



“When”-ing isn’t Everything, It’s the Only Thing!

“I’ll take Investment Analysis for \$2000, Alex.”

“The Answer is, ‘The most important word in analysis.’”

“I’ll go with ‘What is Why?’”

“I’m sorry, our panel of contemporaries believe the correct response is, ‘What is When?’”

INVESTMENT ANALYSIS	VALUE INVESTING	GLOBAL EQUITY	INTRINSIC VALUE	STRATEGIES	INVESTMENT PHILOSOPHY
\$400	\$400	\$400	\$400	\$400	\$400
\$800	\$800	\$800	\$800	\$800	\$800
\$1200	\$1200	\$1200	\$1200	\$1200	\$1200
\$1600	\$1600	\$1600	\$1600	\$1600	\$1600
\$2000	\$2000	\$2000	\$2000	\$2000	\$2000

“Winning isn’t everything, it’s the only thing”, is a quote made famous by Vince Lombardi, but is believed to have originated with UCLA football coach Red Sanders in 1950. Interestingly, late in life, Lombardi lamented having ever said it because it was misconstrued to place winning above morals. This commentary will address the currently inflated perception of the importance of ‘when’, the current opportunity to ‘win’, the prevalence of people playing not to lose, and some thoughts on *how* the game is being played, including the moral imperative to put the needs of clients ahead of career considerations. We’ll conclude with *why* now is likely to be a good time to invest in undervalued stocks. Well-known game shows will serve as a useful medium.

*I keep six honest serving-men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.
-Rudyard Kipling*



We've always found the six questioning words referenced above to be very important. Asking questions is the best way to learn. Answering what, when, where, who, why, and how is the best way to form a logical conclusion and to build a case for that conclusion. While the first four of these questions are useful, the last two - why and how - are arguably most important. They are active words, requiring thought and analysis. Rote facts will not suffice. While this commentary will, as usual, focus on the why and how of Kopernik's investment strategy, it will spend an undue amount of time on the question of *when*. This is because it is a question that has been asked in most client meetings over the past year. In preview, relevant historical happenings will be illustrated and the important question of the timing of future activities will be addressed. However, rather than providing 'timing' answers, the importance of the word 'when' will be called into question.



Now, we know that when people ask "*when*?" they aren't really asking when. We're aware that they are not truly suggesting that, given a choice between a '5-bagger' or earning zero in a money fund, timing is of that much importance. They are likely recognizing that, in the real world, clients don't always have enough patience; that their business may suffer if things play out in slow motion; that doing the right thing can have adverse career implications in the current, attention-deficit world. Maybe the Go-Go's were writing to their Financial Advisor when they penned their early hit song "How Much More":

*"How much more can I take
Before I go crazy, oh yeah
Crazy, oh yeah
How much more heartache
Before I go crazy, oh yeah"*

It's been heartache for value investors. Certainly, I found myself humming those lyrics in January. To risk being redundant (yet again!) on this important topic - ***when* is a perfectly good question for assessing career risk, but for analyzing investment risk and prospects - Why and How are much more effective questions.** "*Why* might 'xyz corp.' be a good investment" and "*how* much is the upside potential" generate much more useful knowledge than do "*when* is it going to work (which tends to be unknowable anyhow) or everyone's favorite version, "*what* is the catalyst." As Yogi Berra, among others, said: "Predictions are difficult, especially about the future."



Focusing on the question of when - the *when* on many people's mind is *when* will a bear market start (or has one started), and when will value investing in general and Kopernik's style specifically, return to favor? Starting with the first question, our view is that we are clearly in a bear market. The fervor for popular "quality growth" stocks over the past half-dozen years has camouflaged the existence of a stealth, but severe, bear market. The good news, as discussed in our recent Commentary (The Big Long), is that this is not the beginning of a bear market, but the latter stages of a long, deep, bear market that has been sowing the seeds of the best bargains in a generation.



What is a 'Bear Market'?

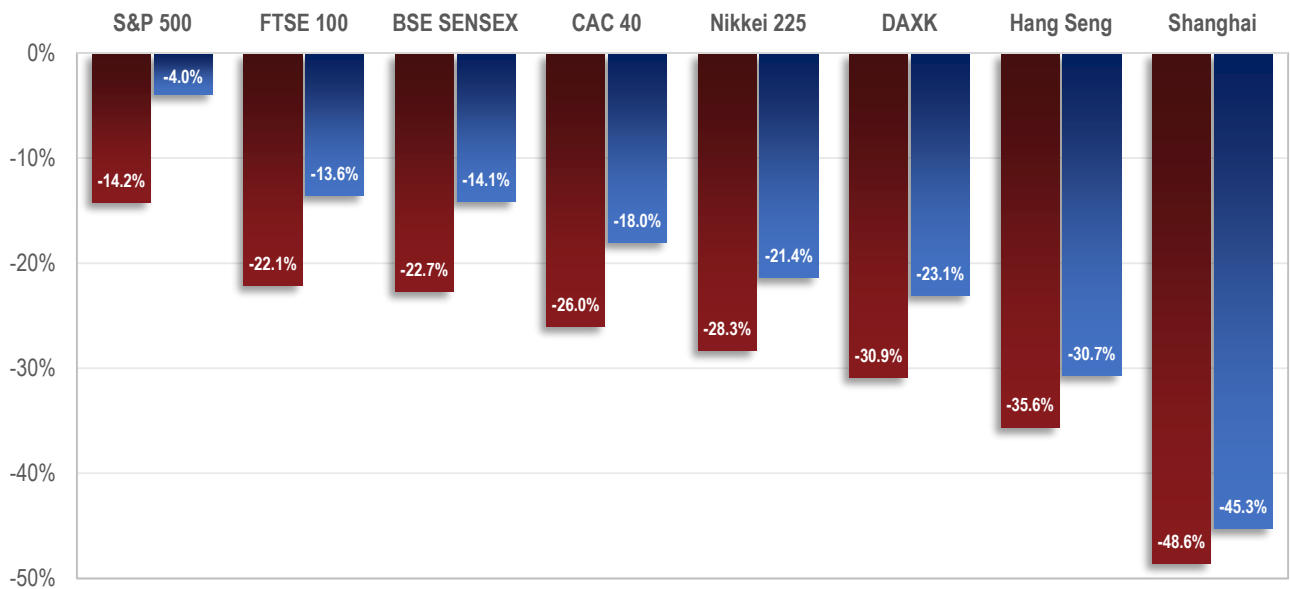
A market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining. As investors anticipate losses in a bear market and selling continues, pessimism only grows. Although figures can vary, for many, a downturn of 20% or more in multiple broad market indexes, such as the Dow Jones Industrial Average (DJIA) or Standard & Poor's 500 Index (S&P 500), over at least a two-month period, is considered an entry into a bear market.

