

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 3rd Quarter 2020
Conference Call with David Iben**

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Operator: Good day ladies and gentlemen welcome to the Kopernik Global Investors Third Quarter 2020 Conference Call. As a reminder today's call is being recorded. At the conclusion of today's presentation there will be a question-and-answer session. Instructions will be given at that time.

At this time, I'd like to turn the conference over to Mr. Kassim Gaffar. Please go ahead.

Kassim Gaffar: Thank you operator and welcome to the Third Quarter 2020 conference call. My name is Kassim Gaffar and I have with me David Iben, our CIO and Portfolio Manager for the Kopernik Global All Cap Strategy and Co-PM for the International Strategy, and also Alissa Corcoran, our Director of Research and Analyst.

Before I start the call today with Alissa for the bulk of the call, I will be providing a quick firm update. Overall going into the third quarter at the firm we've never been stronger, and we continue to invest in our people. We currently have 39 employees and have enjoyed minimal turnover since inception of the firm over the last seven-plus years. Over the same period, we've been able to grow our firm year over year and we ended the third quarter with roughly \$4.16 billion under management. As you know, while value continues to be out of favor we are humble and grateful to being able to attract likeminded investors who share our belief that right now markets are extremely bifurcated which poses a terrific opportunity for our style of investing. I would also like to add that I've always been very appreciative of everyone's support especially in uncharted times like these with the global pandemic. We hope our clients, prospects and their families are coping well and are safe.

Please note, Dave and Alissa will be referring to the presentation which can be found on our website www.kopernikglobal.com under the News & View section. Also, we do have some new content including white papers, interviews and a recent webinar that we have posted to our website and encourage everyone to have a look after this call or at your convenience. And with that Dave please go ahead.

David Iben: All right thank you. Good afternoon, thanks to everybody for joining us. Seems like every quarter the market's a little more interesting than it was the quarter before. These are fascinating and unparalleled times.

What we'd like to do this afternoon is one, discuss really the market is more out of touch with reality than at any other time that we know of, having read a lot of history. This one makes stocks and especially bonds more dangerous than at any time we're aware of. On the other hand, bifurcation - there's a lot of sectors of the market that are more lucrative than we think we've seen in a long, long time that's encouraging so we'll go with both of that.

First in a world that's more and more full of fake news and disinformation we wanted to spend a little time going over once again what we stand for and what we believe (slide 6).

As we always say, independent thought is important and nowadays maybe more than ever independent thought's important, looking long-term also in this market, limited capacity is, we think, a positive. But outside of that, I mean this is a market that puts lots of pressure on people to style drift, I think we've seen a lot of that. We assure you that we have held steadfast. We have not and will not style drift. We believe and this is in the face of most people right now we believe scarcity matters. It matters immensely. You know, we point out that water is very valuable in the desert but not too valuable in a flood zone. Price is paramount. We know it's a good time to remember that debt cuts both ways, downside as well upside.





As to what we do for a living we own businesses as opposed to playing stocks, playing themes, playing trends, playing stories -- everything that's in vogue right now. We believe we actually have a fiduciary responsibility for everything in the portfolio to first research it, analyze it, appraise it and understand what we're putting in it. We're investing in businesses.

We believe the market is not always efficient. Sometimes it's far from efficient and I think so far 2020 is. I don't know how anybody could think the market's efficient with what they've witnessed this year. Humans are often irrational. Algorithms have proven to actually magnify that irrationality. It's amazing the extremes that momentum chasing algorithms can bring.

So, you know, with that let's discuss politics (slide 7). That seems to be something everybody wants to look at and then the, you know, we, you know, are clearly not very not a lot of acumen in terms of politics but here, you know, there are some differences between the candidates and that gets all the press. But, I think with Trump we have seen and will continue to see an embrace of MMT (Modern Monetary Theory), that deficit spending is good, that spiraling debt levels are okay, that accommodating a Fed is to be desired. If Biden wins, the same, that's pretty clear. Democrats congress the same. Republican congress the same. No matter who wins I think it's increasingly clear that what used to be normal is not going to return in the next year or two if ever. Seems to be understood by everybody that interest rates will not be allowed to return to a positive rate and that seems clear. It's unimaginable that, when the central bankers are in control, that we'll see that.

Confidence in the government seems to be falling and falling so what a weird time for government bonds to be trading where they are. You know, the states, societal divide is the highest it's been in decades. Importantly though, you know, people believe scarcity no longer matters. It clearly does. QE (Quantitative Easing) can move things in the short term but long run I think things that are scarce will do better than things that are being flooded through the system. There's the belief now that price is unimportant. How can the concept of buying things for less than they're worth ever stay out of favor and how can buying things for more than they're worth hoping that someone else will come along and pay more later do well in the long term.

So that's where we are and that's the U.S., but we see pretty much the whole world is embracing MMT's sort of policies right now. And that, yes that's plenty of meaning, it's part of why bonds are yielding negative right now. But also, when you print money as we talked about in the last couple of calls it tends to go into financials first then eventually it migrates to other things. But at first it leads to poor decision making, it leads to malinvestments (slide 8). We saw the Internet bubble in the 90s, we saw the housing bubble in '07. We're still living through the bubble in everything now although maybe that's starting to thin out a little bit.

