



KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 2<sup>nd</sup> Quarter 2021  
Conference Call with David Iben**

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Operator: Good day, ladies and gentlemen. Welcome to the Kopernik Global Investors Second Quarter 2021 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. I would now like to turn the call over to Kassim Gaffar. Please go ahead, sir.

Kassim Gaffar: Thank you, Operator, and welcome to the second quarter 2021 conference call. My name is Kassim Gaffar and I have with me David Iben, our CIO and 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.

Before I pass the call to Dave and Alissa, I will be providing a quick firm update. The firm ended the second quarter with overall firm assets at roughly \$6.9 billion. This was a nice increase over the last three months where our assets grew by roughly \$700 million over this period. This increase was due to strong inflows and market appreciation. This also has been a ninth consecutive year of being net positive from an inflow standpoint and we sincerely appreciate the trust bestowed by our clients. Moving along on the personnel side, no changes to report and we ended the quarter being 42 employees strong and continue to be stable with minimal turnover since inception of the firm. That brings an end to the business update.

Please note, Dave and Alissa will be referring to the presentation, which can be found on our website [kopernikglobal.com](http://kopernikglobal.com) under the News & Views section. Also, we do have some new content, including Dave's most recent letter. We encourage everyone to have a look after this call or at your convenience. With that, I'll pass it over to Dave and Alissa. Dave, please go ahead.

David Iben: All right, thank you, Kassim. Thanks to everybody for tuning in. Nice summer day and not exactly a value market anymore so, we appreciate you dialing in. But we do think it is a good time for value.

As Kassim mentioned, we recently sent out a commentary titled [29 Palms](#), using a desert theme to talk about exactly what is value and what is money and what that all means from an investment standpoint. We think it's an important thing. So, we're sticking with that theme. It's hard to talk about value and what things are worth without talking about what the meaning of money is and what it means when \$4 trillion dollars are printed out of thin air. So, we'd like to talk a little bit about that. If the Fed right is that it's transitory, it was Richard Cantillon when he said it migrates from one thing to another like water in a stream. We obviously think it's the latter. By any rate though, it should be top of everybody's mind. Is it – is it transitory? Is it migratory? What does that mean? And how can investors take advantage of that? Transitory, of course, is misleading.

Momentarily, the Fed wants us to believe that this money they put in the system is momentary. Yet, let's investigate whether that's true or whether it's migratory, the money moves from one area to another.



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The next slide (page 8), which shows money supply, which, by most classical definitions, is inflation. Printing more money, by definition, is inflation. The other things people look at tend to be symptoms. But we can see here going back a lot of years, there were brief periods of time where the money came down, but the trend is up and we can go back to 1913 when the Federal Reserve started, the trend is always up. So, the Federal Reserve's history suggests that it's not transitory. They're printing money, printing inflation.

The next page (page 9) probably looks at future inflation. And this is the amount of debt that's been built up over the years and especially recently. Debt, of course, is claims on future currency. Therefore, either the debt gets defaulted on or the future currency needs to be materialized, the future and printing of money.

The next page (page 10) shows in a nutshell that it's not just a U.S. problem, this is a global problem. This is not just the amount of debt. This is the amount of debt relative to GDP. So, across the world, debt is growing way faster than the economy's ability to service that debt.

So, onto the next page (page 11), and this is what the commentary explores and what we would like to explore more. You print money. Does that print wealth or does that print the illusion of wealth? Has the society become richer, or they just feel richer as money just migrates from the floor to those of us that can afford assets. That's the question.

If we go to the next page (page 12), looking back, and this is a work period longer than my lifetime, you can see prices go up, owning assets has been a good thing. Price of housing has gone up, the price of drugs has gone up, the price of education has gone up. CPI, in general, has gone up, but not as fast as real inflation.

