

## KOPERNIK GLOBAL INVESTORS, LLC

### Edited Transcript of the 3<sup>rd</sup> Quarter 2019 Conference Call with David Iben

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Operator: Good day, ladies and gentlemen. Welcome to the Kopernik Global Investors Third Quarter 2019 Conference. As a reminder, today's conference is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session and instructions will be given at that time. At this time, I would like to turn things over to Mr. Kassim Gaffar. Please go ahead, sir.

Kassim Gaffar: Thank you, operator. Hello and good afternoon, everyone. Thank you for joining us today for the 3rd quarter 2019 conference call. My name is Kassim Gaffar and I have with me David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All Cap Strategy and Co-Portfolio Manager for the Kopernik International Strategy.

Before I pass the call over to Dave for the bulk of the call, I'd like to give everyone a quick firm update. From an overall AUM standpoint, the firm assets at the end of the quarter were right around \$4.0 billion versus \$3.4 billion at the end of 2018. This represent roughly new net flows of around \$300 million just in this year, which is around net new growth of 10%. Clearly, this growth came during a period which has been one of the longest momentum driven markets, which has not been conducive to our style of investing given our strong value bent. We are very grateful for the trust ensured by our clients and we strongly believe our clients will be rewarded over the long-term and when the cycle finally turns.

Lastly, on the Firm, I would like to add that we are 38 people strong and have been stable over the year. Please note Dave will be referring to the presentation which can be found on the Web site at <http://www.kopernikglobal.com> under the News & Views section. And with that I'll pass it over to Dave.

Dave?

Dave Iben: All right. Thanks, Kassim.

Good afternoon to everybody. Thanks for calling in. It's always tough after a quarter like this for value. It's frustrating, yet so often it portends good things for the future.

The value add was good three or four days of the middle last month. People got excited that it went back to circling the drain. But it's hard not to get excited by really what's been left behind, an opportunity to build a really good portfolio. So, let's talk about where we stand.

In physics they teach that a body in motion stays in motion. Yet physics will also demonstrate that often gravity can be stronger than momentum. Planets get trapped into orbit. They get trapped into a cyclical pattern. In the market, same thing, many like they do in physics, they like to believe that a trend in motion stays in motion. This is understandable in light of the longest and most pronounced period of outperformance by growth and momentum stocks approaching a dozen years, really unprecedented. And yet history and logic will show that the markets are not landing here. They are cyclical. And this portends good things.

So where are we in the cycle? Howard Marks likes to point to a lot of people that you can't predict the future, but you should try to identify where we might be in the cycle. We agree completely. And with that in mind, let's try to examine where we are in the cycle. I thought it might be interesting to include some slides from a presentation I gave a few months ago to the MBA's at USC comparing the environment that they are entering now with what I entered when I came out of school in the early 80s. Really, they could not be more extreme.





So, in that world it was the 15th year of the bear market in equities, the fortieth year of a bear market in bonds. The U.S. was in recession, a sort of double dip recession. Inflation was earning double digits. There was widespread belief the government deficits couldn't be controlled. People were very worried about the possibility of a couple hundred billion in deficit. There was a solid consensus that inflation was endemic and perpetual, especially in Democratic society. The bearishness was amazing.

And yet here we are, a very different world. We're in a world now where people believe strongly in the ability of the Central Bankers of the world to prevent bear markets. Since '81, the Dow Jones is up 93 times, this one, and reinvested the dividends along the way. We're in the 38th year of the bull market in bonds, about as long as the prior bear market. The longest period ever without a U.S. recession being a major rate of inflation is persistently negligible. There are widespread beliefs that deficits don't matter. They shouldn't be controlled. As a matter of fact, they ought to be allowed to run bigger so that we can meet the needs of the population. And there's a belief that deflation is what we should worry about. That inflation is not only not a worry, it cannot be rekindled. The Fed is pushing on a stream.

So here it is, a side-by-side comparison (Slide 12) of the two environments, then and now, with a backdrop of Warren Buffet's famous quote, "be greedy when others are fearful and fearful when others are greedy." People were very fearful in 1981. The only thing they're fearful of in 2019 is the fear of missing out.

Does price matter? It matters. (Slide 14) Compounding has been referred to as the eighth wonder of the world. It's interesting to compare the difference of compounding things at 22%, which is where money markets funds were in the early 80s. Ten years of compounding at that rate - \$1 million becomes \$7.3 million, sevenfold and your money, whereas instead of money markets in '81, if one were to put money in a 10-year treasury today, that million, instead of becoming \$7 million, you only make \$160,000 in profit over a whole decade. Of course, that's good compared to what people in Switzerland chase, where at the end of their 10-year bond it will lose you \$100,000 over the life of the 10-year investment. So, it was easy making money in '81. It is very hard now, a very challenging time.