Speaking of poor choices three quarters of all developed markets sovereign bonds are priced to lose money and this is a major thing (slide 9). So, we have a \$16 trillion that actually have negative interest rates and there are \$31 trillion of bonds that have interest rates below the rate of inflation and that's even the published rate of inflation. So, an economic loss on 3/4 of the money, on \$31 trillion. So, if everything goes perfectly people will lose money holding these bonds to maturity but maybe people feel there's not a lot of risk to doing that. It's the best place to hide. Now this chart here shows that bonds are lot riskier than people might think. So when the upside is nothing the downside this shows if rates go to 5%, just 5% a 50-year bond you'd lose 91% of your money and a 30-year bond, 75%; a 10-year bond, 39%; 5-year bond that doesn't seem too risky, you'll lose 22% of your money if that happened. If rates go to 10 or 15, 15 might sound absurd but I've been in the business long enough where I remember people unanimously thinking 15 was not high enough, that it was going to go higher, 30-year bonds were 15% then, short rates were 22%. People couldn't have imagined rates going down. Now they cannot imagine rates going up. They better be right so that they can make their zero as opposed to a big loss.

Stocks, stocks certainly are better than bonds here at least, there's a chance they go up (slide 10). Interesting thing with stocks is they're bifurcated. There are a lot of cheap stocks out there, but the markets in particular are really expensive. The U.S. is the most expensive it's ever been in the history of our country. It's interesting here it's in five stocks. You take those five stocks out the U.S. market is down. That's fascinating. So, a huge upmarket that's down if you take out these five stocks.





Now people keep saying this isn't really like '99 because these five stocks are really, really good companies (slide 11). They're quasi-monopolists and there's a lot of technological change. We kind of agree with that, we'll make several points though. One, they're great companies but \$1 trillion is a lot of money. So, market caps of \$1-1/2 trillion, \$2 trillion, more than \$2 trillion yes our history shows buying the biggest market caps in the market has never worked out well for people.

Also, now I agree that a better comparison than 1999 is 1720, that's where you had monopolies. You had the South Sea Company had a monopoly on what England was doing in the New World. You had the Mississippi Company with all the massive resources that France had in the New World. These companies were monetized by the government. They were popular with monopolies and they dominated the whole New World at the time. Sounds a lot like tech nowadays. They went up a lot, they were popular, they crashed and burned. That's what happens when things become too popular.

But anyhow 1999 is a lot more recent so let's go there. 1999, after that crash one of the highfliers, maybe the Tesla at the time or whatever it was, Sun Microsystems that was popular. After that stock crashed Scott McNealy thought of people basically asking people "what were you thinking, you know, our stock was ten times revenues." He said "if I give you a ten-year payback, I would have to pay back 100% of revenues for ten straight years in dividends." Yes so that means you have to assume zero costs, that all the revenues can be paid up, zero costs, zero expenses which people know that's hard to do with a lot of employees not to mention rent and everything. It assumes zero taxes which is of course illegal. It assumes that the people receiving the dividend get zero taxes. It assumes no R&D which as he points out would make it hard to sustain the revenues for the next ten years. So, he basically said do you realize how ridiculous these basic assumptions are. You don't need transparency. You don't need footnotes. *What were you thinking?* So that's '99. People say this isn't as bad as 1999, we agree it's worse. This is where we stand now.

There are 649 companies that we found on a Bloomberg screen (slide 12) that have enterprise or are price to sales above ten times. And even if you just take the big companies, 135 of these companies are above \$10 billion, i.e. pretty much too big to grow into these valuations. There's even 36 companies above \$50 billion market cap. You know, I think when it's all said and done the question will be what are investors thinking. If we can even point out that despite the fact that sales have only been growing around 12% these stocks are up 87% this year, insanity.

Anyhow that's the bad news. The rest is pretty much good news. You know, you do not have to buy the market. You can be selective, you can choose. You know, we've seen this picture before. We know it's important to choose correctly and to discuss the prospects and where we think you ought to be investing and I'll turn it over to our Director of Research Alissa Corcoran.

Alissa Corcoran: Thank you Dave. As Dave mentioned we believe that price is important, and price is risk. And thankfully there are many areas in the markets that we see that have a lot of opportunities that are not as, not getting the same attention that the U.S. is, that the U.S. tech and healthcare stocks, in particular (slide 13). Small caps are one of these areas. Not counting 1999 small caps versus large caps have only been at this level three other times in the last 40 years. Growth stocks versus value is at an extreme and its eclipsing levels we saw in 1999. International has clearly lagged the U.S. the Nasdaq in particular and we are finding lots of opportunities there as well as even better opportunities in emerging markets. And then unsurprisingly we see a lot of opportunities in commodities. You know, we are at a multi-decade low when it comes to commodities versus the S&P.

Unsurprisingly our portfolio has been capitalizing on these dislocations in the market (slide 14). In a world that loves cashflow today and loves the certainty of these cashflows as Dave pointed out with the bond prices, we are buying latent cashflow. In a world that loves developed markets the U.S. in particular we have very little in the US and we are buying the unpopular countries, we are buying the unpopular sectors. And in a world where passive investing makes up 40% of the volume and a world that favors large and liquid caps companies we are buying the small cap companies that are inconvenient to buy that are being left out of these ETFs and that don't move the needle for many of the larger fund managers.

