

KOPERNIK GLOBAL INVESTORS, LLC

Edited Transcript of the 2nd Quarter 2019 Conference Call with David Iben

July 18th, 2019
4:15 pm EST

Operator: Good day ladies and gentlemen, welcome to the Kopernik Global Investors 2nd Quarter 2019 Conference Call. As a reminder, today's call is being recorded. At the conclusion of today's presentation there will be a question-and-answer session. Instructions will be given at that time. At this time, I would like to turn the call over to 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 2nd Quarter 2019 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 for the bulk of the call, I'd like to give everyone a quick firm update. From an overall AUM standpoint the firm assets at the end of the quarter were right around \$4.1 billion versus \$3.4 billion at the end of 2018.

We currently have peak assets at the eve of our sixth-year anniversary and we're very pleased with the confidence our clients have entrusted with us. In addition to positive market action, we saw roughly net new asset growth of more than \$300 million during the first half of the year.

Although the last couple of years have not been conducive to value, at the style of investing and to active managers, we believe our clients have been pleased with our discipline to not give in to the temptation of chasing the highest-flying momentum stock of today.

This clearly helped us in years like 2016, the fourth quarter 2018 and the most recent sell off in May, although short lived. But our portfolios performed well, and our clients have been benefited by the consistency and the diversification that our portfolio provides.

Lastly, on the firm, I would like to add that we are 38 people strong and have been stable with no turnover in staff. Please note, Dave will be referring to his presentation which can be found on the Web site at <http://www.kopernikglobal.com> under the News & Views section.

And with that I'll pass it over to Dave. Dave?

David Iben: Okay, thanks Kassim and thanks to everybody for joining the call. Seems like every quarter gets more interesting than the quarter before. Certainly, this year is no exception. When it comes to market overview we've always been of fan of *Grant's Interest Rate Observer* and their comments and their sense of humor and I think nothing captures the current environment better than this comic here.

It's interesting to hear so many people go "risk on". For us we've never quite understood the concept of investing people's retirement funds on a "risk on" mentality. But now more than ever this year's been fascinating because the worse the economy gets the more people want to be "risk on". And so, we've had a barrage of bad economic moves it seems pretty clear things are getting tougher and with each bit of bad news people say "risk on."

I think probably correctly receiving that the Federal Reserve will print however much money they need to. And having failed to exit the last bound of money train, it's clear more money turning is on the way.



Kopernik

Global Investors, LLC



So, I guess it's understandable that stocks are going up, although I'm not so understandable why the stocks of money losing companies are doing better than the ones of good profitable companies. And certainly, it makes sense that gold is at a more than six-year high today. So, the money seems to be on the way.

You know, more on this environment. I guess it doesn't matter if the economy's getting weaker, fundamentalists don't seem to matter a whole lot to people. And speaking of risks, what could be riskier than investing without doing any due diligence or analysis. Maybe many of you have seen this recent article from JP Morgan suggesting that 80% of money is now, or stock market money is now on auto pilot in their words.

Interesting timing, our recent commentary, *the Renaissance and the Entropic Arrow of Time* talked about how in this time where theoretically analysis has never been easy, easier, we have more access to data and more access to systems, more ability to crunch numbers. You think there would be more analysis going on and how interesting that people are choosing now not to think for themselves. And, this we believe is good news. This is music to the ears of fundamental based investors.

The less analysis going on the higher the degree of market inefficiency and that's, of course, after a minute or so we hope to exploit. Now risk is one thing. Maybe even more absurd than the risk of possibilities of money is guaranteed loss. And that's what many people are seeking now. Matter of fact there's \$13-1/2 trillion, that's trillion with a T, that's invested in bonds with negative interest rates.

In other words, you buy these bonds and hold them to maturity you're guaranteed to lose money. Fascinating time. But people want clarity. Seems like they would rather lose 60 basis points with certainty on the Swiss bond than buy something else where people do not know when the returns are going to come in. Now there's a couple problems with this. One is the price that they're paying. But before we get to that let's talk about the idea of the certainty they're paying for. Problem with perceived certainty is it does not equal certainty.

People think they know the future; they do not know the future. This little slide here shows the US 10-year bond yesterday. With its yield of a little more than 2%. And next to it is yields where they were when I came into the business. You know, this is my lifetime in the United States so we're not talking real bad things we're talking they were at 15% on a 10-year bond. If rates went back to that, we're not suggesting that's going to happen, that would result in a 65% loss. A 30-year bond would be more like an 85% loss. And I haven't even bothered to calculate the loss of some of these negative yielding things go to 15%.

So, yes, people better be right that rates stay negative forever because if printing money causes inflation as history and logic would suggest, it's possible that this certainty turns out actually to be a disaster. More on the idea that people shouldn't feel certain about the future, here is a list of technology.

These were all big things. These were things that were going to be the future. They were going to grow faster forever. Many of them are from the last couple decades. People were excited about these things. Now they've gone from the future to relics of the past and it happens pretty quickly.