Moving to the next page (page 13), inflation has been everywhere over the long term. But when money is printed, it goes into assets first. You can see on the upper left, we had a bubble in the '70s, we had a bubble in the '90s, we've got what appears to be a bubble now. And the price and the value of stocks has gone to the moon, that's typical. Prices tend to go first into assets and into the valuations of assets – the stocks. The next page (page 14), this shows the very longest bonds we could really find out there because they're the ones that are most affected by interest rates and money burning. But you can see when they announced a year and a half ago that they were going to print \$4 trillion out of thin air and roughly double the money supply. The price of these bonds doubled. In a few short months, the price of these bonds doubled. Not a coincidence.

If you go to the next page (page 15), this shows a lot of things. This just shows assets have been going up quite a bit for recent decades, but it is very easy to migrate into other things. You've all seen it in the grocery store, you've seen it in the commodity markets, you've seen it in the real estate markets. This shows a lot of things, they're at the highest price ever.

The next page (page 16) shows the same thing. And also, when – there were two or three other pages that I chose not to print. As we move on to page 17, all right, prices have gone up. But the whole point of what we're talking about, there are a few pages behind. Page 17, the prices of things go up but not equally. They go into assets first and then unless people are allowed – willing to allow the price of the assets to go down, which doesn't seem to be any central banks' idea, eventually, it migrates into other things. But we're at that point where the price of assets has left the underlying fundamentals in the dust. This should be clear to everybody, it's not sustainable. Prices of assets must come down or prices of daily living must go up. Central banks want the latter. We suspect they will succeed. The upper left shows the price of stocks relative to the price of labor. To the right, the price of housing relative to the economy that needs to support that housing. Lower right, you can see stocks relative to the earnings. It should be clear – the price relative to earnings cannot go up forever.



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The next page (page 18) is even scarier possibly. The price of housing relative to the rent that supports that housing is at 200-something times rent. Interest rates really can't go low enough to support something like that. Even the U.S. with 123 times earnings, if you will – or revenue's maybe because there's usually cost associated.

So, we're at that point in the cycle where we have had a massive runs and sell-outs. QE1, we've had such a massive run in the price of stocks and bonds and real estate since 2008. The underlying fundamentals have been left way behind. We'll come back to that later, the underlying things that need to support that are probably underpriced.

Next page (page 19). Things have become untethered from the underlying fundamentals. But often, when you print massive amounts of money, and certainly, the last couple of years have been massive amounts of money, you get – you get speculation, you get mania, you get things going from untethered to unhinged. We were all shocked to see bonds go to negative real rate of interest, sometimes negative nominal. But this is junk bonds. Junk bonds now yield less than the rate of inflation, meaning you make a dicey loan to somebody or some company. If everything goes well, they pay you back less than you gave them in real terms, that's winning, and losing if they don't pay you back. So, things are crazy.

The next page (page 20), you can see people paying over \$1 million dollars for a single pixel of digital art, which meant they paid for a colored square. People are buying digital housing. Good luck living in a digital house. I think you, guys, have all seen the invisible sculpture that went for a lot of money. So, we're in the speculative part of the market. And as an active investor, we say, "Bring it on." When things get too expensive and everything's good to cheap, that's where active managers are sowing the seeds for future success.

The next page (page 21), continuing on people doing silly things, famously, the owners of businesses bought back their own stocks in 1999 before the crash, in 2007 before the crash, at record levels in 2019, before the minicrash of a year and a half ago. Then notice they stop buying when their stocks got cheap. Now that their stocks are back to the highest levels of all time, they're buying again, something to pay attention to.

The next page (page 22). In a market like this, caution is of order. This page shows caution is the last thing on people's mind. Nobody wants put options. Nobody wants protection against downdrafts. They've already forgotten they had a year and a quarter ago, but downdrafts can even happen, they all want call options, they want to bet on onward and upward. It's worked for a long time.

(Page 23) Continuing on the psychology of the market, this page here shows that people are buying stocks without doing any research. This is a strategy that works very well when markets are cheap and fairly efficient and everybody's doing active analysis. They keep the market semi-efficient. Indexing and passive investing makes a lot of sense, pay low fees, pay low transactions, get a free ride on a semi-efficient market but in the 1920s, 1970s, 1990s and now, when the market has gone up for a long time, people get rewarded for not doing analysis and people stop doing analysis. They get carried away with buying the index funds. We believe we're there. We believe the valuation difference between the big popular index stocks and then the sorts of stocks that we'll talk about later are huge.