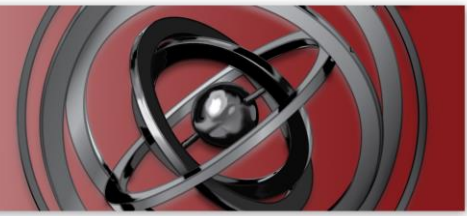
Bear Market Snapshot for Major World Indexes

dshort.com

For the 12 month period ended May 13, 2016

■ Maximum Decline ■ As of May 13, 2016





As of January 2016

Location	Index	Returns in USD			Location	Index	Returns in USD		
		12 Month	3 Year	5 Year			12 Month	3 Year	5 Year
Venezuela	Caracas Stock Market	269.01	1,932.99	14,918.92	Hong Kong	Hang Seng	-17.94	-17.47	-19.98
Denmark	OMX Copenhagen 20	7.88	41.68	90.97	Argentina	Argentina Merval Index	-27.14	13.07	-19.99
Ireland	Irish Stock Exchange Overall	12.42	50.09	78.36	Norway	Oslo Stock Exchange All Share	-20.98	-28.42	-20.78
United States	Nasdaq Comp	-3.32	42.94	62.00	Taiwan	Taiwan Stock Exchange	-19.77	-12.39	-25.29
United States	Russell 1000	-8.07	25.26	43.75	Italy	FTSE Italia All-Share	-6.37	-9.13	-25.59
New Zealand	S&P/INZX All	-13.23	1.38	29.33	Australia	S&P/ASX 300	-21.83	-32.48	-30.65
Belgium	BEL All-Share	-3.33	19.41	27.76	Spain	IBEX 35	-20.72	-18.43	-34.30
United States	Russell 2000	-15.95	10.77	22.46	Nigeria	Nigerian Stock Exchange All Share	-29.12	-42.67	-36.94
Switzerland	Swiss Market	-11.48	3.94	19.73	Poland	Warsaw Stock Exchange WIG TR	-21.90	-31.41	-37.00
Japan	NIKKEI 224	0.26	19.75	12.64	South Africa	FTSE/JSE Africa All Share	-32.43	-37.00	-38.50
Germany	DAX Deutsche Boerse AG	-11.18	2.93	10.62	Canada	S&P/TSX Comp	-31.40	-35.95	-39.14
China	Shanghai Stock Exchange Comp	-8.72	22.67	9.20	Austria	Austrian Traded	-7.34	-29.44	-41.13
Mexico	Mexico IPC	-1.51	-10.06	7.54	Turkey	BIST 30	-38.76	-52.60	-45.22
Thailand	SET	-25.97	-27.74	2.76	Peru	Bolsa de Valores de Lima	-5.30	-49.54	-46.40
France	CAC All-Shares	-7.54	-0.64	-7.16	Chile	IGPA	-18.88	-49.15	-49.44
United Kingdom	FTSE All-Share	-14.47	-10.57	-7.62	Czech Republic	Prague Stock Exchange	-10.58	-34.80	-49.97
Sweden	OMX Stockholm 30	-14.07	-10.22	-10.63	Portugal	PSI 20	-12.95	-38.63	-50.64
China	SZSE Component	-7.79	5.22	-12.85	Russia	MICEX Stock Exchange	-13.87	-58.88	-64.63
Finland	OMX Helsinki 25	-5.46	8.94	-14.84	Columbia	Colombia COLCAP	-43.37	-68.26	-65.50
Indonesia	Jakarta Stock Exchange Comp	-20.37	-29.92	-16.92	Greece	Athex Comp Share Price	-35.27	-52.98	-69.98
South Korea	KOSPI	-11.24	-16.66	-17.55	Brazil	Ibovespa Brazil Exchange	-47.94	-68.93	-77.53
Netherlands	AMX	-6.56	-3.83	-19.15	Ukraine	Ukrainian Equities	-59.51	-76.19	-92.08

Source: Bloomberg

The 'silver lining' embedded in long, deep, bear markets is that they can create tremendous potential for investors, as the excesses of the previous bull market are rectified and generally swing too far. The result is often unparalleled money-making opportunities.

To return to the question of 'when,' and to persuade that a superior question is 'how much,' let's segue to another game show, "Let's Make a Deal."

"Let's Make a Deal is a television game show which originated in the United States in 1963 and has since been produced in many countries throughout the world. The program was created and produced by Stefan Hatots and Monty Hall, the latter serving as its host for many years.

The format of Let's Make a Deal involves selected members of the studio audience, referred to as "traders," making deals with the host. In most cases, a trader will be offered something of value and given a choice of whether to keep it or exchange it for a different item. The program's defining game mechanism is that the other item is hidden from the trader until that choice is made. The trader thus does not know if he is getting something of greater value or a prize that is referred to as a "zonk," an item purposely chosen to be of little or no value to the trader."

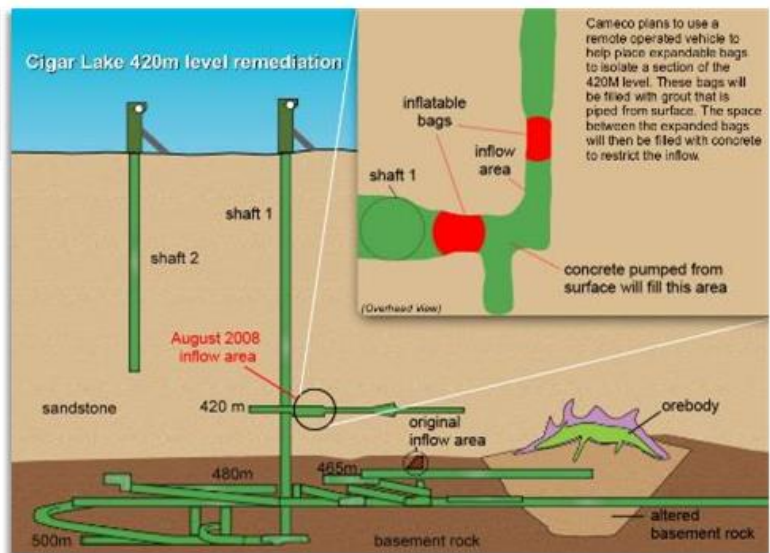
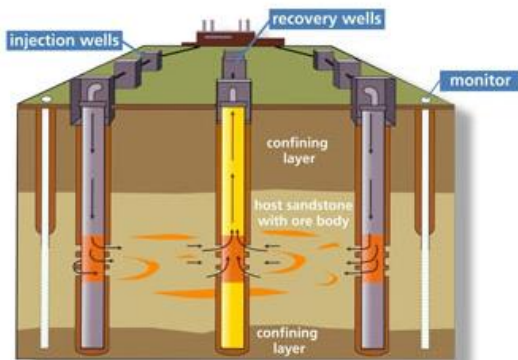
-Wikipedia

