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FUND PROFILE

# A Value Fund With No Fear

Talking With David Iben Chief Investment Officer, Kopernik Global Investors

**By Lewis Braham**


Photograph by ZACK WITTMAN

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 (KGGAX) 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.

## Kopernik International

| | Total Return | | |
|---|---|---|---|
| | 1-Yr | 3-Yr | 5-Yr |
| **KGIIX** | 39.3% | 14.6% | 12.1% |
| **Foreign Large Value Category** | 42.5 | 5.4 | 8.1 |

| **Top 10 Holdings Company / Ticker** | **Weighting** |
|---|---|
| **Newcrest Mining / NCM.Australia** | 4.4% |
| **Gazprom / GAZP.Russia** | 4.0 |
| **Cameco / CCO.Canada** | 3.7 |
| **Turquoise Hill Resources / TRQ.Canada** | 3.3 |
| **NAC Kazatomprom / KAP.Kazakhstan** | 3.1 |
| **KT / 030200.Korea** | 2.9 |
| **Wheaton Precious Metals / WPM.Canada** | 2.9 |
| **Polyus / PLZL. Russia** | 2.8 |
| **Cenovus Energy / CVE.Canada** | 2.6 |
| **Golden Agri-Resources / GGR.Singapore** | 2.0 |
| **Total** | **31.6%** |

Note: Holdings as of April 30. Returns through May 28; three- and five-year returns are annualized.
Sources: Morningstar; Kopernik Global Investors

Yet in Iben's case, he has been a fan of one sector that is an effective portfolio hedge: gold mining. Companies such as Newcrest Mining (NCM.Australia), Wheaton Precious Metals (WPM.Canada), and Polyus (PLZL.Russia) are among his funds' largest holdings.

"If we take any commodity, there's an incentive price that balances supply and demand," Iben says. "So gold…needs to go above $2,000 [an ounce] in order to get people to build mines as fast as they're depleting the existing ones." Gold recently traded around $1,900 an ounce. "But the [gold mining] stocks are very cheap even without that increase," he adds.

Gold is a defensive investment generally and an inflation hedge—especially as central bankers have increased the money supply to stimulate the economy in the wake of the global financial crisis, driving down the value of paper currencies.

Iben got his start working as a securities analyst at insurer Farmers Group in 1982, right after U.S. interest rates peaked at 15.8% in September 1981—and shortly before the 1981-82 recession ended and one of the longest bull markets in history began. "I stumbled onto a firm that wanted a stock analyst," he recalls. "I said, 'All right, well, somebody is gonna pay me money to do my hobby. I think I'll do that.' That was rather a fortuitous time…as we had huge real interest rates and supercheap stocks."

After 14 years at Farmers, he left as its chief investment officer, responsible for $16 billion in assets. He co-founded Tradewinds Global Investors, a subsidiary of Nuveen, and served as its CIO and lead manager from 1998 through 2012. Iben launched Kopernik in 2013, and it now manages $6.2 billion from its Tampa, Fla., offices. He runs Kopernik International with co-manager Mark McKinney, and relies on eight other stock analysts, four research associates, and four traders.

Kopernik's analysts aren't generalists, but rather are divided by industry. Iben says that is key, since the process for valuing a company in one industry can require totally different expertise than in another sector.

Even within an industry, there are nuances. Iben points out that Newcrest Mining, Wheaton Precious Metals, and Polyus are three very different kinds of gold companies. Australia-based Newcrest is a "big, diversified company that has been well managed," Iben says. "They have decent 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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