So, taking a closer look at these areas the latent value represents a significant percentage of our portfolio (slide 15). These tend to be our cyclical companies. They are our resource companies, the gold miners, the silver miners, the copper miners,





our energy companies, the uranium mining companies. This we've put shipping companies in here, our emerging market farmlands. These are companies that currently don't have a lot of cashflow, but very valuable assets and these assets should produce a lot of cashflow when the cycle turns.

So, we often ask the question should these companies be valued on last quarter's cashflow or decades' worth of future cashflow. We are choosing the latter and we estimate that the upside is almost 300%. So even if we're a lot wrong on when the cycle will turn if it takes ten years, we're still making IRs (Internal Returns) of greater than 10%.

You can see what the market thinks of our latent value companies (slide 16). Materials and energy make up only 5% of the index today. Energy at one point made up 26% of the index in 1980s. If you include utilities and industrials at one point, they were making up 50% of the market and today that is down to 16%. We own, unsurprisingly, utilities and industrials which we have put into our other bucket the traditional value portfolio (slide 17). Here we are buying market leading high-quality franchises. These are difficult to replace, they have very high barriers to entry, and they have the same sophisticated technology as the high-quality franchises you would see in the U.S. but at much better valuations. Our utilities are trading at 1/4 the price that we could buy in the US. Our telecom companies we can buy them for 1/10 the price per subscriber as it would cost if you bought Verizon. Our one and only auto company has a market cap of 11 times less than Tesla even though it makes 14 times the number of cars. We calculated the cashflow yield on this portfolio and that is very attractive, 23% at price to tangible book value of 65%. These are incredible metrics in any environment but even more so when the opportunity cost is very, very low.

Lastly, we've put a lot of money towards the small cap companies (slide 18). As we saw in the last chart the small cap versus large cap is at an extreme and we are seeing this within our own portfolio. Our own small caps are trading at very attractive valuations versus our large caps but our large caps on an absolute basis are still very, very cheap and you compare that to the ACWI and we have a very good solid portfolio that we are very proud of.

So, to turn it over and to finish it up I will turn it back over to Dave.

David Iben:

Okay thank you. Here it's been a volatile marketplace this year. As we often say volatility to us is not risk it is opportunity. This year's been fascinating (slide 19-24). In the first quarter we were selling goldmining companies at a nice profit, in the second quarter we were buying them back when they got hit so hard in March for whatever reason. And the third quarter were selling them again after a big run. Now we're buying some of them back in the recent correction. So that's opportunity.

It wasn't that long-ago people were paying the big premiums for Asia because Asia obviously is a growth area. Now we've been buying multiyear low prices on good companies in Asia, you know, leading telecom company in the world, leading producers of hydrocarbons, of agricultural properties, we've bought some financial companies, a healthcare distributor, repurchased a railroad that we sold at much higher prices back in the first quarter. So that's been the opportunity in global and international funds. Its volatility is a good thing.

You know, what that this led to is as you guys all know we have a lot more money as the bottom left shows in the growing parts of the world and others and way less in the mature parts of the world than others do. We have on the upper left a lot more of our portfolio in scarce goods that are generally needed by the population and we have less money in the trendy popular wants part of the market. The upper right we have the number one and two players in the world in things like uranium production, and in some telecoms, and in generation of electricity from a cheap, clean type CO₂-free, like a hydro and nuclear generation. We've got the top couple of trading companies which Warren Buffet recently has started buying. So, we feel pretty good about the opportunities in the marketplace to buy really good companies at really distressed prices. And then speaking of prices it's really pretty interesting in this market to be able to buy things at a big discount to tangible book value. To be getting a single digit price to cash flows (P/CF), price to sales (P/S) not that much above one, versus five when correctly calculated for the index and much more than that for the U.S.. And even the dividend yield we don't even try for dividends and the dividend yield's 2.5% so, you know, 2.8% in the International. So that's where we are now.

So just to quickly summarize the world no longer believes scarcity matters (slide 25). We think it matters immensely. We think debt is all too abundant so what a weird time to be at almost no yield. It's become arguably uninvestable.





The money stock is losing scarcity at an alarming rate. How many trillions have been produced just this year? There's an unmistakable move around the globe towards variance of MMT, modern monetary policy. People seem to think that fiscal and monetary response are the answer to all the world's problems even though there's a lot of evidence that they're the cause of the world's problems.

Anyhow that's led to U.S. stocks being the most expensive at any point in history, and hence arguably riskier than at any point in history. Fortunately, while irrational behavior drives short term returns fundamentals win in the long run. And this is a very bifurcated market. Valuation distances between one category and the other is extreme. That's counterintuitive that the scarce goods have actually become the cheapest in the marketplace. This is going to work out pretty well. In a cyclical world, real assets are cheap, pretty much as cheap as they've ever been relative to financial assets. Value is about as cheap as it's ever been relative to momentum. Within value, Graham and Dodd wing of the value is probably as cheap as it's ever been relative to the new quality franchise wing of value. Small cap as we've suggested is one of the three or four cheapest it's ever been relative to large cap.

