Kopernik Global Investors, LLC

Edited Transcript of the 1st Quarter 2019
Conference Call with David Iben

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Operator: Good day ladies and gentlemen. Welcome to the Kopernik Global Investors 1st Quarter 2019 Conference Call. As a reminder today's call is being recorded. At the end of today's presentation there will be a question-and-answer session. Instructions will be given at that time. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go ahead.

Kassim Gaffar: Thank you Operator. Hello and good afternoon everyone. Thank you for joining us today for the 1st Quarter 2019 Conference Call. My name is Kassim Gaffar and I have with me David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All-Cap strategy and co-PM for the International strategy.

Before I pass the call over to Dave, I'd like to give everyone a quick firm update. From an overall AUM standpoint the firm assets at the end of the quarter were right around $3.8 billion versus $3.4 billion at the end of 2018. In addition to positive market action, we saw roughly net new asset growth of right around $230 million plus during the first three months of the year. Although the last couple of years have not been conducive to value as a style of investing and to active managers, we believe our clients have been pleased with our discipline to not give into the temptation of chasing the high-flying momentum stocks.

This clearly helped us in periods like 2016 and the fourth quarter of 2018 when value performed well and our clients have benefited by the consistency of our performance. Lastly as a firm, I would just like to add that we are 38 people strong and have been stable with no turnover in staff. Please note Dave will be referring to the presentation which can be found on our website at http://www.kopernikglobal.com under the News & Views section.

And with that I'll be handing the call over to Dave. Dave?

David Iben: All right. Thanks Kassim, and thanks to everybody for joining us. It was quite a quarter. When it comes to describing the quarter, I don't think I can do near as good a job as Wayne and Garth who said, "Party On." I think in terms of quarters, I've read where it might have been the fastest growth since Christmas Eve of any period in history for the stock market.

To put it in perspective, the All Country World Index is 20% up, 80% annualized rate if it keeps that pace up. China - they've got us all beat at 35% it's up this year. That's over 200% annualized. That makes the NASDAQ look poor at 30% this year and on a rate for 129% and the S&P up 24% so an annualized rate of 100%. So, as we all know the market was pretty much momentum last summer as everybody was excited about the good fundamentals and the growth that was coming from the tax cuts and ten years of easy money and you name it.

Then in the fourth quarter everybody began to focus on the fundamentals which were looking increasingly poor as the ten year economic expansion seems to be running out of gas globally and here in the US as well. And then it started getting going again. We've quoted here William McChesney Martin, Federal Reserve Chairman back in the '60s, who famously said "when the party gets going it's the Fed's job to take the punch bowl away." So that's what they were trying to do last year for a while. You know, the US has been raising rates for a few years. It looked like even Europe and Japan might be done easing. China's trying to pull things in. But then we had one bad month in the stock market, and I repeat one bad month in the stock market and are they taking the punch bowl away? No. You know, and I think we all knew this would happen. Certainly, the Austrian economists have always said once you start Quantitative Easing ("QE") you can never stop. So rather than take away the punch bowl they are spiking the punch.

And I'll forewarn you the beginning of this presentation is more whining about the problems with intervention in this policy whether it be government or central banks. But I promise that by the end we'll look at the positive side of all of this which is vast potential for certain groups of investments. But in terms of spiking the punch bowl here are actual headlines that we pulled off of a bunch of periodicals over the last few months. So, I say one bad month and the Secretary of the Treasury comes out and admits to the existing of the "plunge protection team." Called them together on Christmas Eve. The market went up 1000 points the next day and has gone up almost every day since then. I also have FC Powell reverses course. I think we all know that he no longer plans to hike interest rates. They're now talking about the "Powell Put" which, you know, after the "Greenspan Put" and the "Yellen Put" and the "Bernanke Put" we all knew this was coming, I think. They've also said when it comes to quantitative tightening just joking there also, they'll be done by September. Elsewhere the ECB that was finally starting to talk about tightening a mere couple of months later said not going to do that. Let's come up with a new round of stimulus. The Japanese have said they are still absolutely committed to not changing their stance of buying large amounts of government bonds with newly found money. And I think China's got us all beat. Their aggregate financing - last month $426 billion, that's one month $426 billion with a "B." And so here we are. It's been debated for many years - did the Fed's really have an exit plan for their QE? We have our answer. Their exit plan has been a colossal failure.

It seems the Austrian economists were correct all along, exiting QE is not something that can be done. The stock market of course is thrilled by this failure because it means more money is on the way. Now we're being increasingly told that QE worked so sure enough I think one of the main things they said they wanted to do was raise asset prices. They have done that. They have raised asset prices. But it's been uneven. The popular stocks have become from expensive to more expensive to expensive as ever where the less expensive stocks have been left. But certainly, they have succeeded in raising asset prices. We're told they've done that with no mal-effects, no unintended consequences, no inflation and no problems whatsoever. Well this is a good time for people to think for themselves and investigate. Let's investigate.