So here we are in 2019, a very tough time to make money in the bond markets. Negative yields or something that up until recent years nobody even thought was a possibility. And then, of course, there's the unicorns, which are the equity markets' equivalent of negative interest rates. Even they are starting to falter after a lot of exuberant years.

Why are people doing this? People want certainty but, in this world, there is no certainty. There's only perception of certainty. And, once again, Howard Marks says it's all about price. We agree. It's interesting that if people perceive certainty, they run the price to a high level meaning the perceived low risk actually becomes high risk. And later, we'll see that if people do the opposite, the opposite happens. But anyhow, people love perceived certainty so much that they're willing to take a guaranteed loss as we mentioned, negative interest rates. And this chart (Slide 17) is a little behind. It actually got up to over \$17 trillion, trillion with a T, of money that is guaranteed to lose money over the length of the investment period. This is beyond risk. *This is guaranteed loss.* That's where we stand.

Equity evaluations, we are now at a period where history shows they might lose money over the next 10 years (Slide 18). Who knows? But logic and history show that when you pay over 20 times earnings there is a tendency to make nothing or even lose money over the next decade. And right now, the Shiller PE is in the neighborhood of 30 times. So once again fairly unprecedented. So, bonds are tough, and equities are also a bit challenging. But from here on, the news gets a little better actually. As they say, it's not a stock market so much as it is a market of stocks. So, we do not have to buy the indexes. We don't have to passively buy things at whatever they are priced at. We can choose to buy expensive things, or we can choose to buy very attractively priced things.

As this chart shows (Slide 19) other than 1999, never has there been as big a bifurcation, the biggest gap between the possibility of overpaying versus the possibility of buying things at a bargain. Does valuation matter? Once again logic and history suggest it matters. So, here are some of the times in history where things have gotten on par with current markets in terms of prices paid. They did not end well.





So, with that in mind, it begs the question, can money be made during the inevitable bust that happens from time to time and especially after these valuations? Our answer is, of course. And as we've been doing, let's keep looking at both logic and history. So logically, I mentioned the bifurcation. And here is another way of looking at it. If people perceive certainty, they're willing to take a guaranteed loss in Switzerland, a guaranteed loss in Japan and most of Europe. And in the U.S., you can actually get positive rates although not much of positive rates. Remember what the Central Banks said when they started all of this? They said their goal was to make bonds so unattractive as to force money into other asset classes which they believed would make people feel wealthy and they would spend money and that would be good for the economy.

Whether it's helped the economies of the world is highly debatable. Whether they succeeded in making other asset classes become expensive, I don't think anybody would argue against that. They've done a phenomenal job. They've done so well now that lots of investment grade bonds now in the world [have] negative interest rates. The former PIGS as they used to call them, Portugal and Italy and Greece and Spain, all have negative interest rates. Greece just placed a 10-year bond at rates that are less than the U.S. rates, really stuff that was unimaginable five or six years ago (Slide 22).

As you go a little further away from guaranties, to where you're probably going to get somewhat the cash you would expect, quality franchises are good businesses with good cash flows that everybody should like. It's just like they are so bond-like that they have been sent up to unprecedented levels. Levels such as we saw in '72, the last time they took quality franchises to these kinds of very aggressive levels. So, I'll show you the other chart when you pay above 20 times earnings (Slide 18), and usually it's good companies when people pay those kinds of things, it doesn't work out. High yield bonds, yes, I guess I've been spoiled in my career buying pretty good companies yielding in the teens. To buy really much lower quality high yield bonds than we usually see in the past and get mid-single digits, is not attractive.

But as you move a little further away, when you get to global stocks, people are usually willing to give you a better deal on global stocks than they are U.S. stocks. And now it starts to get a little interesting. And then if they like certainty too much, they seem to hate uncertainty a little too much. They hate volatility. So, logic and history have shown that Emerging Markets grow faster than ones that have already emerged and that more money is made investing in Emerging Markets over long periods of time but they're more volatile. Therefore, you can actually buy them at way cheaper prices. And if risk, as we believe this is a prospect of permanent loss of capital, they become less risky as they become cheaper. So interestingly enough, low vol stocks have become quite risky and high vol stocks have actually become very low risk. Interesting. And then as you've heard from us a lot of the very recent times, it's starting to work in a few asset classes but not yet in energy as scarce assets have value. And if you can buy scarce assets, the capital that it would take to replace them, you're likely to double your money. You just don't know when.