We also talked in the recent commentary about how people love tech because it's disrupting things. And that's true, there's going to be a lot of big winners in tech and it is exciting. But technology is not the one where only the one where disruptors come from. Many, many, many disrptee's are in technology I think probably no industry gets more disrupted than technology. You see on here, I think, you know, the times the markets look like it does now or 1972 and 1999 and 1972 people were willing to pay a fortune for Polaroid cameras which are on here. Ninety-nine, many of the things on here were considered pretty exciting. Usually a mistake.

A little more on whether we ought to be certain about the future. The debt is a percentage EDP is now over 100%. May last the vast majority of the time because there's problems in the future it's worse than Japan and parts of Europe.



Kopernik

Global Investors, LLC



So that can work both ways. Things might turn out good. But, quite certainly that will not be helpful as the economy turns now. Certainty on the future, insiders, they're certainly not feeling very good about the future, very high levels of insider selling.

So, a lot of reasons why people shouldn't think they know the future. And then even if they do know the future, now let's turn to the positive part of this presentation. Where people are paying a lot for their false perceptions of certainty, they're giving away assets that don't come with such false promises. This chart shows, you know, people can be pretty certain that you're going to get paid what you're promised on a sovereign bond. And hence a mere 2% in the U.S. but negative in many countries is on a 10-year basis. Fascinating. Investment grade bonds, of course are a step away from sovereign. A lot of them are pretty high quality. Then maybe a little more yield but an increasing number of investment grade bonds are now guaranteed losses. Then as you get a little step further away you can get the high yield bonds and quality growth stocks. Quality growth stocks you're quite likely to do pretty well in terms of getting nice cash flows year after year in the future. Probably a little less than people expect but even if it's not a little less these things are priced to make sure that you get a pretty low return on average over the next decade or history and logic have shown that paying high prices gets you low returns.

Once you get outside the U.S. prices a little better priced and you can get better returns. But those markets are near all-time highs too. But once you start to step away and get a little more uncertainty, once you get into the emerging markets which are more famous for their volatility, there you'll get companies that are probably faster growing. And many times, strong concentration and good cash flows but people aren't certain about which day the headlines will be good and which day they won't and when the economy does well and doesn't. And so, since they're not certain instead of giving you a 1% or 2% earned yield they will give you a 20%, 30% earned yield in many cases for good company. Now it's actually getting pretty interesting.

And beyond that, scarce assets, assets that cannot be replaced easily. Things that aren't going to be obsolete. Who knows what the technology world will offer 10 years from now but we could be pretty certain that people are still going to use electricity and they're still going to eat food and they're still going to want copper and they'll probably want some gold as protection or purchasing power. So, here you've got stuff that actually is less risky in terms of losing value over time. But, there's no certainty. These things famously get too expensive and too cheap and too expensive and too cheap. And sometimes they stay cheap for a long time. But, because people don't like that we are able to own farmland and uranium mines and oil wells and gold mines and tankers and hydroelectric generation assets and so on and so forth for half of what they're worth, sometimes a third of what they're worth, a quarter what they're worth.

Suggesting we could make two or three or four times our money, but we don't know when. Well, you know, when I came in the business if you were wrong by a couple years on the stock you were missing out on the chance to make 22% a year on a money market fund. Now you're missing out on zero or roughly zero, negative on some bonds that we mentioned. And, if you have to wait, and maybe things are looking like we won't have to wait too long, but if we have to wait, we've made it a habit of showing you all this chart because we think it's very, very important.

If you can buy things at half price it is worth the wait. We hope they double this year. But, if it takes two years, 41%, it takes five years or making 15% a year. You know, seven-year rate will be double digit returns. This is going to be in an environment that doesn't have a lot of interest rates. So, we believe that buying assets that have long run sustainable value is a very good thing to do.

Now, I guess in the Q&A we can go over some of the specifics although we've told you guys a lot of other things at nauseum. So, we won't go into a lot more. We will show this chart. While gold is at a six-year high, commodities are not. This is commodities relative to the S&P. See how they went from pretty expensive a dozen years ago to the cheapest ever right now. And hence that's giving us the opportunity to increase positions in natural gas and uranium and those sorts of things. So, really a fascinating environment. And that is all very, very attractive even if the Fed's plan to start printing money again, do not cause inflation, not necessary for these things to work.

This bifurcation and this market, this willingness to give away unpopular stuff has allowed us to build a portfolio that's 2/3 of tangible book value. One-time sales, you know, it's less than five times gross cash flow. Very interesting. And,



Kopernik

Global Investors, LLC

on the concept of risk, the volatilities we've also mentioned to people is commonly mistaken to be risk. Of course, might be risk to people's comfort zone or their businesses but it is not at all related to risk to the portfolio. And, counter intuitively, actually volatility has led to lower risk if you believe that risk as most value managers do.

