

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 4th Quarter 2021
Conference Call with David Iben**

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Operator: Good day ladies and gentlemen. Welcome to the Kopernik Global Investors Fourth Quarter 2021 conference call. As a reminder, today's call is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session. Instructions will be given at that time. At this time, I'd like to turn the call over to Mr. Kassim Gaffar. Please go ahead, Mr. Gaffar.

Kassim Gaffar: Thank you, operator. Happy New Year, everyone and welcome to the fourth quarter 2021 conference call. I've with me, David Iben, our CIO and Portfolio Manager for the Kopernik Global All-Cap strategy and Co-PM for International strategy. And Alissa Corcoran, our Deputy CIO and Director of Research, and Analyst. Before I pass the call to David and Alissa, I'll be providing a quick update.

Kopernik ended the year with overall firm assets of roughly \$7 billion. This is an impressive increase over the past 12 months when the assets under management were right around \$5.2 billion at the beginning of 2021. This increase was due to strong inflows of over a billion plus dollars during the year combined with strong market appreciation from our portfolios. We have seen a continued increase in demand for our style of management, as several of the allocators are taking profit from the growth and US-specific managers and deploying it with managers like ourselves.

Moving along on the personnel side, no changes to report. We ended the year being 43 employees strong and have continued to be stable with minimal turnover since the inception of the firm. That brings us to an end to the business update. Please note, Dave and Alissa will be referring to the presentation which can be found on our website, Kopernikglobal.com under the News and Views section. And with that, I'll pass the call over to Dave. Dave, please go ahead.

David Iben: All right. Thanks, Kassim. And thanks everybody for joining us. Good afternoon and welcome to 2022, markets off to an interesting start. I couldn't have come up with a better picture than this (page 6) to describe the current market environment and the economy. The good news is that we'll spend a lot of time later telling you why we think there's a lot of great opportunities in the market, and why it's ideally suited for what we do. But first, I'm going to tell you why the market and this economy is very worrisome to me. I came up with this listening to Spotify, hearing a song from 1972 by Leon Russell. Many of you are too young to know the song but *Tight Rope*. He's up on a high wire. One sides ice and one sides fire.

And so, we've got Chairman Powell here on the tightrope, and on one side, there's a torrent of water coming in. And of course, they've come up with a tidal wave of money that's going to counteract this or so it's hoped. They've done an incredible job for a number of years now of balancing on that wire. But the force is wanting to pull it down and the ice is pretty strong, which is why these monetary forces they've unleashed in recent years are also very strong as this all collides on us. Which way do we go?





A lot of smart people say ice. They say deflation / depression. This would be tough because valuations would normalize and capital would be written off, enthusiasm would go to the other side of their bipolar disorders. Central planning yet fails again. So, we'll see.

And now a lot of other smart people say no, no, no. Inflation is everywhere and always a monetary phenomenon. The money supply is up almost 10x since they unleashed it in 2008. After the lag, the famous lags it started to migrate into things other than just assets. So, certainly the price to those assets are up five to 10 times in many cases.

Now we're starting to see it drip into even the CPI and certainly we all see what it's doing to real estate, stocks, bonds, you name it in recent years. If we go into that side, then if rates get dragged up, multiples fall, purchasing power gets hurt. People are going to want to migrate to things that preserve that purchasing power. History suggests that inflation and stagflation come with increasing social unrest. Financial assets tend to struggle in that environment. So, turning to Christine Lagarde and the comedies of errors (page 8) we've seen from central banks, what side are we going to fall on? The weak side or the strong side?

We figure after 40 years of magnificent increases in stocks and bonds and real estate and alts, and you name it, it's hard to see most asset classes winning on either side. If we go into deflationary collapse, bonds theoretically would do well, except for we all know there's too much debt to be paid off in a weak economy. So, there will be default. Stocks likely fall with earnings, alts struggle with the economy, real estate has to deal with vacancies. History does show that gold tends to do well. It went up substantially in the 1930s, substantially in the 1970s. It went up a year and a half ago, when things were struggling and also in 2008-09 where things were struggling.

If we go into the inflationary thing, bonds famously don't do well in inflation, especially from zero interest rates. Stocks, earnings go up, but the multiples in the past have collapsed more than that, alts struggled with the rising cost of capital. Real estate does okay, except for the cap rates rise taking away a lot of those gains. Gold, of course, has done very well in inflationary environment.

So interesting time. The song also goes on to talk about the altitude that really gets to me. We're value people through and through. The altitude is really getting to us. We could show you about 50 different ways of measuring the markets in almost every case, it's the most expensive market in the history of our country, if not the history of mankind.

So, (page 9) we have the amount of hours needed to work to earn enough money to buy one unit of the S&P, that is a tenfold [increase]. You'll have to work 10 times as many hours to buy the S&P as they did a number of years ago. If you're looking at on replacement, also in the all-time high, sixfold increase since I came into the business. All this has made people's net worth go up as a percentage of S&P. That's good except for often money creates the illusion of wealth rather than real wealth. We'll only do a few more things here.

If we look at it (page 10) price to book value has gone up threefold. Tangible book though is almost infinite. The US doesn't seem to have a lot of tangible book left. So, we'll see what that means going forward. The equities to GDP get a lot of trust because Buffett always says he likes it. He was a little afraid in 1999 when it got so high. 1999 almost looks cheap compared to now. So, equities are a claim on the profits of the economy that's gone up seven times. And equities are junior to bonds and bonds claim on the economy now is up tremendously, like three times the economy. And then government's claims on the economies are the highest in the record of our country. And it's pretty much the same across Europe and other places.





