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**Edited Transcript of the 2nd Quarter 2022
Conference Call with David Iben and Alissa Corcoran**

July 21st, 2022
4:15 pm ET

Mary Bracy: Good day, ladies and gentlemen. Welcome to Kopernik Global Investors second quarter 2022 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. Please type your question into the chat box, the Q&A box, and we will get to them in the order in which they were received. Please only ask one question until we have had a chance to answer as many questions as possible, thank you. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go ahead, Mr. Gaffar.

Kassim Gaffar: Thank you, Mary. Welcome everyone to the second quarter 2022 conference call. I have with me, David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All-Cap strategy and Co-PM for the International strategy. And also, Alissa Corcoran, Deputy CIO and Co-PM for the Global All-Cap strategy and Director of Research. Before I pass the call to David and Alissa, I'll be providing a quick firm update.

The firm ended the first half of the year with overall firm assets slightly shy of \$6 billion. Overall flows for the firm have been strong and evenly balanced for the first part of the year. Also, on the personnel side, no changes to report. We ended the second quarter with 41 employees and have continued to be stable with minimal turnover since inception of the firm. That brings us to the end of the business update, please note Dave and Alissa will be referring to the presentation, which can be found on our website kopernikglobal.com under the News & Views section. And with that, I'll pass it over to Dave and Alissa. Dave, please go ahead.

Dave Iben: Alright, thanks Kassim and thanks to everybody for joining us. It's certainly been an eventful quarter. Matter of fact, it's been a first half thus far in 2022 that's unlike anybody has seen in over four decades. So, interesting times – a market where stocks and bonds go down and in unison and bringing other things down.

So, we thought an excellent time to talk to you because we do seem to be in the midst of a massive correction of the rotation that's been going on from growth into value. It's been painful but yeah it's probably overdue. And a few months ago, we are hearing from a lot of people we were talking to who were lamenting that they had missed their opportunity to rotate from a growth into value, for them this has been somewhat of a godsend.

Anyway, as I mentioned the times are changing [slide 7]. I've been fortunate enough to be in this business for over 40 years, of which, at no time have they experienced a bear market in bonds. And for the most part, not in stocks either. So, interest rates have just dropped for 40 years, it's been a great time to be in the business, and despite the violence of this correction, the rotation is inevitable and will continue. After all, where can rates go other than up from here. Our message today is investors are well advised to migrate from disinflationary beneficiaries of last 40 years into inflation beneficiaries.

From here there really is nowhere to go but up [slide 8]. And today we plan to talk about why. We're going to look at a little bit of history, and we will make the case that with the run of the last year and a half, investors have not missed their opportunity. We will argue that the gut-wrenching volatility in these areas is actually a positive rather than a risk as a lot of people think.



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We have a chart here that should illustrate pretty well that rates have never been in such a precarious position. And since the closest we can find to times like now are the 1970s so bear with us as we time travel back to my high school years.

Back then was a very different environment [slide 9]. We had no smartphones, we didn't have electronic vehicles, we had no internet, we certainly had no data streaming. But the music we did have was great, and that was back in the days when the [Rolling] Stones had *Brown Sugar* in 1972, Zeppelin had *Stairway to Heaven* and, of course, you had Elton John with *Rocket Man*. Really good times, and it was also a really good time in the financial markets. These were very ebullient years – the markets were booming and you had the Go-Go stocks in the 60s, you had the Nifty 50 of the early 70s, you had aggressive monetary policy, aggressive fiscal policy.

I think *Rocket Man* captured the mood of the times, “I think it's gonna be a long, long time.” One of my favorites is John Fogerty, who had a different view [slide 10]. He seemed to sense that good things have an expiration date. He asked, “Have you ever seen rain falling on a sunny day?” I guess he knew what he was talking about – proved to be prophetic. His band Creedence Clearwater Revival fell apart, but so did the markets. It was interesting times - music began to reflect a change in mood - the songs weren't so upbeat. We had Led Zeppelin come with *When the Levee Breaks*; *You're so Vain* was a big hit. And outside of the music world, you had embargoes, you had rising commodity prices, inflation, international discord. Any of this starting to sound familiar?

So, how did the market react to this change in the society's mood from very happy to worrying about things? It reacted with a two-year bear market where stocks dropped in half, other stocks did less. Going back to there, then why are we doing this?

History doesn't repeat but as Mark Twain said, it rhymes [slide 12]. Is this rhyming? The 70s followed a decade of guns and butter policies where the government thought that they could deal with internal things and external skirmishes - a lot of money printing. And now you have QE (quantitative easing). Once again, they're trying to slow it down, but we saw last time that's not a permanent thing.

