

Against the Grain

Today's U.S. experience much to the contrary, there are unloved industries and regions around the world. That's where David Iben will be hard at work.

In seeking out the perfect name for his firm, David Iben landed on Kopernik, the given name of Renaissance scientist Nicholas Copernicus, best known for positing that the sun, not the earth, was at the center of the universe. "He was an independent thinker, courageous and determined to understand the world around him," says Iben. "Not a bad model for an investor."

After a long and market-beating tenure as CIO of Nuveen's Tradewinds Global Investors and a short stint running Vinik Asset Management's long/short value portfolio, Iben struck out on his own last year with a largely unrestricted global mandate. Among the far-flung areas in which he's finding value today: Brazilian utilities, Canadian uranium mines, Australian gold mines, Chinese railroads and U.S. regional airlines. [See page 2](#)

INVESTOR INSIGHT



David Iben
Kopernik Global Investors

Investment Focus: Seeks companies that based on bottom-up fundamental analysis are inexpensive, often for more top-down "big-picture" reasons.

Kopernik Global Investors, LLC, is a global equity specialist firm and registered investment adviser under the Investment Adviser Act of 1940. Kopernik provides investment management services to individual and institutional investors.



Kopernik
Global Investors, LLC

Independent thought with a global perspective and long-term investment horizon

- Philosophy and process designed to capitalize on market dislocations based on fear and greed (i.e., identifying mispriced securities due to prevailing market sentiment)
- Intensive, original research leads to deep understanding of portfolio holdings
- Discernment between real versus perceived risks
- Low correlation to other managers

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- Capacity managed to maximize level of potential outperformance
- Investment team with reputation for superb track record over various market cycles
- Investment professionals invest alongside clients, which aligns Kopernik with clients' long-term performance goals

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Investor Insight: David Iben

David Iben of Kopernik Global Investors describes why today's market is reminiscent of 1972 and 1999, how he's reconciling risk versus reward in Russia and China, where single-industry valuations appear most out of whack on a global basis, and what he thinks the market is missing in Centrais Eletricas, Cameco, Newcrest Mining and SkyWest.

You've said that your value philosophy is based on bottom-up fundamental analysis with an eye on the "big picture." What do you mean by that?

David Iben: I've always believed the market is less than fully efficient and that we are owners and appraisers of businesses. Our job is to appraise a business and take advantage of those times when the market has a vastly different judgment of value.

So value to us is not so much a philosophy as it is a prerequisite. I don't care how good something is, if the price is too high we won't buy it. I won't say I don't care how bad something is, but at a certain price we'll buy most anything if we think the market's appraisal of value is too low.

When I talk about the big picture, I'm talking about our need to not only come to an understanding of intrinsic value, but also of the sustainability of that value. This necessitates a top-down understanding of industry dynamics, the key cyclical and secular drivers, and the industry and political risks. The most elegant valuation spreadsheet in the world won't be worth much if you don't understand and account for the bigger-picture influences on a company's business.

Your opportunity set is about as broad as it gets for an equity manager, encompassing "all sized businesses domiciled in developed and emerging economies." Why?

DI: Our job is to look for the market's mistakes, which are often the result of emotions like fear, panic and greed, but also of neglect and misperception. Sometimes these mistakes are harder or easier to find, but the bigger the opportunity set, the more likely we are to find them.

In 1989, investors loved Japan. The Japanese were considered to be hard working, industrious, well educated, saved for the future, had a long time horizon and the

government had companies' backs. But it would have been a tough time if you felt that you had to invest in Japan because there were no values there. In 2012 it was the other extreme: everyone hated Japan. Investors thought companies couldn't allocate capital, were too long-term in their thinking, didn't care about profitability, and between high debt levels and government meddling, things were never going to get better. What a great time to have the flexibility to buy! For the first time we had 25% of the portfolio in one country other than the U.S. To not buy Japan when people love it and buy Japan when people hate it is a huge advantage.

That's not an isolated example. In 1999, people hated small value stocks and in 2007 they loved them. Healthcare was expensive in the U.S., then it wasn't when healthcare reform was under intense discussion, and now we're finding healthcare bargains outside the U.S. again. You had to be in the BRICs [Brazil, Russia, India and China] three years ago, but now people hate the BRICs and believe they're horribly corrupt places that are never going to get it right.

We've been big fans of railroads for many years, but the value in the sector has shifted from North America, then to Japan after the earthquake, and now one of our core positions is Guangshen Railway [525:HK], the leading passenger railroad along the highly populated corridor between Shenzhen and Hong Kong. When you're a quasi-monopoly in a growth area and have increased retained earnings from \$3 billion to \$7 billion in the past five years, you would think your stock would be expensive. But today you can buy Guangshen at 14x earnings and less than 70% of book value. Unlike in the U.S. several years ago where you had to count on turnarounds, this is a thriving company making good money. But you wouldn't know it from the valuation.



