



**KOPERNIK GLOBAL INVESTORS, LLC**

**Edited Transcript of the Managing Geopolitical Risk in a Global Portfolio  
Webinar with David Iben, Alissa Corcoran, and Todd Tosti**

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Mary Bracy: Good morning and thank you for joining us this morning; we will begin our webinar in approximately two minutes, after we allow everyone else to join the session. Thank you.

Dave Iben: Hello. I would like to start by welcoming everybody to this timely, latest in our webinar series in which will discuss managing geopolitical risk in an equity portfolio. I'd like to remind you that if you have questions, please use the chat function. We look forward to taking your questions during the Q&A section at the end.

By the way I'm Dave Iben, portfolio manager and chief investment officer of Kopernik Global Investors. I'm here with several of our analysts, Todd Tosti, our Industrials Analyst, and Alissa Corcoran, our Healthcare Analyst, who also serves as our Director of Research and Deputy CIO. To start things off, she'll take us through what we plan to discuss today.

Alissa Corcoran: It goes without saying that we condemn the violence in Ukraine; we want a peaceful resolution. Watching what is going on from the sidelines and being powerless is both painful and frustrating, and we wish that we had the ability to change the situation. We don't [have that power], and as investors, we have to focus on what we can control and as fiduciaries, we have the responsibility to act in the best interest of our investors, which often means making tough decisions, unpopular decisions. Owning companies domiciled in Russia is controversial today. However, we believe that selling at the bottom is both the wrong course of action, both economically and morally.

So, before we discuss our investments in Russia, which we will spend a lot of time doing (and as well as we encourage you to ask about our investments in the Q&A), we want to spend some time discussing our philosophy, our purpose, our process, how we define risk, why we even bother investing in emerging markets, what geopolitical risks we see, and spend some time on the important difference between buying on the primary market versus the secondary market.

What we hope investors take away from this presentation today is that risk is not quantifiable, that it needs to be managed carefully and thoughtfully, and mitigating risk requires humility and the ability to have conviction in an act on independent thought, particularly during emotional times such as these.

Dave Iben: Okay, so the risks involved with Emerging Markets investing is certainly top of mind, and so we look forward to doing this, so unfortunately what's going on in Ukraine. Our message today, though, is this is not that dissimilar from where we were a year ago when we were talking about ESG (Environmental, Social, and Governance). One that it's an important topic, like that was, and it's way too important to be approached thoughtlessly, so you know we've gotten a lot of that which we look forward to sharing with you. This is too important to allow oneself to be swept away by the emotions of the masses, which is easy to do nowadays.



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For one, the potential returns are way too big to miss out on, but the risks are large too. They must be thoughtfully managed. During the ESG presentation, I mentioned back in 2007, when I went to the Berkshire Hathaway meeting that had an impact on me. At the time, Mr. Buffett was being attacked because he had investments in PetroChina, which in turn had investments in the Sudan. Many wanted him to divest at any cost, because of the atrocities that were occurring there; dissenters had shown up to the meeting, and he let them speak. And at the end, subsequently, he acknowledged, he agreed with mostly what they said. He thought change was needed, but he also felt that having no ability to do anything about it. He didn't see how selling his stock was going to fix any of the problem. That message seemed logical to me, and now, having seen that stand the test of time and place. It's very apropos to today's discussion.

We are grateful that you, our clients, have proven to be thoughtful and be patient. We are pleased that you did not succumb to the emotions last year when multitudes were dumping their hydrocarbon stocks first and asking questions later, you know. Fortunately, time has shown that uranium and natural gas are not just a problem, they are actually a short-term solution, and then those stocks are up ten-fold since then. Our worries are that the masses may make the same mistakes this year in the emerging markets and so we're happy to have a chance to discuss that now.

Now switching gears. Today's QE (quantitative easing)-distorted world that changes a lot of things, and which makes, it almost demands, that an important section of people's portfolio be allocated to emerging markets. One, to provide refuge from the perils of massively overvalued markets elsewhere, especially the bond market but stock markets and a lot of the developed world is at unparalleled prices. Secondly, though inflation driven erosion of purchasing power is something that people need to work to offset – emerging markets and resources are the places where they can do that – the last time around, we had a lot of money printing and geopolitical problems was the 1970s, which is a decent place to live now.

Alissa Corcoran: Before we get to the bulk of the presentation, we just wanted to share with you all our mission statement. We are all charged with the important task of managing people's money and their life savings. And we obviously take that responsibility very seriously. So, our mission is to manage the highest quality investment portfolio – one that we invest in ourselves and one that we recommend to our families. We believe our product is because of the superior philosophy of a process, we have people with high levels of integrity, and we have a culture that puts client's needs ahead of short-term pressures and perceptions. So, by taking advantage of market inefficiencies wherever they come from, and demanding that value is prerequisite, we minimize the risk of permanent loss of purchasing power.

Dave Iben: We like a lot of Charlie Munger's quotes and witticism. This one particularly resonates, you know we fully embrace this, as Alissa hopefully made clear. As you know, the right portfolio move is so often the unpopular move, which is a value investor's lot in life. We believe that you know that we have a co-investment policy, the Principals of our Firm have certainly fulfilled this. It's worth repeating, the majority of my wealth is in our portfolios, likewise for Alissa and Todd. All of our professionals are invested alongside our clients.

We think we have high-quality stocks. We define high quality as those in which the underlying company has the ability to profitably meet the needs of people and do so at a competitive advantage. So many popular stocks now meet wants but not needs. Lower prices generally mean lower risk of permanent loss of capital or purchasing power when viewed on a portfolio basis. It's important to note that we do not ever own countries, we do not own Brazil, Russia, Indonesia, Mongolia, or Canada. We own shares of high-quality companies that happen to be domiciled in these countries. And it's our intention to help investors understand why we believe



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that the conventional view of risk is misguided, which is opportunity for the rest of us. To begin, let's kick off with the basics. What does it mean to be an equity investor, Todd?

Todd Tosti: Yeah, of course, thanks Dave. It's important remember that common stocks represent claim of ownership in a business. It's equally important to understand that these are residual claims on the assets of those businesses not countries. Myself, Alissa, the rest of the investment team here at Kopernik, we spend all of our time appraising businesses and their associated assets ultimately trying to determine what the equity is worth.

So, this requires a lot of manual effort, and we study, we analyze various industries, their dynamics, numerous business models within those industries. Obviously, the company specific financials, also we go through great effort to identify the sources and sustainability of any competitive advantages, should they even exist. We then, after all of that, attempt to underwrite the valuation. This is as much art as it is science and we often model probabilistic scenarios to help us to distill our estimate – what we think is a conservative theoretical value. After all of this, once we determine that we think we understand the business and what its equity is worth, we then, absolutely demand a discount.

This process that I've just described, is to provide context to the notion that to us, value is not style, it's not even a philosophy. It's a prerequisite for every single investment.

Dave Iben: Okay, thanks, Todd. We often get asked when the U.S. is a safe sure thing for making money, why would we even venture outside of this market? Alissa, how do you respond to that?

Alissa Corcoran: When they say that emerging markets are too risky, oftentimes they're talking about the volatility of emerging markets. What they should be saying is that expensive markets are too risky. We define risk as the prospect of a permanent loss of capital or purchasing power. Howard Marks wrote a fantastic book that we recommend all of our clients read, called *The Most Important Thing*. He dedicates three chapters to this question of what is risk? And we agree with him when he says that the riskiest thing an investor can do is pay too high a price for an investment.

