

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Find Better Bargains by Investing Outside the U.S.



DAVID IBEN, CFA, is the Chief Investment Officer of Kopernik Global Investors, LLC and is the sole Portfolio Manager of the Global All-Cap strategy, Lead Portfolio Manager of the Kopernik Global Unconstrained strategy and Co-Portfolio Manager of the Kopernik Global Long-Term Opportunities and Kopernik International strategies. He is the managing member, Founder and Chairman of the board of governors of Kopernik Global Investors. Prior to Kopernik, Mr. Iben managed the \$2.7 billion Global Value Long/Short Equity portfolio at Vinik Asset Management, where he was a director and head of the global value team from July 2012 through March 2013. Prior to this, Mr. Iben was Lead Portfolio Manager, Co-Founder, Chief Investment Officer, Co-President and Manager of Tradewinds Global Investors, LLC, a \$38 billion — at February 2012 — investment firm. He continually

managed equity portfolios for Tradewinds — inclusive of its two predecessor firms — from October 1998 through February 2012. He was the Portfolio Manager for the firm's Global All-Cap strategy, North American All-Cap strategy and Global Long/Short strategy, directly managing more than \$20 billion assets at the time of his departure. As CIO, Mr. Iben directed Tradewinds' investment activities, including portfolio management, research, trading and risk management. From 1996 through 1998, Mr. Iben was a senior portfolio manager at Cramblit & Carney. He began his career with Farmers Group, Inc., where over the course of 14 years, he worked his way up from Securities Analyst/Trader to Portfolio Manager and eventually to Director of Research and Lead Portfolio Manager for both equity and fixed income strategies. At the time of his departure in 1996, Mr. Iben was acting as Farmers' Chief Investment Officer, responsible for \$16 billion of investable assets. Mr. Iben earned his bachelor's degree from the University of California, Davis, and his MBA from the University of Southern California Marshall School of Business.

SECTOR — GENERAL INVESTING

TWST: Could you tell me about Kopernik?

Mr. Iben: Sure. We are a value-oriented firm in the public equity markets. We've been around for almost a decade, managing about \$6 billion of money for institutions and high net worth individuals.

TWST: Is there an overarching investment philosophy at the firm?

Mr. Iben: We believe value is a prerequisite. Investing is buying things for less than they're worth. And so, our philosophy is that we are appraisers of businesses, and in a market that is much less than efficient, we have the opportunity to buy things for less than their appraised value.

TWST: And are there some specific funds that you work on?

Mr. Iben: I'm a Co-Portfolio Manager on all our funds. Most of our assets are in the Global All-Cap strategy.

TWST: So, when we talk about international, given what's going on with the economy now, why might investors want to consider investing there as part of a diverse portfolio?

Mr. Iben: Even though the U.S. is 60-somewhat percent of the index, we are finding almost no values in the United States. We think people should be, like us, interested in going to where the values are. The U.S. is a great country with a lot of great companies. But there were times like 1929 and 1972, and 1999 and 2008, when buying stocks, even in a good country, didn't pay off. Our valuations now in the U.S. are high relative to history. They are also high relative to, we believe, fundamentals, and they're very high relative to other countries.

In almost every industry, we are finding that we can get much better bargains by investing outside the U.S. And we'll invest back in the U.S. when things correct to more interesting prices.

TWST: And what are some common characteristics, such as value, that you find with the investments that you make in foreign countries?

Mr. Iben: For everything we do, as Warren Buffett puts it, quality, growth, value — they're all joined at the hip. You can't know the value of something until you've analyzed the business. So with everything, we're looking for characteristics in a business that would make us want

to own that business. And then, we look for who has the competitive advantages. Sometimes, that's companies in the U.S. Sometimes, that's companies outside the U.S. Sometimes, that's emerging markets.

We'll gravitate to the companies we think will do well over the long term, then we value them. We look at a lot of valuation metrics, but we also look at industry-specific valuations. We're cognizant of the fact that for our asset-light businesses, valuing assets doesn't make sense. It's better to look at some measure of cash flow over time. For asset-heavy businesses, often it's best to value them on book value or adjusted book value or replacement value or liquidation value, that sort of thing.