David Iben

Go Anywhere

David Iben's first job as a securities analyst was at Farmers Insurance, where he ended up spending 14 years and learned, he says, the value of independent thought and an open mind: "Maybe it was because it wasn't a traditional money manager, but no one ever told us we must be growth or we must be value, or we must own small caps or we must own large caps. It was all about buying companies at good prices."

In 1998 he started his own firm, which he sold to NWQ Investment Management and which eventually morphed into Tradewinds Global Investors, where he was CIO until 2012, at which point he was responsible for \$38 billion in assets, \$24 billion of which were in funds he directly managed.

Concluding that "small, employee-owned firms are the place to be," Iben in June 2012 signed on to run the Global Value long/short portfolio of Vinik Asset Management, not long before owner Jeffrey Vinik decided to return capital to outside investors and focus on his other business interests. Thus was born Kopernik Global Investors, which Iben started last fall with a similar go-anywhere mandate to his experience at Farmers. "To not paint yourself in a small corner is very important," he says.

Are you often looking for discrepancies in how industries and companies are valued in different parts of the world?

DI: I'd go so far as to say that, like 1972 and 1999, today's market is one of the most bifurcated I've ever seen. Investors are willing to pay huge prices for a lot of stocks and bonds, but at the same time basically give away some really good companies. People love the U.S. consumer, so selling athletic clothes to them like Under Armour [UA] does is worth \$75 for each dollar of earnings. Chipotle [CMG] is a perfectly nice company, but I don't see any barriers to entry for selling burritos, so it strikes me as extreme to pay 55x earnings for its stock. I read a report recently claiming that luxury goods should no longer be considered cyclical, that people are going to continue to buy \$5,000 purses in volume regardless of what happens to the economy. You see that sentiment in the prices the market puts on luxury-goods companies. I don't find that credible.

Then you look at what people were excited about two or three years ago: emerging middle-class consumers numbering in the hundreds of millions in the growing parts of the world who were going from bare subsistence levels of income to being able to afford new things. Not \$5,000 purses or \$100 t-shirts, but things like electricity, adding some chicken to their diet, or even cellphone service. We think the true growth companies are those involved in meeting the basic *needs* of the emerging middle class, rather than the *wants* of consumers in over-indebted developed markets. Today we're finding many of the companies providing those basic needs relegated to the bargain bin.

A few years ago people were very excited about China Mobile [CHL], the largest wireless service provider in China. Then because everyone expected China to grow at 10% per year, they were very disappointed when it started to look like growth may be only 6-7% per year. But if you're the leading wireless company in a market with 1.25 billion people, if you increasingly benefit from economies of scale, and if you're rolling out the most-

advanced 4G network, you can probably do pretty well in an economy growing 6-7% per year. That sounds like a growth company, but today the stock trades at less than 9x earnings and not much of a premium over book value. Are there credit problems in China? Yes. Will there be recessions? Yes. But over time this is still going to be a healthy growth market and China Mobile is very well positioned to benefit from that.

ON RUSSIA:

It may be foolish to say it's a ten out of ten in attractiveness, but to say it's a zero out of ten is also foolish.

You've been active in Russia. How do you reconcile what's going on there with finding cheap stocks?

DI: We're always looking at where people are irrationally afraid. When things are going bad investors tend to take 200% of the bad news and put it in the stock price and when things are going well they tend to put 200% of the good news in the stock price. So it's often right to buy from people who are emotional and selling not because they've done the math, but because they're afraid.

People are correct that corruption in Russia is much more prevalent than it is here. That it is a more expensive and less efficient place to do business. That its legal system hasn't always supported property rights. That the government is powerful and led by someone who doesn't tend to play by the same rules as everyone else. That clearly increases risk.

But is Russia all bad? While we've spent the last 30 years living beyond our means, Russia hasn't – its debt is only 37% of GDP, one-tenth the levels in the U.S. and Europe. It has more stuff the rest of the world wants to buy than it needs to buy from the rest of the world, so it generates a trade surplus. It has an edu-

cated population. It's rich with natural resources, including oil, timber, farmland, precious metals and clean water. It may be foolish to say Russia is a ten out of ten on the attractiveness scale, but to say it's a zero out of ten is also foolish.

If Exxon were to move to Moscow, we wouldn't want to pay 12x earnings for it. But maybe we'd be indifferent at half price, or 6x earnings. What then if it was 2.5x earnings like Gazprom [OGZD:LI]? Gazprom maybe isn't Exxon, but it's one of the world's great energy companies, with massive resources and excellent infrastructure to take its natural gas from where it is to where it's needed, mostly Europe. On a P/E basis, were getting it at 80% off. If you look at the company's enterprise value to barrels of oil equivalent, you're paying 5-8% of what you'd pay for other big energy companies around the world. At those prices, even on a risk-adjusted basis, you can legitimately wonder if people are more bearish on Russia than they ought to be.