Yes. Prices have gone a lot higher. This shows the price of stocks in the S&P relative to people's ability to buy stocks - their salaries. Never have stocks been more expensive relative to the fundamentals that support it. All right, I understand earnings are only one way to support it. Let's look at stocks versus the expected earnings that support that. You'll notice, logically, stocks go up when earnings are supposed to go up and stocks go down when earnings are supposed to go down. What a weird thing in this last quarter - earnings expectations have plunged and stocks have gone up like a rocket. That's, you know, 38 years and I've seen a lot of exciting quarters, but I don't think I've ever seen stocks have one of their best quarters ever as earnings expectations had one of their worst quarters ever - *an amazing phenomenon*.

That's earnings. But if we look at all sort of important economic variables as judged by Citigroup you can see fundamentals are continuing to surprise on the downside. The things keep disappointing but the stock market has not been disappointed. Also many of the people that don't like QEs at any time in the past and there's many, many hundreds of years of history of people printing money that it leads to class divide, leads to the rich getting richer and of course that's continued to be the case this time.

Beyond that sort of thing what about fundamentals? Well printing money and the currency environment usually means growth of debt as well. The student loans have grown and grown. This is an outdated slide. It's a lot more than that now. It's over $1-1/4 trillion of student loans with more and more and more of them delinquent. When you see 15% more than that delinquent on $1-1/4 trillion that is a problem.

So some will say that the next iteration of quantitative easing will be forgiveness of student loans. We don't doubt it. We'll see. Certainly, it's a problem that's going to confront us in the future. Outside of student loans auto loan delinquency. So, you know, this is ten years into an economic recovery. This is not the trop of a recession. And yet auto delinquencies are already back to the level they were at the worst of the downturn in the late '90s and it's worse than it was in '07-'08. Fascinating and more delinquencies on more loans - a pretty healthy amount of loans out there. Another potential problem.

Outside of that one of the intentions of QE was to transfer the debt problem from the banks in the private sector to the government sector and I think they succeeded in doing a bit of that. You can see many sovereigns are in potential trouble. Italy, Japan and the US are noteworthy on this list with debt now above 1 times GDP and China of course is getting there as quick as they can too. So, another potential problem. Outside of debt we are told that at least printing a bunch of money didn't turn out to be inflationary like people said it would. And yet they're not being honest there either, are they? Because the CPI famously understates inflation. But in addition to that it doesn't affect most of us too much if the price of TVs drops a little bit or cell phone services. The bulk of our money goes to housing and education and healthcare and things like that. And those things have gone up a lot in price. And of course shadow pricing and others show that inflation has been way higher than we've seen. And of course, printing money inflation usually goes into assets first. Conveniently they don't count the price of stocks or bonds or real estate, all of which have gone up tremendously over the last dozen years.

So there has certainly been inflation. Just a couple of days ago I stumbled upon a Parade magazine doing a "then and now - 100 years ago," so right after the Fed was created to now. You know, little things like you used to make $1.75 a day for cutting ice versus now you could make $125,000 a year teaching goat yoga and they've got a whole magazine of stats like that. But I think we all know that prices certainly are up 50 to 100 times what they were 100 years ago.

Then of course printing money allows you to finance consumption and the US has a consumption based economy. And this is not a pretty picture. We are not a production-based economy. It doesn't seem like a good outcome here. Famously accounting standards seem to go up and down with the times as well. We're finding it harder and harder even to get a whole of real accounting numbers anymore. You look at the indexes - they're all pro forma numbers or they're leaving out outliers, so we have to dig now just to find real numbers.

But we certainly know that for a lot of years now that nonrecurring write-off items tend to recur. So, it's a good way to not count a lot of your expenses. Also, we don't need to talk a lot about it because we've already talked a lot about it in the past, but maybe free money makes it easier for people to get excited about investing in things that they've done no research on whatsoever. It'll be interesting in the future to look back in hindsight about the passive investment craze.

Also at market peak such as 1999 what that tech media telecom mania where people were foolishly buying a lot of IPOs the companies that were losing money - remember it got up to 80 some odd percent of the companies that were going public were losing money. Hey we're back there. We're all the way back to 1999. I didn't think I would ever see that again. So another QE thing.

Famously companies buy their stock back at market peaks. There was a surge in 1998 and '99, a surge in '07 and then last year was just phenomenal; record breaking. With stocks the highest they had ever been in the history of mankind there was a record amount of companies choosing to buy that back. And whether it's good or bad to do that we can debate but whether it was the worst time in the history to do that that's clear. And this year is on pace to beat that.

