

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 2nd Quarter 2020
Conference Call with David Iben**

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Operator: Good day, ladies and gentlemen. Welcome to the Kopernik Global Investors 2nd Quarter 2020 Conference Call. Just 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 hand the conference over to Mr. Kassim Gaffar, please go ahead, sir.

Kassim Gaffar: Thank you, operator. Welcome everyone to the second quarter 2020 conference call. My name is Kassim Gaffar. And I have with me David Iben, our CIO and the Portfolio Manager for the Kopernik Global All-Cap Strategy and Co-PM for the International Strategy, and also, Alissa Corcoran, our Director of Research and Analyst. Please note, Dave and Alissa will be referring to the presentation which can be found on our website, <http://www.kopernikglobal.com> under the *News & Views* section. Also, we do have some new content, including white papers and interviews that we have posted to our website and encourage everyone to have a look after this call, or whenever convenient.

Great, let's kick it off with a quick firm update. We ended the second quarter with roughly \$4.2 billion under management versus \$3.1 billion at the end of Q1 2020. This represents peak assets for the firm and the growth can be attributed to several new client additions, combined with strong market appreciation for our strategies.

We are also happy to have reached several milestones, although at the firm our philosophy and process dates back several decades and many of us have known each other and worked together for nearly as long. We as a firm, we celebrated our seven-year anniversary this July 1st. We also hit the five-year mark for the International strategy and we're very pleased with the results. Also, our three other portfolios, Global Long-Term Opportunity, Global Unconstrained and Global All-Cap also hit the seven-year mark.

Lastly on a personnel front. We've had no turnover, this year again and we are 38 people strong.

And with that, I'll pass the call over to Dave and Alissa Dave.

Dave Iben: All right. Thanks Kassim, thanks everybody for joining us. Once again, no boredom in this market. Start off with Lewis Carroll who is famous for his ability to turn utter nonsense into a compelling story, an entertaining story (Slide 6). So, I really couldn't think of a better way to address the current markets than through the looking glass. I've been 38 and a half years in the business. I've seen a lot of wild markets and I've always enjoyed reading about things like the Mississippi Scheme and the South Sea Bubble, Tulip Bubble in Holland. You know I lived through the Japanese bubble and the TMT bubble. Haven't seen a whole lot like this market. It's really fascinating watching this melt-up.

So, that's that. Let's use that to talk about the current markets (Slide 7). Now Alice broke through the looking glass and all kinds of whimsical problems, one of which was Jabberwocky, which was invented or meaningless, you know, language or nonsense. So, we have a market now where good news is bad news, and more expensive stocks are better than cheaper stocks. We have words like ZIRP, and NIRP and quantitative easing, QE-infinity, MMT, PPP and so on. Good news to all this is with all this nonsense, we think maybe investors can capitalize on the fact that risk doesn't mean risk anymore either, at least perceived risk is very different from what we think true risk is.

Another of his poems is the Walrus and the Carpenter (Slide 8), which was a story really about a gullible little oyster not listening to their elders, he said, "Don't listen to the walrus." Of course, they did. They follow them on all that happily to





their demise and reading that story, one cannot help but think of the day to day traders, the Robinhood crowds that are pouring into bankrupt stocks and the exciting stocks to the day and of course, the algos which don't really think much at all they just do what they're programmed to do and that is chase momentum.

So, here we are in an environment where, you know, "totally nuts" does seem to be the new normal and you have this mouse here very defiant, in the face of danger (Slide 9). Whether it's the oysters, or the mouse or the people buying the NASDAQ here, they seem to not be aware that the earnings are plunging like they haven't since the 1930s. That unemployment is the worst it's been since the Great Depression. The economy's the worst it's been. There's turmoil, there have been riots in the street. None of this much seems to matter (Slide 10). Prices just go up; people like stories. Every time somebody comes out and says we've got a vaccine. A whole market runs up. With 180 firms that all have the vaccine, of course, the press release mostly say they have a drug that has side effects that may or may not have a cure, we can hope they do. But the markets pricing that all 180 of them are going to win. Pharma stocks now are five and a half-trillion dollars, so they're up more than 26% this year.

You know when I came in the business you could buy every stock in America for less than a trillion. \$5 ½ trillion. Yes, we hope they come up with the good stuff to justify that (Slide 11). Even worse, of course, are the FAANMGs and the tech-stocks, that we have had the, you know, until this quarter the longest-running economic expansion in history that wonderful expansion is that little gray line at the bottom you can barely see. Certainly, the economic growth does not justify that orange line which is the NASDAQ. People love tech stocks; they love story stocks. And then the blue line, of course, is the FAANMGs up nine times almost. No need to discuss that further; let's go on to where how we make money out of all this.

The strategy, as I said, I think is to get off the beaten path (Slide 12). Here's a photo of a hike the other day where they, as all society does now, advise us to stay on the public trail, to stay on the beaten path. We think that's never been worse advice than now. I think that the markets are the most expensive they've been ever on almost any metric you want to consider. Now is the time to get off the trail. Makes for better hikes certainly makes for better stock portfolios.

But is it time to get into Value? What is value? I think most people's opinion of value is take a bunch of crap and put a fancy name on it. Maybe there's a lot of things that are being considered value nowadays, and we agree, some people get confused on what value is. Merely looking for low PE stocks got people in trouble back in 2008. When the low PEs and low price to books were heavily indebted bank companies, mortgage companies, retail companies, those sorts of housing companies. Again, as we saw back in March, so a lot of the quote "value" stocks, the low PEs were retailers and industrial companies that have far too much debt - heavily indebted companies. They have potential but they also have a lot of risks. So that hasn't proven to be valued so far this year. (Slide 15) But there are a lot of places to find value, there's a lot of cycles, the place to look is in the nadir of the cycle. We've viewed this slide plenty of times in the past. We're looking for things that haven't had a bad month; we're looking for things that have had a bad decade, good companies that have had a bad decade.