Then, once we've come up with a value, we say, "All right, we're value investors, we must have a margin of safety." In the U.S., we might be comfortable with a 10% margin of safety, whereas in some other countries, we might want 20%, and in a lot of the emerging markets, we want a 50% or greater margin of safety built into the price before we would buy it.

So that's what we do. We analyze businesses, we appraise their value, then we risk-adjust their value with a margin of safety, and we buy when the market offers us these businesses at a nice discount to our risk-adjusted valuation.

TWST: And did you want to highlight a stock that you find interesting now?

Mr. Iben: I guess as an overview, I would say that we are always looking for where the values are. We buy what the market gives us. And sometimes, like in 2009, that means we get to buy growth stocks. And sometimes, like during a lot in the last 20 years, it's quality franchises. Right now, there are not a lot of pockets of value, but there are two main ones where people are not paying really high prices. For most things, they will give you bargains if it's in a country they're not fond of. Many of the emerging market countries right now are on sale, for really good franchises that just happen to be there.

Another attractive category is what we refer to as latent-value assets. People are so focused on near-term cash flows that they don't care about value that's not going to turn into cash tomorrow or next week. So we'll always say, "Well, we have an idea what a barrel of oil is worth or a pound of uranium or an ounce of gold." And if we don't know whether we're going to dig up the uranium or the oil or the gold for one year or three years or five years, we're comfortable with that, if we can buy it at enough of a discount.

The market tends to hate that. If it's going to be a number of years before these things are pulled above the ground, they will sell you a pound of uranium at a big bargain. They will sell you an ounce of gold for way below the spot price of gold. A lot of our ideas fall into the latent

value concept. Some will fall into both latent value and emerging markets, the best of both worlds.

Why don't we start with a Canadian company? **Seabridge Gold** (NYSE:SA) is exactly what I'm talking about. This is the largest undeveloped gold mine in Canada. And the key there is being undeveloped. If it were developed, the market would be paying more for it than what they're paying now. So, like I say, one of the largest undervalued gold miners in Canada, and the world, at a market cap of roughly \$1 billion. And so, a billion-dollar market cap for about 27 million ounces of gold, and probably a lot more, is compelling. Even post-risk adjustment, that's pretty much a bargain price.

This is a company where if the gold price settles around \$2,000, we believe it is worth multiples of \$1 billion. And for free optionality, consider the idea that a tenfold increase in the money supply might continue to cause inflation to migrate through the system like we've seen in the last few years. We've seen inflation go from one area to another area to another area, and that will likely continue into gold. And gold, keep in mind, is pretty much the same price as it was more than 10 years ago. So inflation has yet to migrate into the price of gold.

We believe that we have something with **Seabridge** where, if we're wrong and the price of gold stays where it is now, we are getting a bargain price. And if the price of gold goes to something higher, which it should based on the economics of mining, and absolutely should, based on the creation of currency over the last 10 years, then the upside can be many, many times what it's selling at now. That's one of our favorites.

We have a similar one in the United States called **Northern Dynasty** (NYSEAMERICAN:NAK). This is possibly the largest undeveloped copper and gold mine in the world. The U.S. is interested in having copper, which is needed for EVs and windmills and other things that people need, looking to reduce carbon in the environment. And the U.S. is looking for things where the supply chain won't be disrupted by geopolitics. And so here, right in Alaska, are some 60 billion pounds of copper and another 30 million ounces of gold after recovery.

Here again, it's really a great property. But they've had struggles to build this because certain NGOs and Hollywood actors have been against building this mine. The Army Corps of Engineers undertook a two-year study saying, "Yes, this presents no harm to the environment whatsoever; we think it should be approved." Politics got in the way, and they reversed themselves. Now, they're redoing the study.