Look also at Sberbank [SBER:LI], the dominant bank in Russia which in one way or another probably touches two-thirds of the population. In much of the developed world, there's too much capital in the system and we want banks to shrink. But in emerging markets the growth of the financial system is necessary and welcome. So in Sberbank you have a market leader earning a 20%-plus ROE in a country where the potential growth of the financial system is higher than almost anywhere in the world. Again, even adjusting for risk, if you can pay 4x earnings and less than book value for a bank with those attributes, we consider that an excellent opportunity.

Do you risk spreading yourself too thin with such a broad opportunity set?

DI: That's a very good question to which there's no objectively clear right answer. Our particular view is that we don't need to be an expert on every company in every country on earth. What we do need to do is focus on where we can add value, which is understanding how industries operate,

identifying the competitively advantaged and disadvantaged companies in those industries, and then valuing them not in some cookie-cutter way, but based on the measures most relevant to their particular industry.

If you have an asset-light business, maybe you do a discounted-cash-flow analysis and spend an inordinate amount of time on the sustainability of margins. If you're investing in hydroelectric power, where regulators sometimes allow good returns and other times don't, maybe you learn the best valuation metric is replacement cost. If you look at one gold miner with a lot of operating mines and another with mines that aren't yet in operation, both are ultimately worth the value of the gold they own minus the cost of extracting it and both should be valued on that basis. If we can take an informed, differentiated view, we believe we can add value.

You typically hold 50 to 100 positions. What's behind that level of diversification?

DI: In general, our holding only 15 to 20 names doesn't seem to be enough diversification for most of those who invest with us. At the other end, given that our whole goal is to find mistakes the market is making, to think there are hundreds of names out there that we know more about than the market does is probably arrogant, or at least dilutes the process. With a dozen or so investment professionals, we've been comfortable over time that we can stay on top of – and have differing opinions from the market on – 50 to 100 positions.

One thing we do that often takes us into the higher end of that range is invest in several companies in a particular sector or industry rather than just one or two big ones. At times we can get much better valuations that way, and it allows us to diversify across geographies, currencies and political and regulatory regimes.

As an example, we've had great success over the years buying assets in the ground before they start showing cash flow to the world. That dynamic currently makes gold-mining stocks one of the more attractive investment opportunities we've ever

seen. The bears on gold miners are right that many companies are mismanaged, that extraction costs are rising and that geopolitical risks are increasing. These are all legitimate concerns, but again, we think 200% of those concerns are priced in and that gold-miner stocks are way too cheap. If gold miners in general go back to fair valuation – or better yet, the price of gold goes back up – these companies have huge upside. That said, it doesn't make

ON GOLD MINERS:

There are legitimate concerns, but 200% of those concerns are priced in and the stocks are too cheap.

sense to put all your money in an individual name where you have to worry about management making a big mistake or a government being overly aggressive. It's a good industry to spread your bets around.

Are you doing something similar today with farmland?

DI: Yes. Here we're weaving together the bottom-up and the top-down. From the beginning of time until I was born, three billion people were added to the planet. From when I was born to now, another four billion or so have come on. But there has basically been no real change in the amount of farmland, so farmland becomes more valuable.

In recent years we've been happy to invest in tractors, fertilizer and other things related to agriculture. Over that time the price of high-quality farmland has risen rapidly – it's now \$7,000 or so per acre on average in Iowa, up from \$2,000 not that many years ago. We'll plead indifferent to whether that's the correct price, but what interests us is when we can find comparable farmland to that valued within public companies at a fraction of the cost.

We own a Ukrainian company called MHP [MHPC:LI], which is the largest

commercial chicken producer in all of Europe and which also owns a lot of farmland to grow its own feed. People who know say that Ukrainian farmland is right up there in quality with land in Iowa, but if we isolate what we believe the market is paying for that farmland, it comes to around \$2,500 per acre. So in owning the stock, we not only get a profitable and growing poultry producer at about 8x earnings, but we also have effective ownership of high-quality farmland at a significant discount. As you might imagine, however, this isn't a bet we're willing to consolidate on one attractive company in the Ukraine. So we also have a basket here, including names like SLC Agricola [SLCE3:BZ] and BrasilAgro [LND] in Brazil and Cresud [CRESY] in Argentina.

How in general do you think about managing risk?

DI: I'll start out by saying that tracking error against a benchmark is not a risk we care about. Volatility is not a risk we care about. What we care about is avoiding the permanent loss of capital and, increasingly relevant today, the permanent loss of purchasing power.

How can someone permanently lose capital? One way is investing in things you don't fully understand. Another is paying more for something than it's worth. I hope I've conveyed how seriously we take those two risks. Third, putting too many eggs in one basket is a risky proposition. The world changes, things happen and we make mistakes, so managing exposures is very important. We don't put more than 5% of the portfolio in any one name, 25% in one industry, 30% in one country, or 35% in emerging markets overall.

