KOPERNIK GLOBAL INVESTORS, LLC

Edited Transcript of the 4th Quarter 2020
Conference Call with David Iben

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

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

Kassim Gaffar: Thank you, Operator, and welcome to the Fourth 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 of the Kopernik International strategy. And also Alissa Corcoran, our Director of Research and Analyst.

First and foremost, I would like to kick the call off by saying how appreciative we are of everyone's support especially in times like these. We hope our client's prospects and their families are doing well and are safe. Before I pass the call to Dave and Alissa for the bulk of the call, I will be providing everyone with a quick business and non-investment update (slide 3). The firm ended the fourth quarter end year on a strong note with overall firm assets of roughly $5.2 billion. This was a sharp increase over the previous 12 months with a year-over-year total over 25%. As comparison the same time last year our assets were at $4.1 billion. On the personnel side, we're currently 39 employees strong and continue to be stable with minimal turnover since inception of the firm (slide 4).

Moving on, I would like to mention another update (slide 5). After considerable consideration and consistent with our approach of limiting capacity in order to enhance return potential we have decided to proceed with a soft close of the Kopernik Global All-Cap Mutual Fund. The soft close is effective March 31, 2021. Existing investors who currently have investments in the fund will be able to invest additional money. The Global All-Cap strategy will continue to be open in all other vehicles, including separate accounts, private funds, CIT, and UCITS. Also as many of you know we also offer a similar mutual fund, the Kopernik International Fund, which now has a stellar five-year track record and is managed with the same investment philosophy and process and has a high degree of overlap with our Global All-Cap Fund.

As many of you know we have a history of closing strategies at a much lower level than our competitors. Additionally, at our previous firm Tradewinds we often soft closed portfolios usually at levels that many found to be unexpectedly low. Some were surprised and most appreciative that we are protecting the alpha generation potential of the portfolio. This continues to be a very important tenet for us at Kopernik. It is our hope and belief that these actions demonstrate that we place the wellbeing of our clients paramount. We are, of course, constant and this causes some inconvenience for clients, but I'm hopeful that clients agree that it's well worth the cost of being able to maintain the alpha potential of the investment portfolio.

That brings an end to the business update. Please note Dave and Alissa will be referring to the presentation, which can be found on our website www.kopernikglobal.com under the News & Views section. Also we do have some new content including some great new, topical pieces that we have posted to our website and encourage everyone to have a look after this call or at your convenience. And with that I'll pass the call over to Dave. Dave, please go ahead.

Dave Iben: Thanks, Kassim, and welcome, everybody. Happy New Year (slide 6).

It was quite a year, so we have quite a bit of material. It's a year that many of you as having the crossed the Rubicon. Certainly for good or for bad we've entered a new era, an era that embraces big government, unconstrained economics, QE infinity, reliance on the social media, changing rule of law, and guaranteed negative returns on bond investments of $18 trillion around the globe at negative interest rates. It's probably one of the most pivotal years since the Civil War. (slide 7) Anyhow, view it as the age of fake news and certainly even before last year but especially after - here people are shaking their heads. They are struggling what to believe, what to make of this. The consensus anyhow seems to be drifting. They seem to be accepting new philosophies, new beliefs, new principles, new values, new policies. So interesting times.

Our goal here is to make loud and clear our take on things, to make clear what we stand for (slide 8). We don't have the answers of what's right for everybody else, but we can make clear our view and why. I'm basing this presentation on my forthcoming commentary called "Everybody Knows". As a back story, a year and a half ago a lot of us were up in Canada. It turned out to be good timing. We were doing research on the natural resource companies. What a perfect time to be meeting with some of the oil and gas companies and the various gold mining companies and uranium companies, so that was good timing. I think it's been very helpful that we were able to do that.

Anyhow, while we were there, we were at a restaurant in Montreal and we see the view you see up on the screen hopefully (slide 9), and we're asking who's the person up there. The waitress says, well, that person is the poet. And we're thinking who's the poet? We knew we recognized him. Maybe he was a poet. We view him as a singer – Leonard Cohen. A lot of people don't think they know him, but once you mention the song *Hallelujah*, everybody's like oh yes, we know him. Anyhow, that's a great song, *Hallelujah*. Everybody knows of another song of his. It tends to be a rather dark song but also a funny song in ways. Anyhow, dark and funny, what a perfect way to talk about the current environment. I will continue, and our screen seems to be going haywire. Hopefully you guys are – can still see the pictures, but interesting enough the song was written back in 1988, and some of the words, it's almost as if he anticipated the plague. It anticipated an era where technology knows more about us that we know about ourselves sometimes.

So anyhow with that, our plan is to discuss what everybody knows (slide 8) in the investment world here in 2021. And we want to contrast that to what people have known over the centuries, and it's very different. Hoping the screen gets back up here anyhow, but we're contrasting current views to what we will call editorially the *wisdom of the ages*.

We will start with basic economics (slide 10). The idea that prosperity has no bounds. Versus through most of time people viewed scarcity of the main factor. As a matter of fact, the definition of economics is the study of how people allocate scarce resources, so we for one still think scarcity is a very, very important thing. The unlimited, unconstrained growth that people anticipate now, is something that we think just doesn't work. There's a law of large numbers. You can only grow so big.

Another thing would be currencies. As the currency grows people do not view that as inflationary anymore. It used to be that inflation is always and everywhere a monetary phenomenon. The lower –the more debt means that that's riskier, but now people believe that debt is a sign of lower interest rates. The more debt, the lower the interest rates. That's converse to over the centuries the more over indebted somebody was the less likely they could pay you back, and the less likely they can pay you back the higher interest rates you want. The more shares, the better the value. Certainly, that's embraced nowadays where mostly people thought you sliced the pie into bigger or smaller pieces it doesn't make the whole pie worth anymore. So, this is an interesting environment we live in. Still don't know what's going on with the screens here. Apologize for that. I have some slides that I guess you probably can't see unfortunately. We want to hammer on. Having been an economics graduate myself, I want to hammer on the importance of scarcity.