The current marketplace can be considered akin to playing let's make a deal. In the TV game, something of value can be dealt for an unknown, behind a curtain or a door. On Wall Street, something of value – cash – can be exchanged for a business that inherently is valuable. The significant difference from the TV version is that on TV they don't know *what* they are trading for (hidden behind a curtain) or *how* much it's worth, but they know *when* they'll receive it (immediately), whereas in real life the business one purchases are known and its value can be reasonably appraised, but *when* the market will get around to reflecting that value is not known. Adding spice to the equation, the question of *how* fast the world's central banks will deliver on their promises to erode the value of the cash one would be left holding, should they decide to forego an opportunity to make an exchange, is likewise unknown. Fortunately, for investors, central bank error has inadvertently caused many of the stocks, currently available for deal-making, to be more inexpensive than usual. The allegorical '2016 special airing' of "Let's Make a Deal – Wall Street Edition" offers many great franchises for a pittance.



We've always felt fortunate to be investors in the public equity markets. Venture capitalism is hard. Entrepreneurship is hard. Business people must work so hard, overcome so many obstacles, and deal with ruthless competition. The vast majority fail. As equity investors, we can forego all that and patiently wait to see who prevails. Then, one's resolve is rewarded when the markets have one of their bipolar bouts of generosity (what we call generosity is generally seen as panic). Decades of effort and billions of dollars of investment are wholesaled out for cents on the dollar. Case in point is uranium, the once-loved, inexpensive, greenhouse gas free feedstock of electricity generation. Last September, I had the privilege to tour the Cigar Lake mine in Saskatchewan, arguably the second-best mine in the world. Three and a half decades and \$2-1/4 billion to build, yet the stock of its parent, Cameco Corporation is down 75%, from almost \$20B where it was trading a decade ago.

Company:	Cameco
Discovered:	1981
First Production:	2014
Expected Cost:	\$2.6bn





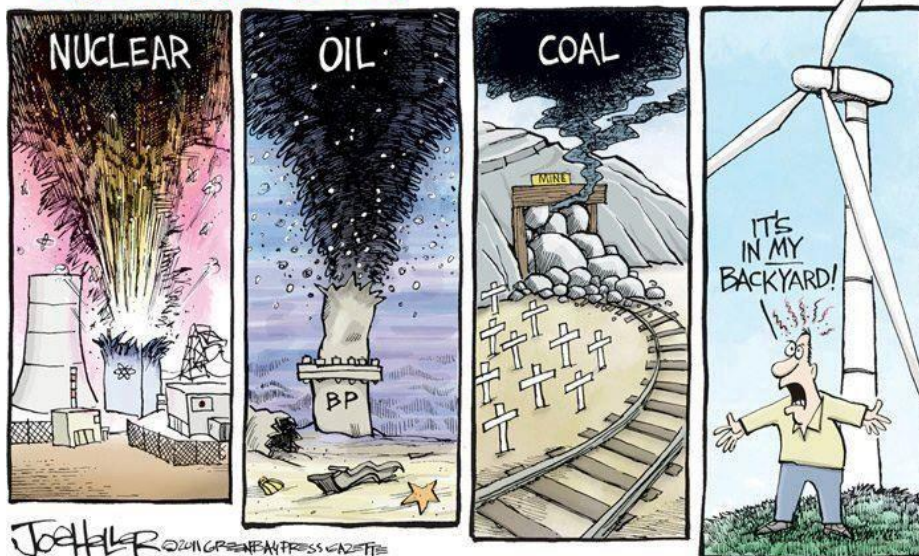
The second case study involves gold, the monetary metal has been held in high esteem for six thousand years, which is now viewed as a barbarous relic, no longer relevant to the 21st century. Finding gold is very hard and getting harder. Few have succeeded in recent decades. Barrick Gold poured \$5 billion into one of the rare, world class gold properties that was discovered over the past quarter-century. Filled with anticipation, the market priced Barrick Gold at \$65 billion five years ago, not counting \$15 billion in net debt. As of last October, Barrick was in the bargain bin, its share price marked 90% off. The company that is by far the largest gold miner in the world could then be bought for a mere \$7 billion (exclusive of the debt), marginally more than the money already invested in just one of their many projects around the world.

Company:	Barrick Gold
Discovered:	1991
First Production:	Pending Regulatory Hurdle
Expected Cost:	\$8-8.5bn



A lot more examples could be cited here: railroads, windmills, cellular phone networks, nuclear power plants, hydro-dams, farms, semiconductor manufacturing, tankers, and oil wells, **all trading at a fraction of the capital invested in them.** Emerging markets in general are heavily discounted. We won't go into more here, as this commentary is already much longer than intended. But, information can be obtained from our conference call presentations, from our website, or upon inquiry.