The next page (page 24) shows the same thing, but we find it interesting. Howard Marks that we respect a lot, he wrote a piece four years ago, telling people who knows what the market is going to do, but caution is in order and there are a lot of crazy things going on and the amount of valuations and the amount of value-agnostic funds have got gotten to a scary levels. There's many, many pages that show the things he was concerned about four years ago. Rather, there's just one of many pages that show what seems scary four years ago seems almost tame completely, the excesses in this market.





We move to the next page (page 25). This is, I think, the height of excess more than anything certainly, I've seen in my 40-year career or even read about going back to ancient history. So, things to worry about, bonds, on the next page (page 26), as even Grant for a long time has referred to, bonds whose return-free risk, of course, they've just kept going up and up and up and now they truly are return-free risk. You can see the current rates, and rates are actually lower, we put this together a week ago. Current rates are less than the CPI. So, right now, we have a negative return, negative real return on what people believed the inflation rate is. Now, we all know inflation is a lot higher than the CPI. So, the real rates are actually way worse.

So, right now, people have the tough position of how do we meet our clients' needs. Whenever we buy bonds, we're guaranteed to lose money if we hold the maturity. That's compared to – back in 2007 where you could actually get a couple percent more than the inflation rate in the early '80s back when I came in the business, 5% to 6% real returns. And I'm pretty sure there were periods, a lot more than that. So, that was easy back then. We like this little comic at the bottom, back in '85, it was really easy to buy a 10-year bond, get a nice safe return and live a nice life, take the excess money and put it into action, real estate, and other things.

Taking the CFA exam was easy back then. And nowadays, it's really not a joke. A bond portfolio now returns nothing and will literally implode if the 10-year goes back up a percent or so. So, that's where we are as the next page reiterates (page 27). I thought it was worth showing twice that debt bonds are a guaranteed economic loss if held to maturity.

And the next page (page 28) is the main thing. I hate to be negative that we had to show everything in there. This was a market where people ought to be scheduled out. On the other hand, people ought to be pretty enthusiastic because Mr. Cantillon was right, the money does not flow equally through this system and is not neutral, it goes to some people first and some people later, some people can pass cost through, some can't. Things that have already run up have become dangerous. Things that have not run up yet have become actually very, very interesting because they're cheap in their own right, and even cheaper adjusted for the probable inflation. So, we see really great money-making opportunities. And to go through that, let's hand it off to our Director of Research, Alissa Corcoran. Thank you.

Alissa Corcoran: Thanks, Dave. So, as Dave has shown, a massive amount of money that has already been printed has found its way into many areas of the market, bonds, U.S. stocks in particular. We are looking for areas where it hasn't gone. We always enjoy looking at GMO's forecasts (page 29). And today, we're at a point where the prices are so high that only emerging value stocks have forecast of any positive real returns. Emerging markets have underperformed for a decade and we are finding a lot of opportunities there.

(Page 30) Underperformance was certainly a buy signal for Japan in 2000 and 2008. Everyone loved Japan in 1989. Crazy things were happening. Golf memberships were being sold for \$3 million. Real estate was selling for \$140,000 per square foot. Everybody loved it. And prices came down, gravity is a real thing, and these prices were not sustainable. So, the investor who bought in 2008 and 2000 did very well. Japan today is trading at the same place it was trading 30 years ago. And these companies have grown, they've operated well and we are finding opportunities in Japan today.

(Page 31) Telecom is a same story. In the time of the tech bubble, everybody was excited about telecom. Since that time, the companies have grown sales, they've grown earnings. The share prices, however, have not done very well. Price matters.

Today, especially in emerging markets, we can buy dominant telecom companies for less than book value. These have good dividend yields, they're low P/E multiples, and the potential for these – for earnings growth.