We don't hedge currencies. We like to believe when we're appraising businesses and have a differentiated view that we'll be right more often than we'll be wrong. We don't have that same level of confidence with currencies, which can stay out of whack for a long time. In reality, our portfolios are diversified across countries and types of businesses – say, owning both importers and exporters – so our currency

exposure naturally turns out to be quite broadly diversified.

Do you often trade around positions?

DI: We do. If we buy something at \$20 and think it's worth \$30 and it goes to \$23, it might be human nature to like it better, but if we wanted to have a 2% position at \$20 when we thought there was 50% upside, we'll trim when the upside is only 30%.

Conversely, if it falls from \$20 to \$15, we obviously want to recognize if we've missed something the market hasn't, but very often nothing fundamental has changed and the stock fell because a big mutual fund has been selling or an analyst downgraded from overweight to neutral. If we liked it when it had 50% upside, we like it a lot more when it has 100% upside and usually buy more. In general, almost all of our trades are in 25 to 50 basis point increments.

You mentioned companies serving basic needs often being relegated to the bargain bin. Describe how that applies to Brazil's Centrais Eletricas, or Eletrobras [ELET6:BZ].

DI: Eletrobras is Brazil's largest electric utility, generating roughly three-quarters of its electricity from hydroelectric dams. What's nice about hydroelectric power is it generates little or no pollution, you're not going to dam a river twice in the same region, and once a dam is built and set up, the variable cost is almost zero. So hydroelectric providers benefit from very high barriers to competitive entry and are advantaged in terms of cost and impact on the environment.

In the developed world, electricity demand is mature, which is not at all the case in emerging markets like Brazil. Eletrobras therefore has a product people increasingly want and need, provides it at a competitive price and has the ability to grow the business over time. All of that would suggest a company producing wonderful margins and trading at a nice multiple.

What's the catch?

DI: The catch is that the company is partly owned by the state and over the past two years regulators haven't allowed it to earn a fair return. Through a frequently changing set of regulations, the company is being asked to spend heavily on capital projects while the returns on its more profitable properties are cut. As it has tried to restructure to maintain overall profitability, that has led to labor problems. None of that has been positive.

The result has been that the shares now trade at a dramatic discount to what we believe the assets are worth. Hydroelectric dams cost around \$2,000 per kilowatt hour of production capacity to build. If the regulatory regime was reasonable,

we could argue Eletrobras's assets should be worth at least that, given the critical nature of what they're providing, with a competitive advantage, in a growing market. But the regulatory regime isn't currently so reasonable, so maybe you'd want to buy the assets for half the price it would take somebody to build them, or \$1,000 per kilowatt. That would feel a lot better. But even that's too high for the market today: the assets are currently valued at about \$300 per kilowatt hour.

What makes you think that changes?

DI: I believe there's a cyclicity to all this. At some point if regulators don't allow a fair return on these types of assets, no one is going to build new ones and there

INVESTMENT SNAPSHOT

Centrais Eletricas
(Brazil: ELET6:BZ)

Business: Generation, transmission, distribution and marketing of electricity in Brazil, the majority of which is produced using hydroelectric power.

Share Information
(@3/28/14, Exchange Rate: \$1 = BRL 2.263):

| | |
|----------------|----------------------|
| Price | BRL 10.78 |
| 52-Week Range | BRL 7.96 - BRL 12.90 |
| Dividend Yield | n/a |
| Market Cap | BRL 9.71 billion |

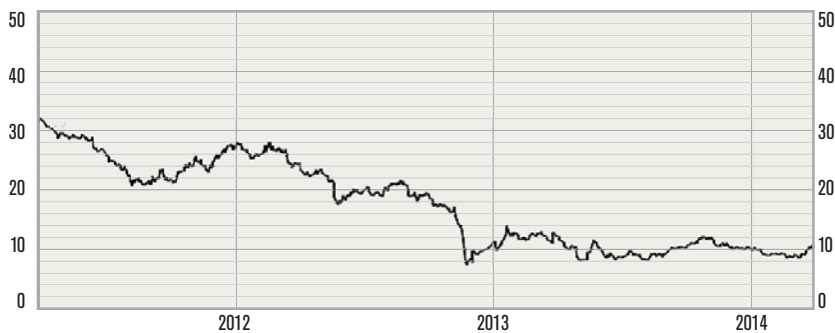
Financials:

| | |
|-----------------|-------------------|
| Revenue (TTM) | BRL 32.20 billion |
| EPS (Est. 2013) | (-BRL 0.50) |
| EPS (Est. 2014) | BRL 0.77 |

Valuation Metrics
(Current Price vs. TTM):

| | | |
|-----|--------------|-------------|
| | ELET6 | IBOV |
| P/E | n/a | 19.9 |

ELET6:BZ PRICE HISTORY



THE BOTTOM LINE

Supported by a competitively advantaged, in-demand product and a secularly growing market, David Iben believes the company's stock can rebound sharply as regulatory and labor problems recede. If the shares eventually reflect what he considers the replacement cost of the company's assets, they would trade at nearly seven times their current level.