ARGUMENTS AGAINST-



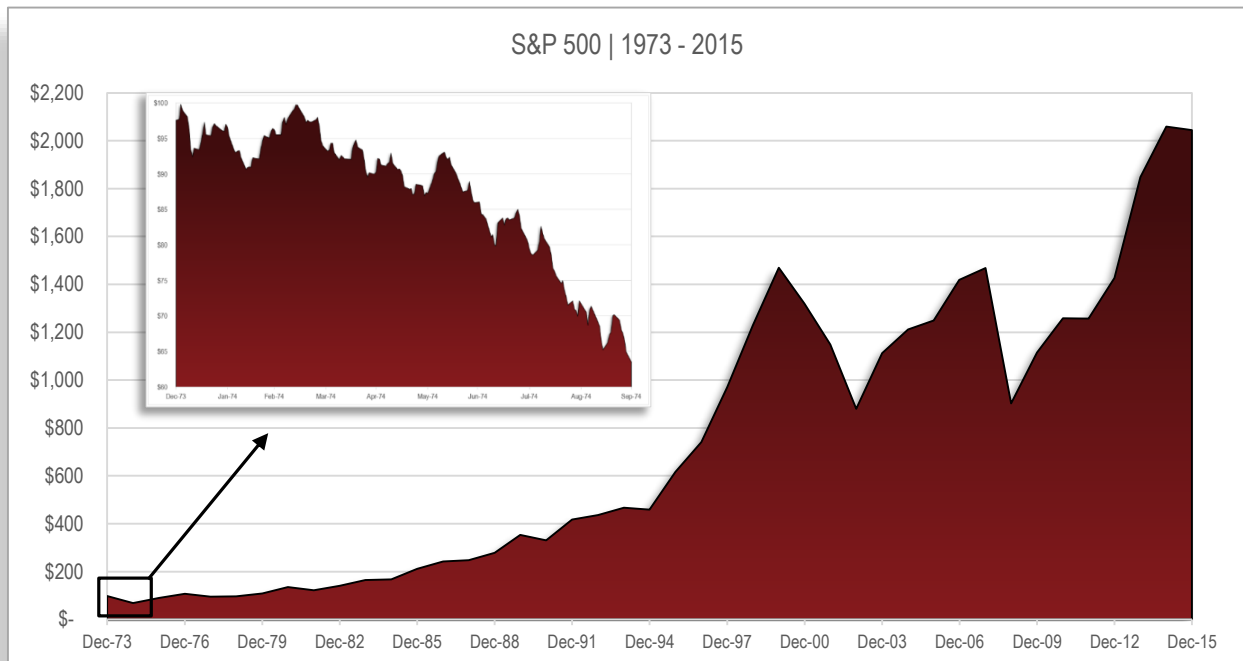


There are always plenty of reasons not to buy at the bottom, as the above exhibit lampoons, but long-term investors are blessed with ample opportunity. How much? When quality franchises/assets are trading at one-fifth of their replacement cost, a quintupling of share price isn't that hard to fathom. The following table highlights the tremendous potential of severely depressed stocks, **even** if one must wait a year, or two, or ten. Timing seems futile.

Year	Upside Potential			Internal Rate of Return
	2X	3X	5X	
1	100%	200%	400%	
2	41%	73%	124%	
3	26%	44%	71%	
4	19%	32%	50%	
5	15%	25%	38%	
6	12%	20%	31%	
7	10%	17%	26%	
8	9%	15%	22%	
9	8%	13%	20%	
10	7%	12%	17%	

"Patience is bitter, but its fruit is sweet."
-Jean-Jacques Rousseau

One more Buffett-ism regarding 'when' before moving on. This is a repeat of the last commentary but it's worth repeating as it aptly makes the point. Warren Buffett knew when to buy in the early 70's (depending on perspective). Attempted market timing would have added just over 1% annually if successful (VERY hard to do) or would have resulted in a huge opportunity cost if not successful (between 0 and 6901% over the long-term, depending on how bad the mistiming).



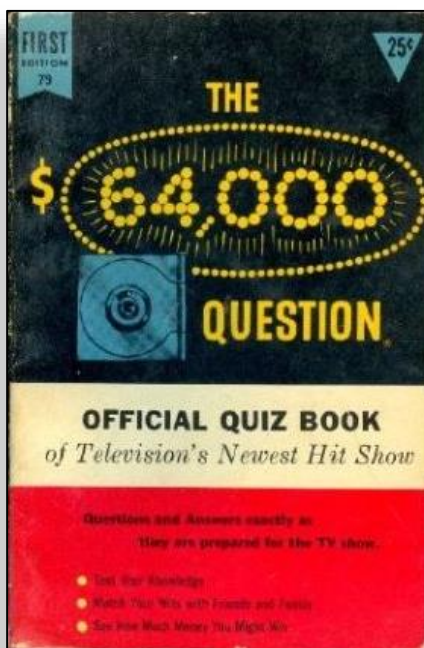
Source: Bloomberg



One last question to ponder, when deciding to make a deal or hold cash. Might cash turn out to be a "zork" in a monetary system that is anchored, not by gold but, by the collective 'wisdom' and 'integrity' of the bureaucrats at the helm of the world's central banks? If so, the impetus to use cash to acquire businesses/assets is unusually high. The recent issue of *Grant's Interest Rate Observer* states it wittily, as they do without peer, that they, "are bearish on the money of overextended governments. (We) are bullish on the alternatives enumerated in the Periodic table."

Our next game show will be used to further expound on the idea that cash and bonds may be more dangerous than they appear, and on the related futility of timing (i.e. spending an inordinate amount of time pondering 'when'). 'That's the \$64,000 question' has become a well-known figure of speech, meaning: the key question; the important point; the major unknown that we'd all like to know.

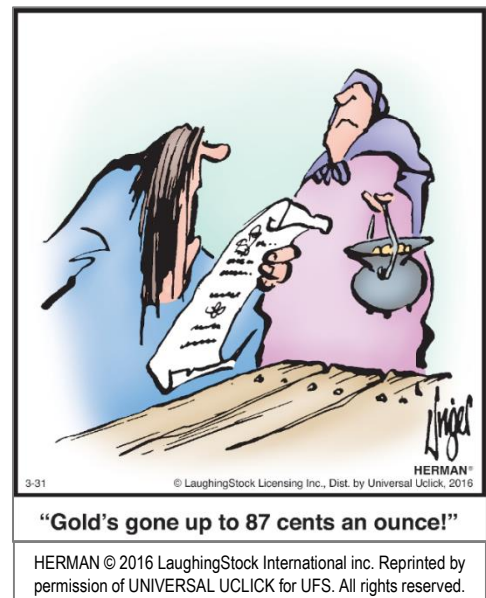
But first, let's not assume everyone knows that the \$64,000 Question was, in fact, a game show. It was one of the first, in the early days of television, more than a half-century ago.



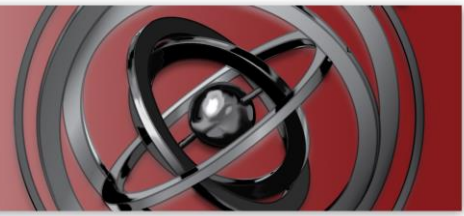
"The \$64,000 Question was an American game show, broadcast in the late 1950s, in which contestants got the chance to win \$64,000 for correctly answering a series of questions. Today, while most of us have never seen the game show, the phrase the \$64,000 question remains as an idiom. Its definition is loose, but it usually means the crucial or essential question. Something referred to as the \$64,000 question is usually an important issue whose outcome can't be foreseen and on which much hinges.