So, all the cycles are there. All the stars are aligned. It's really an exciting time to be an active manager. So with that, I'd love to take questions.

Operator: Thank you and if you would like to ask a question please signal by pressing Star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. If you find your question has been answered you may remove yourself from the queue by pressing Star 2. As a reminder it is Star 1 if you would like to ask a question. And we'll pause just for a moment to allow everyone an opportunity to signal for questions. As another reminder it is Star 1 if you would like to ask a question. We'll take our first question from John Dee from Kahuna Capital, please go ahead.

John Dee: Hey Dave so China Mobile is obviously ridiculously cheap based on the metrics, but my question is what do you know that the market is missing?

Dave Iben: We do our independent analysis on everything and when we look, when we start, our first step is Porters 5 Forces industry analysis, what sort of margins should an industry have. Telecom is a decent industry. Who within the industry should do well? It has a natural tendency to monopoly, so the top three companies are at a big advantage. The top one company is really at a big advantage margin wise. And so, you know, we find that China Mobile, China Telecom, Korea Telecom, KT Corp are very, very cheap. China Mobile makes decent margins. We suspect they're about where they should be. China Telecom and Korea Telecom, they're cheap even with below average margins so they might even be even cheaper.

You know, we like things like that that are, you know, I think cellphones are the last thing people would give up in the modern world so providing service is a good business. I think everybody knows everything I just said, so to your question I think people are in a gambling spirit. Risk on, risk off, what's working. You've got algorithms that do the same thing. If it's working, we want it. And so, in a risk on environment people view telecom as sort of boring, I think. That's all I can guess. You know, I lived through the '99 bubble where people thought no price was too high for telecom. I would say growth turned out better than anybody could have imagined back in '99.

So, to buy telecom companies at, you know, P/E's at ten plus or minus and less than book value in many cases is really compelling. To buy the biggest phone company in the world in one of the most populated countries in the world is a wonderful thing. And I suspect, it's just that people want things that are more exciting than a dodgy phone company. That's our best guess.

John Dee: Okay thank you.

Operator: We'll take our next question from Dan Gallagher from UBS, please go ahead.





Dan Gallagher: Hi Dave thanks for the update again. Curious I'm guessing not but do you have any hedges on at this time in terms of the portfolio?

Dave Iben: We do not. Thirty-nine years we've really not done hedges. In the 80s for a while we wrote some call options. For the last three years as you know when the price of options were the cheapest ever despite the market being the most expensive ever we did have that put option which, yes, took some performance away from the last few years and added it to this year, fortunately. We always knew the market would have a correction someday. Nowadays it seems really ripe for another correction. It's weird to see. Usually when the market's frothy it's when the economy is doing great. For the market to be frothy when the economy is awful is a bizarre thing. So yes, if we were top down, I guess we would probably put some hedges on right now. We are not top down. We look for mispriced securities. When the call options were at between 8 and 14 implied vol, *that was a mispricing*. They deserved it to be in the 20s we thought. Now they're in the 20s.

So, I guess buying a put might work we just don't have a competitive advantage I don't think. Everybody knows the market is in sort of a silly phase and could go either way really rapidly. That's priced into the put options, so we have no competitive advantage over anybody else putting a hedge on. So, where we're sympathetic with people wanting to do that, we won't do it until such time as they get ridiculously cheap again.

Dan Gallagher: Okay, and then in the energy and financial space is there anything that you're doing in this quarter? And should people like us that have, we use you as a sleeve to get intelligent exposure, very different than other things that we do but should I be concerned just in terms of energy. Maybe the short run stocks because the tax off billing and the long run could be very difficult because of the megatrends against hydrocarbons but the intermediate term setup seems terrific, you know, terms of deflation and demand. I mean if you were kind of thinking for clients, I mean would you be tempted by some of the dividend stocks that have longer production. And I'm curious, I know that we have Range, I didn't know if there was anything else that we have going on in the energy space.

David Iben: Yes and, you know, we would be with what you're saying. There's, you know, things to be concerned about. We easily own things where things to be concerned about and with most everything there's plenty to be concerned about and plenty to be optimistic about.

Times like 2014 when everybody was saying, you know, oil's worth \$100-something a barrel and, you know, and how are we ever going to get enough energy to provide the needs of 7-1/2 billion people. That was the time to be cautious. Now when people seem unaware that there's 7-1/2 billion people and thinking we've seen the end of hydrocarbons that's the time to at least consider maybe they're wrong. So, what we've done over the years we owned oil in 1990 when it was trading at \$10 a barrel and we had none whatsoever when it went to \$140. It was a buy when it sold at \$30 and sell when it went back to \$100. Those of you that been with us in 2015, '16 we bought when it plunged, and then that one went right back up and we sold. And we haven't had much.

But what's happened recently over the last couple of years and not counting Gazprom which we've had a long time and is more like oil and, you know, we've had a nice dividend all these years. But recently the, you know, natural gas they're again people go from natural gas is great it's pretty clean, it's a lot cleaner than other hydrocarbons, it's abundant, the price is cheap, we have it in the U.S., it's a great seed stock for petrol chemicals, if we're going to go to electric cars a lot of that is going to be met by gas-driven electricity and, you know, what's not to like. Then there's times like now where people say we don't like any hydrocarbons, period. And, you know, with COVID people are not going to use any energy in the future and when they do it's certainly not going to be hydrocarbons. There's a glut that's going to last forever.

