

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 4<sup>th</sup> Quarter 2019  
Conference Call with David Iben**

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Operator: Good day ladies and gentlemen. Welcome to Kopernik Global Investors Fourth Quarter 2019 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. And instructions will be given at that time. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go-ahead Mr. Gaffar.

Kassim Gaffar: Thank you operator. Hello and good afternoon everyone. Thank you for joining us today for the Fourth Quarter 2019 Conference Call. My name is Kassim Gaffar. And I have with me David Iben, our CIO and the Portfolio Manager for the Kopernik Global All-Cap Strategy and Co-PM for the International Strategy.

Please note, Dave will be referring to his presentation which can be found on our Web site at [www.kopernikglobal.com](http://www.kopernikglobal.com), under the News & Views section. Before I pass the call over to Dave for the bulk of the time, I'd like to give everyone a quick firm update.

From an overall AUM standpoint, the firm assets at the end of the year were right around \$4.1 billion. This represents peak assets for the firm. And over the last 12 months, we have grown from \$3.4 billion to \$4.1 billion today.

We've seen many of our clients continue to diversify away from momentum and into our style of investing. We are as always, very grateful for the trust ensured by all of our clients. And we strongly believe our clients will be rewarded over the long-term, as and when the cycle finally turns.

Lastly, on the firm, I would like to add that we're 37 people strong and have been very stable over the years. And with that I'll pass the call over to Dave. Dave?

David Iben: All right, good afternoon to everybody. Thanks, Kassim. Thanks everybody for joining. We certainly have a lot to talk about. New quarter, year, decade, and what not. A lot of material. And in the midst of a market melt-up, so a lot of things to talk about.

Starting on page 6, since it is a new decade and since historically the market does seem to change at decades, it's nice to look back at a decade ago. Sort of fascinating, about a decade ago there was a lot of debate going on, the pros and cons of quantitative easing, the Federal Reserve and central banks stepping in to aide people during the tough times. And yes, I think most people concluded it was a necessary evil.

Yes, it was okay to accept monetary easing. I'm sure history shows that it tends to cause inflation, tends to cause inequality, tends to cause money to flow more to the rich. But, so the system was broke. The banking system wasn't working. Loans weren't trading at all. Bond market was dead. Stocks were falling. So a lot of people said yes, it's worth the negatives of printing money to go ahead and do it. And I think most people think it was the right thing to do. *I don't* but, I think most people do.

What a difference ten years later. Back then, nobody could have imagined that instead of a market where unemployment is high and markets are falling, and the bond market is broken, that [we're] in an environment where stocks are screaming, they're in a melt up. They're most expensive in the history of our country. Bonds are the most expensive in the history of the country. Credit spreads are as low as ever. And unemployment rates are at half century lows. Nobody, but nobody,





would have thought, let's pour money into that. And yet, they're doing that. Here they are coming big with QE - or excuse me, not QE, pouring money into a fire.

And so that's where we are. That's the both good and bad and, let's examine that. As for the last decade, yes things have changed a lot, as they do on the decades. Almost every decade in history, value has done better than growth/momentum. This not only didn't do better, it did way worse. It's been historic, the length and the depth of the underperformance of value investing relative to other things. So, we say good riddance to last decade and let's look forward at what the new decade might bring.

Let's start on page 7 with examining the case that we're wrong, that it's not a cyclical world, that value will never come back. The arguments you hear - big changes in technology; the Central bank is there to support. There is even a put, pretty much a guarantee, from the central banks that they will never allow assets to fall. Big companies are becoming bigger, stronger, better. They have access to cheaper funds. Antitrust laws are comatose in the United States. The big and powerful get bigger and more powerful. Maybe the accounting rules of the past don't apply to the future. And people have a better understanding of accounting finance, fiscal and monetary policy. And actually, can control the cycles going forward, to see more growth suggesting that that's the case. And that valuations really aren't as expensive as they first appear, if you make multiple adjustments to it.

Yet, people should consider those attributes, almost all of them, are there at the tops of every market. Market tops always happen when things look pretty good. What people tend to forget, when things look really good is that valuation matters. It is really most of what matters. And here is one chart (slide 8) showing that when stocks are in the most expensive deciles as they are now, future returns have tended to be, you know, zero plus or minus a little bit, over the next decade.

So, valuation certainly has been a problem at all past times when the market was this expensive. We'll see if it is now. And expensive, that goes to price to earnings, price to sales, price to adjusted earnings, price to book value, price to GDP. As far as the replacement value, you name it, this is one of the more expensive markets in history.