Contestants first chose a subject category (such as "Boxing", "Lincoln" or "Jazz") from the Category Board. Although this board was a large part of the set, it was seen only briefly, evidently to conceal the fact that categories were sometimes hastily added to match a new contestant's subject. The contestant would then be asked questions only in the chosen category, earning money which doubled (\$64, \$128, \$256 to \$512, then, \$1,000, \$2,000, \$4,000, \$8,000, \$16,000, \$32,000 to \$64,000) as the questions became more difficult. At the \$4,000 level, a contestant would return each week for only one question per week. They could quit at any time and retire with their money, but until they won \$512, if they got a question wrong, they were eliminated without winning anything. Missing a question worth between \$1,000 and \$4,000 left the player with \$512. Once the contestant won \$4,000, if they missed a question they received a consolation prize of a new Cadillac. Starting with the \$8,000 question, they were placed in the Revlon "isolation booth", where they could hear nothing but the host's words. As long as the contestant kept answering correctly, they could stay on the show until they had won \$64,000.' - Wikipedia

Note that the game was originally a CBS radio quiz show called 'Take it or Leave it.' This ran in the 1940s and the final question was worth only \$6,000. In 1950 the name became the \$64 Question. In 1955 it became a TV show and the name expanded to the \$64,000 Question, illustrating that inflation was happening in earnest well before Ben Bernanke turbocharged it, orchestrating the current policy of actually having a debasement target. A century-long debasement of the US dollar was discussed in our 'Saddle Ridge Hoard' Commentary last year. It is worth reiterating Jim Grant's observation that the Fed's 2% inflation target would, if 'successful,' cause prices to quintuple over the average human lifetime (81 years). How's that for debasement? If one were to assume that CPI accurately reflects the rate of inflation (a silly assumption), were the game to resume now, it would presumably be named the \$568,000 Question. Switching one's inflation barometer from CPI to ShadowStats¹ in 1969 yields a number closer to \$2.5 million. If the Fed 'succeeds' in their goal of 2% annual inflation, the year 2096 could offer us the \$12.5 Million Question game show, to be viewed on whatever form of media people will then be using. Will it happen? Perhaps that's the Twelve and a Half Million Dollar Question!



¹ An electronic newsletter service that exposes and analyzes flaws in current U.S. government economic data and reporting



“You have to learn the rules of the game.
And then you have to play better than anyone else.”
-Albert Einstein

If there was a legit candidate to be **the** \$64,000 Question, perhaps it would be: what is investing? Variants would include: how does it vary from speculation? From trading? What is the proper time horizon? And the ever popular: what should I invest in now?

Investing

The act of committing money or capital to an endeavor (a business, project, real estate, etc.) with the expectation of obtaining an additional income or profit. Investing also can include the amount of time you put into the study of a prospective company, especially since time is money.

These questions can't be precisely answered of course. They are subjective and pertain to an unknown future. The definitions of 'speculation' likewise are quite varied. At Kopernik, we certainly view investing as a 'bottom-up' process involving ownership of businesses, claims, or properties, etc. To do otherwise would be, in our book, speculation rather than investment. Regarding the desirability of investing generally, or of investing in common stocks, or investing specifically in undervalued stocks, or better still, investing with Kopernik, we hereby put forth, not answers, but more questions. In the Twilight Zone commentary, we attempted to evaluate ourselves and the businesses owned in our portfolio. The following is designed to help the reader to evaluate us, the appropriateness of certain investment styles for a given reader, and perhaps help crystalize their thoughts on investment values and goals. Rather than one question for \$64,000, here are 64 separate questions, provided at no cost (While it is often true that free items are worth precisely what one pays for them, we are hopeful that you will find this section to be of value, or at least thought-provoking): (Yes/Agree or No/Disagree)

General Framework

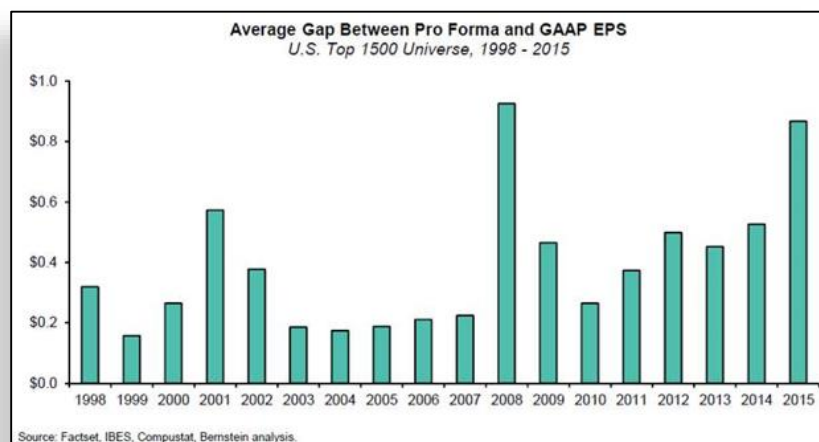
1. Does the sun revolve around the earth?
(our namesake, Kopernik (better known by his scientific name – Copernicus) had a view that was very non-consensus and unpopular at the time)
2. Are the investment markets efficient?
(i.e. they are never clearly overpriced or underpriced. Manias don't happen. People are always rational)
3. Is growth a philosophy rather than a nice attribute/data-point?
4. Do US stocks usually outperform EM stocks?
5. Due to technological progress, can the earth's resources easily support 7.3 billion people?
6. Will centrally planned economic, monetary, and interest rate schemes work significantly better for the contemporary generation of politicians than it did for all those who failed in the past?
7. Have 'Wise' contemporary leaders drastically mitigated the economic cycle?
8. Has society largely moved beyond the need for hydrocarbons?
9. In a world of unparalleled technological innovation, is owning assets increasingly irrelevant?
10. Scarcity does not matter; does it not inherently add value?
11. Is integrity less important than it used to be?
12. Are people always rational?
13. Isn't it true that inflating asset prices not a concern?
14. Are price and value one in the same?
15. Due to the 'Keynesian multiplier', does an increase in spending money actually make society better off due to the increased investment and savings?
16. Is meaningful value added by shadowing the indices?
17. Is looking foolish in the short-term too high a price to pay to achieve tremendous long-term value?

Analytical Thought Process

18. Are good companies good investments, regardless of price? Are bad companies bad investments, regardless of price?
19. Is the value of a bond determined more by government published economic data than by the borrower's ability to pay?