Strongly negative real interest rates, they were negative then most of the time, very negative now. Budget deficits - people used to be just scared to death about 5% deficits. And now people yawn at the opposite of 15% deficits. You had the Cold War then, you've got Cold War II this come around now. Then you had an irresponsible fiscal and monetary policy, you had Nixon break from the gold window, so the dollar basically had no value anymore and it's been falling ever since. That seemed really bad, but that's nothing compared to what we saw a few years ago. You know, trillions of dollars and 10 times increase in the money supply almost overnight. And you know prolong commodities, a bear market leading into that period, yes, then, yes now.

So, it's probably worth at least paying attention to history [slide 13]. If history is the guide, what we see now has not been fun, but it's not been still abnormal either. Looks like it could have a long way to go. More importantly than that, though, and we've talked over the last year about how inflation is something that migrates unevenly through the system; bear markets also unevenly work their way through the system.

Once again, going back in history How did the bear market take hold in the 70s, or actually started taking hold in the 60s? [slide 14]. You had the Dow Jones hit 1000 in 1966 and again in 1968 again and '72. But in '66, the Go-Go stocks were the exciting things that people really loved, they were done in 68 they fell for the next four years.





You can see here [slide 15] – the chart to the left shows – they were falling even as the high-quality stocks were going up sharply, a lot like we saw in 2021. And then you can see the meme stocks of the day, they were getting hit '68 to '70 we're talking 80% drop in some of the really exciting stocks of the day. So, that was then. What is now? Over the last year and now you've seen, until recently I guess, the stock market holding up okay. Late last year it was January still hitting new highs I think the broader indexes, but underneath it all, you know who knows there could even be something like a Goldman Sachs non profitable tech index, but it had a monster run and it's given it back – 70% hit. Given that they're all unprofitable I would guess they probably have a lot further to go on the downside.

SPACs (Special Purpose Acquisition Company) are an interesting thing too – when people were issuing stocks without any government regulation or oversight and then buying whatever they wanted. Historically, they haven't worked out well and, once again, true to form, people have lost half their money in that.

Story stocks, unlike the the Go-Go stocks in the 60s, anything with an X in the name did really well – exciting times [slide 16]. As we show they didn't last. Same thing now over the last year, the platform companies, the disruptors, the exciting things have started to struggle. Just to use ARKK as a proxy for what's going on, it was down 24% last year when the market was strong; down 72% from its peak so unsettling times underneath.

Cryptocurrency – it's amazing what these things were worth the little over half a year ago, a lot of these things are down 50% to 100% and not that long a period of time [slide 17]. A lot of things tied to that – NFTs – most of you have probably seen the Jack Dorsey tweet that went for almost \$3 million and now it's basically no bid. Complete wipe out. A lot of stuff here but, to us it's interesting that for the last year or two we've been asked by a lot of people if crypto might be a threat to gold. We like this headline “Man Robbed Bangkok Gold Shop to make up for his crypto losses”, enough said on that.

On expensive stocks – yeah I was lucky to come into the market at a very different time really good companies could be bought for around 10 times earnings [slide 18]. Now there were recently \$14 trillion worth of market cap that was selling at not 10 times earnings, it was 10 times sales. There's a famous Scott McNealy quote from back in those times, that most of you have seen but highlights as he was putting out. 10 times revenues would be 10 times earnings, if you paid for no cost of goods sold, and no salaries, and no taxes, and no other expenses, no R&D, and no investment in the future. 10 times revenues, as he put it, “what were you thinking?”.

There's also quite a few that are 20 times revenues and, if you can see we're starting to see a correction in these things. History and logic suggest a long way to go on the downside. Back in those days, the FAANGs of that era were called the Nifty 50s [slide 19]. They of course kept going up and '69, '70, '71 and everything else was starting to fall. Great names like IBM that turned out to be a good company for decades, dropped 44% quickly [slide 20]. A lot of other things drop more on average these things were down 63%, 41% and this doesn't even go through the end of it. And it applies for the rest of the Nifty 50 too. Coca-Cola, Eli Lilly, Procter and Gamble, Digital Equipment. These were names that in general continue to grow strongly for the next few decades, but people lost half their money and more so.

The FAANGs of today; they're holding up pretty well, although if down 30% it's holding up pretty well. Little bounce lately, which is a good opportunity for people looking to rotate out of them.

The same in 30% but we're talking half the names roughly half the names are down, roughly in half; almost a quarter of the names are down three quarters. So, quite a hit we're seeing as this bear market continues to migrate through the financial system.