What has this meant in the past? In the past when levels have reached [these highs], it's meant very bad things. And you know, to continue with the last thing, people think it's different because the FAANGs and the quality of franchises are such companies. We agree that they're such good companies. It's just that there was a lot of great companies in the 1920s during that roaring market (slide 9). Japan was considered sort of unbeatable. And in 1989, you know, tech, media, and telecom. Turned out Cisco and Intel and these guys were pretty good companies. And, so on, and so forth. There are good companies. There always are.

If we look at what happened buying the good companies in the past, look at the 1970s. These companies were good. They were considered one decision stocks. Nifty Fifty was another name for them. And if you look down that list, people were right. Almost always, they're great companies.

These are almost all great companies that almost 60 years later (slide 10); 50 years later, are still doing great. And so pretty amazing thing, that companies that would be doing great for the next 50 years, would have drops of 50-90%. That's what happened to the good companies. People that were wrong about the companies they chose, they did worse. Just mentioned, tech, media, telecom, but the future has been great for almost all these companies. Look at the drops. Apple down 81%, even though their future was bright. And Intel down 80%. Being good companies does not mean companies are immune to the laws of mathematics. Price matters.

2007 was less of a problem I think, but [the] same thing. Look at the drops in the prices of these really, really good companies. So, what matters in the past, and we believe still matters, is price. The market, of course, eventually always comes back to valuation. (slide 11) But in the short-term as Ben Graham said, "*Short-term, it's a voting machine. In the long-run, it's a weighing machine.*" In the short-run, science matters but, psychology is everything in the short-run. This cycle has been longer than ever. But, you know, here we are in the euphoria stage for lots and lots of stocks. Why is the cycle longer? We hear people talk about central banks and how they're actually going to get rid of the cycle except for history and logic. So that central banks usually are the main cause of the cycles.





Central banks go in there and try to make things better but always screw it up. Sometimes they tighten at the wrong time. Often, they print too much money. That certainly has been the case, and it's been a long time since you've seen people printing money right into a frenzy in the market. It's been 300 years since the South Sea bubble, and Mississippi schemes in Europe. Four hundred years since Tulip mania. So central banks tend to overdo it but, nobody has seen stuff like is happening now.

People say well, they're pouring all this money in and yet, it hasn't caused any inflation. Maybe this time is different. Except for one way I've seen it presented that makes a lot of sense. I mean we know that inflation is, by definition, the printing of money. What people confuse as inflation were the symptoms of inflation. So, the inflation happened. The money supply has gone up 5X in a lot of different countries. Why aren't we seeing the symptoms? Well, you just have to know where to look for the symptoms (slide 12).

The analogy is, if you take syrup or molasses or honey and you dump it in the middle of a plate, it's going to congregate around the middle of the plate. And then very slowly, inch to the edges. So, they have printed a lot of money. If you want to look for the symptoms of the inflation, where did that printing of money go to? They told us where it went. They printed the money to monetize the bond market. Yes, bonds and mortgages. They printed a lot; they went straight in there. If you want to look for signs of inflation, look at the bond market. And certainly, we have seen tens of trillions of dollars' worth of inflation in the bond market. And that could be looked at in two ways. They can look at the increase in the debt that could not have happened without all that money being printed. And this (slide 13) shows just the U.S. But it's been even worse in some countries.

Certainly, most of the developed world, as debts to GDP are off the charts. And you can see at the bottom left (slide 13), this increase in the value of bonds out there. It's in the non-financial sector, it's in the financial sector, it's in the government sector. It's in households.

So, if you want to look for inflation, look at the bond markets. It's so inflated that at one point you had \$17 trillion of bonds that were so expensive that they were guaranteed to lose money to maturity. Negative interest rates, that's inflation beyond I think, what any of us could have imagined ten years ago.

Another way to look at the bond market (slide 14), if someone were to have an endowment or be saving for their own retirement and figured out how much money they would have to invest in the bond market, and then over time, how much more money they would have to invest to get that exact same yearly cash flow from their coupons? From 1981, you would now have to be paying almost four and a half times more money - five times more, four and a half times upside. So, that's inflation. That is, you have to save five times as much money to retire as you did in '81. And even since '09, it's almost double. So, that is inflation.

Now the central banks were also very honest. They said they hope that by creating - by making the bond market prohibitively expensive, that would cause money to migrate elsewhere. So, they succeeded. If you want to see, as the inflation went from the center of the plate and started to ooze out a little bit, where did it go? It went into quasi bonds, bond surrogates. It went into stocks, particularly the stocks that had relatively stable cash flows or growing cash flows. Things that people felt comfortable about.

This (slide 15) shows it went into real estate. It went even more into stocks, and even more into NASDAQ sort of stocks, sevenfold increase in the NASDAQ in ten years. Do you want to look for symptoms of inflation? You don't need to look further, but let's look further.