So, at the one end of the curve you are likely to double your money. At the other end of the curve, you're guaranteed to lose your money. Each person can make their own choice about how they want to deal with that. You know where we stand.

Going from logic to history, the history of what worked when the markets fell at that 16-year bear market in the 70s, one thing that worked that probably won't surprise anybody is gold (Slide 23). So, this is a period where stocks fell in half over a long period of time and adjusted for inflation. And they fell 80%, 90%. And over this period of time gold went from 35 bucks to briefly \$800. It was an outstanding investment. Gold miners did even better. People can say, oh, but that was an inflationary period. This isn't inflationary now. So, at the bottom we've included the deflationary year prices of the 1930s. The market is down 73%, more from top to bottom, and yet gold miners were up roughly five times over that time period. So inflationary bust. Deflationary bust. Gold did quite well. So, people were saying fine. People may or may not like gold.

So, let's move on. Let's move on to oil (Slide 24). Yes. Oil went pretty much nowhere for half a century. People had sort of given up on it. And then in the 1970s while stocks were falling, oil made that move. This is adjusted for inflation. Non-adjusted inflation they went up more than 10 times from \$3 something to \$36. A pretty good place to be. As a matter of fact, oil went from not much liked at the beginning of the decade to, I was just looking, 8 of the 10 largest market caps on earth were oil companies following this run. They went from unloved to overly loved.

But oil was a good place to be during the last set of challenging times and oil service. Schlumberger (Slide 25), which was one of those top five, as a matter of fact it became number one in the late 70s, although I haven't been able to substantiate





that. But gold was a good place to be. Oil was a good place to be. Oil service was a good place to be. For those of you who are saying enough with the resources, let's move on.

Japan was a good place to be (Slide 26). We've talked about this in the past. We've talked about how John Templeton, he made a lot of money when other people were losing money in the U.S. and Europe. He bought Japan when Japan was more of a growing market. Growth you had really, really low PEs, real bargain prices. But nobody was much interested in Japan right then. In hindsight, it was obvious. But at the time people viewed Japan pretty much the way people view Russia now. They say, all right, well who cares if the PEs are three. This is our enemy. This is the person we fought in the war a few decades ago. This is a country that has corruption in it. It has mafia. It has political skirmishes and big businesses that we don't trust. Yet risk is about valuation and opportunities about valuation. Japan proved a very good place to be. We suggest that some of the emerging markets now that are underappreciated are likely to be the place to be.

We can go on with other things. There were other things that worked. But also, it's worth pointing out, we're 100% bottom up. And being 100% bottom up, we're used to gently going into a headwind all of the time. So, every now and then you get a tailwind and here we are now. Remember 10 years ago when it became clear that the Central Banks of the world were going to print a lot of money, people ran gold to the moon. They ran oil to the moon. They ran emerging markets. They ran agricultural. They ran infrastructure funds. People said we got to own these things because the Central Banks are going to print money. They ran them to high prices, and they've been falling ever since for the most part.

Now, the Austrian economists told us, and what many of us instinctively knew, Central Banks aren't capable of taking away the ease, of taking away the punch bowl for very long. So, they tried to tighten for a few years, and it failed miserably. We saw last December that the credit markets broke down. Equity markets were starting to fall. Europeans and Japanese quickly made sure that we knew they were ready to print, whatever it takes. The Fed said, well, all right. We're going to stop tightening, too. And very quickly thereafter, the Secretary of Treasury said we have called the plunge protection team and they start monetizing the markets. They made it clear they were ready to start reprinting money. And this chart (Slide 27) shows they've started.

As most of you realize, a month ago or so, the repo market broke down. The government had to step in and bail it out. They started printing money. And more recently they announced QE4 of a tune of \$60 billion a month. They've made it clear that they don't want us to call it QE4. But, if they are printing money to buy treasuries, it's QE.

And so, remember the last time they did this, they ran all the stocks, like I mentioned, gold, oil and emerging markets, they ran them to the moon. Now they are printing, and we can buy all these things for a song. So, it's good value and a tailwind at the same time. That's pretty interesting.