We think commodities are volatile and they trade around a price where supply and demand equalizes over time. And when oil was high a few years back people found a lot of oil and they found a bunch of gas they didn't even want and sold it at any price. And now with the prices down over the last year take a look at the drilling numbers, they're down big. So, supply will be going down big. And so that's pretty promising.

On the demand side let's just, you know, assume the population stays where it is plus or minus a few percent. You know, it just grows every year by a percent or two. People, yeah, it's not just people in the developed world that like the idea of





having lights and heat and air conditioning and things like that. And cars that use gasoline, or they can use electric cars, which, like I say, are going to generally come from natural gas. You know, electricity is something people like. There probably won't be a lot of new hydro dams. There probably won't be a lot of new nuclear reactors. They'll be in the developed world more in the emerging markets, so there will be a small increase.

Oil won't be as much for electricity. Coal is disappearing quickly in the developed world growing in the emerging markets, and wind and solar, they're going fast from a small base, they clearly will be a growth area, but it's also highly unlikely that we're ever going to get to the point where half of the landmass of the world is covered with solar panels and windmills and they also have their carbon footprints as well. So, they'll do well, but they aren't the answer.

So, you'd have to figure future demand will be met by wind, solar and gas. And so, for a gas to be trading 90% cheaper than it's been at various points in the last couple of decades and to be down there when drilling has stopped and to be buying stocks that are down 90 some odd percent from the top, you know, we like it. So, right now we have probably the most energy exposure we've ever had in 39 years. You know as Alissa pointed out, I know when I came into the business, energy was it. Energy was what technology is now. Everybody owned it, everyone thought it was going to go up forever. You know the chart showed it being 20 some odd percent. I remember getting to 30 something percent and materials on top of that taps the market. Since then, demand for energy's grown a lot, it's just that that was too high a price. Now we're at too low a price, too low a price for oil, way too low a price for gas, way too low a price for uranium, which is it's been too low for so long that you're seeing the supply demand response, one would hope to see.

So yeah, what the world holds from us 50 or 100 years from now, who knows, but we agree with your premise over the next decade. Fundamentals are really good for energy, and it's one of our largest holdings. We feel really good about it.

Dan Gallagher: Thanks, Dave.

Operator: We'll take our next question from Bill Calvert from UBS. Please go ahead.

Bill Calvert: Hello, Dave. Given that you hold minimal U.S. stocks in the global portfolio, can you talk about the main differences between the Global All-Cap and the International holdings?

David Iben: Certainly. Just as a reminder for everybody, we have one philosophy, one process, one analyst team, one platform, one approved list. We are looking to appraise things and buy where we think the market is making a mistake and that usually leads to us having big concentrations where the market doesn't. It tends to lead us being priced out of things when they get to peaks, you know, technology in '99 and again now and the U.S. now. So, we, you know, no matter what you buy from us, you're going to get the same things.

Now, a number of people came to us a half dozen years ago and said some of our clients like to make their own choice between U.S. and non-U.S. and so we heard that. We also heard, a lot of us like the competitive advantage have being able to buy some of these smaller stocks, that's an advantage. Some of our clients don't like the volatility of smaller pullbacks and so, originally we were just going to stick with a global, but enough people wanted that we said let's come with international. It will not have U.S. and it will not initiate positions of below \$2 billion. So, other than that, the same philosophy process for the most part, same stocks. The non-U.S. part hasn't made much of a difference. We own, as we just mentioned, Range and Southwestern they're U.S. based and that's an area where the U.S. has a competitive advantage, but outside of that, not a difference. Whereas the difference is that about a third of the Global portfolio is below \$2 billion? And, therefore, we're about 20% cash or more in our International portfolio right now. Whereas we're pretty-fully invested in the Global portfolio right now, so that's the difference below \$2 billion.

Someday when the U.S. gets cheap, we're a long way from that, then that will be a difference. But right now, it's small caps.

Bill Calvert: Thank you.





Operator: And as a reminder, it is Star 1, if you would like to ask a question. And we'll take our next question from Rick Speidel from Ameriprise. Please go ahead.

Rick Speidel: Thank you. You began to touch on uranium in your energy response, but one of your early slides, talked about investing in businesses and not themes or stories, but the uranium exposure in the portfolio between Cameco and Uranium Participation and a few other names, you know, pretty consistently been 6%, 7%, so that's been a pretty consistent theme.

I was wondering if you could just expand on and you've had this for quite a while, could you expand on maybe what you're seeing in terms of the supply demand imbalance being rectified and are these stocks just suffering from the negative side effects of all low trading or what's keeping these things in the doghouse?

David Iben: Okay. Well on the businesses, we have invested in businesses.

What that has meant is that we own Cameco, and we own Kazatomprom, those are the two premier in the business. They have the biggest market share by far, they have the best mines by far, you know they're different and the Kazatomprom, one it's in emerging markets, but two they have in-situ, which allows them to pretty cheaply bring supplies up. Cameco has some of the best mines ever found, the amount of concentration is really great. They were once a part of the Canadian government. Two quality companies that can make money, are making money, but also have years' worth of reserves, so we like that.