In addition to going into the price of stocks and real estate and bonds, it is also allowing the government to issue lots and lots of bonds at an inflated price, allowed the government to spend money on what governments spend money on. The government - a big part of the government's budget is healthcare. Look at what healthcare prices have done (slide 16). They spent on education. Look what education prices have done. So, the inflation has started - the symptoms of the inflation have started to drift from one category to another and are continuing to do so.





Now people are excited now because all that money they printed ten years ago caused a massive inflation in the price of assets. And now that QE is back, back in space, it's amazing how much money is being printed over the last three, four months (slide 17). People are thinking it is going to go right back to where it went last time, right into the price of the same assets. And so, they are tripping over themselves to pay higher and higher prices for NASDAQ stocks that as I mentioned, are already up seven times. And some of them, more.

Will they be right? Maybe. But history and logic would suggest that the inflation doesn't go into the already inflated assets. It starts to drift into other things. Does our figurative syrup stay on the pancake or drift into the eggs? Let's take a look.

History shows in the past, you look at loose monetary policies in the 60s and the 90s. Or when they print it (money), it tends to go into stocks. The following ten years, it tends to drift into real assets, into the economy, and other things. This is one reason why here we're showing when passive does well, why they print it (money) the first time. And, does not [do] so well after. And, we can show you similar things with growth. And, we can show you similar things with financial versus real assets, and you name it (slide 18).

The assets historically mean the inflation historically has poured into financial assets the first decade. And, migrated elsewhere the second decade. It's always been the case in the past. Will it this time? Well, let's look at why that's the case. You can have assets going up. And on page 19 you can see assets going up is great, as long as the fundamentals underpinning the assets are going up. So, if the inflation is equally going through society, the assets can be supported. Here, it's looking at the S&P 500 relative to people's ability to buy the S&P 500, people's wages. So, you can see here (slide 19), stocks have gone up a lot. It's become pretty unaffordable for the average guy to buy stocks.

All right, we can say that's the wrong way to look at it (slide 20). The red line shows the price of stocks relative to corporate revenues. Ultimately, companies need to earn revenues to pay - to earn the profits to support the stocks. This shows that stock prices relative to the revenue they depend on are higher than they were back at the 1999 peak. Stocks have outrun the ability of revenues to support them. The blue lines show price of stocks relative to the economy as a whole. There again, if you don't have an economy, it's hard to support the stocks. This shows that stocks have vastly outrun economic growth.

Once again, stocks are more expensive now than they were back in 1999. You'll find more expensive.

It's interesting, we showed a few years back that Apple had become a bigger market cap than all of Russia. We'll point out that Russia has done very well since then. That seems kind of crazy. This seems more crazy. Here is Apple plus Microsoft (slide 21), compared to the fourth largest economy in the history of the world. Pretty fascinating thing that two stocks trade for more than the entire German market cap, 5,000 names. And we're not talking little companies, we're talking SAP, and Siemens, and BMW, and Volkswagen, and Bayer, and so on. This is - I think time will show, insanity.

Back to stocks or assets outgrowing the fundamentals, certainly good quality real estate has gone up (slide 22). The chart is London but, it could just as easily be Hong Kong, Tokyo, New York, San Francisco, L.A. Housing prices have gone up a lot. They've gone up way faster than rent. Of course, you need the rents to have a return on investment. If you're buying real estate, you cannot have the price of housing go up, why the return on housing does not go up. This is a problem. But it's even more of a problem. We realize that rents have gone up faster than people's ability to pay the rents have gone up. So, we have *a problem on a problem here*.

So, the point is, it's easy for assets to outstrip their fundamentals. But to do that two decades in a row, is not something that happens.

Even more ridiculous, we can all joke about 1999 and Pets.com and these other companies that realized hey, if we sell stuff at a loss, people will buy our stuff. And now it's a religion. There's a whole economy on blitz scaling. And everybody says well, if we can lose more money than our competitor, eventually we'll get big and profitable. And it works sometimes. It worked for Amazon. But you know, 99 out of 100 companies are going to fail at this. Here we show all these companies that are losing money (slide 23). That doesn't stop their stock prices from flying. This is just public companies. This is not counting what's going on in Silicon Valley or the unicorns. It's really a fascinating environment.







So, the point is, a lot of money was printed. The money ran into a whole set of assets that have outstripped their fundamentals. Now, we're printing money again. It either will or will not go into the same places it went last time. And with that in mind, let's go to the positives.

The positives are, the world changes. The world is a cyclical place. Summer goes to winter and winter back to summer (slide 24). The economy grows, it goes into recession. It grows, there's bull markets, there's bear markets. Passive does well. Active does well, and back and forth. Growth and momentum versus value. There are things that go back and forth. And for active managers, nothing is better than the extremes. So, we are seeing the seasons at their heights. We are seeing people paying way, way too much for what's been working the last ten years and throwing out what hasn't been working.

