



Kopernik Global Investors, LLC

Edited Transcript of the 3rd Quarter 2015 Conference Call with David Iben

October 15, 2015
4:15 pm EST

Operator: Good afternoon, ladies and gentlemen, and thank you for joining us for the Kopernik Global Investors quarterly conference call. On today's call we have David Iben, founder, chief investment officer and lead portfolio manager to discuss Kopernik's views on the current market environment and the portfolio positioning of its Global All-Cap strategy.

Please note this call is being recorded and the topics on this call are for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate. Certain products or services may not be available to all entities or persons. Please consider all risk carefully before investing.

All participants will initially be in a listen-only mode. Following Mr. Iben's discussion there will be an opportunity to ask questions. To ask a question please press star one on your touch-tone phone. At this time I'd like to turn the call over to Nick Roberts.

Nick Roberts: Thank you Noah. Good afternoon, and thank you all for joining us. Before I turn it over to Dave for some commentary on our portfolio as well as thoughts on the market, let me briefly update you on our firm and the Kopernik Global All-Cap strategy. As a firm we currently manage just north of \$1.9 billion in assets under management. After a difficult third quarter we've had a strong start to October and the Kopernik Global All-Cap strategy is down approximately 0.51% year to date through yesterday, October 14th, versus the MSCI All Country World Index benchmark return, down roughly 4.1%.

At the end of Dave's comments, we will open up the lines to questions from the listening audience and we look forward to hearing from you. Your feedback and commentary is always helpful to us and we strive to be as forthcoming and transparent regarding the Kopernik Global strategy as possible. In closing, on behalf of all 35 of us at Kopernik, I'd like to thank you for your continued support and advocacy.

We realize that it hasn't been easy owning our portfolio over the last few years, but we look to the future with the continued steadfast conviction in our process, our people, and most importantly our portfolio. Dave, thank you as always for doing these calls. The stage is yours.

Dave Iben: All right, thanks, Nick. Good afternoon and thanks to everybody for dialing in. It continues to be a fascinating stock market and there's going to be no shortage of things to talk about. We're not going to be talking about our guesses on what the Fed's going to do. We will talk about where we see tremendous opportunity amongst all the peril this market offers.

We've talked a lot the last couple years about the bifurcation in the market, the market's continued to be very, very bifurcated, maybe there's evidence this is starting to change, we'll see. But the valuations are at fairly extreme levels. On page 8 you can see in front of you the S&P 500 is a stone's throw away from its all-time highs. It is 18 times higher than it was when I came into the business. It was a nice time to be in the business.

Included into the 18 times, there's been dividends. As the S&P flirts near all-time highs, the emerging markets continue to bounce along multi-year lows. Bifurcation wise it's happening, we talked about various



things with passive investing and other non-efficient forms of market analysis, but to put it in different terms right now as we see analytical tools, I think the crystal ball is held in unusually high esteem.

And valuation metrics are something nobody much cares about anymore. That we think provides both peril and opportunity. Everywhere I go I get questions about clarity, certainty, catalysts. These are good things. We like them. Clarity, being able to see something's better than not being able to see things. Having certainty of future cash flows is better than having uncertainty and having a catalyst is a nice thing.

We see a couple problems though. The main thing is people are overpaying for these attributes. These are nice attributes, but everything is worth a price, so we'll get into how much they're overpaying for them. But in addition to overpaying for them and much of real life and especially in the financial markets these things don't really exist.

Yes, when people think that they have certainty about the future, they don't. You know, there's reams of stuff you can read about history or about behavioral psychology, all these add up to everybody, but let's just say that it often turns out to be a mirage or as Warren Buffett put it "The only value of stock forecasters is to make fortune-tellers look good."

Let's go with other views on market timing, we've got a lot of people that've been good over the years but as Bernard Baruch says "Only liars manage to always be out during the bad times and in during the good times." Our main point today is that during times of extreme value it's important to get in when the values are extremely cheap and get out when the values are extremely dangerous and not try to time it perfectly.

Let's go through some of the major inflection points in history. In the 1920s we all are aware of the bubble then. A lot of people were concerned in 1927, very concerned in 1928, but by 1929 there was famous pronouncements about how it was going to continue forever. It didn't. If you got out too early it was a little painful but so what. The important thing was that you got out.

It wasn't much that went up back in those days when the market was crashing, gold was one. There were places to be back then, that's the important thing, not being in the market when it was too expensive, being in gold when it was too cheap. Moving onto 1974, that of course is the market that's maybe the most like the current market of any market, the Nifty Fifty market where like now people paid a lot of money for perceived certainty in terms of the Nifty Fifty.

But like today worrying about certainty or worrying about timing was the wrong thing to do. The right thing to do was get out. But like now I guess, when you can get out there were places to go as the stock market was falling apart in '73 and '74. Commodities went up, we're using gold here, but oil, land, a lot of metals, all went up. The important thing in 1972 was to be out of financial assets and be in real assets.