As far as the valuations we've seen, let's go back to John Templeton again. Back when he was buying Japan, when he was buying other stuff, he was saying, well, if you can buy stocks at two times earnings you'll lose on half of them, but you'll end up making money. And the ones that make money will make a lot of money. And so, therefore, the whole portfolio will do very well. And, of course, he had a tremendous track record. And in a zero-interest rate world, you will not find things at two times earnings. Maybe you will find things that are a third of intrinsic value, a third of what it would take to replace those things, a third of what it would take to have equilibrium over a long term. Likely then, you're going to triple your money on some of these things. Some of them you will lose on. Some of them will turn out to be value traps. But most of them will work and most of them will face pretty meaningful returns. So, this is really, within an overvalued market, a devalued market for the things that people don't like. So, it's time to buy intrinsic value and then be patient and wait for it to work. As we've repeatedly pointed out to people, *patience is worth it!*

If pursuant by the 10-year bonds, we certainly can expect to make 1-1/2% a year. If they make something that's going to double in 10 years instead of 1-1/2% a year, they make 7.2% a year. And by the way, maybe it doubles in seven years and you'll make 10%. Or maybe it doubles in four years and you make almost 20% a year. Maybe it doubles in two years. You're making 41% a year. So, under most any conceivable environment, this is way, way, way preferable to buying bonds or bond-like surrogates in the form of quality franchises and Grade A real estate and that sort of thing. And so, there are so many of these great opportunities that we've been able to put together portfolios that are 70% of tangible book, not that much over half of book value, not much over one times sales or four times gross cash flow. A phenomenal sort of valuations.







This is better than '99 in terms of the ability to buy very, very cheap stocks in the midst of what otherwise could be considered a mania. And so that's where we are.

What we've been able to do recently is just buy some very cheap companies in Japan. We've been able to add the things that used to be loved like telecom, agriculture. We've been able to take profits in things - I remember was it four or five years ago, Eletrobras was our worst stock. Since then it's done so well, that stock in the last seven years, it's up 10 times off the bottom. So, we've trimmed that pretty aggressively.

We had to be patient for a long time on Gazprom. It went nowhere but it was paying a nice dividend while we waited and then this year, it's almost doubled. Some of the gold stocks, not counting the last three or four weeks, have had a tremendous move. So, as you would expect, we've taken some profits there. The wait on some of the transportation companies is starting to pay off. So, we've been able to take stuff there and like I say, move it more into emerging markets, more into quality franchises, that sort of thing. And so, we're happy to own some of the dominant phone companies in places like China and places like Korea. And when you add it all up, we continue to have a portfolio geared to the growing parts of the world and underweighted in the mature parts of the world. We tend to own the number one and two players in the world, the top two uranium producers and some of the biggest phone companies in the world and the two biggest trading companies in the world and the two biggest hydroelectric generation companies in the world and so on and so forth.

So, we love bifurcated markets. Bifurcated markets usually happen when too few people are doing active management. And, that sows the seeds for active management to do well. So, with the active managers and especially value managers having struggled, people can each make up their own mind where we might be in the cycle. But, we think the last 12 years is actually ending up right about where we have been now. This is looking like a great time for people to move a little bit from growth to value. And we're happy to be where we are right now. And I appreciate everybody's interest and happy to take questions.

Thank you.

Operator: Thank you. At this time, if you have a question, please signal us by pressing star 1. Again, that will be star 1 for questions. We'll hear first today from Dan Gallagher with UBS.

Dan Gallagher: Hey, Dave. Thanks for these calls. I'm wondering if you could just - you know, it seems like GE is popping back in. And I was wondering how you can get your mind around some of these liability issues. Is it just, a sense of super strong management? I'm just wondering how you could get conviction there.

And then, secondly, perhaps you could talk about some of the new additions in the portfolio.

Dave Iben: Certainly. GE is interesting and a beautiful case in point of how we do things. Whether it's the price of a commodity or the price of a company or certainty around liabilities or regulation or those things, we tend to try to be as educated as we can be but never try to believe we know the future. And then we wait for the crowd, the millions of people out there in the investment public that often get things right to lose what we think is any sensible view of things. So, you take, for example, in 1989 people had such an outrageously high opinion of Japan's ability to whip us all economically that everything was priced at really high prices, so we owned none of them.

Seven years ago, we had 25% of the portfolio in Japan before the market took off when Abe won because you could buy things at a third of book value. You could buy them at less than cash. Both of those were extremes. When Obama became President people were so sure it was the end of health care that we went from owning no health care to big positions in Pfizer and Lilly and Amgen and Aetna and so on.

You wait for what we all saw. People can dislike Russia or Putin, but four years ago they hated Russia with such a passion that we were able to buy things at 5 cents on the dollar and then it's probably been the best performing market in the world since then. You wait for these extremes.