So, we have a slide that shows what is a bottle of water worth and we have a picture of somebody crawling through the desert (slide 11). To him I imagine there's almost no price he wouldn't pay to have that water. Contrasting that to people in a flood zone. There it's up on the screen now hopefully. Certainly – there it goes again – certainly water is worth more to somebody in the desert than to somebody that has an overabundance of water. We have another slide where people would be needing water badly but still rather go for coffee than for water (slide 12). And then we have a slice of pizza (slide 13). We've used similar things in the past. We have a pizza that's cut into four slices, and then you take a pizza of equal slice – equal size and you cut it into more slices. The world seems to think that the whole pizza's worth more now. Cut a slice into two. Each piece is worth more than half, sometimes way more than half. Certainly the Robinhood traders think so. And then, of course, one of the more important points is what applies to pizza also applies to corporations and share splits, but it also applies to the money supply.

Wealth is what it is. There is a certain amount of wealth in the country, and you can have - I was just saying – okay. So, it sounds like the slides are going to be down for a while. The slide you would be seeing (slide 14) shows a small stack of money and a large stack of money, and the idea is the same. If you have the wealth of the country split into four trillion pieces represented by dollar bills, and then all of a sudden four more trillion materialized out of thin air, now you have eight trillion pieces, but the wealth pie hasn't gotten bigger. The wealth has stayed the same. Clearly each dollar bill has lost half it's value.

Richard Cantillon will tell you that happens slowly and over time and mostly affects some areas more than others. That's true. It clearly doesn't create more wealth, but it does redistribute wealth. It redistributes wealth from savers and investors to borrowers and speculators. So that we think is important, especially now when people in government are deciding who gets the new money versus who's left with the old money. The slides might be working.

The next slide we're talking about (slide 15), all right, there's supply of money has gone up a lot. This is M2. We prefer M0. They're all going up quite a bit, but as Charlie Munger points out, *we're playing with fire*. This sort of money printing has never worked well without – as a matter of fact it's always led to some kind of trouble. That certainly will be the case. What and when remains to be seen. But that's a problem that even worse that the out-of-control money supply is the fact that investors aren't even worried about it. As a matter of fact, they want more. They're begging the central banks of the world please send us more money.

And moving on from abundant money to abundant debt (slide 16), debt, of course, being claims on future money, that's even more distressful. The money – this can be the amount – or the amount of debt has grown a lot world-wise we can see there. As we mentioned before, the money's not being spread out evenly, and the governments are deciding whose debt gets to be refinanced and whose doesn't and whose gets to be forgiven altogether. So, you have a big debt problem combined with a distribution problem. And once again, worse than the buildup in the debt is the fact that nobody seems to be worried about debt. There's a lot of years of people being programmed that too much debt is not a problem, that it will always be taken care of.

In addition to the abundant creation of debt is the idea that seemingly that's not going to stop because where does the debt come from? (slide 17) It comes from spending money we don't have. These charts are the federal government. We have a big increase, but also as a percent of GDP, it's a big increase. This chart's a little behind now. I think it's now bigger than it was in World War II, so fascinating times. And worse than the fact that they're spending is the fact that they're embracing the spending. There is every reason to believe the spending is going to on. MMT is all the rage (slide 18). Three of us just came back a few months ago from a conference that Jim Grant had up in New York where they had Stephanie Kelton, the high priestess of modern monetary theory. She's a great speaker as you might expect. We would encourage people to listen to her podcast or read her book. She makes the case pretty well.

However, having heard of it – about it from the best, our mind's not changed. We think she had a different definition of money that we do. She has different views on constraints and different views on whether money and wealth is a function of government policy or a function of private sector store of wealth. We continue to believe after having heard all the arguments that money does not grow on trees.

So, moving past the economics, let's get to the stock market (slide 19). People now think that value doesn't matter. I see more and more quotes now. It's more abundant than it was back in 1999 about value doesn't matter, value's going to hurt your performance. We've heard a portfolio manager with one of the big firms on record as saying if you pay attention to value you will always underperform, so fascinating times. People believe that all you need to do is pick the right business and things will work out. They only go higher. They better be right because valuations are the highest that they've ever been relative to GDP as you can see, relative to – well we have all financial assets as well as stocks both at a record compared to GDP. And we're still in the camp that Value is everything, that the price you pay determines the returns you're going to get.

This next chart shows (slide 20) not only that the S&P's expensive versus a lot of majors, but if you compare stocks, bonds, real estate to earnings and wages and rentals and things that support stocks and bonds and real estate, they're out of whack. So, we understand that printing money will probably be quite inflationary and inflation should bring the price of assets higher. It has and may continue.

What cannot happen is for assets to continue to perform way better than they're underlying fundamentals. The inflation needs to start transferring into the other fundamentals. We might already be seeing that. You're starting to see some basic goods, foods and metal, things like that start to move up, so we might there.

But one of the reasons people think price doesn't matter is because of technological innovation, that technology justifies valuations. We've talked about this. There's a good case to be made that this time's pretty impressive. Reading about AI programs, about how Google's AI program took four hours to become better at chess than not only the best humans but better than the best computers. Better than Big Blue. It's really fascinating. Anybody's that's seen the social dilemma, it's worth a watch, too. AI is powerful and potentially controlling people, so people have a case.

On the other hand (slide 21), history shows that technological innovation has always happened. It was big in the 20's when people came out with automobiles and telephones and assembly lines and you name it. It was big in the 60's with semiconductors and a lot of other things. Usually when technology makes big strides, society is better off. Costs drop, central banks use the dropping cost as an excuse to print more money. Money printing combined with people's excess enthusiasm usually causes bubbles. So right when things look the best is right when the markets ought to be viewed with skepticism. So yes, Yuval Noah Harari has written a book recently. He's talking about how technology favors tyranny, so technology is very good. It is potentially very bad, but it doesn't, we don't think, affect mathematics.

The next page, though, it's not just all tech (slide 22). It's a handful of titans, the fangs and a few others that seem unbeatable. We've written the commentary that's on our website posted about three weeks ago where we halfway concede. We say they have many good points. These companies are very hard to beat, and unlike '99 they're very profitable.