So, we could go on all day, we won't, about different ways that the market is the most expensive it's ever been. So, a lot of good things out there why it should be expensive, but this is really expensive. No margin for error.

But outside of that, I mean how's the economy going to do? A lot of people have written about that tendency of debasing the money to debase society as a whole. We've always been fans of Dylan Grice (page 11), he writes a lot about the history of social cohesion during currency debasements and suggest further debasement will cause further debasement of society. But a lot of people we know talk a lot about how the world right now seems kind of unreal. I mean, beyond crazy as things are going on out there, whether people are on the right or left of the aisle. I think everybody agrees, strange economy out there.

Keynes, Lenin and other people put it a long time ago. Inflation is confiscation of money by the governments. It's secret. It's unobserved. It treats people differently. Hurts most people, helps the rich which leads to more conflict. Most people don't know what's going on. So, it should be no surprise that you look around the world and see more conflict lately.

I could go on for the next hour, but I'll leave it up to people on their own if they're interested in the subject (page 12) of the madness of crowds and what happens to society when people all get mesmerized by a market are about science and that Gustave Le Bon/Dietrich Bonhoeffer back in the 1930s, 40s; Germany had some very interesting things about then; mass psychosis he was witnessing. And many of these calls, I've referenced this Extraordinary Popular Delusions and the Madness of Crowds, three major stock market bubbles but also weird things, you know, witch hunts and crusades and a lot of other things. So, society right now is mesmerized by a lot of things. Good, bad, I don't know, but it adds unknowns. And the market is supposed to care about clarity. It's hard to have clarity when you see this level of debt growth; debt borrows from the future famously so there's too much paper out there. Too much debt. Too much paper that's going to try to pay off that debt.

(Page 13) The Fed's balance sheet explodes, it's also brought the price of assets up. You can see the stock market is up in lockstep. This could be viewed bullishly that maybe stocks have gone up like they ought to. We won't argue that. What we'll say is some stocks are too cheap, some stocks are too expensive. But more importantly, there's a lot of very valuable useful assets that have not gone up tenfold with the money supply, and arguably they will. And some of them gone up with all at the money supply. So, we see a lot of opportunity out there. And we also see a lot of risk, because all time high valuations. If the market in fact likes clarity, I don't know that there's been more opacity in my lifetime anyhow. So, we will see how high valuations collide with murkiness about the future.

But yes, the central banks are here to say this, that people that have created this mess are going to guide us to safety, which reminds me of the good Homer Simpson quote that alcohol is both the cause of and the solution to all our problems. I guess that can be said about central bankers now. So, we have a picture here (page 15). We've tried to include Powell and Christine Lagarde and Kuroda from Japan. We've got the Chinese bankers. We've got, not the banker, but Erdoğan in Turkey, fashions himself a central banker. So, these are our saviors. If that's the case, we suggest people look for a safety net and see where we're finding both safety and opportunity let's hand it off to Alissa Corcoran, our deputy CIO.

Alissa Corcoran: Thanks Dave. So as Dave pointed out, there's a lot in the market today. There are a lot of situations that seem to be very unstable. And so, we recommend that investors have some sort of safety net to protect on the downside (page 16). And owning negatively correlated companies is one such safety net. Owning things that are negatively correlated that have positive optionality is an even better safety net. So, gold as Dave pointed out can do well in times of uncertainty (page 17). You know, either way we fall off of this highwire. We think gold will do well, and the gold miners have even more optionality.





So to demonstrate this concept, we'll go through Seabridge (page 18), which is a company that owns one of the largest undeveloped gold-copper deposits in the world. It has 50 million ounces of gold, 14 billion pounds of copper with only a market cap of 1.3 billion. You compare this to some of the tech stocks that we see the valuation is quite the difference. This company has all of its permits, it's basically shovel ready. It just needs a partner because it has a lot of CapEx needed to build this project.

So, at current prices, we don't think we lose much. If gold were to go back to \$1,500 and stay there forever, we probably lose our investment. However, we think that is highly unlikely because we think that gold should revert back to a normal price versus the monetary base, versus the money supply. And in those situations we make 55 times our money, that's incredible optionality. So obviously, there's a lot of risk with mining companies, which is why we own a diversified portfolio. And we heavily discounted we will be out of the stock before it goes up 55 times, but it does demonstrate the opportunity set that we're seeing in today's market.

And we've talked about this before, but why do we see this opportunity set? For starters, the industry standard values mining companies. They use DCF models, which is just another way of saying that people prefer seeing the cash flows today versus the cash flows that will come in 10 years, which even if they are much higher 10 years from now. So you can see (page 19) the stark valuation differences between the producing mining companies such as Newmont and Barrick versus Seabridge. We're getting a huge discount on the price per ounce when you buy something that is not producing.

We've talked to many mining companies over time and they all want to improve their NPV by doubling their mining production. But we say well, you've just cut the mine life in half, which is problematic when you're dealing with optionality because time is our friend.