So, while the U.S. is a great country with great businesses, to the best of our knowledge, it is now one of the most expensive major markets in the history of the world. And this is a time when investors should be fearful of the U.S. – it is far from a sure thing. Well, we remind people that in 1929, people who believed that the U.S. was going to have a great century were more right than they could have imagined. The 90 years following 1929 was probably the best years of any country ever. Yet investors should also remember that the Dow fell a devastating 90% after the three years after 1929 and not including dividends, it took 20 years for investors to get their money back.

So, price is everything. And there have been many times over the past 50 years where buying expensive markets did not treat investors well. And these were particularly devastating drops for investors who decided that the markets were too risky after the drop.

Because prices matter and as Dave mentioned, looking beyond the borders of the U.S. is a must, particularly in growing economies of the emerging markets. You know many who have tuned into our quarterly calls have seen these charts and tables before. You can see that in the table, the U.S. is much more expensive than emerging markets, which have not gone anywhere for a decade. And Russia is exceedingly cheap. So, when investors say too risky, too hard, especially when they use the words “un-investable” – that is music to our ears. When someone says they wouldn't buy at any price, it makes as much sense as “I'll buy no matter the price” - so both of those statements are illogical.



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We believe that there is a price for everything. And when investors get stuck in this black and white world, that is usually a great investing opportunity. Also, I would like to add that business risk and geopolitical risk are things that can be diversified away. While price is something that can't be diversified away, you could have a portfolio, diversified portfolio of expensive things that's still very risky.

Todd Tosti: Absolutely and I'll add there, that while we're not geopolitical experts, by any stretch of the imagination, we do our best to understand what's going on in the world. We read history and we use that historical context to help us understand risk that exists today. Our job as investors is to first understand the risk and then to be very deliberate about the risk we determine is worth underwriting.

We neither love nor hate the concept of risk per se, but we only take it if we expect to be excessively compensated for doing so. This concept of having an expectation of excessive compensation for taking risk is how we define the idea of a cheap investment.

Dave Iben: Okay, speaking of cheap, when I first started investing globally back in the 1980s, I discovered that I could buy 30-year Brady bonds that were yielding 17%. Investors couldn't get beyond "Mexico risk" and some of you been around long enough remember how afraid people were. Whereas we focused on juicy returns of treasury bonds, which were underlying these bonds, fully collateralized. Misperceived risk can be a beautiful thing. Yeah, and in the early 90s, it became clear that understanding U.S. businesses required understanding their foreign competitors. And when competitors offered better economics than what we're finding here, we started investing internationally. Back then, not many people in the U.S. really were interested in global investing. Over time, people have come to realize that a broader opportunity set is a competitive advantage. It is helpful to be able to invest in Japan or Canada or Korea, Indonesia, Russia, other emerging markets, especially when the U.S. is really expensive like it is today, some might say it's even imperative.

As an aside, it's also why we remain capacity constrained - once again taking advantage of the full spectrum, including small-caps. When they are unloved, this is an advantage. And we are going to hold on to that competitive advantage by staying capacity constrained. Let's return to Alissa to hear more about today's global economics.

Alissa Corcoran: Yeah, we have such a bifurcated market and because so many investors have gone the route of "why bother". And why venture outside of the U.S., we can buy great businesses for very attractive prices and again these are metrics our clients have seen before, but it's worth reiterating that we can buy KT (KT Corporation), the U.S. counterpart is Verizon, for 1/7<sup>th</sup> of the price. U.S. railroads are 44 times more expensive than a Chinese railroad. Land in Indonesia is 1/5<sup>th</sup> the price of Iowa farmland. So, this is a good reminder that while everyone loves market inefficiency, they love asymmetry, most people don't like where it comes from.

Dave Iben: All right, well playing devil's advocate, people look at this chart and say, Korea (to pick a country), is cheap. But isn't it always going to stay cheap? It deserves to stay cheap, doesn't it? We hear quips like – Brazil's the country of the future and always will be. Are we assuming that this large discount will ever go away, you know what risks do we see when we invest in these emerging countries?

Todd Tosti: I'll take that. There are a lot of risks to consider, obviously, when investing in the developing world. First and foremost, the rule of law, property rights, these are really, really important, and I think we all recognize that. When we observe various forms of government corruption also that must be taken into consideration. In addition, the emerging world has a poor reputation historically for providing basic universal access to good infrastructure, quality access to other basics, including power, water, transportation, modern housing, healthcare, education, etc. you get the idea. It shouldn't surprise anyone that deficiencies in any or all of these categories can negatively impact the performance of the capital markets, investment, attracting capital, as well



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as profitability of the businesses that are domiciled there, growth, many things, these are things that investors pay up for, and rightfully so.

So, Dave, like that's sort of a long-winded way of saying, yes we understand Russia, China, Brazil, India, name your emerging market country, and others like have certain deficiencies relative to many developed countries. An equivalent asset in Russia or another EM specifically should not be valued at the same as if it were in the U.S., Sweden, or the UK, just for an example.

However, and this is a big however, it is really important to understand that we get very interested when the market goes to extreme. When companies in Russia, for example, or other EMs, are selling at large discounts to the discount that we've already afforded them for their known deficiencies, we become very, very interested. I'll add to this, and it's worth noting, that plenty of developed markets have material deficiencies in many of these categories I've listed above. However, that these deficiencies often appear overlooked by domestic investors, developed markets, in particular, during long like long bull markets that we have today.

And personally, as a U.S. citizen I love living in the U.S., I don't aspire to live anywhere else, but I also can't help, and I am not sure if others feel the same, to notice that our infrastructure, our healthcare system and our educational standards lag behind many poorer countries and certainly other developed market peers. Yet, while these deficiencies are frequently and rightfully acknowledged in developing markets like the BRICS mentioned before, Russia in particular; they're rarely discussed within the context of developed markets. From a risk/reward perspective, we believe this is a mistake.

Alissa Corcoran: And just to give you an example we'll go through Eletrobras, which is a company we've owned for a very long time. It's actually our top contributor to returns since inception. Eletrobras is Brazil's dominant electric utility. 90% of its assets are highly desirable hydroelectric dams and the company controls one half of the transmission capacity. So, when we look at this business, we say, this is a business that it has incredibly valuable assets, it provides cheap, clean, carbon-free power to a third of Brazil, this is worth something. But as you point out, and as Todd points out, it's in Brazil, and so it shouldn't be worth the same as a hydroelectric dam in the U.S. We demand a larger discount for the reasons that Todd discussed.

For example, in 2012, Brazil cut the rates to Eletrobras by a third, to the point where Eletrobras was losing money. That exploded on an already levered company, as the company was using that to fund itself and the stock fell 90% from its high. And then making matters worse, in 2015 an investigation found that money was being siphoned off as one of their nuclear projects was being built. So this is not just Eletrobras, the corruption was throughout Brazil. So foreign investors quickly pulled out, the stock price fell to a low of \$1.20. Meanwhile, we valued the company around \$50 a share and risk adjusted we said it was probably closer to \$20 or \$25. So, the stock market was pricing this company at a 98% discount to its theoretical value. We had a 4% position in this stock at this time because we felt that investors were only looking at the bad news, and lost sight of the fact that this is a company that was a monopoly provider of electricity in a growing part of the world. And not everyone has the right to build and own hydroelectric dams. And when [Brazilian president Dilma] Rousseff was impeached, the stock went up seven times. We still continue to have a position in the stock because it's still very inexpensive, but this is an example of the kind of extreme efficiencies that can happen, and when the geopolitics got very dicey this was actually the best time to invest.