So, you know, and this last one is just showing this kind of interesting - you print $4 trillion and $4 trillion goes into the stocks and bonds. Is that a coincidence? Like I say inflation usually goes into assets first. And then of all the countries the US is the one that's seen the biggest inflows for a lot of years. So, there's been QE a lot of places and a lot of markets are up. But this just shows that the US market has left a lot of the other markets in the dust.

So enough of the negativity. We clearly are in a place where people believe that wealth can be printed out of thin air. People believe like the MMT that you can borrow and borrow and borrow and never have to pay it back. People believe it's best to invest without analyzing things. People believe that the worse a country's finance is and the more they're in debt - the higher the debt the lower their interest rate should be. Japan is a prime example.

So this stuff is of course crazy. But as active managers that's what you want. You want environments that are crazy. And so with the danger there's also lots and lots of opportunities. And so, what now? Well now if printing money is inflationary that should make things go up. You should expect things to go up and things like stocks and real estate have gone up. However, it's not been even. As we showed earlier things that are expensive will become more expensive but things that aren't loved don't get bought.

So you can see here emerging markets should have done well and they have. But as we'll get to a lot of them went up and a lot of them didn't. So, there is an opportunity. Cash you wouldn't expect to do well, and cash hasn't done well. Fixed income - and it's been, you know, commodities should be the big, big winner from a lot of money printing and here it shows on a 15-year basis it's gone down. So that's an obvious opportunity when something goes the opposite direction to where they ought to be. So, you know, looking at all of these things and, you know, where to invest, money is going everywhere but if you can find the places where it hasn't got to yet. Or as Wee Willie Keeler said, "Hit 'em Where they ain't." So, where they ain't right now is outside of the US. It's interesting that less than a quarter of the economies in the US aren't purchasing; dollar parity is less than 20% is in the US.

And yet a lot more money has been invested there. And in the US, 71% of the money is capitalizing less than a quarter of the GDP so things had better go really, really, really well here forever or I think there'll be some disappointing returns. But if you get more than three quarters of the world's economic output capitalized at only 29% it's got to be an opportunity there. I think people, you know, whatever they have in the US they should have - we think much more than that outside of the US and particularly in emerging markets.

Emerging markets of course is over half of the GDP. It's over half of the production. It's most of the production growth. It's most of the world's people. To get the most of the world's economics for 10% of the market cap we think is a pretty interesting thing. And we always hear about the productivity miracle. Well you'll note that the last 15 years the miracle is less and less in the developed economy and more and more in the emerging markets. So, you would expect the emerging markets to be priced at a premium and they were a dozen years ago. Now they're at a huge discount. That's kind of interesting.

We've talked about in the rush to buy the FAANG stocks they haven't liked emerging markets. But even outside of that gold's done okay. Gold stocks have not. Gold stocks have underperformed gold. That's an opportunity. Russia despite the fact that it's got some of the best valuations and by far the best cash flow has lagged a lot of the other emerging markets. That we think is an opportunity in places like Korea as well so picking the right emerging markets and the right metals.

Here is commodities - like I say printing money theoretically should be very good for scarce commodities and it's been the opposite. Commodities relative to the S&P cheapest ever. So here we are in a bloated, very expensive market for people used to say a bubble in everything. Well it's not everything. Commodities have got left. So that's a great opportunity. Even within commodities you look at this year everything is going up; gold is not going up; gold stocks aren't. That looks really good. But silver is even more interesting and platinum which we don't have on here. There are certain things that oddly enough have gotten cheaper and easily it's the things that are scarce and have the best fundamentals.

Likewise, in energy - oil has gone up as you would expect it would and should. It's gotten closer to what it's arguably worth. It used to be people liked clean energy. And since gas is much cleaner than oil and uranium is cleaner than gas that was two of the areas people loved. But uranium, once $137.00 a pound, is back to $25.00 a pound, down over the last quarter.

Natural gas is sitting in a multiyear low today. It's a fascinating thing. So oil seems reasonably interesting but uranium and natural gas are sort of a gift. Another place that people aren't, is in volatile stocks. People view volatility as a risk. That's such a crazy notion. If you're holding something for the long term and any investor of course should, what does volatility matter? And really, it's an opportunity. So, you know, it's been frustrating for value investors to be generally in the wrong place over the last half dozen or more years. But it's been wonderful that we've been able to tread water in tough times because of people like Brazil, they hate Brazil; they like China, they hate China; they like small companies, they hate them; they like gold better than copper and then they like copper better than gold. And so, you know, we've been able to buy or trim and add to Eletrobras several times. It went up seven times back in 2016 and then it plunged. We were able to buy a lot more and it's reasonably up three times and you can see we've reduced it.