However, we still believe in history. We still believe in logic. We think that when things become very big, when things have market caps of $1 trillion and $2 trillion you can't grow fast for very long until you become bigger than the entire U.S. government. Not likely. But we wish people well. Those stocks might do well, they're great companies. We just believe that more money can be made in other stocks that we'll talk about later. What we don't think is defensible is the non-profitable companies. And we saw this in the space back in 1999 but this time it's even bigger.

The way to make money in '99 was to buy the losing companies and matter of fact you would've lost money if you bought the stocks of all the profitable companies (slide 23). But it was a huge up year for the market because you made 56% if you only had profitable. Lately, we think profitable companies are going up a little bit too but the real money's being made by unprofitable companies that have an idea. Companies that mention vaccine or mention EV or mention battery or come with facts and say, "tell you what, give us a lot of money and we'll buy whatever we want to do but it'll be something probably exciting and when we do that we'll take a lot of the economics". Money is pouring into these things. So, we think eventually stock prices need to be supported by fundamentals. We believe that bodes well.

I guess to reiterate, times of great promise often create great bubbles. We have seen this many times before. It's likely to happen again (slide 24). More important than whether we're right about the expensive stocks though we think things are really, really exciting for the stocks people that are missing the things that are being left behind, so enough with the negativity. We think it wouldn't have been fair to not mention some of the obstacles faced by the market. But the rest of this presentation's going to be positive. And to talk about the positives and the exciting things we're seeing. Let's turn things over to our Director of Research Alissa Corcoran.

Alissa Corcoran: Okay. One advantage that – one thing that we are taking advantage of to make money in these markets is taking advantage of the fact that everybody knows that volatility is risk. However, prior to the academic world trying to quantify risk as one number, everybody didn't always think that volatility was risk.

In fact, they thought that it was opportunity and that it was just part of the real world. It's part of business. In fact, a famous mathematician Claude Shannon (slide 25), he worked at Bell Labs, MIT professor. He's very well known for his contributions in telecommunications. He came up with something called the Shannon Demon which is simply a rebalancing method where if you have a portfolio 50% cash, 50% stock and you trim and add opportunistically that even if the stock goes nowhere you can make very strong returns.

This has been true in our portfolio and we picked out a handful of examples to demonstrate this (slide 26). Southwestern Energy, we bought the stock around $2 a share and it really hasn't gone anywhere from there. I mean, it's up but we think the upside is much larger than what it is today. However, trimming and adding opportunistically we've made a lot of money on this stock. Similarly, with the gold mining companies selling in 2016, buying the next couple years, buying a lot more when the miners fell 50% for no good reason, selling in the summer of this year when they bounced back 100% and now buying again. But like as you can see the gold miner's index has not done much over the last five years. However, we have made a lot of money in this area by doing these trims and ads. Gazprom, the same thing, in addition to collecting our 6% dividend over the last couple years we have trimmed and add opportunistically and made good money.

This volatility has, this year this quarter, allowed us to buy four new commodity companies (slide 27-28). Royal Gold we've owned in the past, same with Equinox but two new gold companies IAMGOLD and Western Copper. We've also added a Korean telecom LG Uplus. We've added to some of our existing gold names, added to some of our oil, palm oil, emerging market companies and the volatility has allowed us to reduce positions in EDF for example, BrasilAgro, , China Telecom. We've eliminated GE for now a second time. Hyundai Motor, which was a company that we highlighted in the second quarter call of being extremely cheap, especially relative to Tesla - a common stock is now out of our portfolio since it's up 180% over the last six months. We still own the preferred stocks, however.

The international portfolio is the same story, we have slightly different positions here since it is limited to owning companies that are larger than $2 billion. But the story of using volatility to our advantage is here as well.

Using volatility is important, but also, it's important to make sure that you are buying something of value (slide 29), as Howard Marks titled his latest commentary. In his commentary he makes a lot of great points about value investing, particularly that it's more than just buying companies with low P/E's or low price to book. He makes the point that value investors today are relying on wrote valuation formulas. They're trained to be pessimists and as a result they're missing opportunities. And we completely agree with this. We think that you've always – value investing has always required investors to take more of a thoughtful approach than just buying low-key stocks.

And in addition, because things are changing so rapidly forecasting earnings far into the future doesn't make sense. DCF models are very flawed. However, they can accurately point you in the wrong galaxy. So, it's a very difficult thing to do. You need to be thoughtful.

So, what's an investor to do? Well, as we hammered home a number of times value is prerequisite (slide 30). You have to value the business and buy it for less than that. But as we just discussed, figuring out what a company is worth is very difficult. Charlie Munger has said in the past that anyone who thinks that investing is easy, isn't thinking. And we agree with it. You need to be more creative with your valuation techniques.

In addition, today's markets with the rapid change you need to have much larger margins of safety. You need to demand larger upside. From that standpoint, a venture cap approach might make sense. However, as Dave pointed out with the earlier chart, this too is getting expensive. The public markets have taken over venture cap and companies that don't make any money are extremely expensive.

Using more creative valuation techniques, we are still finding that the principles of behavioral economics still stand. When you can value companies on different metrics, on tailored metrics you can see that even with all the information at investors' fingertips, people are still more comfortable investing with a crowd. They're not willing to take career risks. There's a lot of money out there that is being invested passively and are therefore price insensitive. So again, using a more thoughtful approach you can take advantage of these opportunities. We believe this is one of the strengths of our process.

In addition to all of the traditional metrics, we have long used industry specific metrics (slide 31). We've always said that book value is more appropriate for asset heavy businesses. Earnings might be more appropriate for an asset light business. In addition to these, we have priced gold on price of ounce, price of pound, price of barrel using an incentive price for those commodities. Research stocks and shipping socks, we look at what the price is to liquidation value. Our conglomerates, we value on some of the parts. MOEX and Sprott, we're valuing on potential because their earnings today do not at all reflect what they – we think they could be in the future. Land value, we're buying Ukrainian Ag and Palm Oil based on how many hectares they own. We look at price per subscriber for Telecom. Utilities we look at price to book but we've adjusted their asset base to reflect what we think it would cost to replace those assets.