We discussed the weather example and previous quarterly calls, but it's worth repeating (page 20). If we are going to make a bet that it will rain six inches in a month in Tampa, over enough time, it's highly likely that we're going to be right. And the same is true for gold. If we bet that the gold price is going up slowly and price in that monetary increase, that monetary inflation immediately, we're assuredly going to be wrong. But with enough time, the probability of an event can change from highly unlikely to highly, highly probable. So that is how we feel about gold (page 22). With enough time, we should see gold revert back to what the fundamentals suggested should be priced. And so, when you're dealing with scarce underpriced good, historical stores of value, we're suggesting that investors consider using a Black-Scholes model, where option time is our friend rather than discounting gold, like you do cash flows.

So, with fiat currencies, we agree you should discount these (page 23). The central banks and governments around the world have a very strong track record of debasing your currency. Just in the past year, my \$100 is now worth 7% less, because of the printing presses. So, what we think is that investors have taken this concept of discounting cash and applied it to discounting stores of value, which we believe is a mistake.

If gold is the non-correlated positive optionality, it's worth pointing out that the bonds are the exact opposite of that (page 24). You're making negative real returns today. Pretty much in any scenario, investors are going to lose money so there's a lot of negative optionality with bonds.

So, we like gold for many reasons, but it's not just gold, the fundamentals for other scarce useful assets is also positive (page 25). You can see that global population is going to continue to increase and therefore the demand for food, for energy, for materials will also grow. And with the monetary base increasing, when you have things priced in dollars per barrel, or dollars per pound, or dollars per ounce. If you've doubled the numerator the dollars but you don't double the denominator, you can just imagine what that looks like in terms of pricing the scarce goods in terms of dollars.





So, taking farmland as an example (page 26), we believe the fundamentals are good for farmland as we've shown. The difference in valuation when you step outside of the U.S. is very stark and you can see this with Astarta which is a Ukrainian farming company. The Iowa farmland is clearly pricing in these positive fundamentals. But you step outside, you go to Ukraine, you can get a 98% discount. So, this is incredible valuation discrepancy.

We move outside of hard assets (page 27), we agree with GMOs forecasts that EM value offers the best opportunities and so we have a significant percentage of our portfolio in emerging markets.

(Page 28) We'd like to point out that that many of the BRICS are trading 10% lower than they were last year excluding India. Russia is down 30% in just the past couple months, and China is the same level as it was in 2007. So, we view that there's a lot of opportunities in here. As an active investor, we can really take advantage of the times when the market is dumping entire industries or dumping entire countries and find the best companies with the best valuations.

So, when you look at our traditional value (page 29), which are many of these companies. We're owning oligopolies, we're owning things that are our leaders in their industries. We're buying them at half of book value and a 4.5% dividend yield. So, we're very happy with these sorts of valuations. We're very happy with the valuations on our portfolio (page 30). We're trading at less than book value, 12 times earnings, which is cheap on its own right and much cheaper than the market. Same with International (page 31).

And just before I hand it back over to Dave, I'll just point out a couple of areas that we're seeing opportunities (page 32). We're seeing some opportunities in small-cap Japan, KYORIN is one example it's 40% of [drug] sales [in that country]. And they have one of the leading asthma drugs, a 3% dividend yield. There's significant upside should multiples and margins mean revert. Fukuda is a company in Japan with negative enterprise value. So, if you if you take all of their current assets and subtract out all of their obligations, that's more than the current market cap today. So, we're getting this business effectively for free. Suzuken is another example. It's the third largest drug distributor in Japan. It's trading at 7% of sales, which is a third cheaper than what you can find in the US. And 70% of book value, and some of these U.S. distribution companies they don't even have tangible book value.

Finally, one of the new names that we've added is WH Group, which is one of the largest pork processors and producers in the world. It's 30% of the market share in the U.S., insiders are buying. It's cheap on all metrics: earnings, book value, it has a 3.5% dividend yield. So, these are some examples of the opportunities that we're finding today.

David Iben: All right. And just to add on to that, we always say one of the things that we are different than a lot of people out there. We view volatility not as risk, but as opportunity. The volatility has allowed us now, as Alissa pointed out, to buy some of these smaller cap stocks at unbelievable cheap, cheap prices. So that's really good.

But then, as we've talked about in recent calls, you know, how interesting within resources that we could be selling things in early 2020. Buying them back at half price two months later on the COVID outbreak, then watching our gold stocks shoot up tremendously in three or four months, trimming them substantially, and being able to buy at really low prices companies that had a lot of copper because we were going into a depression, everybody was pretty sure we were being able to buy natural gas for next to nothing, able to buy uranium for next to nothing. It was even oil became really cheap there for a while. Five quarters ago people were pretty sure that right about now we wouldn't be using hydrocarbons anymore. Now we're back to peak demand.





So this has given us opportunity to do that. But more recently in this quarter, the things we were buying in the summer of 2020 we've had nice profits on Ivanhoe mines, they're more copper. All time highs now. We are trimming that. We're very happy to buy not just uranium but some of the smaller ones that have the massive optionality that Alissa talked about, NexGen we've been trimming from the bottom last year to the top of the bottom in 2020 to the top last quarter, tenfold increase. Range was interesting that went up I think 12 times from last 2020 to last quarter. While we trimmed it and we're able to buy some of it back again the next month at a big discount than what we trimmed at. Those are the things we like in Cenovus Energy we've been able to trim. So, that's the sort of thing that volatility allows people to do. And that we're pretty happy about.