Dave Iben: Alright, it's a good example. Certainly, different than the way most people look at utilities in general. Let's take a detour before we continue with geopolitical risk and go back to just Kopernik and how do we think of risks in general. Let's go further into our philosophy on investment risk.

Alissa Corcoran: Todd, do you want to take this one?





Todd Tosti: Sure, so the typical definition of risk in most of finance is some measure of volatility, right? And this works really well in academics, and it certainly looks great in a spreadsheet – who doesn't love a beautiful, clean spreadsheet? I know I do.

Unfortunately, the real world is a little more complicated than that. Also from academia, we get the idea of the capital markets line. It suggests an explicit positive relationship between risk and return, the only way to get better returns is to take more, quote unquote, risk. Those of us, those of you who know us well at Kopernik, know we entirely reject this concept of risk. Harking back to Alissa's mention of Howard Marks' book, *The Most Important Thing*, in there he makes the obvious, but often overlooked point that if the CAPM (capital asset pricing model) model were true - that if riskier investments reliably return higher returns then they wouldn't be considered risky, they would simply be considered better.

I also want to quickly touch upon the quote at the top of this slide, it's a favorite of mine. And effectively said in another way is that no one ever really complains about upside volatility; they care when they lose money, but they don't really care when it's volatility to the upside and that's sort of what this chart is trying to show you on the left there. Admittedly, extreme volatility can be very uncomfortable; we're not immune to discomfort and we understand other people feel the same way. However, discomfort is born of emotion, and I think everyone would agree that emotion is not risk. Thus, volatility very simplistically is not risk; risk is something altogether different.

Alissa Corcoran: We'll go even further and say that volatility is actually opportunity. We have another book recommendation from us is the book – *Fortune's Formula* – which the author does a fantastic job of weaving together a story about the mob, economists, MIT mathematicians. It's a fascinating story, but in it a main character in the story is Claude Shannon, who was this mathematical genius, and many compare his intelligence to Einstein's. He's often called the father of information theory – so this presentation that we're doing, our cell phones, Bloomberg, the Internet of Things – this is all Claude Shannon's legacy.

So, he had interest in all sorts of things, he also had a love for investing and he showed that you can make money even if a stock goes nowhere, just by using volatility to one's advantage. So, if you put 50% of your money in cash, 50% into a stock, and each day you rebalance the portfolio, trim the stock when it goes up, buy more when the stock goes down. A buy and hold investor would have no profit at all, while the rebalance portfolio made a lot of money, as you can see in this chart. So, this example shows two things, 1) that volatility is opportunity and 2) cash is optionality.

We have a lot of examples of this in our own portfolio, for example, since inception Turquoise Hill is roughly flat. Yet, we've had positive returns because we doubled our model weight at the bottom in 2019 and 2020. Pandora is a company where we actually bought at a higher price than we sold, but we still had positive returns because it fell to \$4 before we sold, and we bought more. Ivanhoe, as a buy and hold investor, you would have done very well, however, our returns are better because we trimmed and added opportunistically.

Dave Iben: All right, if we can agree that volatility is not risk, what is risk? How can it be quantified?

Todd Tosti: Great question, Dave. From our perspective, as you know, we don't think it can be quantified. Risk is often subjective, amorphous, and hidden. I particularly love this slide because I think Nassim Taleb does a great job of depicting risk when describing turkeys on Thanksgiving in his book *Black Swan*. The excerpt we're referring to is up here on the right. The key word in this excerpt is "unexpected". The death of the turkey is unexpected but unexpected by whom? Clearly only the turkey. It's important to note that very much unlike volatility, this sort of risk depicted by the thanksgiving turkey example isn't unquantifiable ex ante, nor even in retrospect, ex post.



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And here's why, like if you think about it, to some of the observers, the probability of the turkey's demise (to the turkey) is 0% - it feels quite safe. To the other (the farmer) it's a 100%; he's certain he's going to kill that bird. But neither extreme is true when viewed with a broader lens. And we would suggest everyone, you know think for themselves broadly, for example, imagine if the turkey wasn't in the U.S. on Thanksgiving. Also, we should consider turkey consumption on Christmas and other holidays. This creates a problem, like what is a turkey to do to understand his risk?

We would bet that a formula is unlikely to help. At the same time, more seriously, the goal of risk management investing is to avoid being the unsuspecting turkey, and we take that very seriously. To that end, we acknowledge that just simply because in investing, as in life, risks can't be eliminated. They can't be avoided, but however, they must be thoughtfully and carefully managed and approached, understood, and then ultimately diversified.

We try our very best here at Kopernik to understand as much risk as we possibly can, but it's ultimately impossible to understand all risks. However, theoretically, if one could understand and effectively underwrite all risks, the only remaining risk is the risk of overpaying.

Alissa Corcoran: So, one can easily make the case that investors today are forgetting about the existence of Thanksgiving, as they have 60% of their money in one country. And that country is selling for some of the most expensive prices ever recorded. And as we talked about earlier, and as Todd just mentioned, price cannot be diversified away. So, anyone investing in the index is making a concentrated bet in an expensive market. And concentration is not risky if you know the future. And so, when investors buy expensive stocks, they have to have a very good idea of what the future holds.

We don't know the future, and so, therefore, we require a high margin of safety before we invest in any company, and then we diversify. And we have rules in place to limit the exposure to any one country and industry.

Todd Tosti: So, we often get questions from clients all the time, as we discussed the concept of risk and where we think we find asymmetric opportunities and they go great, but why do you own 100 stocks, like why not concentrate more. We've even been asked a number of times to run a more concentrated version of portfolio, like a best ideas portfolio, many of you are probably familiar with the idea.

I think an analogy serves well to answer this question and it's going to talk about coin flipping, as you can see on the slide. Imagine we're flipping a coin and because we like asymmetry you know the coins we flip - heads we triple our money; tails we lose 100%. Not bad. This is obviously a game we like, this game is asymmetric. However, even with these really lopsided return asymmetries that we think we're underwriting, we might not want to play this game if we only get the chance to flip 8-10 coins. What might be considered a more concentrated portfolio. However, we're very happy, excited even, eager to flip 100 coins that are this lopsided.

And this way, we help to explain to our clients that diversification helps us realize our asymmetric edge. Alissa, can you channel your ample mining experience to talk about how we do this to some of our mining companies?

Alissa Corcoran: Yeah absolutely. So, like Todd said we don't want just one coin flip on our mining stocks. We own 24 different mining companies. And we expect all of them to do well, but there is a chance that some of them don't. We don't know the future. We don't know if a possible but unusual event happens, and therefore we don't want to just have one company. We want to diversify across management teams, across regulatory environments, across geologies, balance sheets, and business models.





Dave Iben: Should be clear to everybody why risks should be viewed as a portfolio basis, I think, rather than single stock single country, industry. You mentioned regulatory regimes - now might be a good time to go back to our main topic, how does one handle geopolitical risk?

Alissa Corcoran: So, being a value investor is very difficult because the best time to invest are when things are looking pretty dicey. We always like to refer people back to David Swenson's quote that portfolios that are positioned well to outperform can appear downright imprudent in the eyes of conventional wisdom. So, when geopolitics are looking dicey, valuations can become very attractive as we showed with Eletrobras and as we're seeing with Russia right now. So, fear in the extreme can lead to very opportune times to buy. The risks are real; the risks around geopolitics are a great concern for investors and they matter. And so how do we account for that?

There's no single way to manage the risk, but a binary approach is clearly wrong. So, we start with the premise that no country is perfect and very few countries are un-investable at any price, and that there is a price for everything.