Others will point out that risk is about the possibility of permanent loss of capital and the cheaper you can buy something the less risky it is. He points out that bonds that are on default are low risk if you're buying at 10 cents on the dollar. So, because people are selling the stuff that's more volatile that means their prices are cheaper, their valuations are cheaper which actually makes them less risky. That's point one.

We actually have a lower risk portfolio by having some risky stock in there. And then secondly, of course, it should be obvious to people the chance to buy low and trim high as a positive thing. And, so that's what we've been doing over the years. That's what's helped us tread water in a market that's been hostile to those value things that we tread water because times like 2015 we bought the smaller mining and 2016 we sold them and bought the bigger ones. Last year we were able to buy the smaller ones again which thankfully we're doing pretty well now and we've seen people hate Russia and we were able to put a lot there when they did see, you know, Russia had a really good couple of years we're able to trim that and now buy more of Korea, things like that.

You know, when people didn't like oil back three years ago, we were able to buy oil companies. Now they like oil okay, they hate natural gas. That's given us opportunities.

And so, as we see on this page that's continued to be the case. The idea that we get paid to wait, Gazprom PJSC sat there and went nowhere for five years. We collected our 6% dividend, this year it went up 70 some odd percent. Was worth the wait. So, we've trimmed that. We still like it but we were able to trim that and move into Crescent Point Energy Corp. people don't like Canada now. It's a fascinating thing, anything with pipeline problems and whatnot, so that's opportunity.

You know, I mentioned large versus small. It's a long wait for Impala Platinum Holdings Ltd. that moved up. New Crest has been a good one for a lot of years, so we've trimmed those and been able to add to Novagold, Polyus and Sea Bridge, which we've waited patiently for chances to buy more of them at cheap prices.

General Electric Co. was something that had gone from \$60 to \$6 and something over the years and we bought that, but we were able to trim a lot of that at \$10, \$11 and move that into things like Korea Electric Power Corp. So, we're able and say real estate to sell, IMMOFINANZ AG so mostly East Europe it's done pretty well recently and roll that into LSR Group PJSC with its real estate in Russia, so on and so forth. Japan West is another one we were able to buy that years ago after the earthquake in Japan. Price the railroads very, very cheaply and they've gone up and up and up. They're still pretty interesting but a lot closer to what they're worth. And so we sold our railroad transportation and rolled into Stolt-Nielsen which is a specialty shipper company.

So, yes, I could go on, but the point is volatility is not a bad thing, it's actually a very, very good thing. Similar stuff in the International, the Global and same concepts. And, just to quickly go through this portfolio we showed you the valuations. It's a deep value valuation but it's not a deep value portfolio.

One, it's in the growing parts of the world. You see the emerging markets being high 30s in terms of percentage of the portfolio. That's a beautiful thing to get growth at a value price. And to the upper right as we will continue to point out, these are not number seven in our industry turnaround situations. It's the portfolio of market leaders be the first and second largest uranium producers in the world, the third largest gold producer, the largest gas producer, the largest hydro generator, the second largest hydro generator, the largest nuclear electricity generator, the first and second largest trading companies. So, really interesting time to an investor.

I think an excellent time to be an active manager and an excellent time to be a value manager. And as we pointed out with the IRR, the bargains are so good that we hope we don't have to wait too long. But if we have to wait the opportunities are worth the wait. So, with that, let me open it for questions. Thank you.



Kopernik

Global Investors, LLC



Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are 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 take our first question from Lance Hollingsworth.

Lance Hollingsworth: Good afternoon. Any comments on the Cameco Corp. news and Trump's talk about uranium quotas?

David Iben: Certainly, I do. You know, people stock uranium and then narrow down into Cameco Corp. People always ask us or for catalysts and we generally don't have catalysts. Usually the stocks will move by time the catalysts are current. It's not the case with uranium. After a long, long wait, everything is going right for uranium except the prices hasn't moved yet.

But, if the price of being too high brings out supply that was the case when uranium got too high at 137, the Kazakhs brought their production up 10 times. Cameco brought on supply and of course demand slowed down and especially with the Fukushima plants went offline.

The price once \$137 got to \$18. Fair price is between \$60 and \$90 somewhere we're pretty sure. So, two low prices are supposed to solve the problem and they are. The catalysts are there in the 20s. It's taking care of itself. The Kazakhs have cut production a few times. Cameco shut down the largest and best mine in the history of mankind. Sent their employees home and said we'll call you when the price doubles. And so that was interesting.

You've had the Department of Energy and the U.S. stopped selling, the Russian government stopped selling a number of years ago. On the demand side Japan's brought back nine of their flats and will bring back another 10 or 15 of them. China we've talked for years about their developing which finally brought six plants on and they've got 30 some odd plants still on the way in the future. In addition, you've had funds set up just to buy uranium at the prices and hold them. We own a couple of them, more are coming on the way. So, supply and demand are more than imbalanced. The huge, huge inventories from years ago are getting worked off. Eventually you'll have billions and billions of dollars' worth of reactors sitting idle unless the price of uranium goes high enough to stimulate demand. So, the catalysts there, uranium looks really good.