Three four or years ago we were able to buy some China Mobile that went up, we sold. Recently we were able to buy it back and it quickly went up 15%, 20%, and we were able to trim that. General Electric back in the fourth quarter plunged from the high teens to six something and then went back to 11 something where we were able to quickly trim half of what we had just bought at an average cost of under eight.

And so volatility is nice. Northern Dynasty is one that went up 25 times back in 2016, plunged again and we were able to add to it. Range Resource we bought; went up 50%. We trimmed and now it's back hitting lows again and we've been happy to be adding to it. I can go on, on this but, you know, we can talk a lot about it. It's been a lot of opportunity to take advantage of volatility in the market. So volatility is the opposite of risk; volatility is opportunity.

So another thing they don't like is value. I think someday we'll be very happy that we were given the opportunity in a market like this, to buy really good companies with a lot of potential at 2/3 the book value at around 1 times sales between four- and five-times cash flow. These are phenomenal numbers. And the result of all of this is those kinds of valuations on companies that are number one in the world at what they do. The biggest uranium companies and gold companies and gas companies and hydroelectric companies and phone companies and they tend to be in the growing parts of the world rather than the mature parts of the world. So that is one of the good things about this market.

And this is a chart we always like to show because we like to highlight the beauty of being able to buy things at half price. When you're buying things at half price or lower even if your patience gets tested and we - certainly all of our patience has been tested and this is the longest that value has been out of favour by far, ever. So, our patience is all being tested but when you can buy things at half of book value or more even if you have to wait two years, five years, ten years, you name it, and you can make really nice returns. And we are pleased to have the opportunity within an otherwise expensive market to buy things at half price.

And with that I'm happy to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question.

We'll take our first question from Dennis Speidel with Ameriprise.

Dennis Speidel: Thank you for the call. You have owned shipping stocks in the past. I think you still own Dianna and the Greek one. Could you comment on the IMO 2020 and what you think the implications are for the shipping stocks in general?

David Iben: Certainly. I'd be happy to. Yes. We've owned that and I was talking earlier about volatility being our friend and it's been interesting over the last six years to see people go from hating oil tankers to liking oil but hating dry bulk to liking dry bulk a little bit and not liking oil and then they don't like containers. And so here is another area that's had a difficult six years, but we've had opportunities to make money for, you know, buying these things when people really hate them and then sell them off when they bounce back every time there's a glimpse of things that are going to get better. So, it's great contrary investor/value investor sort of opportunity.

Diana is kind of interesting in a lot of ways but they, you know, a while back they did a tender at a higher price. We tendered some of it and then bought it back at a discount in the market and it came with a new tender not high enough. And just the other day they announced they're coming with yet another tender and so we'll see where the stock is when it gets closer to the tender. So there again are opportunities to make money even if the stock doesn't do so well.

Yeah on the regulations and there's talk about sulphur and cleaner oil. It's very controversial. There are the people that are quickly spending money on scrubbers and then there are the people that say we'll just pay up for the oil. And, you know, we are paying close attention to it and Isabel Satra our Transportation Analyst knows a lot; spends a lot of time on it.

What the future holds depends on a lot of things. The more people that put on the scrubbers - I guess the people who didn't put them on might win because the price of bunker might not go up as much otherwise. But if very few people put on the scrubbers then the price of the noncompliant fuel will probably skyrocket and then the people with the scrubbers will be better off. But what we've been doing is what we always do is try to buy the companies that we think have the wherewithal to make it through the bad times because this industry famously has bad times.

So we've tried to focus on the people who have bought ships well, who have sold ships well, who have not mismanaged the capitalization of their companies or they run things pretty well and then buy them at huge discounts still what we think the median average price of their ships are worth. And we pay attention but don't believe we're experts on how things are going to turn out with this regulation, but it is certainly an important variable and one reason why we insist huge discounts to own this area.

Dennis Speidel: Thank you.

Operator: And we'll take our next question from John Dayton with Alex Brown.

John Dayton: Hi there David. I appreciate your call. I would love to get your thoughts on a couple of items. I had to get on late, so I apologize if it's a repeat. But one, I see that your portfolio is at about 60% of book value and I'm trying to think back over the last couple of years and this may be the longest period that value has been out of favour. But I think you've seen values lower than that. That's the first question.

And then the second thing I'd love to get your comments on that you may have already gone through and if you have I apologize, but I'd be interested in your thoughts on the nuclear side and uranium.