And as a value investor, the time that's most frustrating, the time when the market is giving us their opinion of value; their unfavorable opinions of value, there is no better time to be a value investor or an active manager in general. This is the extreme.

With that in mind, since it is a new decade, it's a good time to talk about, why it is. I don't know why, you know, the year with nines going into years with zeros, tend to be important years, as it was in 1929, and it was in Japan in '89. And conversely, as it was in 2009, and in the U.S., those are big times.

Marc Faber, who probably a lot of you know, he's been very successful for many decades (slide 26). And, writes some interesting thought pieces. He wrote a recent piece about a fictive uncle of his who had a strategy of, you can only buy one thing per decade and put all your money into it. So, it can only be once per decade in general, plus/minus. And it has to be something that's completely washed out, hated, really, really cheap.

And in general, if somebody had done nothing different than in the early 70's saying, you know, if gold and oil where they were 40 years ago, and stocks are up a lot, I think I'll put all my money in gold and oil. They would have made a lot of money. Ten years later, gold and oil were frothy. They were up huge and frothy, and everybody loved them. And that was the time to buy Japan, which people still hated Japan, with the sort of passion they hate Russia and places like that now. [It was] a great time to buy Japanese equities. And of course, by '89 there was froth in Japan. And that was a good time to buy the NASDAQ. It still hadn't recovered from problems in the early 80s. The NASDAQ bubble, it was a colossal bubble for the history books. And '99 was a time to get out of that and back into gold and energy, which had dropped a lot over the last 20 years. They were pretty popular, as you'll remember, ten years ago. And people didn't like the U.S. People - my clients were saying, can you get me out of the U.S.? Get my money out of there. The dollar is going to plunge. The Fed is out of control. The U.S. banking system is broken. We brought almost the whole world down. You know, get me out of this stuff and into inflation hedges. That of course, was the right time to get out of inflation hedges and back into the S&P 500.

And now U.S. stocks are the most expensive in the history of mankind. And they're going up by the second. It is froth like I've never seen. So, you'll notice that on this chart (slide 26), not only was picking the right thing every decade important, but whatever did well in the decade, whatever did best in the decade, did horribly the next decade. So that has been the case. So now with the U.S. stock market and especially U.S. bond market, the most expensive ever and just outright froth pouring in there. We would suggest U.S. stocks and bonds might not be the best place to be for the next decade.

What might be good places to be, let's look at this. And just a reminder, we as active managers and value investors believe that there is a value for everything. And stock prices reflect that value. But in the short-term stock prices, they deviate from their underlying value. That's the beauty of the market. Usually the deviation creates quick opportunity. You take advantage of it. It gets back to what it's worth. Every now and then the market takes values further from what they're worth and, for a longer period of time.

These are interesting times. And it's especially interesting when there's bifurcation. So, this is just showing (slide 27) sort of growth stocks, value stocks, or better yet, popular stocks versus unpopular stocks, that sort of thing. And yes, this shows what you would expect, that in 1999 growth stocks, which as we pointed out, were mostly good companies. A lot of great





companies with a great future, they were priced so far away from what they were worth. But they had this figurative rubber band pulling hard on them. And people were saying that the longer that bubble went, the more likely we should believe that things were different this time. And they should not fall back but, the rubber band was pulling at it harder.

Why they were buying that, they were selling anything that they would disdain called old economy, bricks and mortar. They didn't like small stuff. And those things were so cheap that this figurative rubber band was pulling it back. And of course, the next decade worked out beautifully for those who bought the stocks that were too low. It worked out horribly for people that caught up in the mania.

You can see, '07 was kind of the reverse. By '07 small stocks had done so well, value stocks had done so well within value. It had been the banks and the housing and things like that, that did really well that people started pouring money into that while selling some of the quality franchise stocks and others. In fact, that was a good time to get out of the traditional value at the time, and into the quality franchises in tech. And now here we are again at probably the biggest bifurcation in history. There is no price that seems to be too high for good companies, and money-losing companies alike. As long as they're exciting. And no price that's too low for things that, frankly, haven't been working the last ten years. And so massive bifurcation here.

The things that are too low, I mean obviously we would advise caution for the things that have had a good tenure. The things that people ought to start looking at, you know, where is the value?

One is real assets (slide 28). Real assets do well, then they don't. It used to be understood that when central banks print a boat load of money, that's good for real assets. And it generally always has been. They printed a bunch of money ten years ago but, real assets, after originally becoming over-priced, have come way back down. Now they're the cheapest ever compared to financial assets. So that's a good place to look, if we want to narrow that down.