Highlights

David Iben discusses looking to emerging markets and real assets to find good companies that are selling at a discount. Mr. Iben says they look for companies they think will do well over the long term, appraise their value, then risk-adjust their value with a margin of safety. He says they will buy those businesses that are offered at a nice discount to their risk-adjusted valuation. Mr. Iben does not find value in the U.S. right now and instead points to two pockets of value: emerging market countries and latent-value assets, for example natural resources promising future cash flows. Among the companies he recommends are Seabridge Gold, the largest undeveloped gold mine in Canada, and Northern Dynasty, which he describes as possibly the largest undeveloped copper and gold mine in the world. Companies discussed: Seabridge Gold (NYSE:SA); Northern Dynasty Minerals Ltd. (NYSEAMERICAN:NAK); Platinum Group Metals Limited (NYSEAMERICAN:PLG); Astarta Holding N.V. (LON:000C); KT Corp. (NYSE:KT); Hyundai Motor Company GDR (OTCMKTS:HYMTF); LG Corp. (KRX:003550); Mitsui & Co Ltd. (OTCMKTS:MITSY); Mitsubishi Corp. (OTCMKTS:MSBHF) and CGN Power Co. Ltd. (OTCMKTS:CGNWF).

It's likely to be quite some time before this mine gets approved, because of all the politics. But eventually, economics and common sense, the idea that if you can get access to copper that the U.S. needs in an environmentally friendly fashion, a property out in the middle of Alaska, this is something that should be built and that probably will be built. And if it is, the stock could be worth easily 10 times what it is selling at now. So this, we're very, very high on.

Sticking with natural resources, I've mentioned that natural resources are undervalued for things that aren't built yet, and that emerging markets are generally disliked. And so, there's a company called **Platinum Group Metals** (NYSEAMERICAN:PLG) that has a lot of palladium. Palladium is something that's used a lot in catalytic converters for cars. And a lot of the world's palladium comes from Russia. With problems there, that makes palladium in other places potentially worth a lot more.

“The mine could be built in the next two or three years. And once again, the upside we believe is many, many times where the stock is selling now. Unlike the other ones, Seabridge or Northern Dynasty, it might only be a handful of years before it's up and running. And as I mentioned, once Wall Street can see the cash flows, they're willing to pay much, much higher prices.”

This is located in the Bushveld of South Africa, with 23 million ounces of reserves and resources, plus another 10 million ounces of platinum. That could have a lot of value. Platinum used to trade at roughly double the price of gold. Now it's more like half the price of gold, a little more than that. So potential big upside here. For a market cap of a fraction of a billion dollars, we're able to get scarce assets for a metal that we think people need. In this case, the market cap is about \$150 million.

1-Year Daily Chart of Seabridge Gold Inc.



Chart provided by www.BigCharts.com

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So, in a world where most things are way overvalued, to be able to buy things that are undervalued at current prices and conceivably are worth five or 10 times more than they're selling at is really exciting to us.

To give something outside of metals and natural resources, but still in the inflation beneficiary space — if emerging markets are undervalued, dicey places like the Ukraine are way, way undervalued. There is a company called **Astarta** (LON:000C) that has a long history of profitably running farms. And they grow a lot of sugar beets and some corn and other things. This is a company that is trading at a couple of times earnings right now, and half of book value.

Ukraine is known for some of the best agricultural property in the world. If properties go for \$16,000 an acre in Iowa, outside of Iowa, in emerging markets, maybe it should be \$10,000. We noticed in a lot of the public markets, things trade cheaper, the equivalent of \$2,000 or \$3,000 an acre. Therefore, we like farmland in a lot of the world right now.

Because of the problems in Ukraine, instead of \$16,000 an acre or even \$2,000 an acre, it's just over \$200 per acre that people are paying for a company that has a history of a massive profitability. But that's only for people who are willing to venture into markets where nobody wants to go to.

And so, that's four companies, all of which are way undervalued with no inflation, and very exciting should inflation continue to migrate through the system, which history and logic would suggest is a reasonable expectation given the tenfold increase in the money supply over the last 14 years.

TWST: And when you mention emerging markets, if investors on their own want to look into those, are there some precautions they should take?

Mr. Iben: We believe investors should diversify. Emerging markets have risk, so do developed markets. We've noticed that corporate governance in the U.S., especially in areas like technology, leave a lot to be desired. So even if you're investing in the U.S., you should diversify. You should read the notes to the financial statements, put your money in a good, diverse portfolio of companies.

With everything going on in the world, with accounting standards, with geopolitics being what it is, with the problems in the world, with central bankers around the world experimenting, we would suggest, whether you're looking at emerging markets or developed markets, this is a good time to diversify and not have all your money in any country. We think it's a dangerous thing, having 60% of one's money in one country, especially a very expensive market. People should diversify.