(Slide 16) You've seen a chart to (thank God for bifurcation) back in '99, there was a very expensive and there was very cheap and right now there's even more expensive and even cheaper this might be the best time ever to be a value investor.

Certainly, though, people are saying, growth's the place to be, stocks, in general, the place to be, momentum stocks are the place to be because the Fed has our back. Yes, if the feds going to keep doing whatever it takes to make things go up. Maybe you should buy what's working. It's a pertinent question. People are right, the system's rigged. The central bankers are here to try to make stocks not go down. So here we're using an analogy (Slide 17-25). What better analog for the Fed than a pump. And for the economy, we have an air mattress. Their goal they say is to pump it up and not just pump it up. Their stated goal is to pump up the price of bonds. They came out with QE1 and pump up bonds is exactly what they did. And so, this is showing that one section of the economy, the bond market. Starting to fill up.

Then they said that's working let's do a little more maybe we can get to do expand. A lot of this is based on stuff from Richard Cantillon. A long time ago that we've talked about the past, is that money look for the source, the people closest to the source of the money get rich, the rest don't. It's slowly migrates out. What have they done with the money they bought bonds? That's where the inflation was; people say no inflation. Anybody who hasn't seen inflation in the last dozen years has not paid attention to the bond market.





So, they printed it then they came out with QE2 said maybe we can pump it up a little more. Another successful step. So, then they said let's come out with QE3. QE3 did what they wanted this inflation is leaking out of sovereign bonds into corporate bonds, high yield bonds, common stocks, even outside of assets a little bit, the government took a lot of this borrowed money and inflated the price of healthcare and education and those sort of things.

Now one would have thought that they would have declared victory. And we've got prices going up, we've got assets high, the economy was doing well, people were getting back to work. Time to go to exit strategy. Did they do that? No, they did just the opposite. They came up with QE3. Most of the air started to migrate to the less inflated areas.

The inflation then famously went into venture capital, private equity, derivatives, art, real estate, cryptocurrencies. Many people are calling this a bubble of everything. The Fed, they claim victory but they started taking flack. I guess correctly so. Economists have told us for decades that printing money makes the rich richer and the poor, poorer. Taking this flack, they did reverse course. But in a no-win situation then they took flack because when they tried to exit, the price of assets started to fall a little bit. It turns out the rich don't like that so much.

So, round trip again, embarrassed, they know that their exit plan was exposed. It is beyond unworkable. They came full speed ahead and we now have QE infinity. They have stated they will do anything they have to do to keep the price of assets going up. Understandably, investors are ecstatic. Of course, what usually happens a dozen years into a bull market is not just investors, it's speculators that excited speculators are taking the plunge. I think we've all read about the Robinhood investors and we've all seen algorithms gone awry, as people go headlong. And what are they buying; they're buying what has worked the last 12 years. You know, are they right to do this? Maybe, money has got to go somewhere.

But history and logic would suggest that's not how things play out. History shows that one decade's winner is usually not the next decade's winner. Matter of fact, it's usually the next decade's loser. Inflation migrates on to greener pastures. So here goes to the pressurized things. We're starting to, I think, see the migration now. You're starting to see it go into gold. You're starting to see it go into other economies, other commodities and possibly into the economy.

This idea that printing money is just going to go and help stocks forever doesn't seem to work. If we want to see how this has probably been a wake up for us, let's take a look at Japan. Japan's been printing a lot of money for three decades. They've been putting the money directly into the stock market and their stock market is now well lower than it was in 1989. So, so much for printing money being the panacea.

China's printed money like there's no tomorrow ever since the financial crisis. Seems like their market's up big; it's not. Take a look, it's gone nowhere for the last decade.

Europe, they were a couple of years ahead of us and saying that they, that our central bank will do whatever it takes to support stocks and it hasn't worked there. I don't know why we think it's going to work here. But, history will suggest that we're at that point in the cycle where things have inflated enough.

And what's already been inflated can't be inflated that much more. How high can the price of housing go before the price of rents need to be inflated up? And how high can rents go without people's wages, their ability to pay those rents being inflated up? How long can the price of foods actually go up without the price of food going up, can energy stocks go up without the price of energy going up? Yes, eventually it pours into commodities into food and the basic stuff, and into the value stocks that tend to be associated with these later stages of inflation. So, whether we're talking air, water, money, you name it things follow the path of least resistance, so goes to the areas that aren't already pressurized. So, we think that investors might be neglecting the winners, as they dangerously pour into last decade's winners, the dangerous parts of the area.

Correctly tracking where the money might go is really important because the fed has upgraded their game, they've gone to a big pump (Slide 25). We're talking trillions of dollars more money printed in the last few months than have been printed in the previous hundred years. This is a lot of money.





More on the concept on where it might go, we borrowed from Mark Faber, who talks about his vindictive uncle that can make things change every once a decade. It's weird why the decade would matter, you wouldn't think decades would, but they seem to (Slide 26).