Dave Iben: Understood. As you pointed out, your job is to understand risk. Todd, could you talk a little more about what you see as the primary geopolitical risk?

Todd Tosti: Sure. So as Alissa mentioned, we generally believe it's a mistake to view risks as binary. You know, while sometimes you will experience a total loss in a particular investment or even a region, sometimes markets go to zero. Oftentimes just a portion of one's assumed economics aren't realized and there's a recovery. Other times expected value is even over-realized. So sometimes you do well, sometimes you do badly. In simple language, sometimes bad things happen, other times they don't, and sometimes risk profiles even improve, particularly, and this is key, versus low expectations.

As previously mentioned, rule of law and its stability specifically, as well as various forms of government policy, corruption, any largess – these are real risks to investors in all geographies. These are risks many and varied, not only by type, but by degree and like that concept of by degree is important, and we think somewhat subtle and maybe misunderstood. By that we mean it's important to realize that geopolitical risks are applied to every country and every region and thus every business. Everybody faces some degree of geopolitical risk. It does, however obviously, and we would acknowledge it varies substantially by region-to-region, regime-to-regime, geography-to-geography.

We mentioned prior in an earlier slide that equity holders are residual claim holders. And that's important to understand, because we must always, always worry about who's ahead of us in the capital structure. It's not just debtholders, it's also taxes or other forms of extraction by governments. As the saying goes, I bet many of

you are familiar with this one, "Nothing is certain in life except death and taxes". And taxes, while certainly common, they're definitely not the only type of government extraction that we must be aware of. This slide shows a not even comprehensive list of various types of economic extraction methods used by governments on businesses and citizens.

As we move to the next slide, like after the fact, after the government has extracted its pound of flesh, we must also be aware of how they go about transferring those economics from one group to another. Again, this comes in various forms, either as legitimate policy, largess, or sometimes what I like to refer to as leakage. This process has the potential to obviously create relative winners and losers and it's very important for us as analysts and investors to understand these dynamics.







The broader point here is that investors need to consider these many and varied associated government-related risks, the degree to which they exist and the potential change to them in the future. Critically and this bears repeating, this applies to all geographies not just the emerging markets.

Dave Iben: Perhaps an example would be helpful. Alissa, you were the mining analyst for a number of years. Geopolitical risk is of course very high there, given they can't just move their assets from one place to another. Give us a sense of what can happen?

Alissa Corcoran: Absolutely. So, extraction businesses are common targets for the governments because they can be highly profitable at times. And in the past, many mining companies were bad actors, which just made their target easy and large. And, as you mentioned, they're captive to regulation because they can't just move their mine if governments start acting up and going after more of the economics.

But fortunately, the industry has made a lot of strides and they are arguably leaving the environment in better shape than they found it, they're helping communities. So, that makes the target smaller. And also, mining is a very complex business and so usually it's too complex for governments to just outright nationalize the mine. Governments know that by stealing or changing the mining agreements that's a deterrent to any future investment, as investors lose their confidence in that rule of law.

Obviously, rule of law is a big deal. We go to the same mining conference every year, since inception, and we can't tell you how many times we hear mining companies, we hear investors say, well we'll only invest in the safe jurisdictions, which you can imagine, creates a lot of opportunities. So, we've used that to our advantage and, in addition to owning mines in the U.S. and Canada, we also own mines in the DRC (Democratic Republic of Congo), South Africa, Peru, Australia, Papua New Guinea, and Russia.

And certainly, we've had the unexpected but possible happen. Centerra was a larger mining position for us in the past, and just last year, the Kyrgyz government outright stole Centerra's best mine. So, this was a larger position, as I mentioned, now the upside is not nearly as large. But while this was happening Ivanhoe and Impala were outperforming as investors became more comfortable owning assets in South Africa, Zimbabwe, and the DRC. And the same thing happened when there were issues with Rio Tinto, TRQ (Turquoise Hill), and the Mongolian government. TRQ was hurting performance, while Russia was helping us. Now TRQ is up almost eight-fold since its troubles in 2020, while Gazprom and Polyus are down, obviously on the events in Ukraine.

Not all of them work out, but that is to be expected and we've made a lot of money in our mining companies. Since inception we've made 3x our money in the gold mining sector, while the GDX (VanEck Gold Miners ETF) is up 75%.

How have we done that? We diversify our idiosyncratic/business/geopolitical risk. We think differently about how to value a mining company, which we went over during our mining webinar. And we've used volatility to our advantage and invested when investors got fearful about a particular jurisdiction. And then lastly, I'll just point out that investors can be wrong about what they deem to be a safe jurisdiction. So many investors would not have thought that investing in the DRC would have been safer than starting a mine in Chile. And then we've also lost money because of corruption with one of our Western mining companies.

Dave Iben: Well, that I think is a really relevant point. Because little expectation of risk is priced in for U.S. stocks, hopefully everybody understands, they can ultimately prove to be more risky, because any unforeseen challenges knock them off their pedestal. When it comes to EM it's kind of the opposite, it makes sense if people have priced in the worst if things turn out just a little bit better than that, a lot of money can be made. So, you mentioned that



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we heavily risk-adjust before you invest, that's an important concept. Todd, maybe you could tell us a little more about how you do that.

Todd Tosti: Absolutely. So, based on experience and history, we know that bad things happen. However, because we can't, we make no attempt to predict the future. We simply observe the types of things that have happened in the past and anticipate some sort of non-zero probability that these types of things will happen again in the future. We also understand that certain types of negative events tend to repeat, or the very least rhyme, in more frequently in particular regimes or geographies. We therefore try our absolute best to incorporate these factors into our process in a very thoughtful and deliberate way in order to come with a conservative valuation when dealing with geopolitical risk.

Every stock, and this is important to understand (I'm sure investors at Kopernik know this already) every stock in the approved list is subject to risk adjustment process used to determine what we think is an adequate margin of safety. An example, we've historically used with clients, is the concept of Exxon and Gazprom. But today given Russia and the Ukraine, JPMorgan and Sberbank, Google and Yandex, these are all illustrative when thinking about EM broadly and Russia specifically.

So, with regards to these pairs of companies, one in U.S. and one Russian counterpart, I'll pose a hypothetical question. What would happen if Exxon, Google, JPMorgan move their headquarters and their domicile to Russia? Will they then be worth nothing? Of course not, they will retain some economic value. Are they worth the exact same before the move? Also, no - they are clearly worth less now. The key question that we spent a lot of time thinking about particularly our risk adjustment process is how much less are they worth?

With Russia, historically, we have tended to use a margin of safety of 50%. So, if we believe a business, theoretically, in the U.S., for example, or another developed market like the U.K. is worth \$20, we would apply our margin of safety of 50% and yield a risk-adjusted value of \$10, right? But we don't buy at \$10. We're only interested in buying at a discount to this risk-adjusted value. Therefore, we're not even interested in looking at let's say what someone might call a risky EM company unless it's already trading for a substantial discount to its developed markets peers - 50% in this case. And if you take a look at this slide and the graphic up here sort of depicting how we think about position sizing. When we size our positions, we do it based upon a discount to the risk-adjusted value, right? And so, what this slide depicts is that the cheaper it is on a risk-adjusted basis, the more we like it.

To us, that makes sense, and we think it's relatively simplistic and a salient way to think about risk. I think a quick analogy will help here and make it even clear if it's not clear already. Other investors often described investing as trying to buy \$1 for \$0.50. And that, generally tends to work out well in developed markets, for example, like the U.S., we are very happy to buy a \$1 for \$0.50. Obviously, for those of you with the calculators out, this implies 100% upside. And this is great when you can find it. Lately, it's been pretty tough to find, you know dollars in the United States trading for \$0.50.