So GE, one extreme was, what, 17-18 years ago when it was the largest market cap on the entire planet by, I think, three times as big as the next biggest one, everybody loved it. Jack Welch was worshipped. People were paying really high prices for this thing. And that was despite the fact that this company was, as Jim Grant put it at the time, it was known to have manipulated earnings. They were proud of hitting these earnings on the spot every quarter. Well, that doesn't happen in real life. You knew they were manipulated. You would look at the stuff they were buying and selling and the prices didn't necessarily make so much sense. And you would look at their booming credit book over the years and think, well, this is not a good time to have a booming credit book.

And so, 38 years in the business, until last December, I never owned GE at any point in my career. By last December it was the exact opposite. People went from worshipping it to, it was almost unanimous that these guys were going to go bankrupt. In a world where most debt nowadays is at the bottom, the very bottom of investment grade or below end junk and here was this investment grade weighted company that they thought was going to go bankrupt tomorrow. And we don't know for sure, but it's highly unlikely. And instead of having grown their credit book a lot, they had shrunk it a lot. And after years of mismanagement, they had been doing a few things right early on and they brought in Culp who has a really great record in his past. So, people gave them no credit for that.

We went in business by business. We spent almost a year analyzing this thing before we bought it. And we did business by business. And we didn't trust their accounting at all. We compared their margins to their competitors' margins, which were way, way lower and we assigned those margins to them. Anyhow. So, it's interesting how nobody worries about potential problems in a portfolio until after the problems have been written off. And so, once they acknowledged that they had plenty of problems in the book, now the news was out there. But, the stock was down.

And so, we went there and said, all right. Well, if a few things go right the stock is worth \$18. And if a lot of things go wrong, it's probably worth \$6. And when you add it all up, we're certainly comfortable paying \$12, but we don't buy things at that. So, we waited until fell to \$9 and then we bought. And then it went to \$8, and \$7, and \$6 something. We bought a lot more. And then when it bounced close to \$12, we sold a lot of it. And then for some reason a couple of months ago, it fell back into the \$7s again, and we bought what we could. But it didn't stay down long enough. We only got a little bit, which I would buy a lot more of it. Now here it is back up well above \$9. And we're doing okay with it. So, to us, we're buying far and away the best jet engine manufacturer in the world. We're buying one of the best two health care products in the world. One of the top two or three power generation businesses in the world. We're buying one of the top couple oil service companies in the world. And we gave them no credit for the finance part of it. Let's just assume it's worthless. And then, as we always do, we took a big risk adjustment to the whole thing.

So, do we have certainty? No. Have we looked at all kinds of potential outcomes and the vast majority lead to us making a lot of profit. And only extreme unforeseens would lead to losing the money. So, we love the risk-reward on that thing. And it's worked well. It's where the trimming and adding on price has really helped.

And new positions - Japan over the summer was getting cheap. It's bounced somewhat since then. Back in the 30s, Graham and Dodd used to talk about buying things less than cash. You generally don't see that nowadays, but we were able to do a little bit of it in Japan five years ago. And then, we were able to do a little bit of it with things like Fukuda over the summer. And so, that's a small name but we bought it for essentially free the way we do analysis.

And then there's Inpex, which is an oil company that between people not liking Japan and people not liking oil, it got very cheap. That's done okay. The rest are not new positions. We find it interesting that what is it, a mere 19 years ago people would pay damn near infinity for a phone company and now we get to buy the top two phone companies in China and the number two phone company in Korea for single digits PEs, for discounts to book value and in growing markets.

We've been able to do, as we tried to buy utilities for way less than both book and adjusted book based on the age adjusting and replacing the infrastructure they have, yes, Mitsui is one we've made a little with buys and sells over the years.

And the transportation, we've always like the fact that you would think they would trade together. You would think oil tankers and dry bulk tankers and specialty tankers and cargo containers would literally trade together. But, you guys have seen over the last five or six years, we were able to buy oil tankers that ran up. We sold that and bought dry bulk. And then, dry





bulk ran up and we were able to go back into oil. And now, oil tanker Tsakos has run up. And we've reduced while adding to Stolt-Nielsen which is a specialty chemical tanker. Wonderful inefficiencies in the market there. And so, nothing major. Just taking advantage of the volatility over the summer.

Dan Gallagher: And are you still rolling out of the money puts?

Dave Iben: We are. Like everything we do, just like the tankers I mentioned where they lose money every month until they shoot up to their intrinsic value. A put option as most of you know is something that gains value as the market drops or the underlying asset drops. Who knows if and when the market will drop? What we do know is that the longer it goes without dropping the more likely it's going to drop. The more expensive it gets relative to where it's been in history, the more likely it's going to drop. Here it is, on most multiples the most expensive in the history of the country. The value of a put option is clearly higher now than at most any other time in history. And yet, the valuation of the put option is not the most expensive it has been. It's not even average. It's been bouncing around over the last three years at levels that are the lowest in history.