An area not highlighted by GMO but one we are excited about and we've talked about for many quarters are the latent value stocks that we've talked about. These are the companies that are sitting on very valuable assets, but the value is not represented by today's cash flows. These are many of our commodity stocks that are sitting on decade's worth of reserves or resources and they're underearning either because the commodity price is depressed or they have a project that hasn't been constructed yet. So, in a market that is obsessed with near-term cash flows, these companies we're finding are trading for bargain prices.

The commodity stocks, we value them on incentive price. This is the price that balances supply and demand in the long run. What we don't know is the timing of when the commodities will reach that incentive price. But what we do know is that the upside is huge. And when it's this large, we can afford to wait. Especially, many of these stocks, as David talked about, the Cantillon effect, commodities, historically, have done very well when lots of money has been printed.

(Page 32) Oil is an example shown on this chart. The oil producers are well below where they were trading in 2014. We're finding a lot of opportunities in the Canadian oil companies. (Page 33) Natural gas is another area that we find interesting. Again, they're far below their level seen in 2014. Demand remained very strong. It has been strong for many years and the suppliers were unfortunately not very disciplined. But as a result, the prices have come down and we've been buying natural gas stocks since 2018.

One company that we have in our portfolio that just demonstrates how we use volatility to our advantage, Range Resources used to be an \$80 stock. We started buying it when it was \$15 a share. In 2020, it reached \$2 a share, which we were buying more of these natural gas stocks. And today, it's back at \$15 a share. All along the way, we were adding and trimming as the stocks went further away from our risk-adjusted value, we were buying more. As it's come up, we trim, which is incredibly helpful to our returns.

(Page 34) We've been investors in uranium companies since Kopernik's inception. Uranium supply grew significantly in 2010 when prices were very high, prices reached a peak of \$137 a pound. It is now \$30 a pound, which is not sustainable. Supply is not growing, demand is stable and strong and could be stronger should countries turn to nuclear power for cheap, stable, zero carbon energy. Uranium mining companies remain a significant part of our portfolio.

(Page 35) This chart and title speak for itself. Gold has been inflation protection for thousands of years. And despite the fact that the monetary base is up nine times, the gold price is lower than it was in 2011 and the gold miners are half of the price they were in 2011.

(Page 36) Palm oil companies are some that we find interesting today. You wouldn't know it from this chart. This is one of the larger palm oil producer -producing companies in the world, Golden Agri. It's down, despite the fact that palm oil prices were up 52% in 2019, 30% in 2020, and 13% year-to-date. This is an area that we have liked for a long time. The demand is strong and supply is very difficult to bring on.

We like the saying that it's not a stock market but a market of stocks. There are still many pockets of value despite the fact that, in general, the markets are overpriced and you have a huge amount of optimism and people are doing crazy things. There's pockets where fundamentals support upside in today's money and even more upside when the Cantillon effect is considered.

(Page 37) So, from our standpoint, we believe that investors have two choices. They can assume that the money printing doesn't matter. You maintain status quo, you continue to invest in what has been working. But to us, that's a risky choice. We prefer to use history and logic as a guide to adapt our process to account for the monetary inflation. We choose to avoid return-free risks such as bonds, as Dave outlined.





We look for businesses that have the ability to pass through inflation. We expect these high multiples to recede. We demand a large margin of safety. We diversify our currencies. We own gold. We are very cautious of the overly popular. We study monetary history. And we remember that cash comes from value and value does not come from expectations.

(Page 38) In our opinion, investors need to be very cautious of investing in long-duration assets such as stocks – expensive stocks and bonds. Long-duration assets are very sensitive to slight changes in assumptions. And as Dave's table showed, we're in a world where bonds offer very little other than risk. We prefer the opportunities where the upside is very large even if we're just directionally correct. (Page 39) Our recommendation is to own tangible real assets, own companies priced for imperfection, own companies that have upside even if the timing is unknown. As this table shows, when there's enough upside, you are – you can afford to be patient and still make strong returns.