In the 60s like now but a smaller version and now you had the government spending out of control - guns and butter they called it. All that required monetization the fed accommodated and as usual, the price of assets went up. You had stocks go up, you had growth stocks do really well. Technology was the place to be, growth was the place to be. 70s, they kept printing money, they printed a lot of money. It was an inflationary period. Did the money keep going into growth stocks? No, stocks had a particularly bad decade especially growth stocks. Now the money went into gold and went into energy, went into emerging markets. It was a bad time to be in stocks and bonds. Then of course after a wonderful decade, the following decade was a disaster for gold and for energy. And it was the time to be in Japanese equities. They were behaving a whole lot like U.S. equities are right now. And it was a fun time to own in Japan. We didn't, of course.

The next decade was a bad time to be in Japanese equities, a matter of fact, they underperformed ever since. The 90s were of course the famous time to be in the NASDAQ. It was the tech media telecom bubble. And that was doing well, this Japan was doing poorly. Of the aught decade of course was a disaster for the NASDAQ it gave back 80 some percent. The real growth stocks gave back 90 to 100% of their gains. Really tough time to be in there. Why that was happening? Oil went from \$20 to \$140. Gold went from \$255 to \$1,900. It was a very nice time to be in these areas. It was a good time to be in emerging markets. People coined the phrase the BRIC'S. You must own Brazil, you must own Russia, you must own India, you absolutely must own China. Those, of course, did well then and they've been, not the place to be in the last 10 years. And of course, gold up until the last year so was a bad place to be. Energy continues to be a tough time, the place to be the last 10 years was U.S. stocks and of course bonds. We would suggest that bonds, clearly, will make you nothing other than a speculative trade, they yield nothing. And in real terms adjusted for inflation are all but guaranteed to lose economic value for people. US stocks are priced at levels that suggest subpar returns if they're even positive. So, probably a good time to avoid those.

And most importantly, what should you own? It's pretty clear there's a lot of things that you should be very reluctant to own going forward. Well, as far as what to, there are in a bifurcated market a lot of things to look good. So, everybody wants to own the FAANMGs. Since we're using the lowest in the carpenter and lose curl, that are using FAANMGs. So, walrus have TUUSKs. We have coined the phrase tusks. And to talk about the many, many opportunities incredibly attractive opportunities we see using our acronym I'll turn it over to our Director of Research Alissa Corcoran.

Alissa Corcoran: Thanks, Dave. As Dave mentioned we prefer a different long tooth acronym the TUUSK, and we think it is a perfect time to get off of the FANNG beaten path and trust us into the TUUSKs (Slide 28).

As you can see, the market cap of the six tech stocks, make up \$7 trillion. And for half of that price in a TUUSKs, you get all of emerging market telecom, all of emerging market utilities, uranium mining companies, all silver and other precious metal mining companies in the world, and every single company in South Korea.

As active managers, when it's higher, sectors and countries go on sale. This is an active manager's dream because we get to sift through and find the best bargains. So, we'll start with Telecom. A huge dislocation in the market today we're seeing is the valuations between emerging markets and developed markets. Emerging markets have gone nowhere for a decade.

Meanwhile, the stock markets and developed markets are up multiple times. So, you can see this in Telecom (Slide 29). Today we can buy Korea's version of Verizon and China's version of Verizon for a 10th of the price per subscriber. They are cheap on book value. They even have tangible book value while Verizon doesn't. And cheap on earnings as well. So yes, we agree that Verizon is a great franchise, we just think that the also great franchises in emerging markets are better investments.

Utilities is the same story (Slide 30). On a relative basis, emerging market utilities are much cheaper than their developed market counterparts. And on an absolute basis, they're extremely cheap. We are buying the world's second-largest





hydroelectric power company and Russia's largest power company for half of book value and five times earnings. So, these are incredible opportunities and very very good prices for extremely good franchises.

Silver mining, uranium mining, gold mining, we've grouped all of these together. We've spent a lot of time in previous quarterly calls, talking about what the upside, we think the upside potential we think in these commodities. We spent less time on how we've used the mining companies that we're investing in and many of you this industry as completely uninvestable. We think this is an extremely important topic and we've decided to allocate an entire hour to this on September 10, 2020 (Slide 31). It is going to be our first topic of our new webinar series. And the cliff notes to that webinar is that mining companies come with a lot of baggage. We are very much aware of this baggage. But the upside potential more than offsets the risks. So, I hope you tune in, we'll be discussing how we value mining companies, how we assess the risks and the opportunities that we're seeing today.

In South Korea. I think it's helpful to put the FAANMGs market cap into perspective (Slide 32). So, for less than \$5 trillion, we can buy four of the world's major economies. Today we are given the choice of buying Apple for \$1.6 trillion or buying Korea, South Korea, and its version of Apple, Samsung and every other South Korean company for less than what you would pay for Apple. So, we are choosing South Korea. South Korea trades below its level in 2007. Meanwhile, the S&P and the NASDAQ are up 2-3 ½ times since 2007. It's trading at below book value. We think South Korea and the U.S. are at extremes and to demonstrate those extreme, we are comparing Hyundai versus Tesla (Slide 33). So, Tesla has 14 times the market cap. But, Hyundai makes 14 times the number of cars. Hyundai is cheap on earnings, it's cheap on cash flow, is cheap on sales, is cheap on tangible book value. And like Tesla, it should benefit from this movement into electric vehicles as they'll make roughly a third the number of cars as Tesla will and electric vehicles. So, we think clearly, Hyundai is the better investment of these two.