Pretty bleak and if history rhymes and/or if logic still matters in this world, the next year will drop; it could get pretty ugly. And that's the end of the bad news. From here on out our message is good actually, there's a lot of opportunity out there. Our message is that it's probably a good time to take advantage of real assets. Once again, in the 70s real assets did better than other stocks, did better than bonds and by better we mean much better, as these things were getting creamed, these things went up [slide 21]. And not only in nominal terms and inflation people started to care about real again - inflation 6% and you're up 5% that's not so good.

These things did well, and this chart shows the things that did better than the CPI [Consumer Price Index] and those that didn't. The things that went up – gold, and oil and silver things like that. It's worth considering.

Anyhow, some of these things have already had a big run - have people missed it? This chart ends at the end of June [slide 22]. The last three weeks have been pretty interesting and those that want to sell some of their NASDAQ stocks can now do it at 10% more than they were at the beginning of this month. Quite a bounce back in the bear market of the NASDAQ; and the commodities in general are down a little bit further than they are now.

And we've shown you this chart - who knows why but trends last a long time. Some of it is economics - if there's lack of investment, it takes a while to make up for that. But these trends are not short lived they tend to be a decade long [slide 23]. One-and-a-half-year rally in commodities doesn't make up for a one-and-a-half decade of under investment in commodities, it takes a long time to go find oil and gas and gold and copper and things like that. The small bounces mean nothing in terms of the fundamentals, we're talking massive under investment - that would be bullish on its own, even without the recent monetary and fiscal policy that leaves a lot to be desired.

So, this might be a good decade to hold this very things that did well, the last time there was a decade, where the fundamentals look like they do now. We say all this knowing the perils of predicting a change in the marketplace. People have done it for a lot of years as value investors, I know we've been waiting for the turn for a long time. But this can show we don't need to worry about the week when it happens, this shows that, fundamentally, it has to happen [slide 25]. This goes back to 1900 and there's never been a more compelling time to own commodities relative to financial assets (represented by the Dow Jones here).

Looking more specifically, you name the commodity, this is pretty exciting time to get back into the things that were a lot more expensive a month or two ago – gold, copper oil, natural gas, you name it they're on sale [slide 26]. We think that is pretty exciting. Outside of that, I mean they are compelling on their own right, you don't need any inflation to like commodities at one-in-a quarter century lows. You don't need to have any inflation to want to buy lumber and copper at prices that are so distressed compared to a few months back.

But the fundamentals are a backdrop. You know with inflation these things that are actually very exciting and they're arguably more than exciting, they are necessary part of portfolios going forward.

This chart illustrates deficits in the amount of debt [slide 27]. This suggests that the seeds of inflation, have been sown and it could be a long harvest. Also, not only the fundamentals currently bode well for inflation beneficiaries, but it's worse than that - it's endemic to the system [slide 28].

People say as part of all governments, but especially of democracies, where people vote for themselves, all the largess in the world and governments endeavor to provide that to them. So, governments seem to have no intention. I am not aware of any politician who's a major part of any prominent political party in any country on earth, who is pressing for fiscal responsibility. Fiscal responsibility is the political third rail nobody's going in there.





Ditto for the central banks. I don't know any of them that are talking about positive real interest rates. For most of written history people couldn't even conceive of the idea of interest rates that weren't positive. And now there's, not a single person trusting to make them there. So, until governments decide that they want to not spend more than they make, and until people want to have a fair interest rate on money, you have to assume that inflation is something that's part of the future.

The fundamentals are really good for inflation beneficiaries – we'll go into that a little more but people and say yeah it's nice but as you've shown it's a very volatile asset class maybe we don't want volatility. To talk a little more about volatility and other things let's hand it off to my co-Portfolio Manager and Deputy CIO, Alissa Corcoran.

Alissa Corcoran: Thank you, Dave. So, as Dave showed – likely inflation is here to stay, and at current prices, real assets, deflationary beneficiaries, should do very well for quite a long time. However, it's highly unlikely that they will go up in a straight line and volatility is also here to stay [slide 30]. So, this is a chart of the performance of the gold mining companies in the 1970s. And the headline is, if you bought gold miners at the beginning of 1970 and held them till the end of 1981, your investment went up six times so you did very, very well.

But what investors may not know is how painful it was for investors to hold on in the middle of this decade. You can see from the bar chart that these moves in both directions were very big. People made a lot of money in 1972/1979, for example but they also lost 35% of their money between 1974 and 1975. And we saw similarly big moves in 2020 when the gold miners fell 40% in three weeks, just to then turn around and go up two and a half times in five months.