And using these tools as our guide we have been able to find value in two broad areas (slide 32), the strong franchises in Emerging Markets. These are companies that we value on these traditional metrics and as a result because people are – because the U.S. has sucked all the monetary energy out of these places that nobody wants to invest in you can buy monopoly type businesses for single digit PE's.

RusHydro or Federal Grid are basically monopolies in Russia, and you can buy them for four times earnings. The other areas that we're financing in are the latent value companies, and these are the companies that own scarce valuable assets but may not be producing cash flow today. However, we expect them to produce a lot of cash flow in the future. These are as we talked about before the Mona Lisa companies. The Mona Lisa doesn't produce cash flow today, but the Louvre could monetize it at any point if it chose to do so.

As Howard points out, the traditional price to earnings metrics would not capture these latent values. As you can see, our price to earnings multiple in the latent value bucket is very high. However, the other metrics are extremely low. And in the traditional bucket you also see a low price to earnings, a 32% cash flow yield, 60% of book value, less than book value on tangible, so these are very cheap metrics. If you look at our portfolio view, we're still a very cheap portfolio and on an absolute basis and as a relative basis compared to our benchmark.

So, to sum it all up, I will hand it back to Dave.

David Iben: All right. Thank you.

You always hear people telling stories about how when their phone's in their car and they're talking about a certain place they start getting ads on the certain place, the technology companies are listening, I start bad mouthing the multiple – the tech stocks and we started having tech problems for the first time ever. I apologize for that but hopefully we can get through our next three or four slides with no more problems. And it should be on our website if you want to go back in and see the slides to back up some of this.

Three more slides. Quickly, what we believe, we believe that scarcity does matter (slide 33). It matters a lot and we think there's going to be a price to be paid for too much debt and there's a price to be paid for too much money. But in an irrational market things are very, very bifurcated.

Counter intuitively, scarcity is actually cheaper in the market than abundant things. And as Alissa said we're finding great value. Our portfolio we think is worth three more times when it's selling now, more than that on the latent value side, a little less on the traditional side. So, real assets very inexpensive, value that's really inexpensive relative to the momentum, probably the most ever.

Within value, the Graham and Dodd sort of asset value – form of value is the cheapest it's been relative to quality grant sizes in decades I think. Small, generally is still cheaper relative to large. Increasing volatility as Alissa said is a good thing that I think leads to continued opportunity for active managers to try to capture that volatility.

So, it's an exciting time to be an active manager where we agree that technology's changed things (slide 34), the world's moving forward. A lot is different. We strongly believe what is not different is the rule of governing mathematics. And we think the principles of economics still hold and we believe that human beings are still irrational at times and in crowds they can be quite irrational as we see all the stuff the Robinhood crowd is up too lately, so we do believe that now's the time to be an active manager. It requires patience.

And just to finish up (slide 35), we talked about how most people know Leonard Cohen's "*Hallelujah*" chorus. Talk about patience, it took him five years to write that thing. He releases it. Obscurity for over a decade. Over the next five years a few people started to pick it up and it was still hardly picked up. Now it's one of the more popular songs. It's played everywhere. It's very popular. Looking at the number of people that cover it is immense.

So, sometimes beauty takes a long time to get to the beholder. That's how we feel about the sort of stocks in your portfolio.

And with that, we'd be happy to take questions. Thank you.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star one 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. Again, press star one to ask a question.

And we'll take our first question today from Louis Meltzer with Morgan Stanley.

Louis Meltzer: Good afternoon, Dave. Pleasure. Two questions, I'll ask the slightly more complicated one first. When you think about '99 compared to today's environment, you got Treasury prices plus or minus 5% on a 10-year. Multiples on some of the big names in the S&P like the Microsoft's, the Google's are around call it 30 times next year's earnings, which if memory serves me in the '99 the S&P traded almost to this multiple.

So, under that kind of backdrop, why wouldn't equity prices stay at these kind of levels and perhaps even trade higher or an a multiple basis, with Treasury prices being where they are?

And then the second question I was hoping you could dive into is what your continued investment thesis is around CAMECO? I ask that because we have one client that's a major, major investor in the renewables business, runs a multi-billion dollar business. And he just keeps talking about how the cost to renewables are going cheaper and cheaper and cheaper.

And I want to see how you think about that in relation to the Iranian play.

David Iben: Certainly, very good questions. If you compare now to '99 or '72 or '29 there's comparisons, there's possibly even more comparisons to 300 years back the South Sea Bubble and Mississippi scheme.

Focusing on 1999, the good news as you say is back then you had a lot of companies that were really, really high priced. And with hindsight less dominant than we might've thought too. For now, it's hard to argue with the dominance of a Google or Facebook. So, that maybe argues in favor of now and certainly I will say stocks can't go higher. I would've said that a few years ago. They're going to do what they want to do.

What they're worth in the long run though is something else, so let's start with different things. '99 was in a lot of ways better than now because in '99 as you suggest bonds were a reasonable investment, real estate was a reasonable investment. Stocks for the most part that weren't indexed stocks or weren't part of the TMT mania were pretty reasonable.

Nowadays, bonds in my humble opinion are uninvestable. Why somebody would lock up money for 10 to 30 years that in many cases guarantees loss and in most cases are guaranteed after inflation loss and economic loss, so that's tens of trillions of dollars that were a good investment in '99 that aren't now.