We, for one, view the emerging markets not as a niche. Emerging markets might be a small part of the market cap, but emerging markets include most of the world's land, most of the world's people, a huge percentage of the world's natural resources, a lot of the world's

growth and a lot of companies. And some of the emerging markets are producing resources, some are producing services, some are mostly exporters, some are importers. There are different industries, different competitive advantages, different religions and cultures, you name it. So, to believe that Pakistan is anything like Brazil or Brazil is anything like Korea, or Korea is like China, we think is a mistake.



So what we do is try to invest across a lot of countries. We also try to understand enough about the countries to build in a big margin of safety. If a security has an 80% margin of safety, you're buying it at \$0.20 on the dollar. When you're right, you're theoretically making five times your money. If you have three companies and you make five times your money on one of them, your portfolio is going to do pretty well no matter what the other two do.

So when investing in emerging markets, read the financials, understand what's going on in the country, understand the business dynamics, understand the value, put a big margin of safety on it and diversify. And for people for whom that might be hard to do, then maybe it's best to have somebody else invest the money for them.

TWST: And what about people who are saving for retirement or in retirement years? Do you think that their diverse portfolio should include some exposure to international companies or investments?

Mr. Iben: Absolutely. Right now, the central banks have made it really tough for people to have money in a bank account saving for retirement. The government's admitting to inflation of 8%. A lot of people believe it's much higher than that. Interest rates in the banks have been zero. T-bills are higher. So, banks may start to pay 1% or 2%. But if you can make 1%, 2%, 3%, 4% in the bond market, but the dollar is losing 8% a year in terms of purchasing power, that's beyond risky — that's guaranteed failure. People need to consider doing something with that money. They can't leave it all in the bank account. So they probably ought to consider how much they want in real estate or how much they want in stocks and how much they want in other things.

If they're looking at the stock market, which historically has done well over time, but often has some big corrections, they should have only as much as they can handle the volatility. But within the stock market, history would suggest that the inexpensive areas over time do

better than the expensive areas. Times when the emerging markets have been really cheap relative to the U.S., it's been a good thing to own emerging markets. Then times like the late 1970s, and also about 10 years ago, when people really loved the emerging markets, that was the wrong time to have a lot of money in the emerging markets.

But right now, the U.S. market is expensive. Emerging markets are very cheap. So, if somebody can own a diverse portfolio of good companies, in a basket of emerging markets, with different characteristics, and they're willing to hold for 10 years, they should likely do much better than the rate of inflation. Keeping their money in the banks, or the bond market, is highly unlikely to keep up with the rate of inflation. People absolutely should consider diversifying, and diversifying to where the value is. The values right now are in emerging markets and real assets.

TWST: Anything else we haven't brought up that you want to mention?

Mr. Iben: For people that want to be in emerging markets, but they don't want to get into countries that you're reading about in the papers, and want to stick to franchises that are pretty well known, we would suggest that people can buy top companies. They can buy the Korean equivalent of Verizon or AT&T with a **Korea Telecom** (NYSE:KT) at bargain prices. They can buy **Hyundai** (OTCMKTS:HYMTF), a well-known car company, for bargain prices. **LG** (KRX:003550) in Korea, which a lot of people are familiar with — all these things are at big discounts to book value. Book value being the accountant's appraisal of what was invested in the business.

Outside of emerging markets, they can buy top-of-the-line companies in places like Japan, where they can buy **Mitsui** (OTCMKTS:MITSY) or **Mitsubishi** (OTCMKTS:MSBHF), some of the things that Warren Buffett's been buying, companies that have been profitable pretty much every year since World War II, with diversified holdings around the world, for discounts to book value. In China, they can buy cheap, clean electricity with **CGN Nuclear Power** (OTCMKTS:CGNWF), selling at a discount on most valuation metrics compared to similar businesses around the world.

So there are plenty of opportunities to invest in really good companies, but most of them are outside the U.S. The U.S. does have competitive advantages at things like natural gas. We do have investments there, but outside of that, we think people ought to seriously consider investing around the globe.

TWST: Thank you. (ES)

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