So, investors who can stomach the volatility can do very well. And those who can more than just stomach it are those who are able to trim and add around the volatility and actively manage their portfolios can do much better [slide 31]. This is a table of how we've used active management and volatility to help our returns. So, for example, materials we've made two and a half times more money on a total return basis than the benchmark and 10 times as much on a contribution.

The takeaway is that having larger positions when companies fall and having a larger exposure to the portfolio companies fall can help returns, which is obviously the opposite of how a benchmark works.

In utilities, we actually underperformed the benchmark from a total return standpoint but we had 5x the contribution. Energy it's interesting that even with the big rally they only had one basis point of a contribution than benchmark did to the ACWI (MSCI All Country World Index) returns.

Diving further into energy, you can see how our exposure as a percentage of the whole portfolio has fluctuated between 15% and 25% [slide 32]. In 2020, we got to our max position which is 25% and then after that big move in energy, we were trimming aggressively just to get back to model weight of 25% and then we reduced our model weight and reduced it even further to 15%. And as you can see, natural gas and uranium make up most of our current exposure today with oil being very little.

Uranium has had a long drawn-out bear market since before 2021 and throughout this whole time we were adding companies like Denison, Fission, NexGen, Kazatomprom [slide 33]. And then, when the move finally happened, which we've been expecting for a very long time we exited Denison; we trimmed back Cameco, we trimmed back NexGen. And so we were actively engaged with our uranium companies which helped our returns.

Our oil companies, as you can see, we weren't even invested in oil until 2014 and they've made up a pretty small percentage of our portfolio until 2020 when, at the height of COVID and the mass hysteria around the



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ESG (environmental, social, governance) trying to divest of all fossil fuels [slide 34]. Fossil fuel companies became ridiculously cheap and so we bought more. We bought Japex; we bought Cenovus, we've got more of MEG and Crescent Point and then, as many of these companies ran up significantly we trimmed out and are almost entirely out of oil completely at this point. I will say talking about big moves in the last several weeks, many of these oil companies have fallen in half so we're starting to be interested again.

Natural gas, most of our exposure has been Gazprom, which is why our total returns are negative and that masks the very strong performance of our U.S. natural gas holdings [slide 35]. That, again we bought a lot of it in 2020, these stocks went up between five and 15 times off of the bottom and we've trimmed aggressively of those companies.

The gold mining companies continue to be our highest conviction area [slide 36]. Many investors who like gold still won't touch the mining companies and, interestingly enough, the miners are way below where they were in 2011 when gold was at similar levels. Many fear the volatility. There's a bear market mentality that is deeply ingrained, not just in investors, but in the management of mining companies as well.

Here again we've used volatility to our advantage and being capacity constrained, we were able to take advantage of the times when small-cap companies sold for (continued to sell for) cheap [slide 37]. Non decaying call options, which means they just have a huge amount of optionality to the gold price very little downside, this has allowed us to significantly outperform the GDX (VanEck Gold Miners ETF) and the GDXJ (VanEck Gold Miners ETF).

We get a lot of questions about gold, especially given the most recent correction and the recent correction surprised us too, because we wouldn't have expected that a war, high inflation numbers, significantly negative real interest rates, would be bad for gold. But you know the market in the short term is a very interesting thing to watch. So, for us, from our standpoint, we're just getting a better deal. Gold is well below its incentive price [slide 38]. And if you thought of gold as money it's even further below that. Price of gold should go much higher and as this chart shows gold underground is exceedingly cheap; it's cheaper than it was in the 50s, cheaper than it was in the 60s, way cheaper than it was in the 70s; and it still did very well in the 1970s.

Outside of resources, companies outside of the U.S., in particular, and particularly emerging market companies are very good bargains [slide 39]. Emerging markets, many of these indices have the same price as they were in 2010, despite the fact that emerging markets have most of the world's population; their resources and their economies have been growing over the past 10 years. One area that has grown significantly over since inception, is South Korea, which now makes up 15% of our portfolio. Many of the companies that we are buying are trading below book value, many companies that we've been adding recently are trading below 50% of book value so very, very good opportunities there.

Other areas in Asia - we're finding Ben Graham "net/net" opportunities, where the net liquid assets are more than their market cap, so in a sense, you're getting these businesses for free [slide 40].

This is our trimming and adding activity and, in general, we were trimming energy, especially in the beginning of the quarter, buying gold buying companies in Asia across a broad range of sectors, including financials, consumer, health care, and industrials [slide 41].

And to answer the question - have investors missed it? No. We continue to have a very attractively priced portfolio at 10 times earnings, 80% of book value, close to one times sales. This is a very attractive portfolio.