And then if you take economic theory it would suggest that the cost of capital and the return on capital should converge. That if there's a big gap people will borrow money and invest it. And the more they barrow the more the coast of funding's going to go up and the more they invest their returns are going to go down and they will meet each other. That we watch happen in Japan and we watch happen in Europe and we watched happen over history. But in the U.S. it's been going the opposite way. Some of that is because these companies are really good except for that there are lots of companies that are over earning and companies are massively indebted. And as we saw briefly last spring the massively indebting could lead to some problems, so you can make a lot of money and then it all goes away as you go bankrupt. The Fed's keeping them from going bankrupt. Some companies are going to be big winners but you read more and more about the zombies, they're just being kept alive but they're making nothing and they're on life support. So, what are the two returns for something like that? So, pretty much if you're buying a lot of these stocks now you are saying that economics is out the window. Like I say, scarcity doesn't exist. A lot of large numbers don't exist. The idea that the marginal return on capital shouldn't come down to the cost of capital and you're also betting that the cost of capital will never go up and, yes, we all understand that the central banks cannot allow interest rates to go up.

Understood, we all know the reasons the economy will collapse if that happens. But it can't happen and the same time it must happen. Eventually when you are printing currency out of thin air, people lose faith in their currency and it always happens throughout history. I'm not aware of a single time where people have printed a bunch of money and it didn't lose it's purchasing power. As people start to figure that out, and you're starting to see a few signs of that now, people, you know, they're happy to front run the Fed but other than that they're not happy to loan money at a guaranteed loss.

Sooner or later, like we're starting to see in Japan, the central banks buying everything. Eventually that leads to huge problems. And so, inflation adjusted, the margins won't be likely people think they are adjusted for inflation. Let me turn to the stocks, might not be what people think they are.

So, like I say, buying good companies at okay prices you will be fine if the companies keep doing well and if margins don't fall and if the cost of funding doesn't go up and if inflation doesn't pick up, you'll be fine. It might work out, but we're not willing to play the risk reward. Better yet we like buying, we'll eventually get to your next question, like buying uranium for way less than a sustainable price. Yes, if there's no inflation, uranium fundamentally needs to double or triple. If there is inflation, it'll do a lot more than that, even in fact the same with agricultural goods and we can talk the same with ships and we can talk the same with generation capacity and oil or gas and you name it.

So we will let other people count on perfection. We're saying looks like something that's going to double. We don't think there's a case to be made that in the next 10 years people will stop using electricity or stop heating their homes or stop using copper to build electronic vehicles with. Those things are still going to be here when the prices double. The math works pretty good if it takes one year, five years, 10 years, the math works pretty good. And the company's in the ground, you're buying them at cheaper than the spot price of uranium and copper and gold and things like that, so that we find pretty interesting.

We like, on value and growth, having independent stock versus people telling us what growth is. We've got a webinar coming up in a few months talking about ESG. We're big fans of thoughtful ESG and we're not at all fans of thoughtless ESG or people sending you a list and say these are bad, that we like the opportunities it's increasing, that we'll go on that into the future.

But it is interesting, nuclear, it's clean, it's cheap. There's no CO^2 to speak of, but it's got the problems that we read about every few decades. On the other hand, wind and solar, they also have no CO^2 and they're nice and clean and they, as you point out, are getting cheaper and cheaper.

On the other hand, the carbon footprint of building a windmill is pretty amazing, the carbon footprint of solar is pretty amazing, then you take things like gas, they are not as clean as solar or wind but it's pretty clean, pretty abundant, pretty good case to be made for that.

We suspect when it's said and done that a population of when I was born, less than 3 billion people, is now getting close to 8 billion people, it's going to use electricity. And the population keeps growing, people lose even more electricity. And with companies mandating EVs, there'll be even more electricity. And when it's all said and done, you don't have capacity to have very much hydro. There probably won't be a whole lot of nuclear added, but there certainly is a few dozen being added in that. Where's it going to come from? Solar and wind are growing quickly, but they're growing quickly from next to nothing. So, they will keep gaining share, but they won't be the total answer, so people should consider different things. One, natural gas is taking share from coal. That's a good thing and that bodes well for natural gas companies. And they should consider that where uranium, nuclear, will not have anywhere near the growth of solar and wind, it has way more sight and uranium is the inventories have been dropping and dropping and dropping.

You don't need to make a case for any growth in the industry to mandate a big increase in the price. The economics we always talk about incentive price, that equilibrium price that will bring on supply. You talk to companies, you get that idea, but you like to see the facts back up the theory. The theory is that the price at $30, down from $137, is too low. The facts are that at $30, Cameco closed a mine and then they closed another mine and Kazakhstan cut back production, they cut back production again and the Chinese have closed some mines. There's a couple of mines in Africa that have been closed and their costs are way higher. So, economics suggest the price of uranium is going to go way, way higher, that it is a piece of the puzzle, is a piece that's environmentally, this is debatable, but a lot of people view it as environmentally friendly, certainly way more so than coal and way more so than oil and probably more than gas, arguable not worse than wind and solar. So that will be a piece of it. Also, solar works best for their sun. That's where the growth should be, wind works best where there's wind and solar doesn't work well at night. And so, I would suspect the future, you'll see solar get built up in the hotter zones and you'll see nuclear focus more on the colder areas, it makes sense.

But we are not saying oh, nuclear is going to out really fast. We're saying we're assuming it doesn't grow at all even though the evidence is it will grow. But without growing at all, we need much higher prices of uranium to supply existing, long answer there, but it was a good question.

Louis Meltzer: Thank you Dave, have a nice day.

David Iben: You too.

Operator: As a reminder press star, one if you have a question. We'll hear from Dana Lambert with Morgan Stanley.

Dana Lambert: Yes, thanks, Dave and team for the presentation. Maybe a bigger picture question that derives from some of our macro reading just on the topic of inflation. I think there's a couple schools of thought. In the consensus school I think sees it perking up along with rates and dollar weakening and that's I think become even more overwhelming consensus.

I think there's another school of thought also I keep sort of paying attention to, which is the monetary velocity argument which would suggest that the Fed could print another $10 trillion tomorrow but if it sits on bank balance sheets and remains stuck in the treasury/bank transmission mechanism that's a very imperfect mechanism and of the Japanese example and other examples would start to show that you really need the multiplier effect and velocity to pick up to see the real – the string really tightened and to see an inflationary outcome.