Sources: Company reports, other publicly available information

are going to be blackouts and brownouts. Embedded in the market value today is that Eletrobras is never again allowed to make money. If we're paying only one-seventh of replacement cost, we're willing to take the other side of that proposition and wait for something good to happen.

How would something good translate into upside for the share price, now around 10.80 Brazilian real?

DI: If they were allowed to earn a fair return, we see no reason the shares couldn't eventually trade at replacement value. Even if they only made it up to book value, we'd make five times our money. Of course we'd be trimming on the way up, but the upside is that significant.

This is not just a theoretical exercise for us. We invested years ago in a Brazilian water utility, Sabesp, which was going through a lot of the same issues facing Eletrobras. As regulators loosened their grip and allowed it to earn a fair return, investors were very well rewarded.

What's your differentiated view on uranium producer Cameco [CCJ]?

DI: It wasn't long ago that the world was high on nuclear power as an alternative energy source. Then the Fukushima disaster happened and the Japanese shut down their nuclear-power plants. The Germans said they were planning to do the same over time. If you read the Western press, it looked like the end for nuclear power, resulting in the price of uranium falling from more than \$135 per pound down to \$35, around where it remains. Even though the cost to bring on incremental production supply is about \$75, who cares if we're not going to need uranium in the future?

But the fact is this isn't a dying industry. Within the next decade there are expected to be 60 more nuclear-power plants in operation than today. More than offsetting any loss of sites in developed markets – and many countries, including Japan, have been softening their resistance to nuclear – is significant expansion in emerging areas like China, India, Russia and the Middle

East. Just look at photos of the smog in China and it's not hard to imagine why it's so committed to nuclear power.

The supply side is also changing. Uranium inventories have remained high, a result of slack Japanese demand and large final deliveries from the Megatons-to-Megawatts program that for 20 years has been turning Russian bombs into uranium concentrate. But with new power plants coming on line and the Russian program ending last November, even current uranium-price bears admit the supply/demand balance will change significantly over the next two to three years. If the uranium price over that period needs to go from \$35 to at least \$75 to bring on new supply, we're willing to take our chances now on a producer like Cameco, which has one

of the biggest uranium-reserve bases in the world and is efficient enough to make money at \$35 uranium when most competitors lose money. It will be a primary beneficiary of the higher prices we expect.

The shares, now at around \$23, have picked up of late but still trade at close to half their level of three years ago. How are you looking at valuation?

DI: The stock did move starting last month when Prime Minister Abe announced the restart of Japan's 48 nuclear reactors and that its draft energy policy included nuclear as an important component in the nation's future energy mix.

The market is capitalizing Cameco's uranium reserves at around \$25 per

INVESTMENT SNAPSHOT

Cameco
(NYSE: CCJ)

Business: Acquisition through mining and purchase of uranium concentrate that is then refined for use by customers worldwide in generating nuclear power.

Share Information
(@3/28/14):

| | |
|----------------|----------------|
| Price | 23.01 |
| 52-Week Range | 17.27 – 25.84 |
| Dividend Yield | 1.5% |
| Market Cap | \$9.10 billion |

Financials (TTM):

| | |
|-------------------------|----------------|
| Revenue | \$2.49 billion |
| Operating Profit Margin | 13.3% |
| Net Profit Margin | 13.1% |

Valuation Metrics
(Current Price vs. TTM):

| | CCJ | S&P 500 |
|--------------------|------------|--------------------|
| P/E (TTM) | 28.0 | 17.7 |
| Forward P/E (Est.) | 17.0 | 15.6 |
| EV/EBITDA (TTM) | 17.2 | |

CCJ PRICE HISTORY



THE BOTTOM LINE

The company's giant reserve base and industry-leading cost efficiency make it a prime beneficiary of the dramatic shift in the supply/demand balance for uranium that David Iben expects over the next two to three years. He estimates that a rise in uranium's price to the \$75 marginal cost of production could double the value of the company's stock.

Sources: Company reports, other publicly available information

pound. Costs to mine are \$30 per pound and sustaining capital another \$5-10, so a uranium market price of around \$65 would amount to merely a return of capital rather than a return on capital. Each \$10-per-pound increment in price would increase the value of the reserves by \$4 billion. At higher prices, much of the resource base would be converted into reserve as well, roughly doubling reserves. Therefore, every \$10 increment in price would add \$8 billion of value.

So a rise to the \$75 marginal cost of production could double the value of the stock. A return to the prices of five or six years ago could lead to a quintupling of the share price. This is not a prediction, just an indication of what the upside could be if supply/demand fundamentals play out the way we were taught in Econ 101.