Outside of that, yes, there was some small U.S. miners who had got the government to consider that maybe there should be requirements that the U.S. produce its own uranium, which of course was impossible. The U.S. doesn't have anywhere near enough uranium to supply 25% of its needs.

And if we really thought that it was a strategic need for the U.S. or the U.S. could go in there and buy uranium and start stockpiling it, it's unbelievably cheap. So that was I don't think ever really anything to do with that it was companies wanted to be able to sell uranium in the U.S. for many multiples it sells outside of the U.S. That would've been a hardship on the U.S. reactors.

That fell through and so that seemed to make the stocks go up one day and they went back down the next day. So, I guess the market all said and done didn't expect it to happen in the first place. And really there's no way it's seasonably could have happened. So, maybe it's not news but it would've been very disruptive to nuclear utilities if it had happened. So, no real comment on that other than it's been resolved and people can go about their lives.

In terms of Cameco Corp. specifically, last summer they won a major award with the Canadian government. They were trying to get anywhere from 400 million to 2 billion of taxes from Cameco Corp. The court sided completely with Cameco Corp.; said you don't owe a single nickel. So that was a big victory and that's appealed and who knows but some things been completely won like that it's probably not likely to be overturned.

More recently what appeared like maybe good news is actually very bad news. There was a Japanese company that had been fearful they were not going to have enough uranium when the prices were \$110. They signed long term contracts to buy at \$110. The price plunged into the 20s and they reneged on their contract, so it went into arbitration and the clerk found they only thing they possibly could've found, you don't have the right to renege on that contract, Cameco wins.



Kopernik

Global Investors, LLC



The contract was worth a billion dollars or something, but court awarded Cameco Corp. \$40 million where on the surface they won, they lost. I think the stock viewed it that way too. It's really inconceivable how the court could say your contract was good, but we're not going to pay you for what it was worth. So that was bad news.

But outside of that, you've got Cameco Corp. well positioned as well as Kazatoprom and some of the future companies, NexGen Energy Ltd. and Fission Uranium Corp., and those sorts of things. And the catalysts are there and that's even if the Fed doesn't come back and print a bunch of money. So, lot going on in uranium but most of its pretty positive.

Lance Hollingsworth: Okay, thank you.

Operator: And we'll take our next question from Patricia Neubeller.

Patricia Neubeller: Hello David. Interested in your thoughts about A.I. and robotics and if you've had any opportunities to see in terms of investing in that. And, maybe drilling down into China what you've been able to invest in there if anything and if they have anything interesting in terms of robotics as well.

David Iben: Certainly. Robotics I think is just an evolution. Thirty years ago, people were starting into it, but robots and safe car manufacturing is more with arms and they get more sophisticated over time. Now, of course with exponentially increasing abilities of computers and vision and sensors and those sorts of things robotics is certainly a growth business and keeps picking up steam. So, it's very, very important.

The last commentary I mentioned we talked about disruption and robotics is disrupting a lot of things and 3D printing and things like that are disrupting a lot of things. So, it does make it difficult for companies that have expensive plant equipment to find that somebody else can buy a robot and a 3D printer and replicate what they have it makes things more difficult.

Rather than buy the A.I. providers or the robotic we do two things, one, we as we point out in the commentary, the businesses that are most likely to be disrupted are oddly enough some of the more highly priced companies out there. And so, that we tended to avoid or want bigger discounts and we tend to have a portfolio of things that are harder to disrupt and so that's one thing. And then in terms of technology whether it's robots or computers or biotechnology or you name it, you know, there are venture cap companies that are good and there's some companies that are good identifying things. But our style has been, you know, let the 100 companies duke it out and see who the two or three or four companies are that win.

And every now and then 2000 or a 2008 comes along and we get to buy those companies 80% off or in the 1980s able to buy Genetec and Hybertech and some of those things had big discounts. In 2009 were able to buy Microsoft and Ebay and all those things at discount. So, you know, I don't think our competitive strength is being better than the other people with their hundreds of analysts figuring out who's likely to win. Our strength is seeing who wins and buy them at a time when things looked so bleak that people can't stomach buying them. That will continue to be our approach but although it is really exciting times.

Now, China for the last 20 years we've most of the time said we're playing China without actually being in China. So they've got a lot of growth. We've done really well over the years owning companies that sell them food, sell them raw materials. That certainly works really well a dozen years ago and even further than that. We fed a lot of agricultural companies, we've tended to own companies that are based in Japan that fell into China, that sort of thing. So, there's that.