And we will end now for questions, and we end with a very fitting quote from Charlie Munger, who says that investors who can remain calm, even in the face of a 50% price decline, those are the investors that will do well. So, I will now turn it back over to Mary and open it up for questions.

Mary Bracy: All right, thank you Alissa. As a reminder, please type your question into the Q&A box. Our first question comes from Robert Parish, who says, given the risk of real recession in Europe, can you see valuations falling even further from current levels.

Dave Iben: Our view is - things can always fall further from current levels and there's risk of recession, probably more than the risk of recession, both in Europe and everywhere else. Rather than try to guess whether we've hit the bottom or whether it's further down, we like the way Howard Marks puts it that you can't know the cycle, but you can have some idea where you are in the cycle. And prices in Asia, emerging markets, and to your question, now Europe are the low end of where they've been historically, so it's an area we're looking at. And if it falls a little more than we get a chance to add more.

Europe's now, in the case of what we've seen in Asia, for a while the risk is when nobody sees the risk. And so if everybody is worried about emerging markets or worried about Europe, they sell stocks that are at a level that should produce gains over time, rather than losses over time. You may lose money for a week or a month or quarter or a year but buying at cheap prices, you're likely to do very well over the next 10 years. The U.S., even after dropping by 25% or so, is valued as if there is no chance of recession in the U.S., no chance of anything bad so we continue to be priced out of the U.S. market but are increasingly interested in Europe, and Alissa just showed we've been buying in Asia, but Europe is quickly get into that same neighborhood.

Mary Bracy: Thank you, Dave. If you all could, whoever is controlling the presentation could please go back to slide 41, we have a request from a questioner to please put that slide back up so that would be great, thank you.

The next two questions are related and they come from both Patrick Hinz and David Fein.

Patrick Hinz asks us within oil can you talk about what areas you're looking at upstream or downstream producers, servicers, refiners adding any additional color to that. And then in a related vein David Fein asks us to please explain why we're not more bullish on oil?

Dave Iben: In a way the answer to both those questions is that we try not to have a view per se, we try to have a neighborhood of reality and the market decides for us what we're going to buy and so we've always sort of said oil seems to be something that's worth \$75 and we weren't going to argue with \$50 and we weren't going to argue with \$100 and maybe with the money printing we've talked about whether maybe you need to add \$25 or something, so maybe \$100 is the right price. Whether it's \$75 or \$100 or \$125, it doesn't seem that far out of reality to us. \$30 three years ago was way outside of reality it wasn't a matter of us being bullish on oil, it was the market been insanely bearish on oil and we took advantage of that.

Now, do we like oil, yes, the fundamentals are really good. Does the market have oil price three or four times what it was a few years ago, yes. So, what we've been able to do is buy oil two years ago, and buy natural gas, two years ago, but before that we were finding more value in uranium that was still down at \$20 down from \$137. Even now bouncing around between \$45 and \$60, it's down big from \$137 and well below the \$90 plus or minus that it seems like it would take to get people to start building up enough supply. So, we bought oil when oil was really cheap and now that it's only kind of cheap, we buy uranium that's once again getting really cheap again.



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Within the oil companies, we would rather own very cheap easy to pull out of ground stuff which we typically have done and we'd rather not own things like MEG [Energy Corp] that are more difficult and heavy and need higher prices so we don't really don't do that. But when the price plunged from \$15 to \$2 or whatever it got to that was way too low, we bought it and at \$20s, we sold it and here it's something we'd like to buy again.

So, gas versus oil to your question, the people that own the oil versus the people that are drilling for pulling it out of the ground we're interested in all the above, but we go for where we think the market is furthest away from reality.

Mary Bracy: We have several questions about Russia, and in fact we have four or five questions about Russia so I'm going to sort of summarize them here. Can you please discuss Russia exposure, pricing, and how that may or may not have changed since February?

Dave Iben: Russia, just like with the last, would we all things equal want to invest in Russia; no, we'd rather be in Canada. But do we like the idea of owning the biggest, best, lowest cost, most profitable gas company in the world? Absolutely. Do we like the biggest, strongest, most profitable well-run bank of all the things - yeah with Sberbank? Absolutely. In utilities, do we want cheap, clean electricity that's carbon free / pollution free – a nice hydro franchise with RusHydro? Absolutely.