If we want to add an S to our acronym you could add small-cap (Slide 34), the passive investing boom has led to a massive underperformance of small-cap names. And as a result, much better valuations as these charts demonstrate. And as you can see this is not just a phenomenon in the U.S., it is happening globally. Adding another S to our acronym, means it add scarcity (Slide 35). We've shown this chart in the past, and we'll keep showing it because it actually just keeps on getting better. Real Assets versus financial assets are at an all-time low. We believe we're in a cyclical market, these real assets are priced to do very well. Even without any QE that Dave mentioned. So, this is a glimpse of what we're seeing in the market. The opportunities we're taking advantage of and to talk more about risk, I'll pass it back over to Dave.

Dave Iben:

Alright, Thank you. Back at the beginning, we are talking about Jabberwocky and words that don't necessarily mean anything (Slide 36). Risk we think is an opportunity. Howard Marks talks about a lot what is risk to one person is not risk to another. When people have different mindsets, it creates opportunity for those of us that worry about risk to the portfolio risk of absolute permanent loss of capital. We try to avoid that. Other people have other things on their minds they make the shorter term or certainly career risk is a huge factor in our business.

So, because of that, it gives us an opportunity to actually lower risk by buying what other people might view as higher risk. For one thing, we hear a lot about dead money, people famously impatient nowadays, especially in rip-roaring markets. So conventional view, in the long run, we're all dead, show me the money now, and Kopernik's view, time increases the value of options and so many of the companies that are cheap now have this massive valuable optionality. We think a little more time sometimes is better. Volatility famously is considered risk by lots and lots of people as feels definition of risk. We're worried about permanent loss of capital; we don't worry about temporary loss of capital. That's part of being an investor we think. Volatility causes discomfort, it causes short term pain. Those are unfortunate that's the price we have to pay. We view the result in low prices that you get to pay after a volatile drop as a good thing. It decreases risk increases opportunity. I think we all got to see that recently. We were able to buy some good companies that dirt-cheap prices back in the middle of March. Volatility is opportunity, not risk.

Certainty is interesting. People will pay up a lot for certainty. They will accept a 60bp return on a 10 year Treasury and Europe will take no return and some countries, they'll take a guaranteed loss every year over 10 years as long as it's certain. We will let other people do that. Our view a certainty about the future is that it's an illusion. And so, people shouldn't pay for a certainty that doesn't exist anyhow, they certainly shouldn't be paying the high prices they're paying now. Things that are viewed as uncertain things that do not have a catalyst, people will say at almost any price. Thereby leaving some





of these things at such low prices that you know 90% of future outcomes are going to be positive. It's actually lower risk, higher return when the returns are uncertain. So, people, I think are overly obsessed with catalysts and pretending they know what's going to happen the next quarter.

Headline risk is a fascinating topic. Nobody wants that bad day when you get up and read in the headlines of the paper that bad things have happened to your company, or your stock, or the industry that they're in, or the country they're in, it's not fun. But headlines usually lead to emotions and emotions lead to mispricing and so the things that get a lot of bad headlines and often get priced down to such low levels that they actually become less risky and more attractive.

Alissa talked a little bit about small-caps but in a late-stage bull market where people embrace passive and in this case, embrace ETFs. They have no tolerance for the smaller-caps and you saw in the charts she showed how unbelievably cheap some small stocks have gotten in context to how expensive these big dominant passive ETFs things have become.

So most people view small-cap as inconvenient and not so useful. We view it as a great opportunity and that's one reason why we dedicate ourselves to staying at a manageable size so that we can take advantage of these opportunities. Tracking it, people say oh markets only go up, why should you bother owning something that might out track the index, but markets go up and down. Whereas tracking error makes underperformance possible. It also is a requirement for outperformance and if there was ever a time not to want to track the indexes it is at a time when the indexes are the most expensive they've been in history that I'm aware of. So we are very, very happy to not be tracking the indexes right now. The result of not tracking the index is in the most expensive market in history, this portfolio is barely over half of book value - not much over one times sales.

So we're talking on most metrics very attractive valuations and as I pointed out earlier, metrics aren't everything. This is a portfolio of mostly worldwide industry leaders and certainly regional leaders, but usually global leaders. Good companies with generally solid barriers to entry and that's what's trading at these sort of multiples and it's a portfolio that tends to have a lot less debt than the indexes do in general also.

So good companies at low prices should eventually do well. We're buying a lot of things that we think the optionality for 2, 3, 4, 5 times upside. Let's just go with two times upside, this chart indicates if it doubles this year, we'll all be very, very happy. If it takes five years to double, that's a 15% annual return. If it took 10 years to double and things don't take that long, we're talking 7% return. We will let other people have a 70bp return on their 10-year bond. We'll go for 10 times that on one of the most - the slowest imaginable case.

So a good time to be buying assets that have value, that have usefulness, that have barriers, that are distinct and meet people's needs that have this, not just potential but the probability of doubling.

Volatility - we mentioned is opportunity. I think we talked last quarter how in the first quarter we were able to sell GE at \$11.50 and buy it back at \$6.50. That is what volatility allows us to do. It allowed us in the first quarter to be trimming names like or adding in names like New Gold and Centerra to be trimmed then later in this quarter. Centerra and New Gold, Polyus and be able to buy names had fallen like Ivanhoe that has since bounced and Newcrest which has since bounced.

It's allowed us to get into names that are the cheapest they've been in many, many years. Cenovus Energy and Embraer, an asset manager Franklin Resources - so in both global and international very similar the volatility is our friend. It gives us opportunities to take advantage of markets like this.

We think volatility is probably here to stay. Maybe it's hopeful that is definitely a good thing for active managers, the ones that are taking the time to appraise businesses and take advantage of the fickle market that changes its mind on valuations from day-to-day.

So with that, why don't I pause and open it up to questions (Slide 41).