Then, to actually go into China and whether we're talking China or Brazil or Russia or you name it we've always thought that people are right 10 years ago when they said the BRICs are really exciting and they're probably going to go faster than the rest of the world and you really need to be there. And they were also right when they decided over the last three or four years that there's a lot of corruption and there's a lot of uncertainty and maybe they should be



Kopernik

Global Investors, LLC

avoided and so we look for a middle ground. We tended to not to own these things when they were well loved. But as I said earlier in the presentation, once things become uncertain, you know, then that's the opportunity.

So, whether it's a Brazil and Russia a few years ago which, of course, saw a lot into China when people were very afraid of them a few years ago we were able to get some bargains. And then China itself, they can choose. So, over the last year we're able to buy their two largest phone companies at very low multiples.

And so, we've done that. We've owned the railroads as someone was asking earlier about Japan West. But, when the railroads in the US were cheap we owned them, when they rung up, we bought the Japanese railroads. They rung up now we own the one from Hong Kong to Shenzhen.

That seems pretty interesting to us. In the past we've owned agriculture companies, we've owned other companies so yes, we don't do top down predict the future but yes it's quite possible that China's sort of like how the U.S. was 90 years ago, i.e., a great future but also quite likely to pay the price for the massive debt that they've built up over the last dozen years.

So, we see probably a prosperous but very rocky road. I think most of you know we never pay full price for anything we want discounts on everything. We want bigger discounts as the uncertainty picks up and we want huge discounts to be in China, Russia, Brazil, places like that. But we've been getting huge discounts from time to time so we're certainly fans of many good companies that happen to be in China.

Patricia Neubeller: So, Dave it got to say I love and very much appreciate your investment approach. It's music to my ears. And one follow up question to China. What's your take on I think it's called SDR but the currency and the threat that that may be to the dollar and so one and obviously China's a big player in all that.

David Iben: Well, I guess we could go on for an hour. I promise everybody I won't. But, money's a fascinating subject. You know, you got the crypto currencies which have some really great aspects and then they got some uncertainty. And you've got gold which is cumbersome and hard to store and not the best means of exchange but it's been a wonderful story of value for the last 6,000 years and undoubtedly will be going forward. And then there is fiat currencies, they're great medians of exchange. You know, they're much easier too and especially you can do it all electronically now for the most part.

So, fiat currencies are great for that. However, history and logic proves that they lose their value pretty quickly. The U.S. dollar's lost 90 some odd percent of its purchasing power over my lifetime. The Federal Reserve has a goal to make the dollar lose 2% of its value every year.

Jim Grants pointed out, we've checked the math and of course he's right. If you lose 2% a year in an average person's lifetime prices go up five times. So, that's the problem with fiat currencies. Now, SDR you have one global currency which of course is what gold was for a lot of years.

And it did the job, but politicians were unable to print more gold, and that's why it sold its value. Now the SDR, now you got a bunch of global politicians in charge of the money supply. There are advantages to SDRs but there's a lot of disadvantages to SDRs. Yes, so all comes down to currencies that are managed by politicians versus gold which is not managed by politicians.

How much interest should somebody pay you to hold those fiat currencies, and I don't care whether it's a dollar or euro or yen or an SDR. When I came to the business, people said 22% is not enough to trust government politicians or on gold, those were the wrong choices. But, you know, whether it should be 5% or 10% or 15% are worthy discussions, zero is the wrong interest rate to hold any currency and SDRs won't change that. So, I think I'll leave it at that.

Patricia Neubeller: All right, well thank you very much.



Kopernik

Global Investors, LLC



- David Iben: Thank you.
- Operator: And as a reminder, please press star 1 to ask a question. We'll take our next question from Ron Price.
- Ron Price: All right. Thanks. Hi, just any comments on Trump's election to Trump's Fed picks who voiced return to the Gold Standard. I guess that goes in line with what you had just talked about SDRs but maybe if you could elaborate on that further.
- David Iben: As far as that. You know, we are not top down as far as what Trump or any other politician says we don't factor that in at all. You know, I'll say historically when Obama was president, we were able to buy healthcare stocks at a cheap price because people didn't like them.
- And Lula da Silva of Brazil years ago we were able to buy cheap things there because people didn't like them. Three, four years ago people they still don't like Putin, but they hated him so much that we're able to buy things at 20% of book value.
- You know, as far as whether Trump or any of the proposed said members who talk about gold now and then would go back to the gold standard, I doubt it. You know, why would you when you can get away with printing money out of thin air and paying interest rates next to nothing.
- So, I doubt they will. If they did then gold would have to skyrocket up the amount of dollars that are in circulation for every ounce of gold US has gone from 400 35 years ago to 13,000 now. So it'd certainly be very good for gold if that happens. But politicians don't willingly tether them self to gold. They only do it when they have to, so we don't put any credence on that. But we would welcome if it happened.
- Operator: We'll take our next question from Dan Gallagher.
- Dan Gallagher: Good day. Hi, Dave.
- David Iben: Hi.
- Dan Gallagher: I'm wondering if you're still rolling puts in the portfolio and what the drag of that "insurance" is roughly for us.
- David Iben: Yes. We certainly are. Our view is 70 positions in the portfolio to buy something that's grossly, grossly undervalue we will do that. Very few things I have seen in my life that are more undervalued than those you say is kind of like a form of insurance. The more likely and accident happens the more insurance is worth.
- Insurance companies tend to raise their rates after the accident instead of before. I think the markets are the same way. You know, value of productions go up after a crash and they go down when you haven't had one for a long time which of course is a mistake. The longer the market goes up without a bear market the more likely the next bear market's severe and meaningful the more likely it happens. Not only is it the length of time but the length of time that the economy is at a downturn is also at record so that can't go on forever and then valuations. On most metrics, the U.S. market is the most expensive in history. And so, puts should be the most expensive ever. So, if the implied vol has generally been 20 maybe it should be 30. Instead it's 13. It got down to 8.
- Our view is we cannot predict when a correction comes but we can predict that a correction will come. That's obvious, we just don't know when. So, these things are so cheap that if a correction comes any time in the first three or four years of doing it won't make pretty good money.
- Now we have been doing this for 2-1/2 years and there's been no downturn in the market that's lasted more than a month or so. And so, to your question, the drag has been 1% every two months. Not quite that bad because we made some money last year so maybe it's than half of that instead of 6% a year, it's 3% or 4% a year.