A couple more slides and then we save most of the time for Q&A. Because in this environment, we imagine you have a lot of questions.

We talked about Black-Scholes sort of value of optionality with big, big upside. But for people that say, nah we want to stick with the IRR based approach to things. Here's a chart we've showed you many, many times (page 34). If we have companies that are trading at half a book, and they're good companies and go to book value, someday, that's a double, double this year is great. But we have delayed three years, five years, seven years, double digit returns, so under optionality or under more old school ways of valuing things, I think this portfolio has tremendous upside.

If in fact, we're on a high wire, and that includes, you know, most bonds, and most stocks and many alts and this bubble and everything we hear about. We always like to be a little away from the crowd (page 35). But if there's ever a time to not be part of the crowd, this is it. So, we think this is the time to get out of the correlated stuff. And into the things that are really, really undervalued which we've discussed some of them.

And then we show you this one (page 36). We are very different than the crowd. We have nothing in the US other than a couple of [natural] gas names. We have a lot more in the growing parts of the world, the emerging markets than the market does and then Asia as Alissa showed you. Massive, massive growth in China, Hong Kong to see the Hong Kong index lower than it was in 2007. We're starting to buy some things there. We find that interesting.

Energy, something that was considered untouchable a year and a half ago, still a big position for us. We went to the only time in my 40-year career we got anywhere near 25% was last year. We've trimmed that back aggressively, but it's still undervalued in a good position.

Materials continues to be a high position that we talked about that's been migrating from the industrial metals as they go up back into gold, that's been in a bear market for what, 20 months now. Something like that.

So, fascinating time, good time to be different. Good time to be focused on things that others aren't like long term versus short term, optionality versus misappropriated DCF, growing parts of the world versus the mature expensive economies. And so, we're feeling pretty good about where we are, pretty good about avoiding the crowds. And with that, let's talk questions.

Operator:

Thank you. If you would like to signal with questions, please press star one on your touch tone telephone. If you're joining us today, use a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one. If you would like to signal with questions, star one. And our first question will come from Jerry Klein with Merrill Lynch.





Jerry Klein: Dave, thank you again for a great presentation. Curious as to your thoughts on the current Russia-Ukraine situation. And I know you're not a political scientist, but what potential impact you think that might have on global commodity prices if any?

David Iben: Yes, with a lot of value investing, people ask us how do we get comfortable with things and we say we actually get paid for discomfort. We're willing to buy things that are slightly uncomfortable only during times where the crowd goes to extremes and rushes to the exit. When it comes to both geopolitics and commodities, we're not fully sure enough to have the answer. But we believe we can have a range of likely possibilities. We don't know if oil should be \$70. But it's likely to be between \$50 and \$100. And when it gets above \$100, you won't find us in it when it gets to \$20. Like last year, we're in it.

When it comes to geopolitics, do we know what's going to happen, especially in this world with all the inequality and dicey-ness, just like we saw in 2008-9 with the Arab Spring, I think will continue to see unrest. And, famously, I don't know a lot about geopolitics. But I know that what the first thing is when things aren't good at home, go blame somebody else. And so, with a lot of problems around the world, I think us and the Russians, and the Chinese and everybody else are going to be pointing fingers.

What we do and say, well, you know, what is reasonable? You know, with Russia, back in 2015, we're not quite there yet again. But in 2015, we had watched the transition from people's view back in 2011, which Alissa referenced where people said you must own Russia, that was part of their BRICS, Brazil, Russia, India, China. China was going to need all of Russia's resources and you should buy it. It's an emerging market -- its growth economy, no price is too high in 2015.

We ran into lots of value investors who said, yes, we love Russia, but we will not buy it at any price, not at any price, we're thinking, wow, that's music to our ears. So, we say, what do we know, what we don't know. We don't know the future. We do know that Russia is famously corrupt. We know that it has hundreds of years of instability and turmoil. We know in some ways, their government and ours still kind of continue the Cold War so that political skirmishes seem to happen now and then over and over and over. And also, I think we're going to compete with Russia and who gets to sell gas to Europe and those sort of things.

So, we know there's going to be skirmishes. We know that they'll have lots that we don't care for. And so, there's a reason we would just as soon not deal with that. So, we'd rather not invest there either. But as people realized, in 2011, they do have a lot of commodities, and the world needs a lot of commodities. So Alissa just showed the slide where the population that in my lifetime has gone from 3 billion people to seven and a half billion will be at 8 billion before too long.

Russia has oil, they have gas, they have metals, they have agricultural land, they have stuff that world needs, they're very good at. They have world class companies. And Gazprom is far and away the best gas company in the world in terms of costs and reserves and infrastructure to where the gas is going to be converted. Sberbank might be the best bank in the world on a lot of majors.

They have cheap electricity with hydroelectric and whatnot. Smart population, educated population, hard working. So, there's a lot of things to like. So, we said, all right, we want a 50% discount. We're not going to argue with people that say it should be 70 or people that say 30 is enough. When you get times like 2015, where Gazprom, in our view 95% off sale. That's too much. We're starting to see that again. We're starting to see people pour to the exit. We don't know where the future leads. We know that the US is saying we think they're going to invade. And Russia seems to be down here 100% of the population thinks they're not going to invade. We do know that the U.S. sent a bunch of troops to the border half a year ago. Imagine there'll be a lot of talk back and forth. It would surprise us if there was an invasion. But there'll be lots of political back and forth,





probably. Usually neither the Russians or us are going to be really stupid and go into war would be really stupid. And so probably not going to happen. That doesn't mean definitely won't, but it's outside a reasonable expectation.