Operator: And ladies and gentlemen if you would like to ask a question today, please press star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute button is turned off to allow your signal to reach our equipment. Once again, everyone, it is Star 1 to ask a question and we'll pause for just a moment. We'll take our first question today, David Niehaus, Merrill Lynch.

David Niehaus: Hi there, Dave. Thanks for the call. I was just hoping you could discuss where the current valuation of the portfolio falls relative to the historical range of valuations for your universe. Thank you.

David Iben: Okay. Well valuations, we have one sheet here that shows in general half of book value which is pretty good. Yes, put things in 38 1/2 years I've been doing this 1982 it's very cheap, '91 the small stocks were cheap and again in 2000, the small stocks were cheap. January of 2016 was just unbelievably cheap and this portfolio is right in the league with all of those. That is certainly if not the most attractively valued we've ever had - certainly in the top two or three markets in general.

As far as if we were going to compare this to some of the other ones especially the 2016 before the portfolio I think it was 93% in six months, of course, that's been the highlight of the last seven years which has been very, very good in terms of our style. But before that, similar valuations to this, the gold stocks were cheaper then. They've had a really good year, but they're still a lot more expensive than they were then. But historic to gold they are amongst the cheaper markets that we've ever seen. Uranium is starting to bounce, but it's still cheaper than it was back in 2016. Things like Russia that we took a lot of flack for back then when it was 19% of the portfolio has probably been the best performing market on earth since then. So, it's nowhere near as cheap as it was in 2016, but it's still the cheapest market on earth. But, energy is cheaper now than it was then. Natural gas, some of these stocks are 80% cheaper than I think they were back then. We had that slide on South Korea, but we're paying half of book value or less for good companies, LG, a big conglomerate that's got a lot of good things going for it. You know you heard the Hyundai story. We've got an auto parts company, a tire company - we also mentioned Korea Telecom, one of the cheaper stocks on earth - so that's cheaper. And that we now have more opportunities to buy industrials and we've looked at some consumer stocks.

So some things are cheaper, some are more expensive, but in general, in any market, I would be very happy to have market leaders at half of book value especially to do that when the market as a whole is the most expensive in the history. So hopefully that answers it. It's pretty cheap relative to everything.

David Niehaus: Thank you.

Operator: And once again, ladies and gentlemen that is Star 1 to ask a question today. We'll go next to Chris Brady, Brady Financial.

Chris Brady: Hi Dave. How's it going?

David Iben: Good. How are you?

Chris Brady: Good, thanks. Quick question. I know that when the put option - when you were able to monetize that, a lot of the funds came in cash and I think at the time, we didn't put it completely to work. I don't know if that's - we kind of put most of that to work already or you are still holding some cash, I don't know if you wanted to speak to that for a minute or so to update us on the capital and if we're holding anything for the future or if we just put it all to work already.

David Iben: Yes. Sure. As people know, we're an equity manager but over time we've had opportunities to take the advantage of mispricing, convertible bonds, or high-yielding bonds or things like the uranium fund we own, things like that. So, we're willing when the market makes it compelling to do something different. So put options of course are things that gain value when a market drops. Our view was that the central banks have not eliminated the cycle that things go up and things go down. The market had gone the longest it had ever gone without dropping and had become quite expensive so obviously the value of a put option should become very expensive, it's more valuable. It's more valuable when the market is high, less valuable when the market is low. The market of course makes mistakes and it priced the thing, not as more valuable, it priced it as the cheapest that it has really ever been. It probably deserved to be at an implied vol (implied vol being one of the future benefits of the price you pay for the option) it probably should have been 20 something. It was bouncing





around between 8 and 14. So we started buying it. It would have been nice to buy it and have the market drop the next day, but we were three years too early. The market being the longest ever just kept going for three more years. So that costs us money for the last three years. We made pretty much all of it back in March, so that was kind of nice. So if you add the last 3 1/2 years, I think we lost 2%, so it was not a winning strategy, but if you back two years, it was a winning strategy, but this year it's been a real nice strategy.

But even though we lost 2% so call it 60bp a year over the last three-plus years, I think we made back a lot more than that because it's always nice when one stock drops, there's still another to buy the one that drops. But when every stock drops, it was panic, well you guys were all there. You saw what happened in March, it was pandemonium. Everything was dropping and especially value stocks were dropping. So if we hadn't had that put option, we would have rode our stocks down and rode them back up again. Because of the put option, we rode the stocks down, sold most of the put, raise 1,000bp of cash, and invested in the stocks that were down and other stocks that have fallen big. And so it not only turned the disastrous March into an okay March, it helped to make April and May tremendous months. Yes, we sold almost the whole put in March and we invested pretty much all that cash at the bottom.

So yes, that cash is spent, and then to go with cash you know like a lot of value-oriented managers, cash to us is a residual of the process. We value stocks and the more they go down, the more cash we spend and buy more of them. The more a stock goes up, the more we're trimming them. We don't like them quite as much as we did at lower prices. Every day on the trading desk we're trying to add to some stocks, we're trying to trim some more stocks. And so, in a month like March, the purchases are getting done. It was easy buying stocks.

What we've seen the last three months, is a breathtaking melt-up in stocks, so one might expect our cash balances going back up again. The cash balances when from 10 to closer to zero to back to 10, plus/minus now. So, the cash was all spent, but is starting to build back up again now as one I think should expect.

Chris Brady: Okay. Super. Thank you.

Operator: Up next we'll hear from Rick Speidel, Ameriprise.