With uranium, with gold, with silver, a little bit with gas, we also like the idea of long lived reserves and so we've augmented the portfolio by owning some companies that have many years' worth of reserves, but they don't have a mine. They probably get bought out someday, you know, we're happy if they do, we're happy that they don't, because they have resources that are very valuable that will be developed sometime in the future.

And we own them because instead of making 2x or 3x your money, we think we can make 5x or 10x your money, that's the potential on some of these smaller ones. We also have a couple of corporations that were just set up to hold uranium and, you know, why uranium, and to your question, why is it's staying down so long?

Commodities, as we've mentioned, we always like the saying, the solution to low prices is low prices and high prices is high prices. Commodities fluctuate, they usually don't stay undervalued or overvalued for more than two or three years. Uranium is sort of different it's stayed under five for a decade, but it is a commodity that does play out. The price went to \$137 and that was ridiculous and Kazakhstan, they brought their supply up tenfold, that's what happens when prices get too high and prices didn't stay high. Prices have been too low for a long time, but you, you don't have the same price carrying actors, you have a lot of utilities.

So, you know, if you're a rational person, and you're saying the price has gone from \$137 to \$18 and nobody can even build a new mine unless prices go up three or four times, you're going to lock your prices in for 20 or 30 years. If you're a utility, you don't care. You're regulated, you figure if I go too early, I'll look stupid. If I go too late, we'll just pass it on at the right place, and so utilities have been reluctant to buy. And they went from inventories that were way too high based on the fundamentals of 15 years ago to dangerously low right now, other than Japan, that still is high. And so, you've had these big inventories get pulled down and pulled down and pulled down and so, they were so big that you were able to consume more than you've been producing for a decade now. That can't go on forever.

And so, inventories are low, that's very bullish, but that explains why prices haven't gone up, is because people could sell inventories. And then what's happened in the last couple of years, the U.S. government said we're not selling inventories anymore. The Russian government said we're not selling inventories anymore. You had Cameco shutting down the best mine in the history of the world and saying, we're not selling our uranium at this price.

Then along comes COVID and you have them shut down their second best mine and you had Kazakhstan announce three different cuts to their production, You had a couple of mines in Africa that were big mines that were running, even though they weren't economic, but now they're shut down, and probably won't come back unless prices go way, way, way higher.





And you've had, after a lull, you've had China back to building pretty quickly. Nine reactors up, 34 I think onsite to be finished in the next five years. In Japan, they only brought nine of theirs back on, they should bring more on, but they're coming back on. There's new plants built in emerging markets. Germany presumably will take 22 offline and maybe France and the U.S. take a few off, but more are going to be coming on that are going to be coming off. And we're running at a deficit now year after year, so if they don't start building new mines pretty soon, there's going to be a lot of multibillion dollar reactors sitting empty, and nobody is going to build any mines if prices don't double and they won't be sufficient ones unless prices triple from here. And so that's why, you know we're pretty excited about uranium.

It is interesting, uranium has tested our patience. It's taken a long time, but prices have moved up over the last year where energy in the past is when we bought it has moved up pretty quickly. It's interesting, it doesn't stay out of line as long as uranium, that's the fundamentals and the fundamentals seem to be falling into place.

Rick Speidel: Thank you.

Operator: We'll now take our next question from Evan Christensen from DMBA. Please go ahead.

Evan Christensen: Hi, Dave. Just kind of back to the energy names in the portfolio, thinking about the political climate for carbon and curious what you think about global supply and demand and tax of the current political climate and how that -- how these particular portfolio companies might fare as a result of that?

David Iben: Yeah, I mean, that is a risk. You know, especially, I guess if Biden wins the presidency, which looks likely, it then might even become more anti-hydrocarbon, but yeah, it's the U.S., Canada a little bit, Europe is definitely and that mode. So, hydrocarbons, it's tough to be super bullish on them, but at the same time it's tough to be bearish on them too and the market is very, very bearish. It is pricing in the end of hydrocarbons where, yeah, the U.S. and Europe, you know put together less than a billion people. China's got a lot more than a billion, India has got a lot more than a billion, there's a lot of people in Indonesia and elsewhere. China's at a record again on their imports of hydrocarbons, if I read that correctly, and will probably continue to be so. I think China is going to build nuclear and wind and they're going to build solar, and they're going to be taking record imports of gas. And the rest of the world we're fine with hydrocarbons being on their way out, but it'll be a very slow process. There's no way to quickly give up natural gas, you know, for a lot of reasons. And so, demand probably grows, but even if it shrinks, if it shrinks, it will be a few percent a year for a long time. So, supply has fallen, the price should go up. And like a lot of things, we own, oil, gas, gold, silver, uranium -- we like it when the stocks gets so low, that we can make a lot of money if things just go back to semi-normal, but probably don't lose money, even if we're wrong, because the stocks are down 90 plus percent.