In the emerging world, however, what we aim to do is more akin to the following. We will look for that same dollar asset, but then we'll risk-adjust it down and call it \$0.50. Now I think it's worth \$0.50. But we're not aiming to buy it at \$0.50, we're trying to buy it for \$0.25. Again a 100% upside to a risk-adjusted conservative valuation. To reiterate, this is important, in EMs in general, and Russia specifically, we haircut our theoretical values. We haircut them historically about 50%. And then, also on top of that, demand a substantial discount before we're interested investing. We do our absolute best to calibrate this process thoughtfully. But we don't fool ourselves; I mean this is an equal amount art and science, but it is also not formulaic, and it's certainly not based upon volatility.





Alissa Corcoran: Right and many will say well is 50% the right margin of safety? We don't know and our goal is not to be precise, our goal is to earn returns for our clients. We can earn these returns when investors say they need 100% margin of safety, i.e., things are un-investable. So, investors can lose a lot of money when they have been lulled into apathy thinking that prices just keep rising and we believe investors today are using a 0% margin of safety for the U.S. Things have to go perfectly for their investments to work out in real terms.

Dave Iben: Well, the numbers should all be clear to everybody. In a diversified portfolio if you're buying things at half price, and you're doubling your money and doing that more than half the time, that strategy is going to work out very well. Should be evident if you provision well, and the things don't come to bear, things are going to work out very well for you. And it makes sense to doing analysis, I think, for most investors, ourselves included, being right a lot more than half the time is a reasonable expectation.

A common question: Great, you're going to make a lot of money, but what about the morality of it all? We got a question from a client, what's the adjusted price for a North Korean gas company? I can interject that I actually was able to join a brokerage arranged trip to North Korea. It was fascinating, they have businesses there. I spent time with a German guy running a software company, a British banker, various others. It was fascinating but there is no public market there. We're not looking, we're not spending any time risk adjusting. But regarding the broader issue of morality, that's important. Alissa, what are your thoughts?

Alissa Corcoran: It's a really important question and one that investors are struggling with a lot. I'll reiterate that we do not approve what is going on in Ukraine. It's really tragic and our hearts go out to the Ukrainian people, in particular, but also to the others who are now having a very hard time just affording basic goods. It's all horrible and we hope that there's a ceasefire and peace settlement soon and we wish things were different because war doesn't help anyone.

So, what can investors do to help in this situation? There's this idea that by divesting, investors are voting with their money and showing their disapproval. And you're hearing a lot of investors say that they're wanting to sell their Russian stocks when the market opens. Unfortunately, divesting doesn't actually change the situation and when an investor buys on the secondary market, it does not help Russia. And likewise, when someone sells on the secondary market it doesn't hurt Russia. So, when you are buying on the secondary market your proceeds do not go to the Russian Government or Russian companies, but to the seller of the stock.

So, for example, if Kopernik buys shares of Apple stock from you, you get our money we get your stock but no money touches Apple (the company) nor the U.S. Government. So many people say okay, yes, we agree with you, but when you buy, you're supporting the price of Russian companies which helps them. And this would be true if companies needed to finance their operations through debt or equity issuances, but many of the companies domiciled in Russia are highly profitable businesses. And they're profitable because the world continues to buy Russian gas and wheat and oil and nickel, palladium. So, if the world stopped consuming these products, that would hurt Russia. So, if Europe stops buying natural gas that hurts Gazprom.

But let's just imagine what would happen if we were to sell our shares at \$0.05 on the dollar, who wins? The investor buying valuable assets at 95% discount wins, while our investors across the globe lose. So, if the Russian Government or the Chinese Government is that buyer then selling our stock would actually be helping those governments. So, if it's true that Exxon is leaving Russia and sells those assets back to the Russian Government or some oligarchs for an extremely cheap price, we believe it is Exxon that is hurt. So, most of you, I imagine have heard the news that the Russian Government, the Chinese Government plan to spend trillions of rubles to buy these bargains. And, in our opinion, that would only help them. So to reiterate, selling valuable assets to the Russians and the Chinese governments, doesn't hurt but helps those governments, while starving yield-starved Western investors. That's the first point.





The second point is that there is no perfect government and people are different from their government. American people are different from their government. In hindsight we believe we would say that the U.S. actions in Iraq, Afghanistan, Vietnam, Libya, Serbia were misguided. And we are absolutely not saying that two wrongs make a right, but investors have to invest in an imperfect world and those who hang on during the difficult times, can do quite well.

So, when we are buying Russian companies, we are distinguishing between investing in the Russian Government and investing in the people, the culture, the assets, the franchises of Russia. When we invest in RusHydro, we aren't investing in the Russian Government, we are owning a fractional interest in hydroelectric dams that provide cheap, clean, carbon-free energy to millions of people. When we invest in LSR and Etalon, we are buying companies that are building modern homes, allowing people to move out of depressing Soviet era structures. When we buy Sberbank, we are investing in a company that provides banking services to 100 million people and helping people to afford those new homes. And when we invest in Gazprom, we are investing in a natural gas company that heats homes, that keeps lights on in many countries around the world. The world simply cannot survive without Russian gas. Europe has been extremely careful not to disrupt this flow of energy and if it were to be disrupted, then Germany would have to go to coal, for example, which has significantly higher carbon emissions.

So, to sum up, divesting assets doesn't make the war go away and these companies have high-quality assets and provide necessary services to millions of people. And then lastly, we want to remind our clients, that the stocks are not doing well with the war going on. Our stocks domiciled in Ukraine and Russia have been marked down significantly.

Dave Iben:

Thank you. We're on the homestretch; here three more slides and we'll be taking questions. Hopefully, we've made it clear that we condemn the aggression in Ukraine. However, we are not able to do anything about that. From an investment standpoint, what we can do is do the right thing, as stewards of other people's hard-earned money. That's the question at hand. After all, for all of you that are managing other people's money, this is a difficult environment when the risk level is high. Clearly, the risk of geopolitics is higher than it's been in some time. But even bigger risk - the risk of overvaluation may be the highest ever that can't be diversified away. The risk of debt, debt has never been this high in most places. There's worry that all over the place there is less of a rule of law. So, the risks are high for all of us and so the least we can do is focus on getting paid for that risk and looking for diversifiable risk.

Here we've got some charts showing, once again, that you shouldn't sell when things are looking tough. Also, you guys know that oddly enough, I find lyrics is a good source of food for thought. Somehow artists have a way of capturing the essence of things. And I thank Todd for bringing back to mind Billy Joel's great song "*We Didn't Start the Fire*". It reminds us, I could barely, it's interesting, you guys should Google it / read about it.

But apparently, he was talking to some people half his age as he was struggling with turning 40. And these 21-year-olds are saying, yeah you're so lucky you got to grow up in the 50s and 60s where you had no problems. We're kind of screwed growing up in the 80s and 90s. It was funny, he thought about it and sort of thought yeah, no that's not really true. In the 50s there was Korea, the Suez Canal, and Red China, McCarthyism, H-bombs, Cuban missile crisis, Stalin, Vietnam, JFK, MLK, Budapest. In the song he goes through 120 some odd different things - a half of them are good things, he acknowledges, a lot of good things did happen in the 50s and 60s. There was a lot of balance to what he did, and I think through any generation we focus on the bad. But there's plenty good to focus on. It's good to realize that, yes, the challenges and fears, as Mr. Joel put it, burns on and on and on, there's a lot of good going out there also. So unable to stop the war, let's turn from Billy Joel to John Templeton and Warren Buffett.