(Page 40) This slide shows that on a relative and an absolute basis, our portfolios are very inexpensive. We're trading at a third above book value. We're – we have a high cash flow yield. We're cheap on sales and we're cheap on earnings despite the fact that many of our companies are under earning.

(Page 41) Here is the Global All-Cap portfolio. (Page 42-43) This shows some of our activity over the last quarter. We've added several new holdings and we've used volatility to our advantage. We've been buying things that we were selling last year and we were selling some of the things that we were buying last year and we've eliminated several positions that have reached our price targets.

(Page 44-45) As you can see, we continue to look very different from the index funds across sectors and across countries. (Page 46) And we spent a lot of time on the latent value names, but we continue to see a lot of value to be found in the more traditional value names as well, particularly emerging markets.

With that, I would like to thank you for your time today, your continued partnership, and we will leave the rest of the time for questions.

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. Our first question comes from Chris Brady, Brady Financial.

Chris Brady: Yes, hi. Thanks for doing the call today. I just see that the S&P 500 put looks like it's back in the mix here for the Global All-Cap Strategy. I don't know if you can expand on that because I know that we had that before and then that worked out pretty well when we had the last COVID correction.

David Iben: Sure, we'd be happy to. In this market, chasing yield is a tough thing. Optionality seems to be underpriced, optionality, whether it's owning uranium stocks for a cheap price that went up so much last year when people even thought about going into it. So, with options, it's not something we generally do and wouldn't do unless we find them to be grossly underpriced. But – was it four or five years back now, we did notice the market hitting new all-time highs. We figured, that a put option, which does well when the markets dropping is obviously where it's more – the more expensive the market gone (up/down), the longer we've gone up without a downturn. Fundamentals can be really good but downturns have always happened and always will happen. Even if the market is in an uptrend, there will be downturns, and so, we thought obviously, the put option should be expensive and we look are stunned to see whether it was the cheapest ever.





We took advantage of that. As we often do, we took advantage of it way too early and so, we had to suffer every few months mostly losing on these things. We went through a long drought. It was the all-time high kept getting higher for most of another three years. But it's just the last three years where the losses were made back in two weeks. It ended up being a pretty good strategy and it also gave us the cash to take advantage of a really inefficient and cheap market in March of 2020.

So, we – with that worked pretty well, we figured we would probably never do the option again, figuring we weren't going to see prices that cheap again nor are we likely to see stocks even more expensive. So, here we are with stocks even more expensive and the implied volatility ingredients become very, very cheap. So, just like we did a few years back, we expect to just lose a little bit of money in most every month until there's a correction in which we certainly hope to make it all back and a lot more.

We don't predict when the market is going to fall, we just predict that it's cyclical and will have its ups and downs forever, and the price of that is way underpriced. If the market were to fall 20%, this thing could go up 15 times plus or minus. It's a small position, it's half of 1%. It's just taking advantage of a mistake the market is making, we believe.

Operator: Our next question comes from Michael Favorite, Cantella.

Michael Favorite: Dave, thanks for doing this again. First of all, my second question just got answered, thank you for that. But also, it seems to me that back in the early charts showing debt has exploded, we've all seen that and we all know that demographics are kind of a headwind when folks our age, getting older and not so many young ones coming along. So, it seems to me that growth might be challenged. And what does Kopernik think about this? I mean how we can handle debt with what seems to be a lot of headwinds to growth.

David Iben: Well, that is, of course, a very good question. I could go on for hours, I promise I won't.

There are two things. Just one, can growth be sustained for the long term as the population gets to 1.5 billion, which it has, and as the debt as a percent of GDP becomes huge. Future growth, obviously, seems like it should be slower than past growth. So, it's probably a little dangerous time to pay for growth right now.

Also, as we've talked about, growth is a longer duration asset with the central bankers of the world suppressing interest rates to way below where they deserve to be. That makes long-duration assets vulnerable. So, growth is a nice attribute. We like growth. We buy growth when we can. Other times, in 1982 and 2002 and a few years back, 2009, we're happy to buy growth. But sometimes the market pays a lot for growth. And growth, as you suggest, sometimes disappoints people, especially when the starting point are times like now.