20. Do the companies that construct indexes and ETFs analyze the constituent stocks? Do they include stocks that are likely to outperform?
21. Is putting a portfolio of marginally liquid securities into a highly liquid wrapper (such as ETFs) a brilliant idea?
22. By subsidizing stock buybacks via cheap rates, and thereby incentivizing the shrinkage of the capital stock rather than investment in capital equipment, is the Fed adding to economic growth and job growth?
23. Are stock buybacks a good idea regardless of price?
24. Do stock buybacks return capital to shareholders, as opposed to giving capital primarily to existing shareholders?
25. Do high profit margins stay high and low profit margins stay low?
26. Is debt always bad? Is debt always good?
27. Are daily decisions to put 'risk-on' or 'risk-off' a prudent way to invest one's life savings?
28. Is the cost of capital determined by historic volatility, regardless of price?
29. Is the temporary loss of capital (volatility) more important than long-term prospects?
30. Is permanent loss of capital more likely when tracking error is high?
31. Should risk management be applied on a security specific level rather than on a portfolio level?
32. Is cash risk-free?
33. Are government bonds risk-free?
34. Are equity index benchmarks risk-free?
35. Does high tracking error increase the risk of permanent loss of capital?
36. Does higher volatility increase the prospects of permanent loss of capital?
37. Should loss of capital be viewed in nominal, not real, terms?
38. Are expensive developed markets less risky than inexpensively priced, growing, developing markets?
39. When shopping, is it best to avoid things that have been marked down, since the price may keep falling?
40. Is it riskier to buy a stock/bond/building after the price has plunged?
41. Is it best to buy when a sale is over and the item's price has regained its upward momentum?
42. Will the anointed common stocks of the current generation (biotech, social media, consumer discretionary, and US large caps) avoid the comeuppance that befell the anointed stocks of past generations: 1999 TMT (tech-media-telecom); 1989 Japanese stocks; 1972 Nifty Fifty; 1929 US stocks; the South Seas Company (1720); The Mississippi Company (1720), et al?
43. Doesn't price matter?
44. Does it make sense to discount the value of future cash flow without understanding the intrinsic value of the cash that is being discounted?
45. When using DCF models, does ZIRP (zero interest rate policy) make it more likely that margins will be especially high for a long period of time?
46. When using DCF models, does ZIRP make it more likely that high growth rates can be sustained indefinitely?
47. When using DCF models, does ZIRP allow one to feel more comfortable that their chosen discount rate is accurate into the future?
48. Can commodities sell below their incentive price of new production indefinitely?
49. Are 'cash earnings' always superior to GAAP and IFRS earnings?

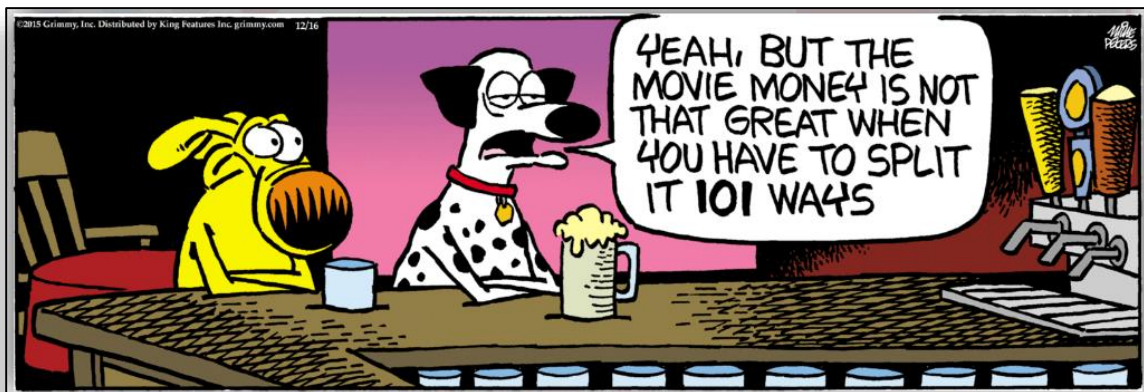




50. Are non-GAAP earnings superior to GAAP earnings?
51. Is a firm's income always more important than its financial position?
52. Is intrinsic value simply the present value of estimated future cash flow?
53. Are convexity, optionality, and Jensen's Inequality only bond related, not applicable to stocks or commodities?

Soundness of Money

54. Are governments trustworthy?
55. Isn't it true that persistent government budget deficits are not a problem?
56. Isn't it true that high debt levels, in relation to economic output, are not a problem?
57. Is gold a barbarous relic that has no superior monetary characteristics?
58. By increasing the money stock, do central banks increase the amount of real wealth?

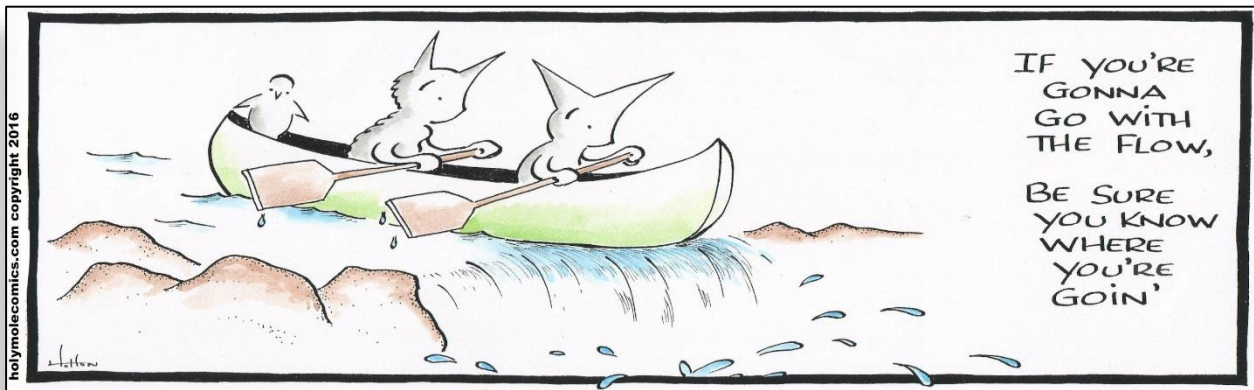


59. Do stock splits increase the value of the underlying business?
60. When a surge in money supply is followed by a surge in the price of assets such as stocks, bonds, art, collectibles, and real estate, it is accurate to say that there has been no inflation since these items are not in the CPI or GDP deflator?
61. Is the US dollar safe?
62. Is the Fed not a banking cartel?
63. Would inflation be impossible without credit?
64. Will money that has been assigned value by way of government fiat, retain that value regardless of increasing supply?