Kopernik

Global Investors, LLC



We will continue to do this until one or two things happens - the market drops and we'll take our gains and go or the market starts pricing these things correctly in which case we'll feel that we don't have any edge and we will move on and go on to the next good investment.

Dan Gallagher: And are these typically positioned on, you know, the S&P or the QQQs and do you do these typically, you know, 10% out of money or even further where you get bigger bang for the buck if they're with a - are you agile in how you do this?

David Iben: Yes and no. You know, we could do them anywhere in the world but it's interesting since the U.S. is the most expensive market in the world it should have the most expensive puts but it has actually the cheapest puts so that's why we're doing the U.S. And if we were trying to hedge, we wouldn't be doing the U.S. because we really don't have U.S. stocks in the portfolio. The few U.S. stocks we have in the portfolio don't look at all like the market. So, this is not a hedge, this is taking advantage of mispricing's and the market.

And in terms of where we're not active or not in there wheeling and dealing and going furthering in and out of the money. We generally have been doing "at the money" sometimes a little bit out, you're right, to get a lot more bang for the buck if we go "out of the money." But once you go far enough "out of the money" then you need a pretty big drop in the market to not lose your money.

And then in terms of covering it, if the market keeps going up we tend to cover early and roll because we get a better strike price if we had done a three year put in the beginning it would be so far out of the money right now a big drop wouldn't even get us even. We're a big - because we keep rolling higher and higher prices. Now a big drop now would work out very well for us. If the market is dropping then we tend to not roll them out, we tend to hold them until closer to the maturity. And so that's been the strategy.

Dan Gallagher: Thank you.

Operator: We'll take our next question from Dave Oscar.

Dave Oscar: David would you talk a little bit about Range Resources Corp. and also your thoughts on coal?

David Iben: Certainly. Range Resources Corp. is a conundrum. It's a big position for us. It's one where, yes, maybe one of these days they'll come out with some bad news but obviously they've fallen with the price of natural gas. And natural gas is - all commodities are volatile and natural gas tends to be one of the more volatile ones.

The advantages are pretty obvious. It's cheap, it's fairly clean, a lot cleaner than other hydrocarbons. Abundant in North America. It's good for peaking and electricity and certainly if electronic cars catch on and we need more electricity. We probably won't build a lot more baseload in the U.S. That's probably good for gas.

It's a lot of reasons to like gas. The bad part of gas is you can't store very much of it, so you have to have infrastructure in place. And you had a situation where one of the many problems with the malinvestment that central bank policy got we saw the damage it did to coal, which we'll come back to, and iron and oil and you name it did real damage when it convinced people to drill a bunch of holes in the ground that did or didn't make a lot of economic sense. All the supply comes on, you need pipelines. So, there are places, you know, we just came back from a trip to Alberta, Canada. People had to pay people to take their gas away if there's no pipeline capacity. It's a problem.

So, that sort of accentuates how cheap gas can get and how expensive it can get. But, so, it's been tough for gas companies relative to oil companies and hence we've been spying the gas companies. Range, however, yes, the stock was \$90 something, dropped to six. It's a company whose balance sheet's in better shape than a lot of their competitors are.

It's a company that as of today they've been profitable. Expected to be profitable. Used to be reviewed as one of the better in the industry, so it got by with a pretty good management team and good properties. Clearly the analysts are



Kopernik

Global Investors, LLC



going to be wrong but they're still expecting this company to make pretty good money, we say 13 times future earnings, that's not likely to happen, I guess. But you don't expect a company that's well run with a lot of great resources and okay balance sheet and it is profitable to be dropping every single day. So, we own about as much as we can at this one and we're happy to hold it. We believe it'll probably make us a lot of money. But maybe the market's telling us something. We like it a lot.