And like with a lot of things, whether it's a commodity or whether it's a sector or whether it's a country, we're less interested of whether our opinion is a little different than the market's opinion. And we get excited when the market has really, really extreme positions that are highly unlikely to play out. We've liked it in the past where people thought that Obama was the end of healthcare, until we bought a lot of it. Lula was the end of Brazil, we bought a lot there. I think maybe the best market in the world has been Russia and its people hated it so much in 2015 and the hatred of hydrocarbons right now is very extreme. And you know how much is justified or not justified, we don't need to go there. We will just say that hatred is so extreme that things are very unlikely to turn out half as negative as people think they are.

So that plays into our somewhat contrarian style.

Operator: We'll now take our next question from Daniel Gold from the State Board of Administration of Florida. Please go ahead.

Daniel Gold: Hey, Dave, I was just taking a look at tobacco where P/E's have contracted tremendously over the last two, three years, it seems like one of those dirty areas that you would take the contrarian view on. I was just wondering if you have exposure there within the Global portfolio. Thanks.





David Iben: Yeah, another thing that was interesting back in '99, I think it was when Fidelity and Harris Corp both terminated their best PMs because they owned tobacco which fell 50% while tech was going up, but then, as of I think two years ago, Philip Morris had gone up 36x, so those guys are like, oh man. We've, you know, in the past we've owned tobacco in Egypt and some other places. When it comes to hydrocarbons as we were just talking about, we demand bigger margins of safety. I think somebody earlier was asking about finance, which I don't know if I fully answered but we have big margins of safety, but they're cheap enough, we're looking at them.

Tobacco, we certainly want big margins of safety, you know for a lot of reasons that, that's got bigger obstacles than hydrocarbons, I would think. But at current prices, yeah, we're looking at hydrocarbons, we're looking at banks and we're looking at tobacco. It's just all those things need to be really cheap for us to invest. So, yep, we'll see.

Operator: We'll now take our next question from Dan Gallagher from UBS. Please go ahead.

Dan Gallagher: Hey, Dave. Speaking of banks, I was wondering if you're looking at things like Goldman Sachs and, you know, even Wells Fargo. Are those getting close to the level that you might be comfortable? And then I'd love your thoughts also on India thematically. Is it tough to find kind of good legitimate businesses that you feel great about accounting and corporate governance? It seems demographically that should be a terrific place. I want to know how it is – the hunt in India.

David Iben: You're cutting out a little bit, but I think I have the gist of it. Wells and Goldman, we've looked at both, they both look pretty interesting. So possible. However, why they look interesting, things in Europe and Asia are really cheap, and that's probably where you'll see us buying financials first and we already have K Bank and we're looking at some others. So, Asia, Europe first, but I think in the U.S., those are the two that Lee's been looking at, so we agree with that.

India, it's interesting. 14-15 years ago, the BRICS, Brazil, Russia, India, China were so loved that we had pretty much nothing in any of them. And then, over the last four or five years, it's the BRICS were hated with the exception of India. And so, we buy a lot of Russia and a fair amount of Brazil and China, but not India. But now, you know, India has gotten cheaper and cheaper. It's a pain. A lot of them are hard to get registered to buy, and not that many of them have the yards and the market was pretty loved and not as cheap as the rest, but it's gotten a lot cheaper, so, you know, we're looking at some utilities there and we're looking at some other companies there. So yeah, we like the prospects. They've got a lot of good companies, and they got a lot of people and a decent economy.

So yes, that's another area that we haven't had much in, but might.

Dan Gallagher: Thanks.

Operator: Well, now take our next question from Alex Pidhorodeckyj from Morgan Stanley. Please go ahead.

Alex Pidhorodeckyj: Thank you very much. And thanks for the call, David. To use a baseball analogy of what any we are in, I'm curious, as you pointed out, in this endless MMT, I get the gold is \$1,900, but I recently read that the allocation to gold amongst institutions and pension funds is still below 2%. And that institutions like Sprott and Fidelity are finally getting interest. I'm curious in the bigger picture. What do you think could happen if it seems like this is just endless, as far as we can see, for MMT? What can happen to the price in gold and silver, kind of big picture. And we all know the disconnect between the gold stocks and the price of gold, so if you could just maybe spend a little time on that I'd really appreciate it.

David Iben: For fiat currency and to be able to print trillions of dollars out of thin air, yeah, I would think we're way, way, way into extra innings. It's amazing how much they have printed, and people have not yet lost confidence in them, but they will, for sure they will. Now there's just no way. I mean there's no way that you can print wealth. So, they just doubled the money supply and people realize that's good for stocks and it probably is. They seem to be realizing it's good for gold. There's a lot of things to consider. If gold is a commodity, it's not that far from what it's worth it's worth 100 or 200 more than selling that we think that they've priced it. We think we'll see some mines getting built. Yeah, and the stocks, they've had a nice run but they're still way cheaper than they were last time we built it at this price. So, we think the gold stocks go up a lot, even if gold hangs around where it is now, but more to your question gold as thousands of years have a history of being money.





All of the central banks of the world are showing no discipline in terms of what they do with their currency and in the past when that's happened, eventually people start wanting to see hard currencies. And if they were to do like Britain used to do and back it by one-third, then we're talking gold going up several times from here. And if they do 25% of Bretton Woods just 20% to 40% bouncing around there, call it 25%, if people really lose confidence, gold's what was it at \$14,000, or something, worth a lot, lot more. So, we think that gold's worth anywhere from where it is now to three or four times what it is now, and gold stocks are much, much more than that.