And maybe some of that gets masked as we hit escape velocity from the COVID crisis, et cetera. But, there's the underlying deflation arguments feel like they're still compelling led by overwhelming debt to GDP, technology adoption, aging demographics, et cetera. So just curious if you have any thoughts or views when it comes to kind of the – that debate and how we get to that inflationary outcome, $7 trillion into QE here?

David Iben: No, we certainly have thoughts on that. I want to start out by making clear we are bottom up in the stocks in the portfolio. We think we'll do very well if there's no inflation because they tend to have higher earnings yield, higher cash flow yields, big priced upside on some of these commodities.

We thought about even with no view on inflation because they're below the cost of production. So, we own them without any view on inflation. However, many of these companies will do very, very well if there is inflation. So, we have inflation protection, which we feel good about because as you point out there's a lot of people coming around thinking that maybe the last 15 years of or 13 years of what I'll call reckless monetary policy is going to eventually come home. It's probably starting to.

MV equals PQ. To us if the money supply doubles the money has lost half its value. It's that simple. Done. So we certainly believe the concept. As a matter of fact, Copernicus came up with this back in the 1600s that money leads to price increases. I think that's purely logical and historically provable that printing money does, in fact, cause inflation.

There's many problems with the current use of MV equals PQ. One, people don't really agree on what M is. We go with the monetary base. We believe that's M. V, of course, is just a plug figure, so it can never be wrong. It makes the equation right, but importantly PQ, that's the economy except for, is it the economy? Because what do they leave out of PQ? They leave out real estate for the most part. They leave out stocks. They leave out bonds. So they leave out all the important things. And so, when money supply goes up, that's inflation. If the symptom of inflation is in the bond market and the stock market and the real estate market, people say there was no inflation. V collapsed when they know V didn't collapse. You just didn't count the inflation. And that often happens when people print money. It goes into the markets and everybody's happy with a bull market. It's not until years later that it starts to spread into other things.

We talked earlier about how these things can't be – you can't have assets outstrip their fundamentals forever. The inflation has to find it's way into the fundamentals or the assets need to fall. The central banks have made it pretty clear they want the inflation to spread. They don't want to allow the assets to fall.

And so, that is the major flaw, but another important flaw is the major inflation so they can tell us, "hey, there's no inflation." We all know that's not true. And in addition to the stocks and bonds and real estate they just talked about that aren't counted they used hedonic adjustments. And so, they say well if the price of beef goes up we'll assume people will eat more chicken, so they didn't really go up. And if the price of a car goes up a lot, we'll say well the car's better than it was. If a computer is twice as fast as the computer a few years ago and the price is doubled, they say no, this isn't double. It didn't go up at all because you've got twice the speed.

They actually do these things and they have the Boston Commission do it. You have shadow stocks that calculate CPI based on what would have happened if they don't count the adjustments of the Boston Commission made way back when and just the way they used to calculate it like CPIs in the high-single digit. So they mis-measured it. They also don't give enough weight to medicine, to healthcare, to education, the things that are really important. And so, yes, if the price of a computer goes down, the price of a sweater goes down, big deal. How much do I pay on computers and sweaters every year versus how much you pay for your housing costs and how much you pay for education and healthcare. My God, if any of you run your own business like we do, it's unbelievable what the healthcare cost is. And then housing they actually mis-measured it. They say, well, if the price of housing doubled, the interest rates fell, so your mortgage payment didn't really go up. And the rent equivalent, no, the price didn't double. Well tell that to the guy who's trying to buy a house.

And so, inflation is already way higher than they admit, and they've already admitted that they're willing to let it go above their range. And they miscalculate a lot of things. And so, we think increase in M leads to an increase in PQ. Always has and must, but PQ needs to be measured correctly. So, you're starting to see the inflation we believe can go beyond assets. Now you're starting to see food prices go up and copper prices go up, and oil prices at least rebound a little bit. Probably a long-term trend, but these things take longer than people would think.

Dana Lambert: That's appreciated. One quick follow up just on the commodities prices themselves, when you look at your inputs for valuation, is it pretty much always assumed or are you fairly strict about the notion that taking today's price and only today's price rather than a future projected value is how you should derive valuation work or analyze the companies rather than counting on any kind of tailwind in the commodity?

Dave Iben: That's one factor, current prices. However, commodities are difficult. Cyclical things are difficult. There is no clearly right way. There is a clearly wrong way to play commodities we believe, and that's to not like them when they're at the low point of the high price of the cycle. So, we do tend to look at it in the current prices, but we also going back to that concept of what is the equilibrium price? What is the price that it must get to or we're going to run out of copper or we're going to run out of natural gas? What's our stock worth at current prices? What is our stock worth when things get back to that equilibrium price, which they must? And so, that is a big input into our theoretical value, but we don't calculate any inflation. And although when we're doing gold companies, we look at that incentive price, but we also do pay attention to how much money has been printed.

If not, how much has already shown up into the inflation index but how much has been printed? There's been plenty of times in history where currencies were tied to gold. When people lose faith in fiat currencies you'll start to see those comparisons again, so that's another factor.

Dana Lambert: Thanks a lot. Just maybe real quick on the gold equation. Seeing the price of the mining stocks relative to the metal, and I think it's been plummeting 10- or 20-year lows. Any takeaways beyond sort of the frothy of the environment we're in for tech and growth and all the rest because I think it's probably surprised a lot of gold investors even or mining sector investors that you get back to the 2011 highs and the stocks still are nowhere near the valuations they got to then.

Is that just an environmental thing in your view? What might else might account for that? And what's it going to take I guess to – do we have to just sort of break out the new highs and then all at once there's a big leveraged up-side move in the minors?

Alissa Corcoran: Yes, I can answer that. I covered the mining sector for many years. The gold mining companies are starting to be appreciated. However, investors – they burned investors so badly, especially after 2011 - that I think investors have been slow to come back to them. They've been slow to trust that management teams won't make mistakes again. What the management teams did in the past, was they levered their balance sheets. They acquired assets at the wrong time, and then when gold collapsed, they had to sell off assets or, I mean, Barrick is probably the best example of a management team that did all the wrong things. They bought copper at the top. They hedged at the wrong time. They – when the price corrected, they sold off a lot of assets. And what we did was pick up on these gold miners that took advantage of those mistakes.