David Iben: Okay. Certainly. Yes the valuations - I came into the business at the end of '81 when everything is very cheap although you didn't have the disconnect between value and growth. As a matter of fact, growth was not at a premium at all so kind of growth was value back then and it's been that way a few other times. But in terms of disconnect between value and growth I think in '99 small cap value was probably as cheap as or cheaper than it is now. And in January of 2016 I think our book value is under 50% if I remember correctly.

Other than that I think this is both relative to growth; this is the cheapest I've ever seen. And then just - absolute value stocks are probably the second or third cheapest I've ever seen in 38 years. So, we're feeling really good about the portfolio right now. Usually when our stocks are the most out of favour is right before the really good times as we saw in 2016 and we certainly saw after '99 when value stocks went up strongly while growth was going down. So we'll see what the future holds. But yes, relative and absolute values are very, very attractive right now, particularly asset-based value we believe.

Nuclear - I haven't touched much on it but, you know, we do talk about volatility and people changing their mind and people like oil and hate coal and then they'll love coal and like gas but hate oil and then right now they like oil a little bit and of course they love solar and wind and there's a lot to like. They hate coal. But it seems like an odd time for them to hate nuclear and hate natural gas because those are two of the cleanest forms of electricity. And, you know, we've seen natural gas get above 10 and today we're seeing it hit a ten year low for something that people used to think was cheap, clean and abundant. And right now, it's cheap, clean and abundant - especially cheap.

So we like gas a lot and then on nuclear and uranium we own a lot of uranium and we like it a lot. Nuclear we own EDF and there is another one where we've been able to, you know, buy as low as seven and sell as high as 15 and add value that way. But nuclear is interesting. Whether people should build a nuclear power plant I don't know. There's always big overruns and it's a difficult thing.

Once they're built what a wonderful thing to own. And it's like I say very cheap and very clean. And the market is willing to sell it to us at a small fraction what it takes to build it. So, you know, let somebody else take the hassle of trying to build these things and hit them on budget. Once they're built, they're a great thing done. Now even though there's an argument for and against building these things a lot of them are getting built.

You know, there'll be a few dozen retired too but a lot more than that are getting built especially in China. And China came out the other day - we haven't been able to get the specifics, but they came out the other day saying they've now perfected some safety valves to make them way better and cheaper and as far as safety nuclear has been the safest type of fuel by far. You know, the number of deaths in gas and oil and solar and wind and hydro well many, many, many times there's been basically no deaths with nuclear. So, it's been pretty safe. And the Chinese are going to build a lot of them and they're building them in Russia and Arabia and India. And they've brought back at least nine of them in Japan already, so they are getting built. So, the supply will be increasing. People can like that or not like that but it's happening. And then there's not enough uranium being mined to handle the existing plants much less the new ones. Of course, we've been saying that for a dozen years. And yes so apparently they can go on for a long time except for all that secondary sources are being drawn down. And so that's not something that can last forever. Plus, it used to be that Kazakhstan and others were increasing their - they increased - when the price got to $137.00, they increased the supply ten times. Now with the price in the 20s they're cutting back supply. Nobody else is building any mines and they aren't building any either. So, no mines are being built. The Kazakhstanis are cutting back, the Cameco is shut down - the best mine in the history of mankind and they have no intention of bringing it back until prices get way higher.

Funds are popping up all over the place to buy uranium and hold it because they know it can't trade at half the cost or less what it would cost to build a new mine. So, either people build mines, or you have lots and lots of multibillion-dollar reactors sitting empty. And if the price of uranium doubles or triples which is what must happen to get people to build the mines, it won't be that much of an increase to the overall cost of running these reactors.

So, it's hard not to be extremely bullish on uranium and if - nuclear power will have its place. You know, I assume if we look ten years in the future, nuclear will probably be around the same percentage maybe a little more; hydro will probably stay about where it is; and I would assume that wind and solar will continue to take share from coal. If natural gas stays at these ridiculous prices, you'll probably see that replace a lot of coals. But we'll see what the future holds. So, we like uranium a lot and the price does need to double if not triple to incentivize meaningful mines of play.

Operator: As a reminder please press star 1 to ask a question. We'll take our net question from Dan Gallagher with UBS.

Dan Gallagher: Hi. Two questions - one as it relates to the out of money put rolling that you did I was wondering, you know, how you handled that in the middle of that pull back and if that still exists in the portfolio and what the cost drag we could think about that to some degree is on an annualized basis; what that insurance policy costs. That's my first question.

David Iben: Okay. Yes, on the option the drop in December was of course good for that option and so 2018 turned out to be a reasonably good year for that strategy. However, you know, it's been a couple of years. It's been a couple of years of rising markets rapidly this year. Our view all along just whether we're owning a tanker stock or a gold stock or a healthcare stock or a put option what is our upside versus what is our downside? What are we paying for that?