Turning to a rare U.S. idea, explain your interest in SkyWest [SKYW].

DI: We are finding relatively few good values in the U.S. It now accounts for about 7% of the portfolio, which is the lowest weighting it's ever been.

SkyWest is a commuter airline, operating short-haul regional flights primarily under contract with the major airlines. It serves smaller markets in the U.S., Canada, Mexico and the Caribbean with a fleet of around 750 planes.

I always loved Warren Buffett's comment that investors would have been better off if the Wright Brothers had been shot out of the sky. But the case can be made that airlines are potentially where railroads in the U.S. were 10 years ago. There's been consolidation. Capacity has been taken out of the system. Things like return on capital now seem to matter.

Regional airlines have also consolidated, and tend to benefit from relatively little competition in serving smaller markets. The bigger airlines fly from hub to hub and don't have the appetite or the cost structure to fly from their smaller hubs to the outskirts. They contract out that business to companies like SkyWest with the gates and infrastructure in a given region, and those contracts tend to be quite sticky.

In a U.S. airline business that has only recently been improving, SkyWest has grown its book value in nine of the past ten years, and the one down year was partly a result of their acquisition of ExpressJet. That indicates to us that the regional side of the business is less cyclical than it is for the majors.

SkyWest shares, now at \$12.25, have flagged over the past few months. Why?

DI: The stock had gone from \$6 to \$17 in a little over a year, so was probably overdue for somewhat of a correction, which came

when earnings estimates were taken down a bit. Nothing particularly bad happened at all. My sense is also that the market still isn't comfortable with the industry or willing to give it the benefit of the doubt. These guys have performed better than just about anyone else in the industry, but after the stock went up people were quick to bail at any less-than-positive sign.

What upside do you see in the stock?

DI: The shares trade at 11x earnings, less than half of book value and at a free cash flow yield of 25%. Our view is that a well-

INVESTMENT SNAPSHOT

SkyWest
(Nasdaq: SKYW)

Business: Regional passenger airlines operating primarily in the United States under contracts with major carriers such as United, Delta and American.

Share Information
(@3/28/14):

| | |
|----------------|-----------------|
| Price | 12.28 |
| 52-Week Range | 11.56 - 17.29 |
| Dividend Yield | 1.3% |
| Market Cap | \$630.9 million |

Financials (TTM):

| | |
|-------------------------|----------------|
| Revenue | \$3.30 billion |
| Operating Profit Margin | 4.6% |
| Net Profit Margin | 1.8% |

Valuation Metrics
(@3/28/14):

| | SKYW | Russell 2000 |
|--------------------|-------------|---------------------|
| P/E (TTM) | 11.0 | 19.3 |
| Forward P/E (Est.) | 11.6 | 12.1 |
| EV/EBITDA (TTM) | 3.6 | |

Largest Institutional Owners
(@12/31/13):

| Company | % Owned |
|----------------------|----------------|
| Dimensional Fund Adv | 8.5% |
| BlackRock | 7.9% |
| Franklin Templeton | 7.2% |
| Vanguard Group | 5.9% |
| Acadian Asset Mgmt | 3.8% |

Short Interest (as of 2/28/14):

| | |
|--------------------|------|
| Shares Short/Float | 2.1% |
|--------------------|------|

SKYW PRICE HISTORY



THE BOTTOM LINE

Given that it's well-managed, provides a valuable service, has an advantaged competitive position in a generally improving industry, and owns a long-term record of growing book value, David Iben believes the company's stock should trade for at least book value. Were that to happen, the shares would roughly double from their current price level.

Sources: Company reports, other publicly available information

managed company that provides a valuable service, has an advantaged competitive position and has a history of growing book value should trade for at least book value. The closest comp, Republic Airways [RJET], has a negative free cash flow yield and trades at more than 80% of book. It's hard for us to imagine why SkyWest doesn't trade at a premium to that.

Why is Newcrest Mining [NCM:AU] the largest of your gold-miner holdings?

DI: As I mentioned earlier, for gold miners we believe the market is being excessively harsh on volatility, excessively harsh on the values it's willing to put on assets in the ground, and excessively harsh on pricing legitimate bad news into stock prices.

The negatives are real. Mining is a pretty lousy business, where you move a ton of earth trying to find small amounts of precious metals. Once you've mined the part that has eight grams per ton of earth, you move on to the part that has only six grams, then the one with four grams. Costs are high and are likely to remain high. At the same time, governments are likely to continue to try to take a bigger piece of the proceeds from miners. That leaves companies very vulnerable to weakening gold prices, which we've had more or less over the past couple of years.

We don't dispute any of that. But share prices have gotten so cheap that we can buy them at or below asset-liquidation values. Buying at liquidation value tends to provide a nice margin of safety.