You know, a decade, following the young man's complaints to Billy Joel, was followed by one of the best decades ever for the stock market. Guys complaining about how bad things are, I think, it's always good to realize that in a cyclical world the bad times are the times to buy stocks. In a seemingly perfect world, such as we had a couple of months ago, may have been a good time to sell stocks globally.

You know, here are five charts, we could have given you a 50. But history suggests that bad times are good times to invest. I always like to talk about John Templeton because he was investing in Japan investing in the 50s, 60s and the 70s (everybody was investing in the 80s). But in the 70s, he was making a lot of money in Japan, where everybody else was losing a lot of money in the United States and elsewhere, and you figure - why didn't everybody do that? But people back then, as now, failed to distinguish the difference between businesses and the governments. So, they had a chance to buy really good businesses when people were focused on the government and focusing on government actions and remembering other times, whether they didn't like Japan. Germany same thing - I remember in the 80s people still would not invest in Germany. They missed out on a BMW and Daimler and Siemens; you name it. So, it is not every day that you find a world class businesses with dividend yields of 11%, 70% of book value (mostly tangible book value), and four times earnings. Selling stocks at those sorts of valuations certainly present some moral dilemma for investors, they ought to think twice before doing such a thing.

And so, this is our last slide and as I summarize, I'll remind everybody if you have questions, please send them in via the chat button. We've appreciated this chance to share in detail, our analysis of how we handle these things. It's admittedly a difficult subject.

We do think it is maybe more severe, but like hydrocarbons and the extremes of last year, selling companies at 1/10th of today's prices did not take a speck of carbon out of the air, did not fix the problems. We caution investors to think long and hard before they sell valuable Russian domiciled businesses at \$0.10 on the dollar. We will continue to point out, no companies are 100% good or 100% bad. People have come to realize that uranium and natural gas, they've got their problems, but rather they were a big part of the solution and that's the way people are looking at now. Companies domiciled in Russia are likely to someday come to be viewed in a kinder light in the near future. Perilous times historically have been poor times to sell; buying has been rewarded.

So to close, we reiterate investing in Russia can be risky, but this risk can and should be managed and can and should be diversified. The potential returns are enormous relative to those risks. The biggest risks facing investors in our humble opinion, are not geopolitical, like I said, people should worry about loss of purchasing power in the QE-infused world where they increased the money supply up 10 times. They should worry about record valuations that have been caused by the money printing, they should worry about the currency debasement that's been caused by that, some people will claim associated effects on society that have been caused by that. Scarcity of commodities is something that's back in the news again. The world's getting close to 8 billion people - all of them consuming what they need rather than just what they want - commodities in many cases are what they need.

EM and resource stocks are risky, but they appear to be much more of actually required solution than risk at this point. Once again, the risk can and should be diversified. The All Country World (Index) [MSCI ACWI] is not adequately diversified. Emerging markets, keep in mind is most of the world's people, most of the world's land, most of the resources, over half the worldwide economy. And yet it's 11% of the All Country World Index. The US's 61% is possibly an irresponsible number; 61% despite being roughly a fifth of the worldwide economy. You know, we love the U.S. and love the economy and the companies but 61% is a lot.





Geopolitical skirmishes, they are serious they are unfortunate, and we definitely pray for the Ukrainian people and all the people of the worlds that are affected by that. I hope it's been useful, and we, I think we have time for plenty of questions, so we look forward to hearing them.

Mary, do you have any questions?

Mary Bracy: Absolutely, we do. We have quite a few questions coming in, again, please use the Q&A or the chat function to submit your questions. We'll start with what is by far the most common question which is:

How are you valuing your Russian stocks right now, how are you valuing them and how much of the portfolio is in Russia?

Dave Iben: I'll handle that one. A lot of things are subjective, so we try to start by throwing up anything that's wrong. To not give a haircut to a market that is not freely trading that's clearly wrong. So, we give them haircuts. We take the prices that they close; we're not even counting the recent trades. Taking those prices, giving them haircuts for rubles and we're giving them haircuts for the fact that the market's illiquid. So, we're pricing them off of already low prices and giving discounts on the locals and on the on the DRs (depository receipts) which might be getting phased out.

We're being pretty conservative but it's important to point out a lot of people are being more conservative. A lot of people are pricing things at zero. We understand their reasons for it, and we won't criticize them, but for us, we think that's the wrong approach. Conservatism in itself is a good thing, but keep in mind many funds they have investors coming in, they have investors coming out. If you have a situation where these stocks might be worth zero someday, but they might be worth 20% or 40% or 60% or 80% or 100% of what they used to be, any kind of scenario analysis you do on those, is going to come up with a positive number.

So, we don't approve of that approach. We try to get something that gives enough haircut to be fair to people buying the fund and to be fair to people exiting the fund. Here in the States has been pretty equal people coming in and out a slight inflow, but you know, we hope, people won't go out. But if they decide to leave, we want to make sure they get a fair price, so we've been giving 20%, 30%, 40% discounts to already discounted numbers. Put that in perspective, the portfolio was say 14% to 15% Russia, has now been cut down to below 4%. You might have noticed the rubles roughly doubled up the bottom now we're closer to 6% of the portfolio for something that would be worth 15% if it wasn't for the markdown.

Mary Bracy: Great. We have some questions about other areas of the world, including other emerging markets. So, we have specifically, how are you thinking about positions in China, Taiwan, Korea, and Central Europe at this time, given where things are at? And we also have another specific question about Japan and how you're thinking about Japan?

Dave Iben: Interesting enough, industrials are cheap and some of those places. Todd?

Todd Tosti: Yeah, and I'm happy to discuss all of them. I'll try to keep them all in my head and take them in order. These days, I'm spending a lot of my time in all of those countries, specifically, China, South Korea and I believe Japan was mentioned. And they're all very different. So how do we, how do we think about them? Well, differently.

The rule of law, cultural aspects, are different in China than they are in Korea, that are different in Japan; Vietnam is another geography we've looked at as well. And off the top of my head, I don't remember the exact discounts we apply to some of these companies because again we don't buy countries, we buy companies that have various exposures to the specific geopolitical concerns within the areas they are domiciled. So, some of



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the companies we look at in South Korea, for example. Hyundai, for example, the Hyundai prefs [preferred shares] or there is a company that was a recent purchase for Kopernik called DL E&C. I mean these businesses are both domiciled in Korea, South Korea specifically, but it's not 100% of the revenue is not coming from South Korea. Hyundai very much so is a global business. And so, when I think about the risks in Korea I think about dynamics within chaebols and like whether those markets and capital flows are truly free market, if you will, and whether those capital structures and corporate structures are analyze-able. It takes a lot of effort and we do our best, but because of that we haircut them; the haircut currently being applied to Hyundai is about 40%.

Moving to DL E&C. That is a combination of a home builder and a petrochemical construction engineering business that has operations globally, quite a bit in South Korea, but also in the Middle East, a bit in Eastern Europe, as well as domestically. That business itself, while it is under the - it is domiciled in South Korea, actually probably has more business risk and asset risk just because of the nature of its operations than it does Korea specific risk. That's sort of a long-winded way of describing South Korea. I'll transition into China.