And our view two years ago, more than two years ago, was all right a put option has value. The value of that put option increases the more expensive the market becomes because the more expensive it becomes the more likely it corrects. The market I guess is believed and so far been right that the Federal Reserve will never allow a correction. Because they didn't believe that they took an option that was becoming more and more valuable and led to the option selling for a lower and lower price; implied volatility being the main determinate.

And instead of rising from say 20 to 30 it fell to eight. So, we're buying something that's worth many times what it's selling at. And we're not saying we're predicting a correction on any certain date we're just saying we do not think that a bunch of bureaucrats have the power to make the world a perfect place. It's a cyclical world - it has its ups; it has its downs. The market has gone ten years now without a bear market. And sooner or later we'll have one. And if that happens these things could go up 10, 20, even 25 times in price. And if it doesn't then we'll lose the money. So mostly we've just lost the money.

There was December and there were a few other times last year where we made money but you add it all up and we've been losing 1% every couple of months take back the times we made money. So, it's been better than that. But, you know, we always expect to be wrong on a third of our positions. Thus far we'll be - we've been wrong on these. Being right one time can make that all back and more. Whether that happens or not we don't know. And when it's not happening fortunately the other stocks are going up. So we'll see.

We continue to think it's a huge mispricing of the options. You know, there's been many, many times in history where bankers and government people have thought that they could make things levitate forever. They've always failed. So if, you know, there's nothing brand new in the world eventually these things will likely pay off. If not we'll lose our 1% and make money on everything else. But it's we're one of 70 positions and one of the more attractive ones we believe.

Dan Gallagher: Yes. Thank you. And then one thing that you've been able to, you know, in terms of framing examples of these asymmetric, you know, if it takes two years or three years to make 200% or 300%, you know, if you were to score the 70 stocks could you comment, like so we - you know, as we tell a story to give a client to give a for instance of, you know, what the indexation world has missed in terms of, you know, very limited downside? I think a lot of us know the story of the uranium stocks but, you know, from a non-commodity type stock do you have an example, you know, refresh our mind. Is it something where it's five to one, seven to one or just some silly setup, you know, in the portfolio? One or two names like that.

David Iben: Yes. Certainly. I mean there's the direct commodities and there's indirect commodities. And then there's the ones that aren't commodities per se. And then keep in mind too if something goes up ten times that will trim it when it's up two times and we'll trim it at three and four and probably be out of it at five. So, if I say something will go up ten times that does not mean we're going to make ten times that.

But certainly kind of a commodity but when you have Gazprom selling at three times earnings and at less than a dollar per barrel of oil versus all the major companies trading at 20 times that you could make a case that there's 20 times upside. You know, we would be long gone if it was up ten times but there is big upside there. A lot of the agriculture names if they go back to where they were last time there was a good ag cycle, we're talking four or five times there.

On the uranium stocks if uranium goes back to 60 or 90 which we think it must the upside is anywhere from three times on a Cameco to much more than that on some of the smaller uranium names. So, there's that. On the like financials if you look at something like Sprott Investment Management it's also somewhat commodity focused because they do well there. But certainly multiples on what that could do. You know, shipping was brought up earlier. You know, we tend to try to buy these ships at a third, a quarter, even a fifth of what we think the long-term prices on these things. Now as you hold them, they age and so the value goes down. But if they quickly go up certainly those are worth two, three, four, five times what we're selling at. The gold stocks - the - on the smaller ones the upside is phenomenal if gold goes to where we think that could be worth. And utilities - its mundane phone companies and electricity generation companies. The phone companies probably, you know, it could be worth twice or more and the utilities three or four times. You know, Eletrobras went up seven times in less than a year in 2016. It's already up three times this year. So, they're sort of off the cuff but there's an idea that plenty of things have more than doubled.

Dan Gallagher: Did the ag cycle - I forget how we have exposure to that.

David Iben: Yes. Agriculture - yes, it's interesting. Until recently people would pay a fortune for food stocks but not do anything for ag companies. I think if our company grows corn and some other company turns it into corn chips the one will sell at five times earnings and the other will sell at 25 times earnings. Of course, a lot of the food companies are coming back down. But yes we have companies in Singapore/Indonesia. We've got companies in the Ukraine and in Brazil. And so we've got companies that grow sugar, beets, and sunflower seeds and grow chickens and palm trees and agriculture.

In a world where the price of a lot of things is going up the price of commodities have been going down. So, with that the yield per acre goes down and the stocks have gone down. Although it's another one where fortunately they oddly enough don't always go down together. So, we've found in recent years that we're making money in Brazil while losing it in the Ukraine. And then next year we make money in the Ukraine while losing it in Brazil. And so, we've recently, you know, one of our Brazilian names went way up and we sold it. And added more to the Indonesian one which has not been good but has bounced nicely this year. And so, that's been good.