In Marc Faber's letter, I talked about his guess for the next ten years is platinum (slide 29). He makes a good case for it. Gold seemed attractive. Gold stocks seem even more attractive. But platinum used to be a lot more expensive than gold. Platinum used to be five times more expensive than palladium. Now palladium is in a froth, up from \$200 to \$2,300. Platinum is very, very cheap. So yes, we're with him on that. Everybody should be taking a look at some of the metals that have lagged.

Beyond the metals there is energy (slide 30). You know way back when I came into the business, people loved energy. I had mentioned how well it had done during the 70's when oil went from three bucks to \$36. And gold went from \$35 to \$800. People love these things. Energy was a third of the market. A third of the market. So, that has since fallen and it got down to about 5% of the market. Then it rocketed up in '07. We showed you that too. And then, even at 16% of the market was, you know, way too high. There are pros and cons to energy. There always have been, always will be. 4% of the market. And we suggest seven billion people will continue to desire energy.

So, energy, a whole, is another place we like to be looking in (slide 31). And within energy people used to say, gas is a lot better than oil. It's cheaper and it's a lot cleaner. And we have a lot of it in the U.S. and, what's not to love. Now, they shouldn't have flubbed it back in 2007. Things were overdone. But interesting thing with the markets, you know, commodities, they tend to get too high and then they come back to earth. Natural gas prices got ahead of themselves and they've been falling for a dozen years. Notice the first half of those dozen years, gas was falling but companies that own gas were going up. They were using Range Resources because - that's what we own and like. It went up, and up, and up. It did not care that gas was falling. And then the last six years, instead of ignoring the bad news, every time it sees bad news now, it sees double. And, it is pricing in twice the bad news. And so, it's come down to an environment where it's a double positive now. Natural gas is trading well below a sustainable level in our opinion. Price needs to go up. You've seen, if you're watching the big drop-off in drilling, supply will fall a lot. If they don't start drilling more, the price of gas needs to go higher. And even if it doesn't go higher, Iranians and a lot of other companies are trading at a discount. Assuming the price can only go lower.

Ditto when it comes to uranium (slide 32). The price of uranium got too high. And then it got fair, then it got way too low. It is now trading at what we believe a third of the price it's going to sustain what's needed for the existing nuclear reactors.





Not even to mention the new ones that are coming on stream. And here again, many companies that own uranium in the ground have fallen a lot more than the price of uranium. So, when you're looking for energy, it's either too cheap in the spot market. But on Wall Street and on Bay Street, they are even cheaper.

Now it's interesting, because you read the news. And everybody knows that coal's best days are behind it (slide 33), and it's been dropping off. But if you read the news, you would think it's the end of the world for gas. Gas demand for generation in the U.S. is picking up a lot. That's the line that's in the lead here and growing. And that's not even counting the petrochemical plants and other things that are coming on. So, gas is a growth market. What a weird time for the prices to be at such low prices and can't even sustain production.

Nuclear you can see, is in third place and not dropping. And this is the U.S. It's growing outside of the U.S. So, it's one thing to buy things that are down and out because of challenging fundamentals. It's another thing where the prices are suggesting things are down out. But they're actually growth businesses. So, that we like a lot.

So, here we are, even better than 1999 (slide 34). A very bifurcated market. A market where you can pay high, high, prices for the love stocks. Or you can buy precious metals for a song. Precious metal stock is cheaper. Uranium and natural gas for unbelievably low prices. Or buy them in the ground at even cheaper prices. And today has gone on long enough so, I won't get into emerging markets other than to say that emerging [markets] aren't a little niche. It's not like we're narrow to small niches. Emerging markets are almost the entire world. It is far and away most of the world's people. It's most of the world's land, most of the world's resources, most of the world's growth.

And we are talking about great companies (slide 35). Whether it's communications, phone companies, power companies, agriculture companies, infrastructure companies, transport companies, that's where the growth is. That's where the value is. And then least attractive, fixed income that are, you know, have yields below the inflation rate is something we will leave for others. As we've done in recent years, we'll remind people that always, but especially in - with a low interest rate environment, when you can buy quality assets that are likely to go up for 50, 100, 200, 300%, patience is your friend. It is worth the wait. Diligence, patience, are well worth it.

So, that's where we are (slides 36-38). And the bifurcation is not just a theory. We've shown you the price of the markets. But it's within that market that your portfolio is a bunch of market leaders. For the most part that are trading at 2/3 to book value. And at tangible book value, for the most part. A price to sell is roughly half of the market. A price to cash flow is 60% discount to the market. That's the bifurcation and that's the kind of portfolio that it's allowed us to build.