For any scarce resource we like companies that own huge quantities of it and operate in less-risky areas. Newcrest is one of the five largest gold miners in the world and its mines are in politically relatively benign areas like Australia and Papua New Guinea. At its current stock price you're paying roughly \$200 per ounce of gold it has in the ground. You'll get different answers from different people, but we believe we're being conservative in assuming it costs them roughly \$1,000 per ounce to get that gold out of the ground. So at today's gold price of around \$1,300, less the purchase price and cost of extrac-

tion, you could liquidate the company and make around \$100 per ounce in profit.

We're paying nothing for the option that gold goes higher, for a company with long-lived reserves and huge operating leverage if gold prices do rise. If gold gets back to its price of three years ago, Newcrest's margins go up roughly six times.

How do you handicap the risk of gold's price falling from here?

DI: It could happen, but most of the indicators we look at argue for higher gold prices. No one is building meaningful new mines at \$1,300 gold. Barrick Gold actually stopped work recently on a mine it has already spent more than \$5 billion on, saying it wouldn't finish it until gold went

much higher. Gold trading well below what it would take to bring on meaningful supply supports a higher gold price.

Looking at where gold has been priced over time against other commodities or goods argues for a current price of closer to \$2,000 per ounce. Then there's the idea that gold is a store of wealth and will remain one for hundreds of years into the future. If central-bank printing of more dollars and yen and pounds translates into higher inflation, today's gold price is likely to be a significant bargain.

How sensitive are Newcrest's shares, now at just under AS\$10, to the price of gold?

DI: Our net asset value model for the company if they make \$300 in cash margin

INVESTMENT SNAPSHOT

Newcrest Mining
(Sydney: NCM:AU)

Business: Exploration, mining and sale of gold and copper. Operating mines are located in Australia, Papua New Guinea, Indonesia and the Ivory Coast.

Share Information
(@3/28/14, Exchange Rate: \$1 = A\$ 1.081):

| | |
|----------------|--------------------|
| Price | A\$9.80 |
| 52-Week Range | A\$6.96 - A\$20.29 |
| Dividend Yield | n/a |
| Market Cap | A\$7.51 billion |

Financials: (FY ending 6/30/13):

| | |
|-------------------|-----------------|
| Revenue | A\$3.77 billion |
| EBIT Margin | (-161.0%) |
| Net Profit Margin | (-153.0%) |

Valuation Metrics
(Current Price vs. TTM):

| | | |
|-----|---------------|-------------|
| | NCM:AU | AS51 |
| P/E | n/a | 19.3 |

NCM:AU PRICE HISTORY



THE BOTTOM LINE

Given that he believes the company could be bought and its gold assets liquidated at a \$100-per-ounce profit, David Iben says the shares provide an attractive option on an eventual rise in gold prices. Even assuming the current cash margin the company earns on mined reserves persists, he pegs its current NAV at 70% above today's stock price.

Sources: Company reports, other publicly available information

per ounce – roughly what they expect in the near future – yields an A\$16.80 share price if we just include their 78 million in “reserve” ounces. If we include the full “resource” ounces of 150 million, at the same margin the NAV is closer to A\$40. From there, each additional \$100 in cash margin results in a A\$15-16 increase in NAV per share.

Even if the price of gold stays at its current level, we think we make money on this. If gold can find its way back to where it was a few years ago, there’s huge potential upside.

You spoke earlier of the bifurcation between the haves and have-nots in the market’s estimation. Why do you think that’s happening?

DI: Part of it is just the madness of crowds, as people don’t think independently and just follow whatever seems to have worked lately. I also find it quite interesting – and don’t consider it a coincidence

– that in 1972, 1999 and today there has been aggressive money-supply growth. In the early 1970s the extra money went into the “Nifty-Fifty” companies like Coca-Cola and Xerox that everyone knew and that were going to grow to the moon. In the late 1990s the money went into exciting telecom and Internet stocks that everyone knew and that were going to grow to the moon.

In the latest rendition, the easy money first went into the bond market. Now that bonds are trading at levels we haven’t seen for much of the last half century, the money has been rolling into what are perceived to be bond-like stocks – high-quality, dividend-growth ideas that probably won’t turn out to be any safer than the Nifty Fifty – and exciting story stocks everyone knows like Tesla, Netflix and Twitter. When investors pour money into what’s exciting and popular, companies in more prosaic industries – especially those that have recently been volatile – become relatively invisible.

If a meaningful correction comes, do your stocks hold up?

DI: I remember in 1999 loving my portfolio, but the NASDAQ so clearly needed to blow up that the big concern was when that happened whether it would indiscriminately take everything down with it. Because the market was so bifurcated, that didn’t really happen. In 2007 it was different – everything turned out to be expensive and everything got killed when the crisis hit.