And there you have it. Kopernik answered “No/Disagree” to all. Others will answer differently. Each person has different goals, interests, needs, time horizons, levels of risk tolerance, risk focus (career risk or portfolio risk, etc.), and so on. The more questions to which you answered ‘Yes’, the less likely Kopernik would be a good fit for you. The more questions to which you answered ‘No’, the more likely a bottom-up fundamentals-based, value-focused manager may be a good fit. We believe that a questioning analysis such as this is always appropriate, but possibly more so than ever following the recent multiyear struggles encountered by virtually all active investment managers; especially tough times for value-based managers; and perhaps the period was most challenging of all for globally focused managers, resource-focused managers, and emerging market managers. Of course, all of the above are apropos to Kopernik. As John Lennon so well phrased it: “*strange days indeed, most peculiar mama.*” Analysis of this recent past will be viewed by some as a bad omen, and by others as portending massive investment returns in the future.



Navigating Fed-Invested Waters

And if there was ever a time that called for a non-consensus approach to investing, it is now. We believe the Fed's efforts to reduce risk have backfired, increasing risk and decreasing prospective returns on commonly held assets.

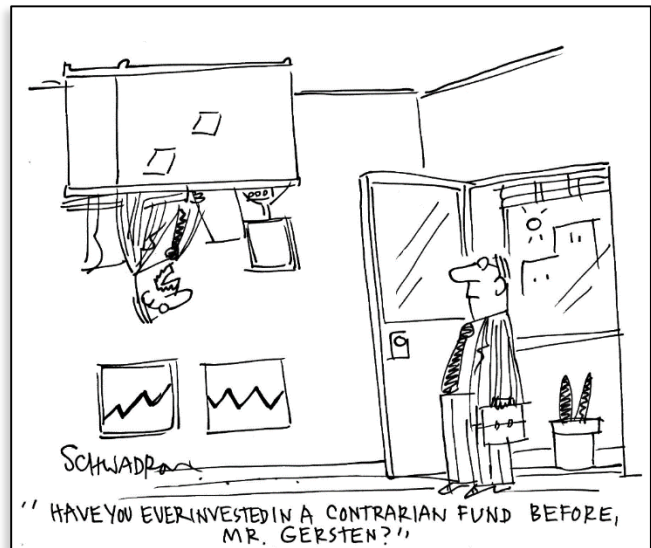
We can't tell you **when** Kopernik's style of investing will regain favor, we can only tell you **why it will regain favor**: Value investing has always worked in the long run; it works conceptually and has worked empirically; it has worked especially well following extended periods of underperformance; it works best coming out of situations of extreme bifurcation such as 1972, 1999, and now (we believe); Central bank policy has made the alternatives to value-laden stocks much less interesting; the fundamental laws that govern economics and mathematics have not been repealed, and our disciplined style works best following times of extreme emotion, hype and focus on non-valuation data points.

For those of you who find the concept of buying at bargain prices appealing, you will likely share our enthusiasm toward the incredible opportunities that the bear market has been unveiling. They say it's darkest before the dawn. Nowhere is that cliché truer than in value investing. While, as mentioned above, it's been a tough half-dozen years for those who adhere to value-based principles, this underperformance was probably overdue. It was preceded by an unprecedented good run for value investors. In fact, for Kopernik's “out-of-the-box”, independent brand of value investing, this is probably the first true bear market since 1974. The 1987 collapse was awful, but it ended up being more of a panic, over in a couple of months. For the calendar year, the market was up in 1987. 1990 was tough for small caps and high-yield bonds, but not too bad for most. The 2000-2002 collapse was not a bear market for value investors. The value indices were up nicely in 2000 and 2001. Our style of investing produced nice profits during all three years, hardly a bear.

Elsewhere, housing prices appreciated nicely. The 2007 through 2009 unpleasantness was no fun. Yet, for our style of investment it turned out to be a severe four month panic rather than a bear market. Following nice returns from 1999 through the first half of 2008, our stocks fell in half during the July-October period. November and December turned out to good months and for the two year period of 2008-2009, the portfolio was up. Again, hardly a bear market. No, as the definition above states, a bear needs to take time, generate enough pain to change psychology. Investors in general need to go from euphoria, to more mundane bullishness, on to a negative outlook, and finally to disgust, panic, capitulation. The market seems to have recently reached the capitulation stage for emerging markets, energy,



gold, and commodities. An ever-increasing list of other great businesses/assets has reached various levels of negativity, disgust or panic recently. This list of the downtrodden is where one must look for true value; for incredible values. A' la 1972, the outstanding performance of a gaggle of popular large cap stocks has obscured a punishing bear market. A few points of interest: the amazing performance of the 'Nifty-Fifty' stocks, stocks of great companies such as Johnson and Johnson, Coke, P&G, Digital Equipment, Xerox, etc. obscured the devastation occurring elsewhere, particularly in the formerly popular AMEX exchange stocks; and late in 1973 even the Nifty-Fifty joined the deluge, it seems that early losses were the price of admission. In the contemporary era, the Nifty-Fifty FANG (Facebook, Amazon, Netflix, Google), and their biotech and consumer super-brand brethren have served as camouflage to a particularly nasty bear market. Many great properties have been discounted anywhere from 50% to 99% off. Kopernik has felt like a kid in a candy store, buying great bargains to our heart's content. Like Mr. Buffett forty-plus years ago, we seem to have been early to catch the proverbial "falling knives." We know the mild-bewilderment combined with incredible excitement for the future that he must have felt as he watched his newly acquired bargains immediately get marked down by 1/3 more. We can't help but notice how many highly regarded value-investors have shared our fate, our frustration, of late. Maybe in the short run no good deed does go unpunished.



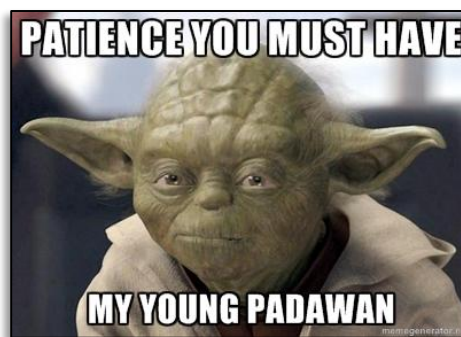
We believe that the protracted bear market likely foretells a strong bull market for value stocks, with much of the values centered on resources, emerging markets, global, transportation and infrastructure, and an increasing number of special situations. The important point is that the result is a portfolio of what we believe to be solid franchises at once-in-a-generation valuations. The potential upside is impressive.

We appreciate your support.