And so, you know, we were able to trim a lot of our Russian stocks four or five months ago and now we can buy these things back 1/3 off.

Also, over the years we've been able to add and trim, add and trim and do pretty well. And some really good agricultural companies, Alissa showed you one of them that they have really good properties. They tend to be really profitable over time. They're a lot cheaper than they were a few weeks ago.

A question that might come up sooner, so let's just take it now is Kazakhstan, which is very much the same way. People were not too sure of it a few years ago, which allowed us to buy Kazatomprom at very, very cheap prices, it more than doubled. So, we were able to take a few profits there. Now it's got a little cheaper again.

Like Russia, an authoritarian government, it does some smart things it does some less smart things, not our first choice on where to be. But also like Russia, the debt to GDP is a small fraction of what the U.S. and Europe and Japan and China have very, very small fraction, growing economies with lots of resources. Good, good economies over time. They had their uprising that seemed to go away after a day or two. Maybe that's like buying the U.S. a year and a half ago when some of our cities seem to be on fire. So, we do not have the answers. But when society gets really, really afraid, they're almost always wrong. When they get really, really euphoric, like they were a few months ago on many things, tech and Meta and those sorts of things, they're hugely wrong there.

So, once again, a very long answer on my part, but a very important question you're asking. It's, you know, we just focused on the times when the crowd is extreme of what probably will happen.

Operator: Thank you. Our next question comes from Glenn Arnold with Morgan Stanley.

Glenn Arnold: Sorry about the delay. I just had it on mute. Same question basically on the China-Taiwan situation. Thank you.

David Iben: There again, people have always correctly said China's a booming economy with 1.3 billion people, many of them industrious, many of them smart. They're shaking the world, but their growth creating a lot of best in breed companies. A place where in 2007, it was pretty much unanimous you had to be there. And all those positives are still there.

Which that was a mere four years after 2003 when people said, don't be there, Tiananmen Square, child labor, SARS one and all that. But as we've pointed out, you know, 14 years of rapid growth, and the Hong Kong index is lower than it was then and CSI is not much higher than it was then. Certainly, it's more interesting now. Because now people are saying, wow, these guys are corrupt and they're causing problems and causing problems are not just with Taiwan, but all around the neighboring countries in the South China Sea. You see them detaining tennis players were speaking out and reporters disappear. And, you know, whether there's forced labor or not is another controversial subject. So just don't own China.

So, to us, when everybody said you must own it, they reflected those views in the prices they were paying for the stock. Now, when people have these worries, the stocks are a lot cheaper, they're a lot more interesting. So, we heavily risk adjust these companies and say, all right, this is good company, but we want 40, 50, 60% discount depending on the company.





We're starting to see that. We're starting to buy stocks there. There again, you know, emotions are their own thing and there's a lot invested. They want Taiwan and they think is there. So, on the other hand, they're not stupid. Attacking Taiwan seems like it'd be very stupid with huge repercussions probably not going to happen, that doesn't mean definitely not going to happen.

If we can buy really, really cheap stocks in China and in Russia and in Kazakhstan and then various other controversial parts around the world including in the U.S. and Canada, other things and lots of good companies and good industries and good, and we're buying them to these huge risk adjusted things. The things that probably won't happen, by definition probably won't happen. But if they happen one place that we're making two, three, four times our money in other places, the math works really well. You know, we've seen this over that people who are with us even back in 2008 got to see that but, you know, we had companies where we got burned in Venezuela and Bolivia that still had a career year in 2009, when everything was just booming.

We had companies going up four times, seven times, 10 times. And we had a similar thing in 2016 where we had an unfortunate experience where the management, colluded with a hedge fund to effectively steal one of our big holdings. But a lot of our other holdings went to the moon that year. It was one of our better years. After we bought Russia the last time we did we're scared to death. It's been the best up until a few months ago was, the best performing market in the world, a lot better than S&P even so. We were rewarded for buying that. And, you know, we had that where people really didn't like Korea a year and a half ago, that was an opportunity. They really disliked Japan immensely in 2000, sorry 2012, and we put 25% of the portfolio in Japanese companies that they went to the moon.

So, I'm not saying we're going to be right on any one of these things. I'm saying that when world prices in, sure, almost sure thing are things that probably aren't going to happen. That means we're going to make a lot of money as they don't happen. Maybe don't lose that much as they do happen. Because it's somewhat priced in, and most of the time they won't happen. So, if we can replicate lots of good companies at really depressed prices across 100 different companies, and lots of different industries and geographies. The math works.

Operator: And our next question will come from Bradley Calder with The Investment Fund for Foundations.

Bradley Calder: Hi, Alissa and Dave. I wanted to get both of your takes on a debate that we've been having at TIFF. We've read that starting last year passive investing in the U.S. public markets has surpassed more than 51% of the market by assets, and passive funds received the majority of new inflows into the market as well. Therefore, to what extent do you believe this will result in permanent lock in effect on market caps of the largest most liquid companies that are the most represented in the index? And are there any other effects of the majority of capital being passively managed that we should be aware of? Thanks.

