curious how much you have in different countries.

Dave: Oh, okay. Yes. Let's see, where are we? This doesn't have quite the countries themselves, but we have very little in the U.S., which differentiates us quite a bit, although that's gone up with GE and Range Resources. And having - we have 35% of our portfolio in Canada right now. Canada is not liked and resources aren't liked, and so we have, of course, a lot of gold, and platinum, and silver, and uranium, lots of uranium. And more recently, oil. And so that's a lot. Russia has been good. Russia is where Gazprom is arguably the best gas company in the world by far and have added 3x earnings and a third of book value is a nice thing. Sberbank Bank is arguably one of the best banking franchises on earth and so we've been a long-term holder of that and that's done pretty well. But to have one of the best hydro-generation companies in the world and one of the strong electric distribution companies in the world. More recently, some home builders and some retailers in emerging market for cheap prices. That's been good for us.

Korea is something that's become bigger recently. We've had Korea Telecom for quite a while. But Hyundai for the last year plus and Hankook Tires. So Korea got pretty cheap. China, not so much, but we have opportunistically bought and trimmed their two largest fund companies and one of their railroad companies, and some others. So, China off and on. Brazil has pretty much been an add company and a utility company. So definitely - oh, and Japan. Japan, that kind of goes up and down over the years. But there's been great opportunities over the years to buy, say, small tech companies at less than cash in the bank or buy a big strong distribution or trading companies that have been around for many, many decades at single-digit PE and buying their transportation companies, et cetera. So, some Japan as well. But I guess that's the bulk of it.

Gary Magnuson: Thanks, appreciate it.

Operator: And now we will take Seth Radow from Raymond James.

Seth Radow: Hi, Dave. I'm curious if you've ever tried to identify some of the catalysts that might bring about the narrowing of the spread between current market values and the intrinsic values that you've identified in individual companies and in the broad group of companies that you've described as having tangible assets versus intangible.

David Iben: So you're talking about catalysts in general or intangible versus tangible?

Seth Radow: We could start there, sure. There seems to be a rather broad basket of tangible asset entities wherein the spread between the intrinsic value and the current market values are exceptionally broad. Yet, on the intangible asset side, the risk premium there is extremely low. Have you ever thought about that or maybe tried to ascertain what those catalysts might be?

David Iben: Well, there's a lot there. I mean catalysts in general, we have nothing against, but we don't spend time on them because very rarely do we see the catalyst until the stock has moved a lot. And some of our biggest winners are things that are just way undervalued that even we can't imagine what will ever make them go up, and then one day they go up big. And so seldom do we see catalysts, although theoretically, uranium has a catalyst now. A lot of things are falling into place. So, a catalyst is not something we do, start here. If something is going to double or triple, we're happy even if we have to wait two or three years. So, we are more than happy to buy without a catalyst. The catalyst usually comes too late.

Market wise, we're all about valuing things, coming up with what we think it's worth and what we think the risk-adjusted value is. And the market being a very emotional creature, it changes its mind on things all the time. And when it goes from



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loving something to hating something, we take advantage of that. The '80s it was short gold. Now, gold is very, very cheap. A mere ten years ago, people loved emerging markets, especially the BRICs. The BRICs were must own and we owned almost none of them.

Now, people despise Brazil and Russia and they're not big fans of either. So we buy those two. When I came in the business, tangible assets is falling is all you wanted to think about after what had happened in the '70s. So that was a great time to buy the intangible brand values of the Cokes, and the Pepsis, and the drug companies, and the Procter and Gambles, and that's what we did.

Now, people want to pay fortunes for brands. Brands and quality franchises, the one thing that's owned by everybody. The indexers own them, and the growth guys own them, and the value guys own them. Everybody owns them. No value there that we can see. And now, people have changed their mind in the last seven or eight years from you must own agriculture to you shouldn't own agriculture at all. You must own gold to protect us from these government printing to why would anybody ever own gold at any price. People have gone from how are we ever going to get enough resources in energy to handle 7.5 billion people to "energy is such an obsolete thing, who needs it anymore". And so we just tried to come up with what we think something is worth. And right now, I mentioned last summer, I was getting all these articles sent to me about intangibles were all that mattered, and people were using hindsight bias to justify why people should really capitalize everything.

Because Google has been successful, maybe we should treat every technology company like somebody who is going to be worth something. Because Coca-Cola is worth something, maybe we should assume that every brand should capitalize all their marketing expenses and it's gone too far.

So we're not finding a lot of value in intangibles right now. Anyhow, in 2009, we were being called the growth manager as we were buying the Whole Foods markets, and the eBays of the world, and the Microsoft. That's where the value was. That is not where the value is now. The value to us is people will show us ships for way less than it cost to actually build a ship. They will sell us copper, and platinum, and gold, and uranium, and natural gas for way less than it's going to take to go replace that stuff. That to us is value. We just don't know the timing. It would be great to know the timing. It would be great to have a catalyst but like I say, if we have to wait a few years to be right, still pretty nice IRR.

Seth Radow: Thank you.

Operator: Up next is Rick Speidel from Ameriprise.

Rick Speidel: Thank you. Hoping you could comment on a couple of the energy names. Natural gas went from the high 2s to 4.5. But stuff like Range Resources didn't really seem to move in a commensurate way. And then I noticed you trimmed it on one of the slides, it was trimmed in the three-month period ending November 30. And then if you could also comment on MEG Energy and the expired offer by Husky.