We owned companies like Centerra, like Newcrest, that bought gold mining companies at the bottom of the cycle. And now I think the cash flow yields are good and investors are starting to come around to them. However, over the past year the gold mining stocks have basically kept up with the gold price increase. They were outpacing in the summer and then they gave it all back in this last quarter and I think you touched on that with the increase in the tech stocks it's very hard to – for investors not to invest in the crowd. And so they were – the gold mining companies are just not as attractive as a Tesla that goes up every single day.

But we think that the upside is massive. The fundamentals, as Dave pointed out, are better especially after they printed trillions of dollars this year. And, so we still have a 25% position in these gold mining stocks because we think that that the investors will come around to the fact that the fundamentals are there.

David Iben: And two things to add to that. Because managements do sometimes disappoint us, and government sometimes disappoint us, and geology sometimes disappoints us, and different things are going to happen; we actually give massive haircuts; margins of safety to these stocks. We see huge upside to the discounted price. And then also the thing with all cyclical companies; managements make mistakes but the mistakes they make at the top of the market by investing in marginal things and bringing on too much capacity and things. That sows the seeds for the short-term demise of the commodity they're in. Then they get burned, as Alissa said, they got burned on that. Now they're making the opposite mistake, as she mentioned.

They're selling property. But they're not investing. We talked to a lot of these guys, there's nobody building mines. I mean there are a few small ones here and there. They are sowing the seeds for a possible huge upside and as Alissa said these guys are already profitable and they're still using prices, we asked them, "what are you using for your gold price?"; $1,200, $1,300. So, they got burned being bullish on gold and now they're about to get burned being bearish on gold, we believe. So that makes the upside even better when they – when it finally gets in motion.

Dana Lambert: Makes total sense. I don't know if I'm the last question in the queue. I don't want to monopolize all the time. But there is – this is the advocacy for Bitcoin these days and my personal view is that the government and the Fed would have to see that as an existential threat at some point. Maybe it's Bitcoin 200,000 or pick a number. Just a side curiosity as to if you had developed any view like that? I just think if they let that go on too long it really becomes a threat to all their levers of power. Everything from taxation to currency exchange to interest rates, et cetera. So, a repeat of 1934 would seem probable in my view and it would be pretty easy to pull the plug and say merchants and banks are no longer allowed to accept Bit and if you pay your taxes you have to pay taxes in a government issued crypto currency.

But obviously it's just topic number one. And yet it shares some of the same underlying principles as gold, correct. So, curious if you've actually done a little bit of thinking on it? And might agree or disagree with some of those thoughts?

Alissa Corcoran: Yes, we've thought a lot about Bitcoin and gold, as well. And for many of the reasons that people like Bitcoin that it's scarce, that it's a good store of value, that is why we like gold, as Dave talked about in the presentation, scarcity has value. And so, people who are looking to store their dollars because they're seeing central banks debasing that currency very, very quickly are finding opportunities in Bitcoin. We think that there's room for Bitcoin and gold. There's so many trillions of dollars locked up in bonds that are not making a good economic to return but even a small amount of that money flowing into gold will cause the price to do very well.

We have some reservations about Bitcoin, as you said, everyone seems to think that the government will regulate gold and it points to the time of Roosevelt that took the gold away. But they are not seeing the fact that the government could regulate Bitcoin to your point. And we think that that's a highly likely probability and you're seeing it already in China. There were stories of the Chinese government freezing accounts that had Bitcoin.

We also think that we worry that if you have something that could be easily hacked. The U.S. government has shown that they can hack Bitcoin. It's not anonymous as everyone says because you need to give your information if you want to trade it on an exchange. What happens if the power goes out is all of your tangible worth disappear with the power? So, we prefer gold because it's tangible, it's time tested. We also see your point if there are competing crypto currencies that could easily come what keeps one locked into Bitcoin? And what happens if the Bitcoin splits? Is that same as doubling the monetary base?

So, we have more questions than answers with Bitcoin. We know a lot of smart people who really like Bitcoin and truly believe in it. And we see that it's becoming more recognized as a currency. However, from a store value point of view, we prefer gold and more importantly we prefer the gold mining companies because they significant upside even to current gold prices.

Dana Lambert: Yes, it all makes sense. I mean certainly governments own one of the assets and they don't own the other.

Alissa Corcoran: Right.

Dana Lambert: So, I mean that's a good starting point. I appreciate all the thoughts. Thanks for doing the call and the Q&A.

David Iben: Thank you.

Operator: We now will hear from Adam Cohen with Patriot Reserves.

Adam Cohen: Hi. Dave, I first kind of followed you coming on Grant Williams podcast and just really sparked my interest and investigation into the idea of value investing especially in this environment where everybody's talking growth and just seems to have gone to a point where things are going to fall hard. I just wonder, from your perspective, I mean I really consumed a lot of information along the path of your train of thought.

But what do you see as the major Achilles heel here in a commodity heavy portfolio?

David Iben: Thank you. Grant Williams, Stephanie Pomboy are two of my favorites, I have known them forever and so many of their podcasts we enjoy. So, I'm glad you listened in on that.

It seems like from what we've talked about if money keeps getting printed that's probably good for commodities. And generally, you have to like the prospects. It depends on the commodity. Everybody now is back to believing that the Central Banks have saved us, and the economy is going to boom. History would show that that should be a short-term boom followed by a bust. Credit and monetary induced booms never last, they always bust.

So, we see if everything goes back to normal, everybody's flying airplanes and oil prices go up forever or the current lockdown and if that would be followed by an economic downturn of maybe oil goes down. If the car cycle slows up a little bit maybe copper demand goes down. That's why we try to focus on the really undervalued. We prefer uranium to any other metal because it's so undervalued that it doesn't need the economy to keep doing well. We prefer North American based natural gas because it's so incredibly cheap relative to oil and to where gas is trading elsewhere. So, we're focused more on trying to buy things that are way undervalued because we do agree with you, there's risk to it. The economies pick up and economies go back down. And so that's I think the main risk to commodities. There's also the possibility of nationalization and those sorts of things. For that reason, we tend to not just buy things that are way undervalued. We like the fact that our resources are spread over lots of different countries and lots of different management teams and different elements because bad things can happen to any one mine, any one country, any one commodity. So, that's a very good question. The bullish case is very strong but it's always important to pay attention to what could happen. And that's why we do put very, very big margins of safety on these companies.