David Iben: Yes, we've written pieces in the in the past. It's interesting how some things can be really good ideas when almost nobody's doing it. And then once everybody starts doing it, it becomes a really bad idea. On its side, it doesn't matter that much. But yes, capital gets locked in and money's pouring into the indexes month after month. Of course, those same stocks are going to go up month after a month. That's understood.

But that means when the indexes start selling, these stocks are going to go down and month after month, as happened after the indexing was very popular in 1999 and the equivalent of indexing with all the trust companies back in '72, same thing. You know, perpetual motion machines don't work. And so, these things at these prices require the money to come in. But more importantly than that, our opinion on that doesn't really matter.

What I think matters is that people say the markets are efficient. They're efficient because we have lots of hard-working people that are very smart, that have equal access to information and pour through it and come up to





a price. That's somewhat fair. And because they're all doing that, prices come up to a fair price. And so since we've all kept the market at a fair price, people can index and get a free ride, why should they pay the fees so that we can do all the work. They can just take a free ride on the work that we all collectively have done to make the market fair.

So then, more people started doing it and more brightly, and why not if you actually get the same performance for without paying the fees. Lobbyists do it. Then more and more people started doing it. Which means a couple things, one, less and less people are still doing the research. So that it's no longer the assumptions of the efficient market aren't there anymore because people aren't doing the research anymore. And the stocks that are in the indexes actually start to outperform the market with all this money goes in it. And people take that as a positive look, these are actually -- I'm getting the free ride and doing better the market as opposed to saying, ha, the markets not efficient anymore and these things have become way more expensive than the market. And so they're making a mistake.

And then you get to the wild extremes we have right now in our opinion, where very few people are actually rolling up their sleeves and doing the analysis anymore. You know, famously after 1929, a few years after that, if you read Graham and Dodd, they talked about in the late 1920s, doing research, not only wasn't helpful, it was harmful. It would keep you from buying the stocks that were working, and you would end up getting fired. And 1999 became like that, and the last few years have felt like that to value investors and like, wow, all this work to do the valuation and it's just hurting because that means we don't get to buy all these companies that are trading on emotions in euphoria that don't seem to even have fundamental underpinnings.

So, at times like that, are the times are worth very biased on this. But times like now, when people should be screaming out of the index, and going into the people that are actually doing the research and buying these stocks that don't have the problems you mentioned or the problems we mentioned. Instead of, you know, capital being locked in these things, why not go back to, you know, the way I was taught in ancient times, I guess, that we're actually owners of businesses. And we should understand the business and want to be an owner of it, and want to do it at a price that's likely to leave us with a really good return going forward and the big index stocks, maybe don't offer that anymore.

Operator: And our next question will come from Ross Jagar with Equitable Trust.

Ross Jagar: Thanks, Dave. Question for you on the S&P puts. So you trimmed them in December and you bring back a little bit. So far this quarter, how are we looking now?

David Iben: All along we've bought these like we do with everything. It doesn't have anything to do with our views of the market. It has to do with what is the fair price of a put. And yes, maybe the fair price is a 20 implied vol, but we would rather not pay above 14 implied vol. And we've historically only done it between 8 and 14 implied vol.

So we did that. The bad news was that the market kept going up for three years. And the good news was the beauty of paying a low prices that we made back three years of losses on a couple of weeks in March of 2020.

Then we didn't do this for a long time. Didn't think we'd see the vols get down there again. Then we did last year and there was, I don't know, four or five months where we actually we're able buy these things very cheap. And so that costs the money for the mutual fund. Now the implied vol is skyrocketed. And the market may or may not be in a correction phase right now and if it is we're going to miss that we do not have the put because we couldn't afford the put. And why it's unfortunate, you know, everybody knew the market's probably overdue for a correction. But there's been plenty of times in the past where it seemed overdue for a correction where it





would have cost us a lot of money to pay high implied vols. We do think the markets quite likely to fall but we're not top down. We will not buy the put back until the implied vol gets low. So not in the put now.

Operator: And once again, if you would like to signal with questions, please press star one. Again, that is star one if you would like to signal with questions at this time. And our next question comes from David Niehaus with Merrill Lynch.

David Niehaus: Hey, David and Alissa, Happy New Year. I just had a question about the valuation in the portfolio. Can you just give us some perspective on where the current valuation sits relative to the history there at Kopernik? Are we kind of bottom half bottom quarter? Average, whatever. Thank you.

David Iben: Sure. I would say that January of 2016 and March of 2020 are maybe the cheapest portfolios I've ever had in my career and that I was in the bottom in 2008 too. So, we are up strongly from March of 2020. So, this is not at the bottom. But from our time at Kopernik and value stocks have been pretty cheap the whole time. I would say we're in the bottom half of cheapness for the time we've been there. And if you throw in what I saw back in the last decade, it's cheaper than most of those times. We had a cheaper portfolio in 2002, that's for sure. So, 2002 was cheaper. But outside of that, out of the last 35, 40 years, this is probably a bottom quartile in. This is interesting, just like 2000 - 2002 or '99, you know, those three-year period. In one of the more expensive markets in history in '99, we were selling at a big discount to book value. Now, as you saw earlier, we're trading well below are trading below book value. We're trading low on almost every metric.