Rick Speidel: Thank you. [Listening to your podcast with Grant Williams and Stephanie Pomboy recently](#), you referenced one of the mining companies that dispose of an asset at what you deem to be unfavorable price. Not get ahead of your September webinar, but I was wondering if you could just talk about how you monitor and maintain comfort levels with respect to managements of the mining companies in particular. You have a couple of dozen names in the portfolio, 25 plus percent of the overall portfolio. Is there an ongoing monitoring of the level of execution or lack thereof of these managements over time or is it predominately based on what you perceive to be the assets that they own?

David Iben: Okay. Great question. I can answer it now without really getting into a lot of the stuff that we will be going into in September and I, recommend if people have a chance, listening to that I think it's important. We know most people don't like gold or uranium or those sort of things and the people that do like gold and uranium won't touch gold stocks and when people won't touch something, usually it means that they've been sold it at too low of a price. So we'll talk about how we price them and how we risk adjust them.

But just quickly, Stephanie Pomboy and Grant Williams, I've known them both for years. they do a great job. People that like value investing, you know, I think a monthly with Bob Rodriguez who was a legend for the last 30 years. So they do a really good job interviewing. So they are great sources and I read both of their research a lot.

In terms of the mining companies, we view the positives is absolutely real. Scarce goods of when demand should go with the population with the economy, they have value. When money is being printed like there's no tomorrow, then gold of course has a lot of value, so that's good. The mining companies own gold which is wonderful but so much can go wrong. Management, they're human beings, they get carried away and get optimistic at the top, they get pessimistic at the bottom.

They buy their own time, they sell their own time. Countries have decided that maybe they shouldn't take 2% of the economics, they should take 30% of the economics. The chemistry, the geology - there's all kinds of challenges. So





because of those challenges, it's important to diversify. So we have a lot of what we think are really good companies, but we have different management teams, different countries, different currencies, different geologies, different chemistries and so something can go wrong in one place and you're diversified.

What we also do is we try to make sure we have plenty of upside. So if you are going to be wrong on one or two names, it's nice to have another eight, not just going up but going up big. And you know, we will point out that in 2008 and 2016, both of those years we had a couple of companies that we stubbed our toe on and yet those were both sort of career years for us because so many of the others did book five, six, seven times and so having upside is important.

And then as far as monitoring, this isn't just for mining companies, this is for every company in the portfolio, we believe that value is not a philosophy it's a prerequisite. Nobody should ever pay full price for something, certainly not overpay. We demand a discount for everything and we want bigger discounts if there's debt. We want bigger discounts if they're in emerging markets or other things where other countries really worry about the business friendliness of the environment or the integrity of the environment. We want bigger discounts for businesses that have the low barriers to entry and so forth.

And so we tend to give pretty low scores to most of these gold miners. We do recognize that they are in a tough business and we do realize a lot of them panic and sell properties at the wrong time. So we had one company where you know they had assured us they were not going to sell off this property and they did. And they sold to another company, that seems to have a good track record. So, fortunately, we were able to buy the company they sold it to, so maybe we'll capture back some of that economics. But when a company does do that, it generally had a low score to begin with but then we lower our management scores and when we're risk adjusting we say what's score do we give management? What score do we give the country? What score do we give the balance sheet? What score do we give for the quality of the assets? We factor those things in and the company, so we have them scored pretty low, but they're scored even lower now.

But to give you examples of how this can work, we had a company back in 2016 there was a whole reason and we said we don't want to own them unless it's trading 90% up. You know we wanted to pay only 10% of what we thought it was worth. We, fortunately, were able to buy it at a couple of percent of what we thought it was worth. The stock went up 20 something times that year and we were able to sell a lot of it. But then we had others as I mentioned we lost money on too. But if we risk adjust and we do, we spend a lot of time risk adjusting and in September we can go and do a lot more factors of how we are valuing the ounces and how we go about risk adjusting management and what we're looking for. It's something we spend hours on every week. So I can't do much in five minutes now, but we'll do a little better in one hour. But it's a very, very important topic and good question. Thank you.

Rick Speidel: Thank you.

Operator: Dan Gallagher of UBS Financial Services is next.

Dan Gallagher: Yes, hi Dave. I was wondering if you could just discuss the energy space. Seems like the short-term may be the real long-term or problematic, but the intermediate-term could be amazing and I was wondering if you've done any reshuffling there.

David Iben: We wouldn't disagree with what you said. The near-term is certainly challenging. The long-term quite possibly challenging. But the idea that 7 ½ billion people are going to ween themselves off hydrocarbons in the next five years, it doesn't seem too credible. So you know, we are taking advantage of the fact that people do change their minds on things. We've taken advantage over the years with people who have liked natural gas and not like oil and a few years later they like oil and don't like coal. And then a few years later they like coal and don't like hydroelectric power or that sort of thing. So we continue to do that.

It was amazing how you used to pay a big premium for businesses that were light on you know, greenhouse gasses and before and pollution and now we have - we think the two biggest best hydroelectric power generation, no greenhouse gas, they're selling very, very cheaply. Nuclear power of course people went from loving that in the 60s to hating it in the 80s and 90s to loving it again a dozen years ago because of the low pollution or low greenhouse gases and then of course hating it after Fukushima. So our favorite area in energy for a while has been not just in nuclear power, but the uranium producers that sell into it.