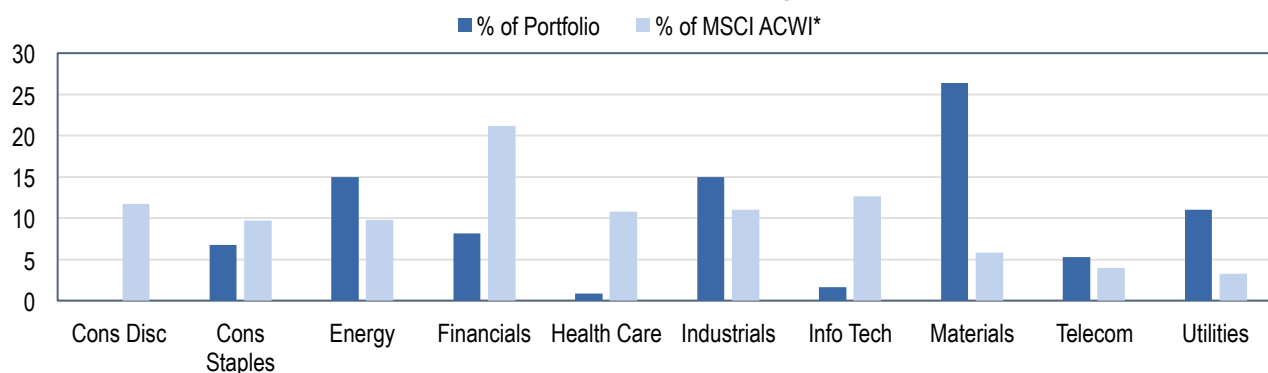
When blue-chip-company margins that are currently at all-time highs return to normal, which I’m sure they will, and when the Teslas and Netflices and Twitters of the world come crashing down, will that pull everything down or will the types of out-of-favor stocks we own be just fine? I obviously don’t know what’s going to happen, but today feels much more to me like 1999 than 2007, which would bode well for this portfolio in the next correction. ^{vii}

What does independent thought look like?

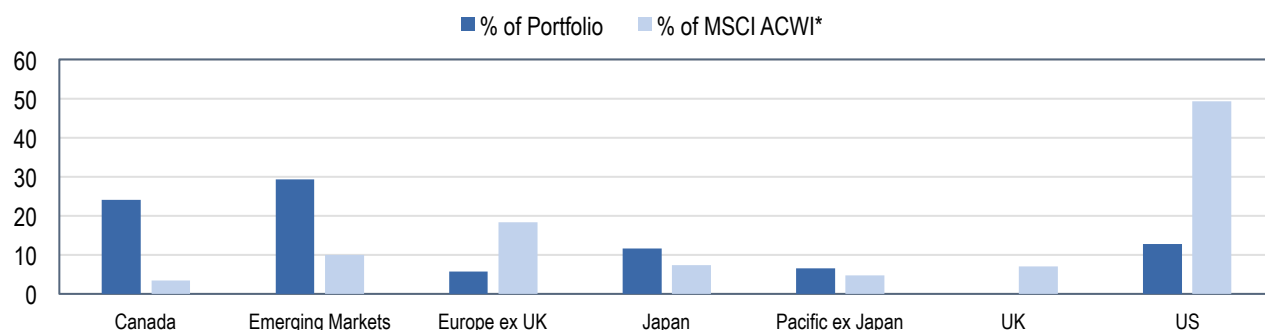
Kopernik Global Investors, LLC encourages independent thought. We are willing to look different from indexes and other managers, and offer an opportunistic portfolio which we believe will have low correlation to other managers as well as its common benchmark index.

Kopernik Global All-Cap model portfolio, as of March 31, 2014:

Portfolio Sector Weights



Portfolio Region Weights



Portfolio Characteristics

| Capitalization | Portfolio | Benchmark |
|------------------|-----------|-----------|
| Weighted Average | \$14.96B | \$86.99B |
| Median | \$1.53B | \$15.03B |

| | Harmonic | | Weighted Avg | |
|----------------|-----------|-----------|--------------|-----------|
| | Portfolio | Benchmark | Portfolio | Benchmark |
| Trailing P/E | 8.74 | 15.83 | 14.77 | 31.15 |
| Trailing P/CF | 2.73 | 8.31 | 5.08 | 24.28 |
| Trailing P/B | 0.56 | 2.01 | 0.85 | 3.59 |
| Trailing P/TBV | 0.65 | 2.48 | 0.86 | 7.39 |
| Trailing EV/S | 1.18 | 1.53 | 1.27 | 2.85 |
| Yield (TTM) | 2.30 | 1.35 | 1.81 | 2.45 |

* MSCI ACWI data is iShares MSCI ACWI ETF and sourced from Bloomberg Finance L.P. Index returns reflect applicable expense ratio fees. The MSCI ACWI Index is an unmanaged index. Individuals cannot invest directly in the Index.

Portfolio weights are reported as a percentage of total portfolio and are subject to change.

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