And even in the Ukraine the chicken farmer was doing poor where the sunflowers were doing well and then that reversed and they went the opposite way. But, you know, we've tended to buy profitable companies that are publicly traded with a long history. And with good yields and pay prices per acre that are a quarter to even a tenth of what you might pay in the US Midwest. So we like those sort of global arbitration opportunities.

Dan Gallagher: Thank you Dave.

Operator: And we'll take our next question from Edward Tompkins with KMS Financial.

Edward Tompkins: Hi Dave. You just answered - my question was around those rolling put options. And I appreciate the answer.

David Iben: Okay. Thanks.

Operator: We'll take our next question from Anthony Eichler with Stonebridge Capital.

Anthony Eichler: Hey Dave. Can you hear me?

David Iben: Yes. How are you doing?

Anthony Eichler: Good. A couple of quick comments. I saw where you eliminated Goldcorp and I'm assuming that's based on the deal. We saw American Barrick make another deal strategically and I know they've had a dubious history in terms of acquisitions. Do you think both Newmont and Barrick making those types of acquisitions here, you know, long term creates values for those, maybe more leverage and more value than had they stayed independent? And do you think we'll continue seeing consolidation within the industry?

David Iben: Consolidation within the industry seems like an obvious but we've seen see surprisingly little of it over the last half dozen years despite the fact that it is so obvious. It's interesting when you see companies like Barrick and Newmont and Randgold and Goldcorp that have long histories and lots of property and diversified properties and operating expertise and ability to build mines and an ability to get capital. But they have this problem that their mines are depleting and one of the bullish thing about gold is nobody's finding it anymore. Nobody's found a major reserve in, you know, many decades for the most part with a few exceptions.

And so these guys they've got everything except for gold and they need more gold. And then you've got lots of little companies. We own a lot of them. They're little companies with little market caps that own lots of gold. And so, the good news is they have lots of gold, but they don't have operating histories and they don't have capital and they don't have the real ability to build mines although they'll tell you they do.

And so, you know, they don't have what it takes to turn these reserves into a mine and the companies that do have that ability don't have the reserves that they need. Obviously, the big guys should be buying the little guys that have massive reserves and that has to happen someday. But after this long drought of mergers oddly enough the big guys are buying other big guys and so they're not solving their problem.

You have two companies with depleting assets and you merge them into one company with depleting assets. So not that they're horrible mergers they're just doing that when they could be making massive - you know, we look at Barrick's merger of Randgold where they buy, I think 14 million ounces of gold. We think if they spent a similar amount buying some of the companies that we own they could have ended up with a couple of hundred million ounces of gold for the same price. Maybe we were up by a little bit but mergers between the big ones and the little ones seem obvious. And yes, as far as Goldcorp we like them but they went up into the merger thing just as some of these other ones I'm talking about with massive reserves but small caps became even smaller cap and so we've been, you know, we've been trimming the Goldcorp's and the Kinross's and the Barrick's. We still like them but we've sold them in order to buy way more attractive other options within the same area. So we're happy that the market goes back and forth on whether they like big companies or small companies or foreign companies or domestic companies or gold companies versus base metal companies. It provides lots of opportunity. Volatility as I say is our friend, not risk.

Anthony Eichler: One follow up question because you did print the chart here with, you know, copper - with regards to gold and silver. Most likely how do you feel about copper in general? I know it's more of an industrial property. Huge demand with regard to electrification certainly in vehicles, automobiles. When you look at, you know, vis a vis the price of gold and silver here, obviously gold and silver are significantly undervalued. Is your feeling that copper is more fairly valued here or just generally not as cheap as the others but all commodities are sort of, you know, in the downside protection area and probably pretty safe?

David Iben: Yeah - No we think that copper is, you know, arguably undervalued. Probably is undervalued. Whereas gold, silver, platinum, uranium are obscenely undervalued and natural gas now too. And so, every now and then when people get bearish on copper, we're able to get good deals on some of the companies that are half gold/half copper. And then when they like copper we tend to trim those ones to buy more of the pure gold. But in fact, we like copper and we really love precious metals and uranium and gas.

Anthony Eichler: Thanks so much Dave. I appreciate it. Thank you.

David Iben: Sure.

Operator: And we'll take our next question from Younes Ibnatik with Meketa Investment Group.

Younes Ibnatik: Hi David. Thanks for the call. I have two questions. The first one is how do you incorporate ESG factors into your investment process? Now that the firm is a UNPRI signatory can your products be defined as ESG strategies?