In China, there's a bit of a command-and-control economy, as everyone knows, there is a dictator and an ultimate ruler. And assets can be under the list of risks that we discussed prior quasi-appropriated, right? And we've seen this, we've seen it happen in education - online education in the past year and a half. We've seen it happen to tech darlings of the past, particularly the N-shares (the U.S.-listed shares) and to the little lesser extent, the A-shares. You'll keep in mind that A-shares in China have outperformed these other share classes dramatically. But we're very, very aware that you know what China wants to do and pose upon its businesses, it does not require you know senate approval, if you will, for example. And so, we're very cognizant of that. The current risk adjustment I am using and some of the other analysts might be plus or minus, it is approximately 50% but, in certain cases it's lower. So, we're currently looking at a few petrochemical-related businesses that I can't discuss entirely but we're using a larger discount than we're using for Russia, and for good reason. But the point being is that we're seeing valuations that even when discounted 70% look interesting or are worth our time. This is getting long winded, but I want to address Japan.

Japan is an entirely different kettle of fish, obviously. It's culturally very different much more insular global economy with large exports, however, a lot less entrepreneurial in terms of new technological development across the board and much, much, much more conservative capital allocation. Over time, and this is, you know yielded you know businesses that have somewhat underperforming their peers, particularly in capital allocation perspective. So, we view Japan, generally speaking, as like a very safe governmental place, aside from perhaps looking at what they've done to their money supply within the Central Bank. A ton of QE; if MMT (Modern Monetary Theory) was born of anywhere was born in Japan, which is still an ongoing experiment, maybe a 30-yr, 40-yr experiment. So that that's abuse of macroeconomic risk, but from a geopolitical perspective, Japan looks pretty good. It's their business risk - their willingness to return capital, their willingness to reinvest or hire and fire creative destruction - that we view as sort of more salient risks. So, I appreciate the question; it's very difficult to talk about every country in detail, but suffice it to say we think about it a lot and they're all different.

Dave Iben:

I'll interject. It should be clear from that, that we spend a lot of time on this and its very complicated subjects: cash versus debt versus rule of law versus everything. So, for specifics, please feel free to contact us. In general, you know the BRICS: Brazil, Russia, India, China, the ones that people were paying huge premiums for a dozen years ago and are giving away now. We've been pretty consistently using around 50% discounts for all of those. Japan and Korea, which some indices consider to be developed, while All Country (ACWI) considers to be emerging. We, because we follow them (ACWI) use it as emerging. But we do not consider them really to be emerging. So, Japan and Korea receive nowhere near the discounts that some of the other countries do. That's the overview, but for specifics, please, please contact us.



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- Mary Bracy: Great. We're getting quite a few questions about whether or not you're able to currently buy Russian stocks and liquidity issues, so if you could touch on that, that would be very helpful.
- Dave Iben: Yeah, that's easy. We are unable to buy Russian stocks and have been for quite some time.
- Mary Bracy: Alissa, one question for you specifically about *Fortune's Formula*. The questioner asks, in my mind, the strategy suggests making larger, more concentrated bets in situations where the payoff asymmetry is greatest. On the other hand, you also mentioned, diversifying your asymmetric bets so, how does this reconcile? Is it that you see many more asymmetric bets in emerging markets versus developed markets? In other words, concentration versus diversification.
- Alissa Corcoran: So, concentration - Diversification, you give up some return, but you get safety in return. So, we absolutely believe that a diversified portfolio is the best strategy, as Todd pointed out. We are not interested in flipping a couple coins, because the unexpected but possible could happen and we are in this for the long term, we want a portfolio that will last for many, many decades and diversification is the best way, because, I mean, Russia is a great example. It's 15% of our portfolio, and this is not something that we expected to happen, we did not expect Russia to invade. The U.S. is probably the biggest risk here, which would force us to divest our stocks. If all of our portfolio was in one country because Russia did have probably the largest upside. Before the invasion that would have been incredibly risky. So, *Fortune's Formula* is a great example of how volatility is opportunity. But absolutely we fully espouse the idea of diversification across business risk.
- Dave Iben: Yeah, to put that together with what Todd was saying earlier. We do try to embody that; we do not put 2% in every company we have, so we stay diversified across hundred names plus or minus. But if stock's worth \$50 and we can get it for \$40 we will buy a little bit. If we can get it for \$30 we'll buy more and \$20 we'll buy more; we never go more than 5%. But certainly, the names that have way more upside, risk-adjusted, are going to be more the 4% or 5% positions. As they approach what we think they're worth, we slowly trim. We don't hold the big position until it gets there. Same thing with countries, those of you that have been with us know that the amount we had in Russia last fall, when people liked Russia, was half the amount we had in Russia in 2015 when it was very, very cheap before it went on 5x run. So we do believe both in diversification, and concentration within that diversification; bigger allocations to better risk-adjusted possibilities.
- Mary Bracy: Excellent. Because we are coming up on 75 minutes at this point, I'm going to ask two more questions. We have quite a few still in the queue so if we did not answer your question, please feel free to reach out to a member of our sales team or to reach out to us and we are more than happy to provide an answer to that question.
- But I want to talk just briefly; we've talked a lot about Russian companies, but what about Ukrainian companies. So, the question is if risk is the possibility of permanent capital loss, how do you assess the risk of the Ukrainian companies that you own, given the current invasion, the blockade of vital Black Sea ports, and the possibility of expropriation?
- Alissa Corcoran: Sure. They still have valuable assets; their land is still there. While they cannot export their product which is a very big problem in the short term, we are long term investors, we will probably own this for potentially decades, depending on the price. If the price shoots up, we will trim and exit the position. But we view the Ukrainian companies, just like all the other companies in our portfolio, we heavily risk-adjust. Right now, they're trading at bargains to what we think they're worth theoretically, in the long term.
- Dave Iben: They are a great example, a lot of things we talk about in our meetings: if you have U.S. dollar-based debt, and you are selling dollar-based grains and chicken or things like that, how do we adjust for the mismatch versus







the fact that you'll probably be made whole over time? How do we value land in Ukraine versus land in Iowa? Should it be a 50% discount or a 70% or certainly 90% something odd discount gets our attention. So, and then there's what is the value of land in general, and Ukraine along with Iowa and Argentina and other places, are some of the best land in the world for growing things. A lot of things are going in the favor of these companies, but it comes down to that concept we talked about: is volatility a risk or is it opportunity? I guess it's both but mostly opportunity in our opinion and that's another one that fits in with what Alissa was talking about earlier. We've done pretty well in some of these agricultural stocks, despite the fact that they've had - maybe because of the fact that they've had, some good times and some bad times over the years.

Alissa Corcoran: Yeah, and the impact to the Ukrainians may help our Indonesian [companies]. I mean, as people stop being able to access sunflower oil, potentially that's helpful to our palm oil companies in Indonesia. So, there again diversification is important. We saw that with uranium when Kazatomprom was hurt because of the actions into Kazakhstan; our Canadian uranium companies went up significantly. So, a diversified portfolio that's what's important.

Mary Bracy: And our final question. We've received quite a few requests to touch on the morality issue again. And so, probably the best way to sort of sum up all of these is to phrase the question as such, how do you get comfortable investing in a country that is currently perpetrating reported unspeakable atrocities against a neighbor?

Dave Iben: Yeah, we will point out once again that we are not investing in the country itself, we are not funding anything that's going on. A matter of fact, these companies we have are cash flow machines. The morality, you know should people in Europe freeze rather than use Russian gas? That's a tough question, I guess. So far, choosing not to freeze and I think we'd probably make the same decision. But not using Russian gas that would affect Russia, not buying Russian grains and Russian fertilizer which we're still doing the U.S., that would affect it. So morally people can decide the pros and cons of actually cutting off cash flow to Russia. But Gazprom is making lots of money - they don't need our money. And we will point out that a few years ago the U.S. made the, we think, colossal mistake of having U.S. investors sell Chinese telecom companies. These are very, very profitable telecom companies. Did this hurt China? No, this hurt U.S. investors that had to stampede to the exit, sell it at a low price; these stocks are way higher right now. If people stampede out of Gazprom, this will not hurt Gazprom. If Gazprom is the buyer, the [lower] price, that actually helps Gazprom a lot, as Alissa pointed out.