So, we are finding that growth is higher priced than the market than it probably ought to be. It might work out for people but we think the risk/reward is not that good. But even more importantly, both in 1999 and now, we say we think growth is too expensive. But we don't wish it poorly, we hope people do well to grow. The important thing is not our opinion on growth. The important thing is some of these hard assets, whether it's agricultural land or copper or gold or uranium or infrastructure, these are things that our model suggests could fill up two, three, four times from where they are now.

We're happy making two or three times our money and it will be tough for some of these growth stocks that are already at \$1 trillion dollar market caps, \$2 trillion market caps to keep up with that. So, we worry about growth that we wish it well, but we feel really excited about some of the values we're finding.

Operator: Our next question comes from Andrew Molnar, THOR Wealth Management.





Andrew Molnar: Yes. I just had a question. I know you, guys, have a lot of real assets and commodities. You look at rare earth metals. I know there are not a lot of companies, and most of them are based in China, but I just kind of wanted to hear your opinion on that space.

David Iben: Yes, I'll start out then Alissa can add on to it. Yes, we're pretty much known for holding a lot of commodities, but we don't buy them because we like commodities, we buy them when we find that they are trading below that incentive price that Alissa talked about and they are priced even cheaper on Wall Street than they are on Main Street. So, we took advantage of that. Over the years, there's been times where we've own gold and times when we haven't owned much gold, times when we own uranium or times when we own oil. We have in the past been happy to own things like lithium. And so, we look at all metals. We've used to own a lot of those and nickel and lead and things like that. Rare earth metals, if and when they become very cheap, we're happy to own a lot of them usually between ability to invest in market caps or investor enthusiasm. The opportunities have been pretty quick. So, we haven't done a whole lot but we are very open to doing at the right price.

And, Alissa, anything you'd like to add to that?

Alissa Corcoran: I would just add that, in general, what we're seeing in the market today is more enthusiasm for the base metals, less enthusiasm for the precious metals, which is one of the reasons why we continue to have a large percentage of our portfolio in the gold mining sector. The gold to us is extremely mispriced. The optionality is very, very cheap.

David Iben: And it's interesting that these aren't rare-earth but a year ago, most people didn't like nickel and copper and lithium, not rare earths, but metals that have gone from the standard industrial metals to sexy new age green metals and it's been somewhat reflected. So, yes, we'll always look and happy to buy whatever metal is cheap at the time.

Operator: Our next question comes from Chris Burke, UBS.

Chris Burke: Hi. Yes, thanks again for doing this. I was just looking at the overall holdings and just wanted to confirm. In terms of the non-equity securities, is that just the exposure to the put or is there anything else that's not a – an equity security?

David Iben: Yes, the put is 50 basis points. There's residual cash in there. That should be it. What you are you seeing?

Chris Burke: There's – in terms of the equity securities, about 74%. Just wondering what the other 20 or so is.

David Iben: That's – in the international, yes, so that would be – that would be cash. Cash is residual of the process. We are always working various buys and sells on any given day. When the market is correcting, we are able to get bargains. When it's running up, the trims get done, the buys don't. So, anytime, like a few years ago, and again, when the market is hitting new all-time highs, we're effectively building the ammunition to deploy in the next downturn.

Operator: Our next question comes from a Ranjan Dabholkar, private investor.

Ranjan Dabholkar: I just wanted to find out if you, guys, hedge out the currency risk. And if you don't, what does the currency exposure looked like in the fund at this point in time? What is the distribution of currencies?

David Iben: Could you repeat that please?







Ranjan Dabholkar: If you do not hedge out the currency exposure then obviously, you have different currencies in the portfolio. It's not dollar-based, right? I just wanted to get a sense of how much of Canadian dollars do we have, how much of Australian dollars do we have, how much emerging markets do we have? Do we have different buckets? What kind of distribution does it look like? Or does it get hedged out in dollars, everything?