So, what do we do with that - we say if we can buy those companies, we want to buy them but since they're in Russia, we want 50% off before will even think about that. And in 2015 people said you want to have half off – that was 90% off, and Russia got to 19% of the portfolio. I guess people thought that was insane over the next five years, Russia was the best market on earth - way better than the S&P 500; for a lot of that time better than the NASDAQ. And we trimmed and trimmed and trimmed and trimmed and took the exposure into the single digits. Over the last year, some of these stocks started to get cheaper again we started to buy, building the position back up into the 14% and then the markets shut, and so we have neither bought or sold, since the middle of March.

What to do with something like that? Trading was not an option either buying or selling; we're going to hold them. Pretty much all these companies are generating massive cash flow, even through all the problems they have there, so they're becoming for most cases, most of them are becoming worth more every single day. Ruble got wumped and then came back and was actually ahead the strongest currency, they are so that's even helping to make them worth more. So, they're quite possibly worth more but we can't trade them and that makes them worth less to us and the market it's trading now, which is a good thing, but it's trading without a lot of the people that own the thing so that means we have to be a little suspect of the price.

Whether these things should be haircut 30% or 50% or 70%, I think reasonable people could argue for any of those positions. Zero discount is wrong. A 100% discount is politically easy, so a lot of people have chosen to do that and we understand why, but we believe that if something might be worth zero that is probably worth a lot. The expected value of whatever the different situations is clearly positive so to mark them at zero, you know if any of you decide to sell a few shares of our fund, it would be unfair to you to sell it and get zero for something that's probably worth something so we've decided not to do that.

So, what we did was first we use prices that were available and DRs (Depositary Receipts) and regular prices, as time went by we started to discount that and as more time went by started to discount that and then things started to trade which gave us something to attach to but, as I mentioned, put a discount on that, and so what we've been doing for quite a while, is a 70% discount. That's probably steeper than what they're actually worth but it's less steep than what a lot of other people are using.





So, I say whether it should be 30% or 50% or 70% or 90%. 70% makes more sense to us most and it's best to go on the conservative side, since everybody else's being conservative. When it's all said and done, maybe they get nationalized and we lose. Maybe the U.S. Government forces us out and we have to sell it a price that's 50% too cheap - that's possible. Maybe things open up, but under bad circumstances and we end up having to sell these things down 70%, which is where we have them priced. Maybe a truce is signed somewhere and becomes okay to trade these things, and they go all the way back up three times from where they are now, that's a possibility.

But if you flip a coin and tails is worth zero and heads is worth 10 bucks, there's a chance you lose everything but the expected value that of that flip is five. That's just a mathematical fact. To say it's worth zero because that's one outcome, to us is the wrong way to do it. We're investment people, we're math geeks we will use our probability analysis and if other people want to price to zero for marketing reasons we fully understand and support that.

Alissa Corcoran: And just to add, it is about five and a half percent of the portfolio now.

Mary Bracy: Okay, our next question comes from Daniel Darahem who asks what is your view on Japan?

Dave Iben: You know, Japan is the third largest economy. During my career was the largest market cap on earth. Really good companies, hardworking people, a lot to like. But the government's a mess and the debt to GDP is a wreck. People have been losing money betting against the Yen for decades, but now the Yen finally doing what it had to do and that's fall. The more the Yen falls, the more their competitive position should improve. So, if we can buy companies like railroad companies, that are a superior way to travel in dense populations that's of interest to us. If we can own companies that are located in Japan and priced as if they're Japanese, but actually own some of the best resources in the world, all across the globe and by then it discounts to book value and single digit P/E's, we are happy to do that.

Now we're kind of interested in Japan. We spent a lot of time talking about it because cash is generally a safe place to be, but in the QE world we're not so sure the dollar is safe anymore, and the Yen seems even less safe so companies there are holding Yen instead of giving them credit for it we're kind of dinging them for it. But even with that we're finding good companies at pretty good prices so we kind of like some Japanese companies.

Mary Bracy: Thank you. Dave. Our next question comes from Nathan Sonnenberg who asks, will you share any thoughts, you have about food security and inflation? Is this investable, and if so, how?

Dave Iben: I'll start that. I'm old school, to me inflation is a monetary phenomenon and when you print too much money that goes into assets, but eventually goes into everything else, and then, when that happens, we were talking about 70s earlier, when all that money printing caused inflation everybody blamed it on OPEC. OPEC was one factor, but if they had not printed money, the economics would have played out the increase in oil price would have snuffed out other things and slowed the demand and it wouldn't have been that big a problem. But they decided to monetize increase, so now you have, once again they've been printing money like drunken sailors and it all went into the asset markets, they got too high, they couldn't sustain it starting to bleed out of assets and into other stuff. And yes, food's a problem, security's a problem and the distribution chain is a problem, all these things are problems but they're all accentuated by the money printing.