They've been around 12 implied vol plus or minus 4 so 8 to 16. Phenomenal. So, yes, this means that a 1% position could make 15, 20, 25 times if there is a correction in the market.

Now three years ago things had gone a long, long time without correcting and now they've gone three more years without correcting. But it's sort of like the Big Short where those guys had to endure about three years of mortgages not falling and various clients not being happy about it until finally the inevitable happened. It's inevitable the market will correct. When and from where is not known.

So, one or two things will happen. The market will fall, and these will pay off nicely for us. Or the market will start pricing these things much more expensive and as value guys we will stop buying them and move on to the next thing.

But, it's interesting how over the years, things like oil move instantly for us and uranium didn't move instantly. Gold took a while to move strongly. Then, the tankers went better.

So, we'll see if and when the market gets around to having an inevitable correction. But very, very attractively priced.

Dan Gallagher: Thank you, Dave.

Operator: And, again, for questions, that is star 1 at this time. We'll hear next from Chris Hochuli with Merrill Lynch.

Chris Hochuli: Hey, Dave. Just a question on your model portfolio characteristics. I notice that it looks like one of the largest holdings in International is Turquoise Hill Resources. And when I was looking at your past month's holdings, I didn't see that in your top 10. I'm just wondering if that's correct information and also if you did increase it, why?

Dave Iben: Yes. The stock is one of the things we very much like. We like it when the market overreacts. And in our opinion, yes, there's various ways to appraise businesses. But when you're looking at natural resources that are going to be extracting oil, gold, copper, you name it, for the next 30 years, whatever that incentive price is over the next 30 years is what you're likely to make plus or minus. And what last quarter's earnings were really doesn't matter too much. So sometimes the market overreacts on earnings. This was a little more serious than earnings. This is a business that is a very, very difficult business and often costs turn out to be higher than you expect them to be. And they've come out and said the costs might be \$1-1/2 billion more than we thought they were.

So, we subtracted that from our model of what we thought it was worth. So that reduced our estimate by less than 8%. So, the market went down 80%. So that's a huge reaction. As it was falling, we were buying.

Now we never put more than 5% in one name. And in Resources there have been lots of small-cap names that we've been able to buy across the board and we've had. And that one is just falling. We sold some of the winners that went into that one. We bought earlier than we could have, I guess, because it's gone down. It fell a lot before we bought it. But it's fallen a lot since then. We do not put more than 5% of our money into any one name. So, if you reach a maximum position and





it falls in half to 2-1/2%, we leave it at 2-1/2%. And so that's where we are with that name. Our disciplines keep us from buying more of that one. So, we're buying more of other stocks instead. Some of the other ones that have fallen.

In the International, we waited later to build the position as big. So, we're fortunate we're able to hold a little more there. But both of them have 20% to 25% in very, very attractively priced resource companies.

Chris Hochuli: Thank you.

Operator: We'll hear next from Bradley Calder with the Investment Fund for Foundations.

Bradley Calder: Hi, Dave.

Dave Iben: Hi.

Bradley Calder: A question for you on your gold investments. To us, one of the bigger long-term risks for your thesis is substitution on the margin by savers away from gold and towards another non-sovereign store of value asset that's harder than gold. As you probably know, Bitcoin stock to flow ratio will be quite close to that of gold when Bitcoin mining awards are halved in May of 2020. Have you considered adding a small Bitcoin investment to your portfolio to hedge the risk of substitution away from gold? Thanks.

Dave Iben: Sure. Well there's two things there. Should people put 1% of their portfolio in Bitcoin or something like that? We have no problem with people doing that. I know a lot of very smart people that seem to like Bitcoin. It actually seems like an interesting speculation. Like you say, the potential is huge.

To us though, it is a speculation. If you take three categories, if you take cryptocurrency and you take gold and you take fiat currencies, do we worry about people abandoning gold to go into cryptocurrencies? Not too much. Nobody owns gold. Everybody owns fiat currencies. People have many trillions of dollars of fiat currencies and your average person has less than 1% of their money in gold. So, I would suspect over the next 10 years, you will see massive rotation out of fiat currencies into gold and possibly Bitcoin.