To our valuations, I think we show the quality, you know, the big quality phone companies and trading companies and hydroelectric companies and whatnot. They left 4.5% dividend yield and really low PE. The rest of the fourth layer, that latent value even talking about the idea that these stocks are undervalued if turns out for any money's not inflationary. But as these things go up it all to what we think of fair prices for uranium and natural gas and gold and those sorts of things, massive upside there. When you add it all up, our portfolio is worth double what it's trading at now. So, that is good at any point in time. But for us pretty spectacular during the bubble and everything to have a portfolio that's trading half of what it's worth. And half of what it's worth, after our margin of safety, which our margin of safeties tend to be big on mining companies and big on as you heard earlier on the emerging markets. And so, yes, we think these things are we're double after major haircuts.

Operator: And our next question will come from Anthony Thornley with Merrill Lynch.

Anthony Thornley: Hi, Dave. My question is, do you think that the current substantial interest in Bitcoin and other digital currencies has a significant effect on the value of gold?

Alissa Corcoran: You know, Bitcoin is interesting. We like a lot of what other people like about it, which is that it's supposedly scarce. However, the scarcity is being driven by an algorithm, which we don't trust. So, we prefer the time-tested value, the time tested version, which is gold, and it's geologically scarce. That's been proven over thousands of years.

There are now, I don't know, thousands of cryptocurrencies. So, how do you know which winner you're going to get? And it does seem to be highly speculative, it does seem to rise when the markets are rising. And so, will it act the same way when there's more uncertainty in the market? I guess time will tell. We do think that there's a lot of space for stores of value. So, will Bitcoin take all of the market share that gold? We think that's highly unlikely. We think that there's plenty of room for both, especially if people in bonds start to demand a positive real return. Right now, it's -- they're getting negative real returns and, in some cases, negative nominal returns. So no, we don't we think there's plenty of room for both.





David Iben: Yes, it's interesting if the Fed falls off the high wire. Yes, if you look at just my lifetime, I think the dollars lost 95% of its value, and that's before they came up with all the various QEs. So, we have a lot of sympathy for people. They're looking for all other stores of value. So, if we had a choice of taking a bunch of dollars and put it in a safe deposit box and checking in 30 years or owning Bitcoin, we would take Bitcoin and the dollars almost a sure loser. But Bitcoin versus gold, a Bitcoin can be a spectacular win, or it can go to zero. Or gold is just going to be pretty boring and go up as fast as they print the money. And by buying gold in the ground, we get massive optionality over that. So, Bitcoin is interesting, gold's somewhat close to a sure thing, you'll find, I think.

And then, you know, obviously, I know that people that like gold and have moved some of their funds to cryptos. So certainly, it's affecting it. But if the dollar is losing lots of value, and it seems to be, people are going to be fleeing the dollar and do lots of things like they did in the 70s. Cryptos, 1% of people's assets and gold is 1% of assets. Is the competition really between the two of them? Or is it various quasi scarce forms of stores of value, versus the proven non-stores of value that the fiat currencies are. So, we're agnostic on Bitcoin, negative on fiat currencies, positive on stores of value.

Operator: And once again, if you would like to signal with questions, please press star one on your touch tone telephone. Our next question will come from Glenn Arnold with Morgan Stanley.

Glenn Arnold: Yes, my question was just posed to you so thank you.

Operator: And moving on to Daniel Morgan with IFP.

Daniel Morgan: Hey, thank you for hosting the call. I have three things actually that I'd like you to hit on. But they can just be really fast if you want to at the time we have. The first is Brazil. Just wanted to know, you know, things seem to be changing there. What your thoughts are with that one? The second is interest rate increases this year. What impact would that have on the global portfolio? And then finally, you hit on the dollar a minute ago, but this year next year, what do you see for the dollar and how would that impact the international and global portfolios? Thank you.

David Iben: Sure, quickly, Brazil. It's the same as the earlier conversation on China, Russia, Kazakhstan, other things. We see lots of potential, lots of problems. We tend to want big margins of safety.

Last time we looked the best investment we've had over the last eight and a half years there's been Eletrobras, which has been very volatile. Thank God we wanted a big margin of safety because we didn't know much when it fell 90% when Dilma Rousseff made them lose money, then it came back sevenfold in one year. It was a big position at that point we did very well. We've been able to trade it since.

There's other things that are starting looking interesting, we're looking there and other emerging markets. You know while the U.S. is just starting to falter from all-time highs, a lot of the world is at major distress prices. So. Brazil's pretty interesting.

Interest rates are a fascinating thing. Interest rates go up, it's going to be very bad for bonds and most stocks. But people are wrong to think that rising interest rates are bad for gold. Interest rates went from a few percent to 20% in the 1970s, and gold went from \$35 to \$800. High interest rates plunged for the next couple of decades as gold went from \$800, down to \$255. What matters is not interest rates. It's real interest rates. Gold didn't falter until Volcker took the rates way above the inflation rate. Inflation rate now is what, 7%, probably in reality much higher. If rates go to 10%, that's bad for gold. If rates go to 3 or 4%, arguably gold should do really well, because that's still massively negative real interest rates, but it clearly be horrible for bonds and for some stocks.





So when interest rates go up, what's it mean for the portfolio? It depends upon whether it's real interest rates going up or nominal. Most the whole world believes that central banks will not allow positive real interest rates. We have no reason to think those people are wrong.