David Iben: Yes, we do not hedge currencies for many reasons. As an aside, with experimental monetary policy and by almost every central bank on earth, it will be interesting to see how it all plays out. But we think it's not a good idea to have all of one's money in any one currency. Even if that the currency is the dollar. So, the idea of diversification is probably more important now than ever. But the most important point is, as Alissa said earlier, it's not a stock market, it's a market of stocks. Bonds, you can hedge a currency, stocks or businesses. And one business can be positively affected by an upward movement of currency and another business can be negatively affected by that same currency. And then, of course, nobody knows which way their currency is going to go. So, with every company, we look and say, "What are we buying?" If we're buying, say, some of the best natural gas fields in the world and they happen to be in Russia, we don't spend a lot of time worrying about the rubles because if the ruble drops, gas is still being sold in dollar terms, so we're going to be fine, we don't have to worry about that.

If we own, as we do, one of the best, cheapest carpentry electricity utilities in the world but RusHydro also in Russia, we believe that a drop in ruble would hurt us. It would be harder for those to pass those cuts through. To hedge though, would mean we would lose if the ruble goes up. And so, we don't want to bet on the ruble, we don't want to bet on the dollar, we want to make money owning a good business. But because the volatility could hurt us, we insist upon a bigger margin of safety. So, we need a bigger margin of safety for a utility than we would for a natural resource company. Exporters, we think, are fairly well-protected and diversified, they usually sell around the world and sell more when their currencies drop. Multinational, same thing. Importers, we view, is riskier and we demand a bigger – a bigger discount.

So, that's our approach. And when you add it all up, we don't view we're exposed to the currencies, but 40%-some-odd of the portfolio is and what is considered to be emerging markets and a third of the portfolio is in Canada even though most of those businesses have properties all around the world. And then, of course, we have money in Japan and the rest of Asia, it's pretty diversified.

Operator: Just a reminder, if you would like to ask a question, please press star-1. Our next question comes from Andrea Zilli, Kore Private Wealth.

Andrea Zilli: Good day and thank you and it's always great to hear from you and the team. Question for you related to Japan, you, guys, showed the chart of the Nikkei rising almost making up the level that we haven't seen in a really long time, but in relative terms, continue to underperform the U.S. I just wanted to kind of get your take on value in Japan. You're doing some work and it seems like there are a lot of regulatory changes some activists that are hopefully allowing investors to realize the value that's been locked in Japan for a long time and I was wondering if you're looking at anything in particular interesting there.

David Iben: Yes, all right. Yes, I found that – sure, personally, they've done pretty interesting. There's the Nikkei still quite a bit below where it was at the top and then you put on Bloomberg's switch yen into dollars and all of a sudden the market is back to the top and it's not down at all, which is because the yen has outperformed the dollar over that period of time, which is interesting because almost everybody on earth has been damn sure for the last 30 years that the yen would be worse than the dollar. So, that kind of leads back to the last question. So, it's really tough to hedge currencies. They usually do what you don't expect.





One point with that chart was people weren't wrong to like Japan in '89. It's got a lot of great companies, they were wrong to pay those prices. And the right thing to do is wait 15 years and buy those very same great companies that are distressed low. And if you did that, you made a lot of money. So, that's one point.

And it was the same thing with telecom. And we're suggesting that all the natural resources that people loved 15 years ago, now is the time to be buying them and a lot of other things. So, that's another point.

But then back to, let's say, market of stocks, Japan has lots of businesses and some of them are undoubtedly overpriced and some of them are pretty exposed to currencies, as the last question suggested.

And so, we neither like or dislike Japan. We like the fact that with Mitsubishi and Mitsui, we can buy what we think are the two biggest and one of the best and most profitable trading companies and really merchant banks, if you will, it was private equity fund. And on them it's less than book value and single-digit P/Es, we find that interesting. Railroads that have monopolies and have competitive advantages to buy those at discounts to the capital that was invested, seem pretty interesting.