Yes, just the Bitcoin and you point out some it, yes, if they start to flow, the potential is really big. However, if you're comparing something that is proven to be money for thousands of years that can't be chemically reproduced, it's nobody's liability. You don't have to trust anybody. Fiat currencies would be great if we could trust the governments not to print more but they always do. And Bitcoin, they've got this great formula they're going to come up with less and less and so it's scarce and we don't have to worry about it. Except for, who are we trusting? Can we trust this formula? Can we trust that there won't be blackouts, power outages, sunspot things, manipulation of the program, other coins coming out and getting popular? I'm not saying any of this stuff will happen. I'm just saying you can have absolute, complete confidence that gold, with all its negatives in there, is a good store of value. It always has been and probably always will be. You don't have to trust anything.

Bitcoin, if it's trustworthy, I agree. It will be pretty good. So, in answer to your question, yes. Maybe people should speculate in it. There's tremendous upside. But to store people's wealth, well, you certainly don't want to store it in currencies that have negative yields with Central Banks that are promising to make it lose value. I would think they should slowly rotate into fiat currencies, gold, platinum, silver and possibly bitcoin. And if they do, the upside is huge.

Bradley Calder: Thanks, Dave.

Operator: And we have a follow-up from Dan Gallagher.

Dan Gallagher: Yes, Dave. In terms of, some of us view commodities as, like, fixed income returns with equity volatility and have ignored this thing almost thankfully, I guess, for a long time. But open minded to this, if you were helping wealthy families kind of put this kind of a hedge in there, for it to matter it seems like it would have to be somewhere between 5 and 10% of the portfolio.







I would think that you would be able to put less there if you did mining companies or the equities or maybe a levered bet on sort of the individual commodity. But to get gold, do you have to buy gold? Or, is there counterparty risk issues in owning an ETF of gold? How might if you were to spread, some type of commodity exposure, 10%, how might you spread \$1 for a high net worth family?

Dave Iben:

A very good question. It's an interesting market for value investors. The world is a little tough, but really not that tough. All you have to have is patience because when you buy things too cheap you make money. It's a matter of when. You guys all have a way tougher job than we do because you have to meet the needs of people that need cash flow in a world where there is no cash flow. And you need to ascertain people's ability to stay patient. And so, yes, that's tough. My hats off to you guys.

But as to what people ought to think about this, there's two things. Yes, I believe that things have become so cheap in the resources that, yes, a lot of our clients believe that putting 4% or 5% of their money in something like this actually decreases the risk of the entire portfolio because this in 2016 and then 2008-9 and then 2003, they did very well when other things weren't doing well. Unfortunately, they tend to lag when momentum was doing very well. But it is often countercyclical or especially works well or even last December and whatnot, and so there is a feeling that adding something like this to a portfolio is protection and decreases the risk of the whole portfolio and predicts the downside.

Now if somebody is to put something like this in there, yes, somebody can buy gold, or they can buy gold ETFs or they can go with Gold Miners, or they can go with gold mutual funds. The answer is not easy. But like everything it comes down to what is my price? What upside does that give me relative to the risk it gives me? Just as normally people are going to say, I have cash. Should I buy a stock with it? You should only buy the stock with the cash if the stock is so cheap that you're likely to end up with a lot more cash when it's all said and done.

I think people should own gold and not part with their gold unless the gold stocks become so cheap that you're likely to end up with way more gold than you start out with. You adjust it for the risk. Gold is better than gold stocks. However, gold stocks over the last 10 years, gold has gone up and gold stocks have gone down 65%. So now, gold stocks are so much cheaper than gold. The upside is tremendous under most any scenario you can think of. So, we would recommend that people buy a diversified portfolio of gold stocks that aren't looking for gold. The ones that have found it, the owners have a bunch in the ground. And that you'll end up buying gold at a huge, huge discount to the \$1,500. But if somebody wants to hold gold, to your question, you can hold physical gold. You need to find a place to store it. You have to pay for that or you can buy an ETF. And an ETF is way easier, way more liquid, better in a lot more ways with the exception there are people who don't trust that they have the gold.

There are people that - well the numbers even show way more gold gets traded than exists. And we know there's gold futures out there. And the GLD, they refuse to allow auditors to come in there and verify it. And so, I don't take one side or the other on whether the gold is there. But I for one would prefer to own physical gold and paying the minimal storage costs than going with GLD. However, there are people now, various people, that will hold the physical gold for you. It's yours. It's with IDs. There's also Sprott up in Canada. And full disclosure, we own their stock. But they bought it and own the physical gold instead of the paper gold.

So, Sprott or some of the people that hold the physical gold are preferable, we think, to the GLD. And the gold miners at these prices are preferable to that. That's our take.

Operator:

We'll move on to Patricia Neubeller with Merrill Lynch.