David Iben: Okay. You know, for the longest time we've always believed and still do believe that, you know, one - our job is important of one appraising a business and deciding what it's worth and then we try to factor in how much risk is there that things won't turn out like we hoped it would. So we come up with what we call a theoretical value and then we have our required margin of safety which is bigger and riskier on less certain things. We've done that for a long, long time.

What could lead things to turning out worse than we'd expect? A bad balance sheet could; a management team that's unproven could; geopolitics could; being in businesses with weak barriers to entry could; and so, you know, businesses with obsolescence like tech could. So for all of those sorts of things we want a bigger discount, a bigger margin of safety. Within that we have always thought ESG was part of it. You know, we like everybody, want the world to be a better place so we approve of environmental and social stuff. But we're also in this for the economics. We want to make money for people.

ESG is an area where we don't think it's a matter of you're sacrificing upside to care about the environment or society. And so for many years now we send letters every year to people and we talk to people and we say actually ESG is good for your company not bad for your company. You know, we're not one of these people that want you to beat the quarter. So if you cut corners and you mistreat the community or you underpay your labour or you take shortcuts on building the tailings damn or something then you'll find the community throws you out or that all your good employees go to your competitor or that one time you have a leak and cyanide goes into the river.

And all that takes is one time and you're going to get sued and you're going to lose money and you're going to lose reputation and other countries aren't going to want you. And people will start to expropriate your properties. And so we have always felt that companies with really good, you know, treatment of the environment and good treatment of labour and all the stakeholders are likely to have a better future and they're less likely to do something to cause us to lose the value we're expecting.

And so we, one, let companies know that we're in it for the long term and want them to treat everybody right and the less certain we are that people have good ESG policies it's one of the factors we put into how much of a discount we want; how much is our required margin of safety. So, you know, the last year or two we've maybe done a better job of articulating that but it's what we've been doing for a dozen years plus. And I think there's more research out there showing that well run companies over time probably do better than companies that cut corners to beat the quarter.

Younes Ibnatik: Great. Thank you.

Operator: And again, press star 1 to ask a question. And we'll take our next question from Michael Favorid with Cantella & Company Incorporated.

Michael Favorid: Dave again thanks for the call. I always look forward to them. Sometime back you guys closed the fund, reopened it. Where are we at kind of? Do you have an idea of where we're at with how long it might be open, what dollar might you want to raise? And thank you.

David Iben: Certainly. Yes, I think people that know us from here and from Tradewinds we always have tried to close funds earlier than people would have expected us to. We think that, you know, that getting too large makes it more difficult to generate alpha. And so as a firm we've always said, you know, $10 billion to $20 billion is the biggest we could imagine ourselves being. We will not be $20 billion and Global All-Cap will not be $10 billion.

But even within that $10 billion we have said we don't want exposure to any one rep or client to be more than $2 billion. We want to make sure that if one client or one vehicle were to withdraw that it would not cause us any problems selling stocks and it wouldn't cause us to get so big as to make it harder to buy. And so, for a lot of reasons $2 billion is our maximum exposure in any one area. So, what we told people a few years ago was we would rather close it at $1 billion and have you guys be a little upset that we're soft closing it rather than wait until we get close to $2 billion and then hard close it because we know that's really difficult for people; really, really difficult.

So we soft closed it maybe ridiculously early. We then it was an incredibly bad time for value as we all know. And our fund had gone nowhere for a while and so we had some important clients come to us and say, you know, you're value guys; would you like to buy when stocks have done badly for a long time and you still like the company. Well your fund has underperformed by quite a bit now. It's really, really cheap; really attractive and will you please open up for a while so we can get this in the new clients. Where we're thinking, all right fine.

Our stocks haven't gotten any more cheaper and it's easier to find stuff to buy. We will open up temporarily and allow people to rebalance their portfolios and if we start to get some meaningful inflows we will turn around and soft close it again. So, we're right around where we've been for a few years. If we get some meaningful inflows we are going to soft close immediately. If it kind of sits right where it is now there's no need to.

But we will not allow this to get much bigger without soft closing it again. Even though we know that's inconvenient for some people and we're sorry about that we are really committed to keeping it at a manageable size when value comes back in that we're able to really come through for people. That's the most important thing to us.

Michael Favorid: Very good. Thank you.

Operator: And that concludes today's question-and-answer session. I will now turn the call over to Dave for closing remarks.

David Iben: All right. Well we appreciate everybody dialling in especially before a long weekend. I hope everybody has a good Easter weekend and thank you very much for your support and I look forward to talking to you in the future. Bye.

Operator: And that concludes today's presentation. Thank you for your participation.

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