The small cap, which is in the index, which for the most part, we are still able to do in Japan, what Ben Graham did in the U.S. in the 1930s and 1940s and buy companies essentially for free. The cash in the bank covers the debt and the market cap. And so, we like those sorts of opportunities in Japan. So, Japan should have been avoided in '89, bought like crazy in 10 years and bought selectively now. And that's, I think, the story with a lot of things. We think there are opportunities in Japan and elsewhere, but mostly in the areas that are not shooting to new record highs right now.

Operator: Our next question comes from Patrick Zojecki, individual investor.

Patrick Zojecki: Am I – do you guys hear me? Sorry. So, I apologize if this has already been asked because I joined the call late. But just a quick question, if you can give your opinion on Centerra given that it's a large holding of yours and the recent news. I'm just wondering if your models include Kumtor or not.

And then my other question was just, how do you, guys, decide whether or not you put money into Yellow Cake versus the new Sprott vehicle? That's everything. Thanks.

David Iben: Two big questions. Alissa, would you like to take them?

Alissa Corcoran: Sure, yes. With Centerra, one thing to point out is with mining companies, the geopolitical risk is very large. These companies cannot just take their assets and move it to another country. So, we spend a lot of time thinking about the geopolitical risks and we demand very large margins of safety when we're investing in mining companies and we diversify our – if you look at our holdings, we have a lot of different mining companies for this reason, which is unfortunate that Kyrgyzstan did – what it did. And with Centerra, thankfully, they had a management team that was able to diversify during the bear market for gold, they bought several Canadian assets. And so, the price today, there's upside when you consider just the Canadian assets. And so, we're not sure what's going to happen with Kumtor. The company seems to have some options. Even if they don't get the mine back, it looks like they could cancel some of the government shares. So, there's still a lot of upside even without Kumtor, even with – including the government shares. So, we like that risk/reward and we were buying when the price fell.

I will turn it back to you, Dave, on Yellow Cake and Sprott.



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David Iben: Yes. Quickly with uranium, it's one of the most undervalued things we can think of, as Alissa mentioned, down from \$137 to low \$30s. We see tremendous upside. We have investments in large, profitable companies like Cameco and Kazatomprom that we're very happy with. We have companies that will produce in the future, they're trading very cheap, and we see big upsides, we're happy on that. And then we feel a very safe way to play is to own Yellow Cake and UPC. So, we're happy to own both of them. They're all very similar so we own both of them.

As far as the recent transaction in the old team, we felt pretty good about, but we know the Sprott organization very well. We own their stock as well. We've had a lot of conversations with them about this transaction over the years so we think it's fine. We're very happy with both of them and we can't pick a favorite. They're both, I think, very sound investments.

Operator: Just a reminder, if you would like to ask a question, please press star-1 now. Our next question comes from Dan Gallagher, UBS.

Dan Gallagher: Hey, Dave. I was curious what you think of China and some of these VIE companies like BABA and JD and Tencent that seemed pretty compelling. When you kind of factor in the different risks there, how huge a discount should somebody like us who allocate capital for families think of getting if we're considering those types of securities? I'm wondering what your thoughts are.

David Iben: I'll give you some thoughts and I don't know if it would be an answer, hopefully, it's helpful. We have always thought that China had huge potential. We've always thought that China deserved a big margin of safety for some of these things. And now you've got the Chinese government causing some problems. And half a year ago, you had the U.S. government causing some problems, forcing people to sell out of some pretty good companies. And so, they both add to some risks.

But, people had no fear and we're writing some of those Chinese companies to some pretty high levels. Now, they've corrected a lot. And a lot of people that have formerly loved China are starting to throw in the towel.

So, I can tell you, we're spending a lot more time on Chinese companies than we have for a while. They're getting more interesting. But I can't tell you yet exactly what our opinion is or which companies we may or may not be buying in the near future.

Operator: Thank you, ladies and gentlemen. I would now like to turn the call back over to Dave for closing remarks.

David Iben: Okay. Well, thank you once again, a lot of really good questions and these are interesting times and we hope you're all having a great summer and we look forward to talking to you again in the future. Have a good day.

Operator: Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect.

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