We think, one, people should own a diverse portfolio of things that are too cheap but also benefit from inflation, one of those things is agriculture. We have agriculture around the world. For a while we were doing well in Ukraine now that hasn't worked out as well for us, but then it worked out really well for Indonesia or Singapore or Malaysia or Brazil which has done pretty well, Argentina. To have companies that are providing food it





becomes less secure in some places, having something that is secure as a good thing. So, we think food, prime agricultural land also are things that are worth more because you never know from one month or another what's secure and what isn't secure. Once again diversification and good prices.

- Mary Bracy: Great, we have a question on the behavior of the VIX and if we currently have any put options in the portfolio.
- Dave Iben: Yeah, I would, all other things equal, love to buy puts right now. It's fascinating to watch interest rates where they are and mortgage rates having doubled and housing starting to stumble and companies now at the point where stocks are up nicely today because they have bad numbers, but not as bad as expected. We're at that point in the market, the market's really expensive the economy's faltering and its priced for perfection but that's my top down view and we are 100% bottom up and if the volatility gets down to 14 or below you could expect to see them in there, but it is nowhere in the vicinity of 14. I guess its fallen from 30 something to 22 or 23. If you pay high volatility, you have to be right sooner rather than later. Our history is we're pretty good to be in right later rather than sooner. So, we don't want to pay the high price.
- Mary Bracy: Thank you, Dave. We have many questions still here again, if you have a question, please type it into the chat box and we'll get to as many of them as we can.
- Our next question comes from Scott Powell, who says in your global strategy at what market levels or metrics might you start becoming interested in adding some U.S. companies?
- Dave Iben: We look at things stock by stock. Range and Southwestern were actually companies that are an area where the U.S. has a competitive advantage over most the rest of the world, and they had big long reserves and they got cheap, so we didn't say let's buy some U.S. names and we found some really good things. Historically there's been times where we bought hydroelectric power in the U.S. but then it got expensive and we used to own tractors and then it got expensive and fertilizer and it got expensive and then we almost got back in a year ago. But I would say right now outside of resources, when you look at healthcare in the U.S. it's way more expensive than the rest of the world; utilities are way more expensive than the rest of the world. Technology some of it, probably some of its arguably okay, none of it is screamingly cheap.
- When you look at transportation's cheaper elsewhere. Let's go down the list, consumer certainly way cheaper plus better growth elsewhere, so we are happy to buy the U.S. and hopefully we will but outside of some opportunities here and there, we owned GE for a while when it was cheap. Hyster-Yale or something else. We are pro U.S., we would like to buy U.S. names, the market will give it to us eventually yeah whether it's across the board, or just in one industry or another, they'll be there.
- Mary Bracy: Our next question is also about the U.S. in this particular case, a little bit of a more macro question. But does ask a specific question about our portfolio comes from Rajat Jain, who asks the U.S. is relatively large deficits and our need to service them and the fact that we borrow in our own currency argues for yield curve control and repressive rates, however, inflation is also part of the feds mandate in a Volcker-like scenario how might your portfolio be impacted?
- Dave Iben: Yeah we're not macro and we tend to not agree with other people, but we are 100% in the consensus, I think everybody on earth believes that a Volcker-like scenario is not even conceivable. Should it happen in our portfolio would do bad and everybody else's portfolio would almost go to zero, I think, which is why that won't happen. But we're not macro so that's just my musings so I wouldn't put any credence to it.
- Mary Bracy: What kind of opportunities do you see emerging out of South Korea and are any other countries trading at a significant discount, that's a question from Morgan Burke.





Alissa Corcoran: Many of the opportunities we are finding are, example in consumer discretionary where autos are extremely cheap and auto parts are very cheap. But again as Dave mentioned when you compare auto companies in U.S. vs auto companies in in South Korea, the valuation difference is stark. So, some of the companies we're buying are 50% of book value or less. We also just recently added on Hana Financial Group, which is one of South Korea's largest banks. And this is a company that while it has higher leverage, it's trading at three times earnings and 30% of book value. So, in a country that continues to do okay and grow, you know, we are finding some more opportunities.

But the main company that we hold for a long time, and our largest position is obviously Korea Telecom (KT). We also own LG U-plus. So, those two make up the majority of our of Korea exposure. Korea Telecom is the Verizon of South Korea; it's trading it 10 times earnings, below book value, it has a five and a half percent dividend yield. So, you get a company that has some of the best technology and it's equivalent to technology elsewhere globally, for very, very good prices. And telecom, if Covid proved anything, people are not willing to give up their phone or their telecom service so it's something that is absolutely necessary in the modern world.