Adam Cohen: Do you see short-term – like the Hunt scenario of deflation as the Fed starts to potentially tighten monetary policy in the response to the belief that we're back on-track economically functioning under that belief as far away from reality as we seem?

David Iben: I find that hard to imagine but he's probably better than I am at those sorts of things.

Adam Cohen: Okay. All right, thank you for answering my questions here. I have been really enjoying your material and also following your portfolio. So, thank you.

David Iben: All right, thank you.

Operator: Next we'll hear from Bruce Daigel with Raymond James.

Bruce Daigel: Hi, can you hear me?

David Iben: Yes.

Bruce Daigel: Well first of all, thank you both for your – I just love the commentary and your commonsense approach to building this portfolio. The world needs to hear more of an honest discussion about solar and wind and how perfect it is or how perfect the media think it is versus what's total carbon footprint and I agree with you. I own this fund for myself and my clients especially because of the exposure to Cameco and your precious metal positions. And I think they're cheaper now than what they were a year ago when the fund was cheaper. But I just really, I want to thank you both for the honest discussion and just speaking your mind. It really does help. I have only one question and it's about Turquoise Hill. It's – all the commentary that's going on do you have any concern that's something's going wrong there?

Alissa Corcoran: Well, there's always a lot going on with Turquoise Hill. But, as Dave pointed out, all the commodity stocks that we own, we own at a huge discount. Not only because it's difficult to project what copper should be worth, we have a range and we say okay it should be approximately $350 - $325. We think gold should be approximately $2,000 plus or minus or more plus $2,000, right? So, it's a difficult thing to do and because of all the uncertainty with TRQ and all commodity stocks we risk adjust heavily. Specifically, to TRQ, yes it's concerning with the relationship with Rio Tinto. We would prefer if the company could raise debt to finance this extra CAPEX. The lenders have already said that when they first agreed to fund the project they agreed that most likely this project will need some extra financing and they already put that in place. So Rio is really not doing the minority shareholders any favors from that standpoint. Relationships with Mongolia have also been back and forth. Sometimes they're better than others and this seems to be another headline that is showing that there are tensions. Mongolia signed up for something where they won't see cash flow from this project for a very, very long time.

Alissa Corcoran: And they are looking to renegotiate their ownership stake which creates uncertainty in the stocks, investors do not like uncertainty. However, we think it doesn't change much from our standpoint. This was always baked into our risk adjusted value. And this will continue to be one of the best mines in the world. I mean, this will be the third-largest copper mine in the world when it's producing, very-low cash cost, a lot of gold and silver byproducts, and even if you account for potential dilution from an equity raise or a streaming deal, there's still a lot of upside in this stock.

Adam Cohen: Thank you. That was a beautiful answer. Are you looking at any other gold mines in Mongolia or any other mining in Mongolia?

Alissa Corcoran: There are coal mines in Mongolia, but we don't look in – we haven't – they're not of any sizes or significance. We can …

Adam Cohen: No. I said gold. I'm sorry.

Alissa Corcoran: Gold. No, There's just Turquoise Hill there.

Adam Cohen: Okay. Thank you so much. Appreciate the quarter and the commentary. Have a great day.

Dave Iben: You, too. Thanks.

Operator: Our final question will come from Alex Pidhorodecky with Morgan Stanley.

Alex Pidhorodecky: Thank you very much, Dave, and thank you and everyone on the team for another wonderful presentation. I'm a big fan, too. My question is on the copper stocks and even steel and Rio Tinto, BHP, they've doubled and tripled Newmont and Barrick and even Newgold produced quite a bit of copper, and yet these stocks are down over 20% since the summer peak. I wonder maybe could you frame some kind of valuation disconnect on just how much you think is being underestimated in that group of those three stocks perhaps?

Dave Iben: Well, let's take this approach. We talked earlier about how volatilty's not risk. It's our friend, and we've been able to capture volatility in the mining stocks. Not just straight volatility, though. Over the last half dozen years there's a lot of companies that have gold and copper, and there are times where people like copper, and you see TRQ and Ivanhoe and other companies do really well. And we've tended to trim them back and buy other guys that are more pure gold. Then you get times like you saw last spring where they hit gold, but copper got really cheap why gold was starting to bounce back. And so, you can see we did what we could in terms of buying Ivanhoe and buying more TRQ where possible, and we even added a company recently, Western Copper. And so, we've tried to take advantage of that. We've taken advantage of gold versus platinum and those sorts of things really. Also relayed it a bit different in your question, we've taken advantage of sometimes the small companies and sometimes the big companies and sometimes the emerging markets, and other times we hate the emergent markets. S,o we have gone back and forth on that, but we use an equilibrium price, I think $3.25, on cooper. And so, when it gets well below that we tend to have better luck finding copper stocks, and it's copper stocks have been very good for us this year. And last spring the gold companies were way ahead of the copper stocks, and now the gold stocks are lower than they – quite a bit lower than they were in July. Their copper stocks are up, so we've actually been trimming back with heavy copper guys and buying more of the gold guys.

Alissa, anything you would add to that or …

Alissa Corcoran: No.

Dave Iben: All right. So hopefully that answers it. We value both of them on there, what we think is their equilibrium price, and we buy them both on the upside and we discount them all based on management and quality of reserves and geology and that sort of thing.

Alex Pidhorodecky: Thank you very much.

Operator: That will conclude today's question-and-answer session. I will now turn the call over to Mr. Iben for any additional closing remarks.

Dave Iben: I'd just like to say it's been interesting times and a lot of material to go over, so we appreciate everybody tuning in and all the great questions, and yes. Hope everybody has a great 2021.

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

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