Volatility - every now and then, you know, it rears its head. I'm certain it will more in the future, but that's a good thing. You know Japan was so laden with value in the past. It still is but, less so. Everyone one these Japanese companies on the net, reduced. We reduced because they're up a lot so, we've taken advantage of that.

Korea, people don't like. You can see, we've added LG Corp, Pyeong Hwa Automotive, and Hankook [Technology] and things like that. So, some good companies there, taking advantage of people's emotions.

Within the resources, people used to not care for platinum, palladium. Now, they like palladium. Impala is up eight times, I think, off the bottom. We've trimmed that. You know, within resources, between that and Lundin and others that have done well, we've been able to roll money into some really large resource companies like Seabridge and Nova[gold Resources] and Newcrest [Mining]. And of course, we've added to natural gas with the Southwestern [Energy]. And of course, all our accounts are kind of the same. We're finding the same values across the spectrum. So, here's International (slide 40). And then of course as we always show, the market now has allowed us to have most our focus to the growing parts of the world. And less focus to the mature, overpriced parts of the world. It's allowed us to have more focus on scarce but needed resources around the world. And the upper right shows to predominant holdings in the largest and second largest companies in their industries, across the globe. A lot of market share leaders, with growing markets, with value.

So that's how things look. And it's been a lot but, it's a new decade. And it is a - yes, maybe, well I don't know. It's 50 years or 200 years you see these kinds of markets where you get melt-ups and massive dislocations in the market. So, we're





kind of frustrated but, mostly really excited. And so, there was a lot to cover. Thanks for bearing with me. And let's open up for questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, press star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll take our first question from Dan Gallagher from UBS Financial. Please go ahead.

Dan Gallagher: Hi Dave. Thanks for a clear call again. I had a question. If we were to add, you know, what you do is you've got a discipline. And you know, I think of a Venn diagram with certain convictions that you have, and you're looking for the shaded area of price, and pricing, and opportunity, and certain discount rate.

But if you added two more circles, you know, that one, you know, if there's a megatrend the mindful ESG screening that seems to be happening globally, a lot of these industrial mining companies are maybe structurally excluded from benchmarks. I'm wondering if you could one, comment on that?

But if you were thinking about the things that we own in the fund, that if there was a theme of disruptor or disrptee, or something that would work its way easily through an ESG screen, what kind of companies are you holding that are, you know, disruptors that have no ESG issues for mindful people? What's in the portfolio that would meet those criteria as well?

David Iben: Okay. Thanks. A lot there. Let me see if I can remember to address it all. But yes, we're looking for opportunities and I guess if you were looking at your Venn diagrams and where the circles grow, the one thing that we like now is that now, in 1999 and in 1972 were horribly overvalued but, massively bifurcated. Where, you know, 2007 was not so much. So that was less opportunity. Well, here we're looking for yes, if we can find value, and quality and growth in other things, in the same area, we were excited. And that's what we're finding. And part of it is, is what you're getting at here. It is much easier to categorize things than it is to actually think things through. And so, the market has this tendency to say, we like growth or we like value, or we like ESG or, we like emerging markets or, we don't. And, to us let's appraise a business. Decide what's important. What are the key drivers of that business? And then say what we want to pay for it and, then we risk adjust it based on where they're located in the world. Or what we think of their ESG. And I'll come back to that.

But when people try too hard to categorize things, they'll do things like sell emerging markets. Not really that emerging markets isn't even a category really. Like I said earlier, emerging markets is most of the world. And so, if we can buy something too cheap because somebody out there is dumping their emerging market ETF, we're pleased with that. If they're dumping energy ETF, thinking they're dumping oil but they're really dumping gas or uranium, that's a great opportunity for us. ESG is something that for the last 15 years I think, we've been pretty active in approach. Our thought, ESG also is not something that's a cookie cutter. We have no interest in some outside party telling us, this is good, this is bad. Alcohol is good, but soda is bad, or that sort of thing.

What we do is we say all right, we want to own businesses and do well with that business. And many of the companies we have own some very valuable assets. And, our view is, not to be ESG so we can say "oh, we're ESG" and sell to somebody that wants that. Our view is, we're actually going to make more money if companies treat their employees well, because they're going to end up with better employees. And we're going to end up with more money if people treat the environment well, because they're not likely to get sued. And they might be welcome into other countries or other communities. And you know, we find you can screw over the bond holders once, but it's harder to do the second time, and that sort of thing. And so, we tell people, don't cut corners to beat the quarter. We don't care about the quarter. If you happen to be fortunate enough to have a phone company or a railroad or an oil well or something in some country, treat that country right. Go in there and build schools and build hospitals and build infrastructure. And leave the environment better than you found it. It's going to cost you a little money but, you know if spending \$30 million is going to keep the country [from] expropriating your \$4 billion asset, that's actually a good investment.