People love it so much they ran the price up to \$137 a pound, then it dropped to \$18. \$18 was so absurdly low even at \$33 it's almost doubled, still absurdly low instead of people saying it's double. But the add capacity people are saying it's way too low, let's take capacity off. And so for the last two or three years, you've had people shutdown capacity for - you've had Cameco go shut down their biggest mine. You've had Kazakhstan cut back a few times. You had the Russians stop selling. You had the U.S. government stop selling. More recently with COVID, you've had Cameco shut their second-biggest mine. You've had Kazakhstan cut back again. You have two other big mines in Africa shutter themselves. You've had funds set up to buy uranium. You've had Japan bring mine reactors - you don't read about that much. You've had China came out last week and said we expect in the next five years to have 30 new reactors running and inventories keep falling, the price is going to need to at least double or these things are going to be - these multi-billion dollar plants are going to just be shuttered and that's not going to happen.

A little more recently and a few years ago demand for natural gas, well demand has been going nicely. Supply in natural gas is going way too fast. People are borrowing billions of dollars and drilling holes left and right - that was not a good time to be in the energy space. Now the price gas and oil have both dropped significantly even after a recent bounce that people are not drilling. You see the drilling numbers. That's the time to get interested in commodities when they're selling below what we call the incentive price. And so if things, you know are below the incentive price, supply drops until the price goes up to incentivize it again. So we do this with every commodity we have. We look a lot at this incentive price. We view oil as well below its incentive price and natural gas to the real exciting here. And gas is gone but actually before these natural gas backs even after tripling in the last few months, they're still down 80% to 90% from where they were four or five years ago when people were too excited on energy. So if you watch it, when prices are high people say oh my god, 7 ½ billion people where are they going to - where are we possibly going to get enough energy to meet their needs? And when you've had a bad couple of years like now, we hear we're awash with gas, we'll never be able to handle all this gas.

But supply is dropping, demand took a quick hit with COVID, but not counting that, it's been a growth business and it's one of those businesses where the U.S. a fairly low-cost producer where the U.S. is an exporter. Just in the last year or so, you've seen this big increase in export facilities. You've also seen people move chemical plants back to the U.S., other plants to the U.S.

If the price of Tesla is even 10% right on terms of what demand for electric cars is going to be, that's going to require electricity which will mostly you know be generated from the baseload and natural gas -that will be a lot of the incremental.

So we would agree with you that in the short-term the price of hydrocarbons and most forms of energy are unsustainably low. You know it might struggle for a while, but in the intermediate term, they have to find their way to a higher level and then longer-term who knows.

Dan Gallagher: Thanks, Dave.

Operator: Up next from Morgan Stanley is Alex Pidhorodeckyj.

Alex Pidhorodeckyj: Thank you. Thank you for the call, David. I wonder if you could maybe just spend a minute on your outlook for silver and also just the valuation of the streaming companies versus the better-known miners.

David Iben: Certainly. I'll pick the streamers first. Streamers are a good business. We've always liked them. You've got the advantages of the mining companies, i.e. control of something that's highly, highly likely to appreciate in the future and you don't have the negatives of the miners. If the miners have cost overrun, the streamers (and for those who don't know they will loan money but instead of getting a guaranteed interest rate back they get so many ounces of silver back in return or the equivalent thereof so they get the upside of silver) they don't get the costs. So if a silver company has costs overrun, bad for the miner, not bad for the streamer in royalty companies. If a government comes along and says we're raising the royalty, bad for the mining company, not bad for the streamer. So these are good businesses. We like them. The market tends to like them too which is clearly good.





So we're looking for places where we have a different opinion than the market. So there was four or five years ago where the streamers went on sale and we bought three of them. Since then we've sold two of them. We still have Wheaton Precious Metals and that's had quite a run the last six months so we've trimmed a good bit of that one too. We like the industry and we are happy to own them every time the market wants to misprice them.

Silver, you know, it's easy to talk about gold and oil because they have a price that incentivizes people to look for them, produce them. Silver is a byproduct. Natural gas sometimes is a byproduct. They can get wildly out of whack.

The bad news it's so much harder to predict where they're going to be and they can get so much further out of whack. That's also the good news. When things get way out of whack you get a potential really big return. So, the chance that natural gas goes up five times from here is quite likely.

Silver, you know, keep in mind gold is approaching it's all-time highs right now. Silver back in 1980 and again five years ago reached levels that are 2 ½ times higher than it is now. Yes, silver got to \$50 on two occasions. So silver for people that can handle volatility it's hard not to really like silver. You know, if you look at the ratio to gold over the years it - back - famously 120 years ago there's a whole election credited on William Jennings Bryan wanting to go to a silver standard at a high, I guess, 16 to 1 ratio to build. There was so much silver being discovered. That was the form of using money back then. I think a few months ago that 16 to 1 got up to 135 to 1, maybe bigger. Now it's come in but high of 90 to 100 to 1 - the idea that that won't come back to 50 to 1.

So we like silver. A lot of our gold companies have silver and we have three or four companies that are mostly silver. So silver has huge potential. It's way below the cusp that we think is sustainable over time.

Alex Pidhorodeckyj: Thank you very much.

Operator: Up next we'll take a question from Bradley Calder - TIFF.

Bradley Calder: Hi Dave. So I just wanted to ask you a question about page 33 where you were talking about Korea. So I totally understand why you might think that Tesla's overvalued. Just taking it the other side of it though in terms of high and die, like, when I look at the financials I see a company with, you know, low single-digit returns on capital, low single-digit returns on equity, a very low payout ratio which is super common in Korea so you'd expect their, you know, expected growth rate to be pretty low. And, you know, operating income and EBITDA has fallen by 50% over the last five years.

So, you know, I see this as a highly competitive, you know, business selling cars, you know, where they've doubled these as competitors so I guess it just doesn't strike me as a cheap company. I mean, it strikes me as a company that's in a sort of challenged industry that's highly competitive. So can you help me understand, like, what you see here? Like, why is this a, you know, an underpriced company and not just a bad industry to be in? Thanks.