So that's one thing that's interesting, but we also these conversations, gold is clearly more attractive than Dollars and Euros, and Yen and Yuan and then bonds based on these things. So, we like it, but now, gold relative to silver, and gold relative to hydrocarbons, were just talking about gold relative to uranium, gold relative to farmland or those sorts of things. So we think go could go a lot higher, but we're suspecting maybe we can do better in natural gas now or uranium now.

But we have the view that all those things are going to go up in price. But for good or bad, we're 100% bottom up and we only buy the stocks that we think will do well at an incentive price. Copper, and oil and gold and all those things going at a price that will you know, that will incentivize demand, and all these commodities and commodity stocks, they're worth a lot more. And if gold starts acting like money again, then we got massive upside for free, that's sort of our thought process. Hopefully, that helps.

Alex Pidhorodeckyj: Thank you very much. And, David, if I could just what's your sense from talking to all the institutional clients that you deal with? Are people getting interested or do they think it's, this will all happen in six months? And it's over from March till now and it's done or are they getting interested?

David Iben: You know, there's a lot of people for a lot of years now we, I would say the majority of people we talk to say, obviously, this is going to work, but maybe we'll sit and watch for a while. And then after the 2016, where, after a lot of bad years, our portfolio doubled in six months, then people said we missed it and they were right because then we underperform for a few more years.

This time, we get a mixture. We have one client that's taking a little of money out, but we have a big institution that they just informed us their funding on Monday. The mutual fund had pretty consistent inflows. I'd say most of the people we're talking to now, they're not saying we missed it. There's saying, "my God, look what's going on in the world, you know we think maybe we should have some of your portfolio." So, it's mostly encouraging what we're hearing from people but yeah, you know, everybody needs to do what's best for them and it's seeming like things are starting to go the right direction, not counting the last month, but we'll see.

I think people are starting to realize that this is unsustainable what's going on out there. That's my impression.

Alex Pidhorodeckyj: Thank you very much. I really appreciate your insight.

Operator: We'll now take our next question from Mark Johnson from RBF Wealth Advisors. Please go ahead.

Mark Johnson: Thank you for your insights. David. I've been in the business not quite as long as you, about 30 years and one of the things that's been important to me is to identify a handful of portfolio managers like yourself, that really have a very rigid process and that I can start to kind of understand as best as I can, when they might perform and when they might not perform. One of the concepts you hear a lot about in portfolio management and the process is trying to identify a catalyst of when a stock or when an industry, you know, might move and I've listened to a number of your calls now over the past probably three or four years, and I'm getting the sense that your catalyst is having unbelievable patience. Can you talk a little bit about -- am I correct on that, is it simply patience or do you try to identify -- is it just patience and price? Are you trying to identify at all any catalysts that might move an industry or a particular stock? Thank you.

David Iben: Yeah, patience and price I guess is a good way to put it. We have for the value investor, you can throw pain in there too, I think that's part of value investing. But we have nothing against catalysts and occasionally, like uranium, now, the catalysts





are all there for uranium, but for the most part, we don't invest with catalysts. There's thousands of managers out there looking for catalysts, usually, the stocks move a lot before anybody sees the catalysts and it's usually not going to be us that sees the catalyst first, so we don't have any advantage there. We do think we have an advantage in terms of patience and price. We like the fact that we spend a lot of time using many, many metrics and industry specific metrics and put a lot of time into appraising stocks and risk adjusted it, so we have confidence in our price and we also have a lot of patience.

It is interesting, we never really know when we're going to outperform and when we don't and it's long and frustrating and then, it happens really quickly. In '99, the most painful year of my life and then we've minted money while the market was falling in half. Who could have predicted that? I didn't think that could happen and then we had a good dozen years and now it's been really tough again. But if somebody missed out on the first six months of 2016, and the first six months of this year, it'll be painful, but, you know, that's what happens. One of these times is going to be just like 2000 again, and I think things will do really well, because our stocks are trading at less than half of that we think they're worth and so maybe we have to be patient for five more years, or maybe our style is coming back in favor now. So, I don't know, but as we're seeing with the last one, this is a little more encouraging. It's not every day, they print \$3 trillion out of thin air. And so, you know, the optionality is a lot and so yeah, no catalyst, unless, you know, trillions of dollars being printed out of thin air is a catalyst, and then I guess it's here, but that's free optionality.

What we have is a portfolio of good companies that are trading well below what we think they're worth without any inflation, without any money and I've been in the business way too long to tell you whether it's about to work now or not, but I think that as we put it, the return on patience is really high right now.

Mark Johnson: Thank you.

Operator: And this does conclude our question-and-answer session.

I would now like to turn the call back over to Dave for any closing remarks.

David Iben: All right, thank you. Thank you all for dialing in and you know, it is very challenging times. But we think at least the market has given us plenty of opportunities and we're very appreciative of the questions and everybody's faith and patience with us.

We'll talk to you again soon.

Operator: And with that, that does conclude today's call.

Thank you for your participation. You may now disconnect

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