Patricia Neubeller:

Hey, Dave. Always glad to hear your insights, sir. A lot of fun. I wonder if today you might drill down and share your thoughts and help us understand, what the heck is this whole liquidity thing is about that we keep reading about? And I think you sort of alluded to it earlier maybe with the repos. But what's your take on what's going on with all of that?





Dave Iben: Oh, I mean, I might defer from that. You've read it. I've read it. We've all read it. We know something is going on. We can assume it's serious since they felt like they had to come to the rescue. But the actual mechanics and what's happening and why, I'm probably not your best source.

Patricia Neubeller: So, you're not any clearer than the rest of are? Or you feel the better part of valor is not to go there?

Dave Iben: Well we're not going to go there. But we do find it interesting why there are so many things that are uncertain like that. The higher the level of uncertainty out there, you would expect higher interest rates not lower interest rates and, lower stock prices not higher. And so, we find it interesting that the market doesn't care that nobody knows what's going on.

Patricia Neubeller: Me, too. Well at least I feel I have company in the dark. Thank you.

Dave Iben: Sure.

Operator: We'll hear next from Anthony Eichler with Stonebridge Capital.

Anthony Eichler: Hey, Dave. A couple quick comments on just briefly Northern Dynasty and Range Resources. Any update on those?

Dave Iben: Sure. Very different companies. Northern Dynasty is one of the biggest known gold deposits and copper deposits in the world. And they had a million obstacles to building the mine under the Obama administration. Most of those obstacles have pretty much gone away now. And, so now, it's a whole lot of gold and copper in the United States of America trading for a song. But this is a world that is not patient, and you will not see any gold mines in the next five years. And so, people don't like that. We love the optionality. It's going to be a long time for that to play out. But the upside is humongous.

Range Resources, almost the opposite. Range Resources has a bunch of gas. They have great properties that are producing. They're making earnings. They're making cash flow. They're doing fairly well. And the stock dropped from \$90 to \$12 and we bought it. And then it went from \$12 to \$4. And we don't know why. Insiders are buying. And this was once the darling of the world and it's making money. And if the price of gas can merely go to \$3.50, we would see tremendous upside on this. If it goes below \$2, we see downside. But, very good property.

But Northern Dynasty is the one with massive optionality.

Anthony Eichler: Thanks so much.

Operator: And we'll take a follow-up from Gary Magnuson.

Gary Magnuson: Yes. I was just wondering have you looked at any of the - or what is the effect of the banks in Europe that are experiencing negative rates? And then also have you looked at any of the auto companies like Daimler or BMW in terms of any thoughts in that industry?

Dave Iben: Yes. We've put a lot of time into Volkswagen, Porsche, and we're looking at Toyota. We own Hyundai. It's an industry where we insist upon really cheap prices because there [are] not huge barriers to entry. If, you have a lot of capital. Just look how many people are in the business, lots of people in the business. They're being sold on seven-year loans. And, it's not our first choice but they've become so cheap that, yes, we own one and we might own more. And then the first part of the question was?

Gary Magnuson: Oh, banks and the negative interest rates.

Dave Iben: Oh, yes, banks. Banks are something that are an important part of the economy and we're always interested. But because they're levered 10 to 1 plus or minus and because there's so many difficulties in the world, we easily insist upon huge, huge discounts. And for that reason, we haven't owned a lot. But in the early 90s, we owned U.S. Financials. And after the '09, '10 we bought a bunch of emerging market and strong banks in Thailand and India and Russia and places like that. And seven years ago, we were able to buy a couple of financials in Japan for 38% of book value. That worked out very





well. And we've done well the last six or seven years with Sberbank. But, yes, to your point, banks have been beaten up for a long time. So, we were looking at banks in Europe. We're looking at banks in Asia. We're looking at banks in Emerging Markets.

And it's interesting what to make of negative interest rates, yes. On the one hand, people are maybe too down on it because borrowing it at 1% and loaning it out at 2%, maybe that's no different than borrowing at minus 100 basis points and loaning it out for free. You're still making 100% spread. So maybe that's okay. Although maybe 100 basis points disintermediates the banks and people stop using them. I don't know. It's interesting but it's amazing that it was a mere, what, 11-12 years ago that banks were 45% of the value index and a third of the All-Country World Index and now they're hated.

So, yes, we're spending plenty of time looking at them. It's an interesting area.

Gary Magnuson: Thank you.

Operator: And at this time, I'd like to turn things back to Dave for closing remarks.

Dave Iben: All right. Well, good questions and thanks to everybody for dialing in. And I look forward to talking to you again in three months. Thank you.

Operator: That will conclude today's conference. Again, thank you all for joining us.

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