So, you know we have those slides. Buying or selling Gazprom to somebody else, that is not going to help or hurt Russia. It will hurt our investors; we have a fiduciary duty to our investors. To sell Gazprom and Sberbank and RusHydro and things like that, we have a moral obligation not to do that to our clients. If it can be helped, we are stealing economics from our clients and giving it to the savvy buyer on the other side. So yeah morality is a sticky question and we understand, but is clear to us that buying and selling on the secondary market is not going to hurt Russia. It is clear to us that selling a diversified portfolio of cheap selling, great companies that hurts our clients. We will do what we can to not have to do that.

Mary Bracy: Excellent. Thank you so much. That will conclude our Q&A session. Again, if you have any further questions, please contact a member of our sales team, and we will be more than happy to get back to you. Dave, we'll come back to you for any closing remarks that you may have.

Dave Iben: Once again, thank everybody for tuning in we know you're all busy, this is a very important subject to us and I know to all of you. It's complicated, with crises, to seize our challenges and opportunities. We, of course, are all available for further questions in the future and apologize we couldn't get to all of them now. But happy to take them, they are very important issues, and thank you once again for joining us.





During the webinar, Kopernik received many questions. Below you will find a selection of questions that we were unable to address live on the webinar due to time constraints.

- Q. *One of the gold mining companies you own is Gabriel Resources? Any thoughts on the ongoing litigation they have with the Romanian Government?*
- A. *Gabriel owns the Rosia Montana deposit in Romania, which is one of the largest undeveloped gold deposits in the world. However, Gabriel is more of an arbitration company than a gold mining company at this point. There are several scenarios that could play out. First, the company loses the arbitration and receive no compensation. Second, they win in arbitration and try to claw back money from the Romanian government. Third, they win in arbitration and negotiate with the Romanian government to get the mine back. We see scenarios 2 and 3 as more likely than the first scenario, and the company is attractively valued should they win something in arbitration. However, the dilution that has occurred over the last several years is substantial, and the upside we saw initially is not nearly as good today. The arbitration is coming to a close and we should see a decision by the end of the year.*
- Q. *Given the dislocations occurring in certain markets and the opportunities that may arise, would you expect the Global All-Cap Strategy would re-open to new investors?*
- Q. *Any thoughts about re-opening the Global Fund (KGGIX) to new investors, particularly if global markets were to sell off in the coming weeks or months?*
- A. *We continuously review our capacity limits and liquidity. At this time, we have no plans to re-open the Global All-Cap Mutual fund which was soft-closed to new investors.*
- Q. *Will U.S. be able to provide the natural gas to Europe and replace Russia?*
- A. *Over the short term, no. While many LNG (liquefied natural gas) projects have been built in the U.S. over the last few years, the vast majority of the gas from these has already been sold. For this gas to reach Europe instead of its original destinations it would have to be bid away from customers in Asia who in turn would have to replace it with other sources of energy. We have seen a little of this this winter as countries like China have sold some of the gas they contracted while replacing it with coal fired generation. But this comes at a very high cost. Going forward the U.S. could build new LNG plants but even if they were approved today, they would require 3-4 years to build and permit. These projects have very long lives and require a good amount of debt financing and long-term offtake agreements from customers to get built. So far European customers have not been willing to commit to these projects long term as they hope to be out of fossil fuels eventually. Eventually the financing issue could get solved with government support, but it will still require some time to build anywhere near enough capacity to replace Russia gas.*
- Q. *What is the risk that Russia comes in and takes the stock from the foreign investor.*
- A. *While Russia seizing shares is a possibility, we assume that Russia would not want to permanently shut itself out of the international financial markets. Such an action would further isolate Russia from the global financial system. The U.S. government forcing U.S. investors to divest Russian equities is another risk to be aware of.*
- Q. *Could these Russian companies be delisted?*



# Kopernik

Global Investors, LLC



- A. *The Russian government has effectively delisted the DRs. Kopernik owns both the DRs and the local shares. The DRs may automatically transfer into local shares. This is more of a risk to investors who can't own local shares and don't have relationships with local custodians.*
- Q. *If risk is the possibility of permanent capital loss, how do you assess the risk of MHP, Astarta et al given the current invasion, blockade of vital Black Sea ports and the possibility of expropriation?*
- A. *We have discussed the possibility of prolonged or permanent operational issues with both companies. Astarta has been able to plant the majority of its acreage as usual due to the bulk of their land being in the western part of the country however, as they are a primarily domestic business, there could be some prolonged impacts to revenues. MHP has had operational issues due to the war but remain confident in their ability to continue operations. In addition, they were successful in extending the grace period with their bondholders which will provide them with greater flexibility during this crisis.*
- Q. *Veon headquartered in The Netherlands and having operations in Ukraine Russia. Do you view this company as needing lesser of a discount?*
- A. *We risk adjust the areas that would keep companies from realizing their true economic potential. Veon operates in Russia and is exposed to regulation in that country. Further, the company has a weak balance sheet. As such, we heavily risk adjust Veon's theoretical value.*
- Q. *Do you plan to, and is it actually possible to add to Russian positions - will trading the ADRs be closed off for the foreseeable future in your opinion?*
- Q. *Are you buying Russian stock on secondary markets? And if so, at what discount?*
- A. *We are currently unable to trade Russian securities. The Moscow Stock Exchange was closed on February 28, 2022, and while it partially reopened on March 24, 2022, Russia has banned foreigners from participating in the market. Very thin volumes were traded in the DR market between February 28-March 3, 2022, very thin volumes were traded in the DR market; however, the prices were highly suspect and the trades did not settle. On March 3, 2022, the London Stock Exchange prohibited trading in Russian DRs, and Russia is considering requiring Russian companies to delist their DRs.*
- Q. *If there was liquidity today, would you be purchasing more of your Russian assets at the valuations you are currently using? How would you size in portfolio? How have your theoretical values and COV changed in these assets from pre-invasion?*
- A. *Should the market reopen, we would continue to follow our diligent process of evaluating businesses and investing opportunistically. However, whether we would be purchasing more depends on price relative to the upside we see based on our valuations. Portfolio positioning would also be based on the upside and risk profile we view in each business. Regarding our theoretical values and COV's, we have not adjusted either as we had been implementing, on average, a 50% margin of safety on our Russian investments previously.*
- Q. *Can you comment on what Vladimir Putin has done with the decision to sell their energy for a quasi-backed Ruble/Gold?*
- A. *We are not geopolitical experts, however, the crisis in Ukraine seems to be hastening an end of dollar dominance. The decision to freeze Russia's central bank reserves might cause other countries to question the status of their reserves. Further, Russia may have the upper hand when it comes to forcing countries to purchase energy in Rubles; there is little the European countries can do in the short term to reduce their dependence on Russian natural gas.*



# Kopernik

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- Q. *How do you see the growing impact of passive investing on the mispricing of equities due to the nature of buying at any price that passive investing facilitates?*
- A. *Passive investors are effectively price indiscriminate, which can create a lot of bifurcation and mispricing in the market. We believe we are at an extreme point in the passive vs. active cycle. Active managers who are disciplined on price and diversified should do well as the cycle reverses.*

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