And in energy in general, when people hated oil and it was \$28, we buy oil. Now oil's doubled and gas is on its ass. Now we like gas better. To your question on coal, three, four years back coal became about as cheap and hated as anything you'll ever see in your life.

We did some things right and some things wrong. We bought at the bottom and had companies like Console that went up three times in a couple months. And some of the other smaller ones did pretty well. So, we did that right.

What we did wrong was we invested in Peabody whose management team had different ethics that we would've like to see and that didn't work out well for us. And we set another one that had a flooding problem. So, we haven't done as well as we could've done on coal. But we certainly were able to take advantage when they got way too cheap.

Now, certainly, yes, in the future, solar and wind will be growth and gas will be growth, and oil's pretty much not in the electricity business anymore and I think in the developed world you won't see much in the way of nuclear coming on. And there won't be a lot of better hydro and electric dams being built. So, I think on the emerging markets you'll see all of that, you'll see solar and wind and nuclear and some hydro and even coal. Some of them are still building coal. Some of the more polluted places like China, you'll probably see a reduction of coal. And the rest of the world I think its solar, wind and gas. We don't particularly like coal but at a price we'll buy anything.

Dave Oscar: Thank you.

Operator: And we'll take our next question from John Friesen:

John Friesen: Hi, David. I was reading a research report on Turquoise Hill Resources Ltd. and I wanted to share something with you. The analyst is implying a downside scenario of 17%, a base price target of 233% higher and an upside scenario of 4x. Would you agree with me the think that implies limited downside with a tremendous amount of upside? And I guess the funniest thing about the article is it basically says all the bad news is likely priced and then they've got a sector perform rating on it.

And so I was curious with you as what's the turning point in your investing life where you see these assets that people hate and they almost begrudgingly acknowledged that this assets cheap and we think there's a lot of upside but we still don't want to recommend anybody to invest it.

So, I'm curious for your thoughts on Turquoise Hill Resources Ltd., if you agree with that scenario and then just anecdotally what's the turning point.

David Iben: Yes, first the concept and the specific concept we absolutely agree with you. We like it than an otherwise over valued market there are lot of companies' kind of similar to Turquoise Hill Resources Ltd. where you talk to people, but they know the price is going to go up two, three, four times. But they have a neutral on it because they don't think it's going to happen in the near term.

And so one point is the chart we always show on IRR, if Turquoise Hill Resources Ltd. goes up four times it doesn't times if we have to wait two years, it doesn't matter if we have to wait 12 years we're going to make a lot of money on that and we probably won't have to.

So, we have a whole portfolio of, you know, sort of free options, companies that are so cheap we probably don't lose much if we're wrong and we make 4x if we're right. So, this is a market that, like I said earlier, giving away assets even if they pay more than infinity for a bond.



Kopernik

Global Investors, LLC



And so, we really, really like that and of course we agree with you that Turquoise Hill Resources Ltd. has a lot more upside than it does downside. Now specifically Turquoise Hill Resources Ltd. is breaking into two parts.

One was the idea that they pushed back the production a couple quarter. But we actually don't mind that at all. You know, one of the interesting things in the market if people are looking at almost anything that's not a resource business they do a DCF and they assume earnings grow by 12% a year and they discount it back at 10 and they say look how much it's worth.

But when they're doing resources, they tend to assume the price stays flat or goes down. Gold seems to go way down and then they discount that at 10% a year, which effectively means something that you're not going to pull out of the ground for five to 10 years is worthless or close to worthless.

Fine, if their scenarios are right, I guess that's true. However, let's say that, you know, some commodities have to get up to that incentive price that will incentivize enough supply to balance demand. And if copper will quite likely have to go 50% but we don't know when and uranium's got to go up 200% we don't know when and gas will probably go up three times and we don't know when. Then it becomes more of an option. You don't want to sell something now and the price is going to go up 50% to 200%. Options, the opposite of a DCF model and the option becomes worth more when you have more time for things to work out for you. And so, it's actually good that Turquoise Hill Resources Ltd. is not going to be selling copper at two something when they can sell it at four something in the future. So, the optionality part is good. We have proof of that.

Now the second part they announced recently was not good. You know, blockading is very difficult and people fear it and of course they're in Rio Tinto a very good company and they've gone in there and said we like the fact that this is soft mineralization perfect for blockading but they got down there and they say all right the fault lines are different than we thought. And we either need to short up more or we need to come in from a different angle.

And so instead of 5 billion, maybe at 6-1/2 billion plus or minus well that means this company is worth 1-1/2 billion less than we thought it was worth before. So, that we're not thrilled with. I had a one-on-one meeting with their CEO two days ago. It's very interesting but, no, it's not good.

However, we subtract that 1-1/2 billion and we still concur with what you said and what the analysis did. We think it's more than four times upside. We see a lot of upside after the bad news. So, we're a huge fan of companies that have that kind of upside and are good companies. It will be a second or third largest copper company in the world.