And so, we spend lots of time on ESG. On every single company, we put a rating on what we think the risks are. And, what we think of their governance and their environmental standards. That's what we do. And then, we put discounts on it. And, we also - and we've done this for years, we write a letter at least once a year. We write letters at least once a year to companies saying what I've just said. That this isn't altruism. This is wanting to make money. We think we'll make more money if you treat the stakeholders well.

And if other people are going to refuse to buy a company because it didn't make somebody else's list. And I heard Warren Buffett talking years ago about his investment in an oil company in Africa. And he let the opposition come in and speak. But then he said, "If I sell the stock, it's not going to make the problem go away." Does it help the world if I sell these stocks or, does it help the world more if own the stock and I tell management I support they're doing the right thing? Treat the people right, treat the environment right.

That's our view. We can all say that it's good or bad to extract natural gas from the earth. Or people can wear jewelry or not wear jewelry. Or it's good to have electric cars because they save on gasoline. Or it's bad to have them because you have to mine a bunch of copper out of the ground.

We figure we're not going to get involved with that. We're going to own the copper company and say, treat the environment the best you can. That's our view. And taking that approach one, I think is more helpful. But two, it allows us as you suggest, to buy really good companies at really good prices, because it didn't make somebody else's arbitrary screen.

Sorry if that answer was too long but, it was a very good, important question. Thanks.

Dan Gallagher: Thank you.

Operator: Thank you for your question. We'll next go to Mr. Robert Brower from UBS.

Robert Brower: Hi Dave. I kind of look at your fund a lot like the old SoGen International Fund. And, you know, I like to tell my clients a bit of story about some of the securities that are in these portfolios. And remember back in the day of Jean-Marie Eveillard had Bank for International Settlements in the portfolio, and that was a pretty oddball security.

I'm wondering if you've got a couple of oddball securities that are particularly attractive on valuation that you might do a little workup on?

David Iben: Sure. I'm a big fan of Jean-Marie. A friend of his. I first found his name back in the 90s when people started telling me yes, your portfolio looks a lot like Jean's portfolio. And you're talking about those kind of securities, we didn't have the BIS (Bank of International Settlements) that he did. And of course, they had to sue and everything but, it worked out very well for him. But what we did have in common was Freeport-McMoRan Preferred Stock that was just beyond cheap. It was payable in gold and silver, and it was trading at half the price of what gold and silver were worth. And even though it was exchangeable into gold and silver at maturity, and that was with gold and silver at very low prices. It worked out really, really well.

You know I think a lot of what we have in the portfolio are sort of special in the sense - well, we've got half our portfolio are big, good companies that are throwing out tons of cash flow. But then we do have various companies that have massive amounts of resources in the ground. In the way, they are special situations. Because the market right now says, show me the cash flow and I'll run your stock up ten times. But until I see the cash flow, I'm not paying for it.

So, we have a lot of companies where we're analyzing it that way. And then also quite controversially, just as the guys in The Big Short did a dozen years ago, we've been owning a put option on the S&P which is different. It's, over the last few years, been unfortunate its cost us money but, same thing there. The more expensive the market gets, the more valuable the put option becomes. We're not going to claim to ever have had the ability or have the ability in the future to know, when the cycle happens. But we are absolutely positive that cycles have not been outlawed. That a bunch of bureaucrats have made it go away. And so, the longer the market lasts, and more it goes up, the more valuable put options become. And yet the implied volatility, the main factor into pricing these things is over the last few years, been flirting at all-time lows or, half of normal. That's just a massively interesting possibility. It may or may not work. But the upside is extremely outsized.





Yes, in the past there's been times where we've owned bonds of companies. When they trade double-digit, that's a different world from now. But right now, as far as different, the two things in a wildly overpriced market, the two things I think we're doing different is one, to buy really good companies that are in areas of the world that people don't want to be in Russia, Canada, Korea. Places like that. And the other thing is to buy massive latent value that's not likely to show the cash flow for the few years. Those are where we see multiples and multiples of current prices. And we want people to focus on that.

So, this is a - it's always good to be different. But now it's really, really important to be different so, that's where we stand.

Robert Brower: Thank you.

Operator: Thank you very much for your question. Once again, I would like to remind everyone that to signal to ask a question, you have to press star 1. Once again, star 1 to signal to ask a question. We have Mr. Dan Gallagher back for a follow-up question.

Dan Gallagher: Yes Dave, to follow-up on my colleagues' question could - I know the Range Resource story. If we were to kind of give, you know, an example of one of each of those types of companies, you know, that we could disclose to a client, could you develop that story? Or a big, good company throwing that kind of cash in another one that had huge, latent optionality?