The third question was, could you repeat the third? The dollar, right? We believe that printing dollars makes it worth less, and you've seen that it takes way more dollars than it did a couple of years ago to buy, you know, the S&P or the NASDAQ or a house or rents or medical care or uranium. So, the dollar has been losing its value and presumably will keep losing its value. That doesn't mean it loses value versus the euro or the yen; we're agnostic to which one of these currencies are going to fall faster. But they all probably will keep losing value relative to scarce useful assets.

Operator: And our next question will come from Ran Tandon with Libra Advisors.

Ran Tandon: Hi, David. I wanted to ask you, you invest in the portfolio of diversified companies equities primarily, if you were to look at the underlying commodity for some of these companies such as uranium, copper, gold, energy or agriculture, how would you rank it because you get a benefit from devaluation as well as for price moves in the commodity itself. So how would you rank these different commodities from a potential point of view?

David Iben: So not in terms of size, but in terms of potential upside from here?

Ran Tandon: Yes, suppose you, you know, you're equity investor, but suppose you were a commodity investor and you're going to buy this commodity and put it away for the next three years. How would you rank the potential upside in different assets you investing?

David Iben: All right. You know, these are broad ranges but, you know, oil's had such a run we're agnostic, yes. \$85 plus or minus \$20, \$30, we have no problem with that. Gas, the fact that it's still so much cheaper in the U.S. than it is the rest of the world, we see no reason why that can't go up pretty substantially from here. Uranium having gone from 18 to 45 is still way too cheap. Just like 137 in the last decade or two decades ago was too high. We believe that, you know, somewhere between \$60 and \$90 makes sense if we're wrong about printing money being inflationary. And if it is inflationary, then probably higher than that, so we certainly think a doubling of uranium is not out of the question.

If gold is a commodity, we think it's worth \$200 or \$300 more than it is now. If gold is money, we think it's worth \$2,000 or \$3,000 more than it is now. But very importantly, we are, as you point out, equity investors. So, what we do is buy the commodities that are undervalued and we buy them at an undervalued price for that. And so, we've been able to buy a bunch of companies that happen to own uranium and natural gas and gold. And if we are completely wrong about liking these commodities, we think we still make money on the stocks. They are trading below liquidation value, and many of the cases we're talking about. So as one of our friends put it, we have non-decaying optionality. So, we like the stocks better than we let the commodities but in terms of the commodities to your question, yes, gold, copper, silver, platinum, natural gas, are much more undervalued than the ones that people are excited about. We also like the fundamentals for copper and nickel and lithium and these things, but they are not as undervalued as the things we're talking about.

Operator: Thank you. And once again, if you would like to signal with questions, please press star one on your touch tone telephone. Again, that is star one. And we'll go and take a question from Philip Bradshaw with Merrill Lynch.

Philip Bradshaw: Hey, Dave, hope all as well. Happy 2022. Just wanted you to touch base on the Kazakhstan investment. It's always a little difficult to explain to clients why that's in there. And then do you have any holdings or consideration for hydrogen investments with energy or like fission energy at all?





Alissa Corcoran: I can take that, that Kazakhstan question. So, we actually own two companies in Kazakhstan, one is their largest dominant bank, Halyk Bank, and then the larger position, that's a small position, the larger position is Kazatomprom, and they produce 40% of the world's uranium. Very low cost, huge assets. And has that optionality to higher uranium prices that Dave just mentioned in the last question. So, there's lots to like about this company. And we especially like it because it is trading so cheap, because of this geopolitical discount. And when you're owning this as part of a diversified portfolio, you can diversify away a lot of this risk. As Dave pointed out, some of the geopolitical risks might transpire, many of them won't. And so, you know, we might lose on some, but we might make it up on other areas of the world. So that's typically, you know, how we look at these sorts of things.

David Iben: Yes, it's interesting we have other free optionality. So, we think the price of uranium and natural gas is going to go much higher. But at current prices, Kazatomprom mints money, and Gazprom in Russia mints money, they mint money, and then if the price is doubled, and we'll do a whole lot more. So, we think we are way over compensated for that risk.

The second part of the question was, oh, fission? Yes. You know, we try to know our strengths and weaknesses, whether it's technology or fission reactions or biotech technology or even mining. We don't go for the innovators. A lot of people are good at that. And yes, out of every 50 innovators, 49 of them lose money, and people make untold money on the other one. Our style is to wait and see who wins. And sometime in the next 10 years, there'll be a bear market, and we get to buy Genentech and biotech for a song or, you know, EDS, or before they got bought out in a song and technology. So, yes, with innovation, people come with things that were really great until you try to scale it. And there's been a few times in my 40 years where people have been really excited about fission, or fusion. And fusion works. You know, great and wonderful, that's great for all society, but trying the best who's going to win. Yes, it's typical for the nuclear now, you know, that we of course of invested in lots of different ways. And if people come up with a smaller reactors that will be even better for uranium and for society.

But yes, we wait and see what works and then wait until, you know, Ben Graham's Mr. Market doesn't like it sometime in the future. So, there's others that can give you a better answer than I can on who the winners are going to be.

Operator: And that does conclude the question answer session. Mr. Iben, I'll now turn the call back over to you for any additional or closing remarks.

David Iben: All right. Well, markets getting very, very interesting and, you know, for those with challenges, but we think lots of opportunity and we appreciate all the good questions and conversation and everybody's support. And, you know, happy 2022 to everybody.

Operator: Thank you. That does conclude today's conference. We do thank you for your participation. Have an excellent day.





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