David Iben: Yes, Range Resources was interesting. We really didn't own natural gas for quite a while, other than Gazprom, which is in a different world. But the stock had been, what, in the \$60s or \$70s years ago. Got into the \$20s. We started looking and it pretty quickly fell down to the \$12, \$13 area and we took it to a fairly meaningful position and it did pretty nicely. Bounced 40 plus percent and so we trimmed it.

But it's one of the few times, people calling us saying we usually add these things so slowly and we took the one up to 3.75% I think, something like that from zero pretty quickly. But that's because it was kind of interesting at \$20 and then it was just \$18, \$16, \$14, \$12 something and we built a pretty big position, and it instantly bounced much higher and we trimmed it. So that's typically how we do things. When they go up closer to what we think they're worth, we take a little off the table. That one worked out well, volatility being our friend, and here, we like it.

MEG Energy has been kind of interesting. People talk about markets being efficient despite just infinite emphasis that it's nothing close to efficient. About a year ago, we already owned a good amount of it and the stock was down to \$6 or so.



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And I got this call that one of their bigger sellers wanted to sell, and I bid them \$5 and the stock had already dropped quite a bit. By the end of the day, a few other people came in. We took out the biggest seller at \$5. Figured the stock would open up big. It dropped into the \$4s and sat there for a few weeks. Then it exploded up into the teens and we sold a lot of it, made a lot of money on that block.

What Husky was trying to do I think was a very good thing. They're figuring, all right, MEG Energy is selling way too cheap and they can come in and they have a stronger balance sheet, and they're more diversified, and probably a good fit for them. And with the differential on oil it was probably an attractive time to do that. We told them, yes, we applaud. It's just that all this benefit that's being made is being made by you. You've got to leave at least some of it to the MEG Energy holders.

Apparently, we weren't the only ones that thought so because the deal didn't get done. And so, the stock has fallen way back and so a lot of - we did trim a lot of it and like I say, it's our tendency when things go up, when they go \$4.5 to \$11 something, we trimmed a lot of it. Now that the deal fell through, we bought a lot of it back. It's very, very attractive here. Whether Husky comes back, I don't know. It does seem like a natural fit for them but I don't know what they're thinking. Maybe they got spooked by the downturn in energy stocks. But we have a high opinion on Husky and we have a very high opinion of MEG Energy at these prices.

Rick Speidel: Thank you.

Operator: And we have a follow-up question from Dan Gallagher from UBS Financial Services.

Dan Gallagher: Hi, David. Dan had to step away, but Dan's question was how do you determine the position size in your portfolio? Is it risk-based, liquidity, or conviction? And then second question, what tankers do you currently own?

David Iben: Okay. I mean, to us, risk is all about price and we have things to keep us from putting all our eggs in one basket, which is the other part of it. The rest is all about price. So with every single stock in the portfolio, in order to reduce the risk we have to have done our best to understand it. So, we've done industry templates. We've done a full report of the company. We've decided within the industry who do we want to own and what are the competitive advantages, and key factors, and drivers. We figured how to value it. And then we've come up with what theoretically it's worth. Then with every company, we say we want a margin of safety and that margin of safety we demand goes up with the amount of debt, or with the lack of confidence in management, or the risk due to geopolitics, or you name it. And so we assign a risk adjustment and a degree of certainty, and come up with our risk-adjusted price.

So, let's say a company is worth \$50 but we want to risk adjust it by 40%. Then we think it's worth \$30. If \$30 is our risk-adjusted, I'm probably not going to own any of the \$30. That's a fair price and we're looking for better. If we can buy that stock at \$20 that will generally be around a 2% position. We have a 50% upside and 50% is not bad.

If the stock bounces two or three points, we don't say \$30 is our price. We say we had 50% upside. Now, we only have 35% upside left. We can't possibly like it as much as we did before it went up two or three points. Let's trim it back from 2% to 1.5%. If, instead of going up, it drops from \$20 to \$18, then we'll say, all right, now, our upside is a lot more than 50%. Let's add a little bit. Let's take it to 2.5%. If it drops to \$15, we'll take it to 3% or more. And so, lots of little adds and lots of little trims as it goes further from and closer to our risk-adjusted price. We never got more than 5% at cost. So, if a stock keeps dropping, we stop buying. Make sure we don't lose more than we want to on one name. So, we haven't done that. It's only been one time in 37 years I think where that's mattered but it helped but I don't want to lose all your eggs in one bad name. And so that's it. We very carefully add to it as they get cheaper and sell as they approach target.

Tanker companies, we've loved that business for 20 years. It's just so beautifully cyclical and everybody loves them at the top and they're going to be swimming in cash forever, and then at the bottom, they lose money like crazy. And then people can do like they did a few years ago and decided that they hated oil companies, so we bought Tsakos and then that bounced. They hated the tankers or the dry bulk tankers and so we were able to buy three of them. They bounced, and we sold two of those.





So, they bounced around, but generally it's been Tsakos and Diana. And we've tried to nibble a time-to-time Stolt-Nielsen, which is a parcel tanker that we've owned off and on over the years.

Operator: And there are no further questions. I'd like to turn the call back over to Mr. Dave Iben.

David Iben: All right. Well, thanks everybody for calling in and it looks like it could be a very interesting year. Look forward to talking to you again in three months. Thank you.

Operator: And this concludes today's presentation. Thank you for your participation. You may now disconnect.

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