Mary Bracy: Thank you, Alissa. We'll stick with another question about the sort of Asia Pacific region have Japanese companies, become more shareholder friendly over time.

Dave Iben: The bar is set very low. So yes, they have. Long way to go, but it is encouraging to see companies that are trading, way below book value and sitting on a bunch of cash and cash is losing value to realize that they should actually take that cash and buy their shares with it. They weren't doing that a few years back and now they are it's encouraging.

Alissa Corcoran: And South Korea also faces the same issue, so the cross shareholdings is certainly a problem.

Mary Bracy: Thank you, we have another question sort of specific. Specific geographically, what do you think about the valuations of Australian thermal coal producers and does a regulatory risk outweigh the trailing cheapness that we see right now?

Dave Iben: We probably can't add a whole lot on that. Coal is something that we discount heavily because of all the known problems. But there are times, where the market discounts it more heavily; it got almost 100%. We were able to buy some coal names very cheaply in the U.S. half dozen years ago; timed it right but picked an unfortunate stock. Other ones we've done okay on, we've done pretty well with a Chinese coal producer so at a price. Australia - it's an interesting market good country with lot of resources and good companies so it's on our radar screen we're looking. Country as a whole hasn't gotten cheap enough. Coal's pretty cheap, but if we can get uranium and natural gas very cheap they're less risky than coal. Coal's kind of intriguing here; gas and uranium are really interesting to us.

Mary Bracy: All right, we have one final question coming from Kevin Hinson.

The question is that we (we meaning Kopernik) have long mentioned preferring gold that will stay in the ground versus being dug up and sold in the near term. So how do rising energy prices and tightening financial conditions affect the value of undeveloped mines versus producing mines.

Dave Iben: I'll start. It affects the value of producing mines. If you're producing right now versus even a few months ago you're getting \$300 less for the gold you're producing but you're spending a lot of money for energy, right now, even with this correction.



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You know, energy prices are up three x and gold's selling at less than it was years ago and way less than it was three months ago, so it's sort of unfortunate to be producing right now. They're spending more on labor, more on energy more on a lot of things - it's unfortunate. Where if you're producing five years from now, I don't know where the value of anything will be, but I suspect, based on economic principles, that the price of gold will probably be up a lot versus dollars and quite likely be up versus oil because oil is closer to a fair price than gold is.

And we can say the same thing for platinum and for silver and for once again for copper and for a lot of other things. If we are right, if things that are useful and needful will hold their value, and how they hold their value that's from an equilibrium price. Many of these things are below their equilibrium price, so they will go higher and then go higher still versus inflation. And energy will do what it's going to do, but I think a margin reproducing should be better than it is now and in real terms, not just in normal terms.

Alissa Corcoran: And then also just speaks to the types of companies were looking for. First of all, before we buy any gold mining company, we're looking at their asset and how many years of mine life do they have and so many of the companies that we own have decades worth of gold, which, Dave and I have followed the gold mining sector long enough to know that the cost of pulling gold out of the ground can fluctuate wildly quarter to quarter. So, we use a normalized margin, we say okay on, on average, many of these companies are earning 25% cash margins and then you're taking out all of their liabilities all of their future CAPEX and then we have a huge margin of safety because there are times when the gold price lags the oil price and their margins do get squeezed.

Dave Iben: And one thing to clarify we're talking about things that are grossly undervalued. If they're grossly undervalued they're probably going up in price and they're probably going up in price time is your friend, the more time you have, the more likely it's going to go up in price. If something wasn't grossly undervalued, we wouldn't be looking at that way. Somebody was just asking the other day about Palladium. And saying well, you would probably want a long life on Palladium, I wouldn't mind having something cash flowing now because the price is quite likely as high as it's going to this day. I want the cash now can so they can sell it at a price. Oil at \$100 yeah maybe it's worth a little more but in trying with that maybe we wouldn't mind oil cash flow right now.

But platinum, gold, silver uranium things that are quite likely going to double we want, we want it stuck underground where they can't sell it these prices, if that helps.

Mary Bracy: Right Thank you everyone for your questions. As a reminder, if you have any further questions you can always reach out to a member of our investor relations team. Dave and Alissa, I'll turn it back over to you for any closing thoughts.

Dave Iben: All right, well it's been an interesting year this far. Painful, but we think sowing the seeds for really good things going forward we're happy to be buying back stocks that we were trimming but three months ago, four months ago. Volatility should be our friend and we appreciate everybody's support and have a good third quarter, thank you.





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