Cheers,

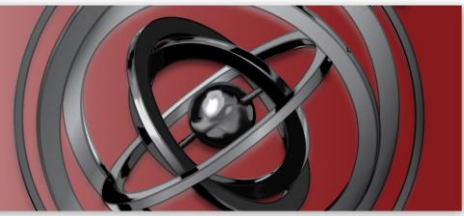
David B. Iben

Chief Investment Officer
May 2016



P.S. For those interested in game-centered allegories, a Fed-related post script now commences. Returning to the \$64,000 Question, what made the game so memorable to this day was the ensuing shock and outrage of the credulous 50s-era public following the discovery that the game was rigged.

The relatively new but phenomenally popular Dotto, and then Twenty-One, were found to have been rigged and were promptly canceled. Then one Challenge contestant, the Rev. Charles Jackson, told the federal grand jury probing the quiz shows that he received answers during his screening for his appearance. That prompted Challenge's sponsor, the Lorillard Tobacco Company (Kent, Old Gold cigarettes), to drop the show.



The \$64,000 Question had the opposite problem: sponsor Revlon—possibly under pressure from its chieftain, Charles Revson, who has been credited with expressing the desire for famous faces that prompted Challenge's expansion to include celebrities—often tried to interfere with the production of Question, including and especially trying to bump contestants it simply disliked, no matter whether the audience liked them. Revson's brother, Martin, was assigned to oversee Question—including heavy discussions of feedback the show received. The would-be bumpees included Joyce Brothers herself, who managed to outwit the question writers and Revlon long enough to win the maximum prize. According to producer Joe Cates in a PBS documentary on the scandals, he used an IBM sorting machine to give the illusion that the questions were randomly selected – in fact, all of the cards were identical. Since all of the buttons were on one line, they were mostly for show.

It was revealed during Congressional investigations into the quiz show scandal that Revlon was as determined to keep the show appealing - even if it meant manipulating the results – as the producer of Twenty-One (albeit also under sponsor pressure) had been. Unlike Twenty-One and Dotto, where contestants got the answers in advance, Revlon was reportedly far more subtle: they may have depended less on asking questions on the air that a contestant had already heard in pre-air screenings than on switching the questions kept secure in a bank vault at the last minute, to make sure a contestant the sponsor liked would be suited according to his or her chosen expertise.”

-Wikipedia

One can only imagine the horror and backlash that would have occurred had the fix been, not in favor of the popular and charismatic contestants, but rather, rigged in favor of bankers and the richest 0.1% of the world!!! Which leads one to contemplate the contrast of that era to the contemporary one. Nowadays, people are shocked by next to nothing. The media's incessant lambasting us with “breaking news”, throwing superlatives into every story (if not every sentence), and exaggerating the importance of every insignificant item of date, has left us numb. As Pink Floyd so well phrased it, ‘(we) have become comfortably numb.’

The perceived integrity of politicians, businessmen, celebrities and others is so low there's very little they can do to shock us. But, far from disappointment, society wants misbehavior, relishes scandal, and rewards “bad boy” conduct from athletes, businessmen and celebs, offering lavish speaking fees, product endorsements, book advances and more.

In perhaps the most extreme case, the applause is almost unanimous for the world's central banks rigging of the financial markets. Every time interest rates are further suppressed or incremental currency is conjured out of thin air, headlines proclaim the bankers' wisdom, markets scream, economists validate, academics applaud, and the public approvingly breathes a collective sigh of relief. They all seem to be saying, ‘Thank God the central bankers didn't allow the free marketplace to adversely affect my day.’

Whereas the public of a different era was appalled at the rigging of a silly game show, the contemporary public is supportive of, even demanding of, **the rigging of the mechanisms by which most economic decisions are made and by which most assets are priced.** For roughly a decade, the price of capital has been rigged to a level near zero. The resultant misallocation probably is in the neighborhood of \$64 Trillion. The increase in debt, contingent liabilities, money stock and valuations should be a source of concern. This is something that society ought to find shocking and appalling. It is pointless to prognosticate as when financial central planning will end or how it will end. But we do believe that what can't go on won't go on! Hence, the need for our proceeding discussion about investing in the current era of financial repression, the necessity to remember why and how a portfolio responds rather than when. The ‘tail-risks’ are extremely high, as are the attendant potential rewards.

Top-down approaches are difficult since no one knows the future, nor do they know whether stocks will act ‘appropriately’ during a reasonable time frame. Eventually, to quote Warren Buffett, ‘the market is a weighing machine.’ As we said above, ‘what must happen, eventually will happen.’ But, to continue contrasting the current backdrop to that of previous generations may be helpful. Thirty-five years ago the Fed manipulated rates to an artificially high level in an effort to rein in inflation, rates were high, stock valuations were low, financial assets were hated, commodities were loved, the U.S. was still living down the stigmas of Watergate, the Vietnam War, assassinations, and the generation gap, among other issues. Nowadays, the Fed is suppressing rates near zero percent, \$4 trillion of new “script” has been added to the monetary base, stock valuations are high, financial assets are heavily owned, commodities are hated, and the U.S. is viewed as the world's “Safe Haven!” to such an extent that U.S. stocks are 53% of the MSCI ACWI². To repeat, the index highlights that **the marketplace now views one country as being worth more than every other country in the world put together!** The U.S. is roughly one-fifth of the world's GDP.

² As of April 30, 2016

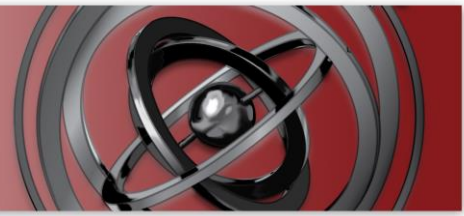


Kopernik
Global Investors, LLC



*"I read it in the paper
I see it on my TV
Has the whole world lost its head
(Is it just me)"*
-Go-Gos

The Fed may find that they are reaching the later stages of a game they are unwittingly playing: "Truth or Consequences." As to what to own now, as their 'truths' bear consequences, we've been quite clear as to our views. It seems prudent for investors to consider the fact that the current environment is, in many ways, a mirror image of the environment 35 years ago, and therefore, the investments that proved best to own back then may not be good investment choices now, and vice versa. Interest rates have, after all, dropped from 22% to 0%. Perhaps it's time to own some unconventional franchises and/or unpopular stocks and resources. We are particularly encouraged that the current environment has enabled us to build a portfolio that is more focused on the faster growing emerging economies than we've had in the past, is heavily focused on oligopolies and monopolies, and is among the most attractively valued we've ever managed (or seen, for that matter).



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