Like I said, they're partners with Rio Tinto are the two premier companies in the world in the industry. So, it's really a wonderful situation with some unfortunate cost overruns.

Dave Oscar: Thank you. Thank you for taking my question.

Operator: We'll take our next question from Andrea Zilli.

Andrea Zilli: Hi, Dave. Thank you for taking the time, appreciate it. Would you mind commenting on the opportunity that you're seeing or not seeing in Europe specifically as in regard to banks?

David Iben: Certainly. You know, we as a firm I mentioned risk adjust veering, we want discounts on everything we buy and we want bigger discounts for things like technology because they become obsolete so fast and we like bigger discounts on things like retail with weak barriers to entry. And we've always liked big discounts on banks because they're levered 90% plus, minus. So, we've tended to want really big discounts. And because we want really big discounts, we own no financials in 2005, 2006, 2007, 2008, 2009, then late 2009, 2010, 2011 then we were able to buy a lot of dominant emerging market banks and those sorts of things and it worked out.



Kopernik

Global Investors, LLC



But we currently haven't owned a whole lot. You know, we do still have some Sberbank of Russia PJSC. But, to your point, the banks in Europe are now at very big discounts. And so, you know, one or two to own some of them it's possible. Our bank analyst is looking at various banks in Europe, Korea, Japan, places like that where they are getting big discounts. As long as we're able to get more than compensated from the risk that that leverage brings, we're happy to look it so it's possible. Good question.

Andrea Zilli: Thank you.

Operator: And we'll take our next question from Bruce Daigle.

Bruce Daigle: Well Dave thanks for this conference call. It's always helpful. My question was on Turquoise Hill Resources Ltd. but thanks for answering that. That was really what I wanted to know. But now that I've got you can you talk just a little bit about what you think the agricultural sector is going to look like? Are you interested at all in the soft commodities and fertilizers?

David Iben: Certainly. As I mentioned, it's interesting that people will pay up for industries that are likely to be disrupted in their org but things like agriculture. But, yes, we think we're probably all still likely to eat corn and beef and the things like that in the future.

You know, we used to stock I guess it's getting their again, Chipotle, what people will pay for a burrito and yet wait for five times earnings we can buy the stuff that's in the burrito. And so over time we've owned fertilizer companies, we've owned tractor companies and irrigation companies and food companies.

The best value we're finding now are the people actually growing the stuff. And over the last two or three years we've been actually to take advantage of, you know, we get a bargain in Brazil and then that runs up and we get a bargain in Argentina and that runs up and we get a bargain in Ukraine and that runs up and get a bargain in Indonesia.

And so, for companies that are five times earnings, give or take, and are valued on a price per acre of land it's sometimes 90% cheaper than it would cost in the U.S. Midwest. That's pretty interesting to us. So, we have one of the biggest chicken producers in Europe that are based in the Ukraine. We have also in Ukraine a sugar beet farmer and a flower seed grower and processor, and owner of a port and we have ag company in Brazil. We used to have one that ran up we sold, and we have another one that actually gets the farm ready and sells it off.

We've done pretty well. We've got a coconut oil producer in Indonesia that hasn't done that well but's done a lot better this year. And so that's where we find the most value. But, you know, maybe someday back in fertilizer equipment because farming is not going away, but we concur.

Bruce Daigle: Thank you. Have a great quarter. I think it's going to be an exciting one for you.

David Iben: It should be. Thank you.

Operator: That concludes our question and answer session. I would like to turn the call over to Dave.

David Iben: Well, thank you all for calling in. We just heard it's likely to be an interesting quarter, certainly an interesting year and certain massive bifurcations in the market, so thanks for calling and we'll talk to you all again in a quarter. Bye.

Kassim Gaffar: Thank you.

Operator: That concludes the conference. Thank you for your participation. You may now disconnect.

Kopernik reviews the audio recording of the quarterly calls before posting the transcript of the call to the Kopernik web site. Kopernik, in its sole discretion, may revise or eliminate questions and answers if the audio of the call is unclear or inaccurate.



Two Harbour Place | 302 Knights Run Avenue | Suite 1225 | Tampa FL | 33602
T 813.314.6100 | F 813.314.6101

Kopernik

Global Investors, LLC



The commentary represents the opinion of Kopernik Global Investors, LLC as of July 18, 2019 and is subject to change based on market and other conditions. Mr. Iben is the managing member, founder and chairman of the Board of Governors of Kopernik Global Investors. He serves as chairman of the Investment Committee, sole portfolio manager of the Kopernik Global All-Cap strategy, lead portfolio manager of the Kopernik Global Unconstrained strategy, co-portfolio manager of the Kopernik Global Real Asset strategy and co-portfolio manager of the Kopernik International strategy. These materials are provided for informational purpose only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Information contained in this document has been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any investment or security.

