By Lewis Braham

Success in value investing requires the courage to buy what everyone else hates. David Iben isn’t afraid.

“Not many people are comfortable value investing,” says Iben, chief investment officer of Kopernik Global Investors. “Value investing is about handling the pain of buying things cheap. On the surface it’s easy. But in practice, I think you have to be predisposed to buying unpopular things.”

But that pain has also brought gains for Iben, 64. His $438 million Kopernik International fund (ticker: KGIIX) and $2.1 billion Kopernik Global All-Cap fund (KG-GAX) have each beaten their benchmarks and at least 97% of their Morningstar fund-category peers in the past five years. Kopernik Global All-Cap is closed to new investors.

Kopernik International has a newer investor share class—KGIRX—which is run identically to the institutional-only KGIIX, but with a lower investment minimum of $3,000 and a 1.35% expense ratio, instead of KGIIX’s 1.10%. The fee levels on both share classes are considered above average for the category.

Kopernik International also has less downside risk than its peers and benchmark. During the worst three months of the pandemic selloff from Jan. 1 through March 30 last year, the MSCI ACWI Ex USA Index fell 29.5% and the average foreign large value fund dropped 27.6%, while Kopernik International lost 20.8%. The institutional share class has a 12.1% five-year annualized return.

It might seem odd that buying hated sectors could actually prove defensive.
Gold is a defensive investment generated by miners. It is a so-called royalty company, as Wheaton not as a miner, but as a banker to miners. It provides a steady cash flow and decent amount of [found gold] ounces per share. So, that’s a good steady company that we think is worth twice what it’s selling at.”

By contrast, Iben sees a company such as Wheaton not as a miner, but as a banker to miners. It is a so-called royalty company, which lends to miners to build their operations. But instead of charging interest up front on lengthy mining projects, royalty companies keep a percentage of any gold produced, often at a predetermined price. “You actually get the upside of gold without the problems that miners have,” he says.

Russia-based Polyus is a miner, but the country’s geopolitical and systemic corruption issues put the stock in a different risk category. Iben wants the fund’s holdings to trade at a discount to his analysts’ estimates of their intrinsic value, “but that discount shouldn’t be the same for every country.” In a country like Russia, a 50% discount is a minimum, versus 30% in more developed nations, he says.

But Russian stocks’ valuation discounts are so large, the country recently accounted for 14% of Kopernik International’s portfolio. Natural-gas company Gazprom (GAZP.Russia), for instance, is trading at a 90% discount relative to U.S. energy peers such as Exxon Mobil (XOM), Iben says.

While Iben is a fan of commodity-linked stocks lately—uranium-mining company Cameco (CCO.Canada) is another example—that hasn’t always been the case. He recalls betting against gold in the 1980s: “I’m not a permanent gold bull.” He became interested in gold miners in 2007 when he sold out of his base metal positions and sought another inflation hedge, and has traded out of them when mining stocks get too expensive.

He also will hold cash if he can’t find cheap stocks: It makes up about one-third of Kopernik International’s portfolio. With such a large cash position, it’s no surprise the fund has lagged behind its category peers over the past 12 months—even though its roughly 39% return would be impressive during any other period.

But with nearly four decades of experience, Iben knows that patience is just as important as courage when finding value in a hot market.

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