David Iben: Yes. Let's take two sides. Let's take the less important part first. In 1999 and again now we choose not to own some very, very good companies because everybody loves the very, very, very good companies. And we saw it in 1929 and 1972 and 1999 and even in '07 - turns out that very, very good companies can be very, very bad stocks because price is really important.

And so here certainly if you were very patient on Microsoft and Amazon you lost 80% of your money and then made it back a zillion times over since then but '99 was not the time to buy those. And if you bought most the other technology companies you'd never recovered. And so we will look at things like Apple at \$1.6 trillion and Amazon and Microsoft at pretty similar amounts. They're good companies. We wish them well. It's hard not to admire them. If the future goes really well maybe you make some money from here. If anything goes wrong the, you know, if the numerator is \$1.6 trillion the denominator is going to have to work really hard to support that. And if we're wrong and the stocks go higher God love 'em, you know, whatever. We will let other people do that but they're very, very loved.

Tesla - yes - as you point out the auto business is an awful business. I mean, we had this thing as - I can't remember how many pages it was of companies that existed 100 years ago, 130 years ago that are gone. Auto companies often don't





make it. Most of the ones we're wary of, you know, Ford, GM and Chrysler, you know, it's tough times and these guys dominated the world back in the '50's. It is a tough, tough business.

And so Tesla comes along and it's hard not to admire them. They've sort of changed the model. And not only does EV make a lot of sense but - and waste fewer parts they've done a good job of getting people to embrace it. And they've got a car that's got all this great computer stuff and downloads everything overnight and it's got this whole contingent of people that love it. And so yes hard not to root for them and hope they do well. You know, I like the cars. I know a lot of people that like the cars. But, you know, when an unproven company that's still struggling and trying to get the quality right and really doesn't make any money yet and certainly doesn't make very many cars now has a market cap that is the biggest of all the auto co-, I mean, the biggest. They have left Toyota in the dust now. It's - it has spent how many decades carving out their place as the biggest, most valuable car company. They're embraced all over the world, admired for their quality and a lot of things. *And Tesla is valued at more than that.*

We will let other people do that. My guess is that Tesla the company does fairly well and Tesla stock gets just slaughtered from here. That's my guess but like I say that's not the important part of the equation. The important part of the equation is the growth will do what it does. What about value? What constitutes value? You know, so let's keep in mind that Tesla and Hyundai are in the same business. Yes, they both make electric cars and on the side, Hyundai also makes 5,000 internal combustion engine cars. So they're in a similar business. So to (often because we can't compare to Tesla's profitability because Tesla doesn't have any profitability to compare it to) but to compare it to a very profitable company we say what should a company earn.

If you look at an industry and say here's a bunch of companies and they - they're all pretty equal what have they earned over time, what should they make now? And so as you pointed out they don't have a lot profitability and they're still 7.9 times earnings. That's 7.9 times what they've been able to make at the down part of their cycle. You know, they've struggled. Now they're starting to come out with some new stuff. Maybe the cycle turns.

But we like companies where the market is assuming nothing good happens and things are so cheap that we think we can do well even if we're wrong on the thesis that it's a pretty good company. So if - yes - if they never start marking any more money than they're making now we're happy owning something eight times earnings. That means of course a 12.5% earned return on our investment every year. Yes, they are 40% of tangible book. They have factories. They've got a lot of stuff that should be of value. So if this is not a very good company we probably still make money paying eight times the earnings. If it's an okay company and they start marking not good returns just okay returns the earnings go up a lot. The multiple on those earnings probably go up a lot. So in a risk-reward basis don't see how we lose a lot from here and there's potential to make a whole lot. And this you'll see throughout the portfolio.

You know, we are in a market right now that when a company is in it's up part of the cycle the market is paying obscene prices for things that are running on all cylinders right now, so to speak. And so, you know, we like buying things where there's a decent chance that they make a lot of cash flow. Yes we're talking things like Korea Telecom or as we've talked about in the part the energy companies, the gold companies, a lot of these things are, you know, they should do okay even if we're wrong. But if they can just get somewhat average in terms of what we think future returns are we'll make a lot of money.

So yes, we are not a deep value reversion to the mean by companies that are, you know, that are not doing well. But that's where we do our fishing. We look for - of all the companies that aren't earning good returns right now, do they deserve it?

And yes a lot of companies when they start under bridge and they're on their way out. But we think we have a portfolio of companies that are, you know, pretty good at what they do but have a chance of reverting to the mean - that actually should be expected to revert into the mean.

And we showed the chart that if we even have to wait two, three, four, five, six, seven years to revert to the mean we still are going to make a lot of money. To us that's value investing. It's not buying cheap stocks. It's buying good companies when they're priced cheap.





When do things get priced cheap? When times are tough. Hyundai over the last 20 years I don't know that that many car companies have been more successful in terms of how much they've grown and how much they've improved their image. They've got a pretty good franchise. It's not Rolls Royce but it's a very good franchise we believe and we think not much downside with lots of upside from current valuations.

Bradley Calder: Thanks Dave. Got you - I understand what you mean. Thank you.

Operator: At this time there are no further questions. Mr. Iben, I'll hand things back to you for additional or closing remarks.

David Iben: Okay. Well once again appreciate everybody dialing in, appreciate your support. Certainly fun markets, interesting markets and look forward to talking to you again in three months. Thank you.

Operator: Ladies and gentlemen that does conclude today's conference. We would like to thank you all for your participation today. 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.

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