David Iben: Yes, I think if we take the companies throwing off cash. We have Gazprom, it's the sort of thing we talk about where it's been throwing off cash for six years or seven years. And then this year, it doubled. You know I tell people it's what we've been getting a 6% coupon all along. Even after doubling, it's still throwing off cash flows. So, the largest gas company in world throwing off tons of cash flow. And you've got, say, Korea Telecom and China Telecom. And then their big dominant phone companies. And they also earn yields or are double digits.

And so, we've got the utilities, you know, the Russian utilities and Brazilian utilities. I think they're throwing off massive cash flow. In Japan, we've got Mitsui [ & Co.] and Mitsubishi [Corp.] that also, you know, they've only lost money I think, once in the last 70 years. And yet the market will continue to sell them at a single digit PE. So double-digit earned in cash flow yields on those sort of things. So, a lot of that kind of stuff in the portfolio.

Within natural gas we have - I mean there's, outside of Gazprom, you know, who would think that Russia is the nice stable cash flow and the U.S. are the major depressed stocks. But we bought Range [Resources] after it fell from \$90 to \$12. And then it fell from \$12 to \$3.50. It's now starting to bound back.

But there we'll look at it and say, all right, well if the price of gas is two, we may be okay. If it stays around \$2.50, we are - it's also worth a lot more. If it gets to \$3.50, where we think it has to get to, it's multiples of where it's selling. And it can be back in the 20s in no time. That's not a prediction. That's just where we believe it's worth. You know, many multiples so, you know, back to where it was two years ago. If gas could just stabilize at 3 ½ [dollars], Southwestern the same story. Now both of these companies have massive resources in the U.S. and management has been buying lots of stock back. That's the sort of thing we look at.

If you look at uranium, we have both sides of the story. We have the cash flow story of the number one player in the world, and it's in Kazakhstan. But they're making lots of money, even at depressed prices. And, they have some optionality. And, then you have the number two player in the world with Cameco [Corp.] that's still making some money.

Then we've got a handful of companies that have a lot of uranium. It's just sitting in the ground, which we approve of. We prefer they don't build a mine. We prefer they wait for uranium to find an equilibrium price and sell themselves to the bigger guys. And there, the upside is many multiples.

Also, within gold we have Newcrest which is arguably the best run company in the business. They're diversified. They make lots of money. And they tend to make sound investments. On the other hand, we have some companies and they have mines in the U.S. and Canada. There was not a lot of political risk, but - well they have resources not mines. And





same thing there. If you figure out, what is the value of that gold in the ground, and you subtract all future CAPEX spending and expenses, you name it, it's many multiples higher than these stock prices are trading at multiples.

And so, you know, that's gold, that's uranium, that's gas. Which is where most of our resources are.

And then you know, off and on we go in and out of shipping companies, tankers. Take advantage of when people go back from liking oil better than dry bulk. And then they change their mind and back and forth. But we tend to buy ships when they're trading at about a quarter of what they're worth. Now they don't get there for no reason. They get there because the companies are losing money at the bottom of the cycle. But yes, every time there's a hint the cycle turns, these stocks go up multiples. There's another optionality.

So, most of our resource tangible assets have massive optionality. And most of our emerging markets and Japanese companies are cash flow machines.

Dan Gallagher: Thank you for that.

Operator: Thank you. We'll take our next question from Bruce Daigle from Raymond James. Please go-ahead sir.

Bruce Daigle: Hi Dave. Thanks again for the excellent call. It's very helpful to us. I just have one question. Do you have any concern with what's going on in the repo market today?

David Iben: Concern? Well I mean, I can say that the Federal Reserve is very concerned. They have to be very concerned to throw that many hundreds of millions of dollars at it. So, if they're concerned, I guess we should all be concerned.

From our standpoint though, I don't think we know any more than the next guy does. But it is interesting that when the Federal Reserve is interested enough to print that kind of money, you know, all these resource companies and emerging market companies I've talked about, we're perfectly happy owning them. If there's never earning inflation again, they're that cheap. But when the Federal Reserve is scared enough to pour that kind of money into it, that's a tailwind that we're getting for free. That's a potential huge upside.

So, some people are concerned. I can't add any more than anything else you're reading.

Bruce Daigle: Okay, thank you.

Operator: Thank you very much. This concludes today's question and answer session. I'd like to hand the conference back over to our speaker. Thank you.

David Iben: All right well, once again, a new decade. Interesting times. A lot to talk about. And thanks for spending the time with us. We'll talk to you next time.

Operator: This concludes today's call. Thank you all for your participation. You may now go ahead and disconnect.

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