And the timing was less important. If we look at Japan, also similar to today, like today, one country was valued on par with all the rest of the countries in the world put together. This was a mistake. As a global investor not being in Japan was painful in '88, '89 but so what if you were early? The important thing was to get out. It eventually fell over 80% and worrying about the timing was the wrong thing to do. Paying attention to the valuation was the right thing to do.

Get out of the expensive market and get into the bargains. The bargains back in 1990 were the U.S. stock market. You can see the Nikkei went from 37,000 down to eventually 6,000 or so. The S&P 500 did very, very well. So once again, trying to time when to get out of Japan or when to get into the U.S. was the wrong thing to do.

Getting out of the expensive things into the bargains was the right thing to do. Many of you were in the business for the tech mania. Those of us that are value-oriented investors, we still remember how painful it was not being in tech in '98 and '99, but the important thing was not being in it, because that was way less painful than being in it a little bit too long as the NASDAQ fell about 90%. Once again while the NASDAQ was going up and it was painful not owning the NASDAQ it was very painful, I can tell you firsthand, to own small cap value stocks that went down while this was all happening.





But once again in the long run timing didn't matter. What mattered was that you did own small cap value stock. They were extremely cheap and they went straight up into the 90% drop in the NASDAQ and the 50% drop in the S&P. So then we can go into '07 and other ones, but I think we've probably more than made the point. It is predictions that don't matter and it's valuations that do matter.

We don't know the future. We do know a bargain, so let's talk about that. Let's start with where people are over-valuing certainty and clarity and catalysts, people are undervaluing patience. To be a good investor, a lot of famous value investors have talked over the years about how patience is really paramount, to be able to as the dictionary says have the capacity to accept or tolerate delay, trouble, suffering.

Being early, that's suffering, and we all know that, but the important thing is to have the patience to do it. As Howard Marks says, "Cycles always prevail eventually." John Templeton says "hold them until they work." It seems pretty obvious, it's best to be patient through the pain. Then another Howard Marks, "Investors score their biggest gains when they buy underpriced assets averaged down unflinchingly until their analysis proves out."

We have a view on intrinsic value, and we'll spend the rest of the time talking about the potential reward for having the patience to see this out. So let's go with a game show, I'm not much of a game show fan, but here's one from the 1960s that many of you know, and in the game show people are given something of value. They then have the right to exchange that value for the unknown.

And do they want to keep something or gamble that Door #1 or Door #2 or Door #3 might have something more of value? I guess there are some things that are important, one is how valuable what you already have is, and what the potential is from behind the doors. Last quarterly commentary we talked about a different way of looking at this same thing.

We talked about the patience of waiting if somebody is spending billions of dollars and really decades of time and there's no exaggeration there, decades of time to build a hydroelectric dam or build a gold mine or a uranium mine or a coal mine or railroads, decades go into this, and every now and then the stock market decides to let you have it for 90% off, so years of other people's work are given to us pretty cheaply.

But as we all know being patient and buying decades' worth of work for a sliver doesn't mean that further patience isn't required. So let's talk further examples. We own things that really one-fifth of what they - we think they're worth. A lot of things we think are worth two, three, five, ten times what they're priced. So what do we do about that? Well, you know, back to the game, if somebody has something of value shown in the bottom right in the form of currency, should they hold onto the currency or should they exchange it for what's behind one of the other curtains?

The point I guess we want to make, having just been on the road, I'm meeting a lot of people, very good meetings, very enjoyable. If I could sum up the view of most people I've talked to recently is yes, we get it, we all know that value will have its day again. It always has and it always will. It'll have its day in the sun. We know that someday emerging markets will do well and resources will do well and gold will do well.

Monopolies that provide basic needs will do well, but why now? Couldn't this last for a couple more years, what's the catalyst? That seems to be people's concern. We wish to point out that while we don't know the answers to those questions, the potential reward for patience is huge. To put this into perspective, you take the cash for what's behind the upper right curtain for a treasury bond, you have certainty.

You have pretty much certainty that you will get 2% a year and get your money back at the end of ten years. The bond will fluctuate, but if you hold it for the whole ten years you will not in a nominal sense lose any money, and you will make 2% a year. That's pretty assured. So let's say instead of doing that you say no, we want to buy one of those things on the previous page. We want to buy one of these gold mines that's worth five times what it's selling at in a normal environment.

We want to buy these uranium mines that are worth three times what they're selling at and gas properties in Russia that are worth five to ten times what they're selling at. But we don't know the timing, so what we have on the left side of the page is - putting this in perspective - we all hope it works tomorrow. I have hope that





these things work this quarter, next quarter, and they probably will work in the near future, but what if they don't? That's the question people ask.

Well, let's say a stock is going to double and if it doubles this year obviously we'll make 100%. If we have to wait two years as this chart shows we're making 41% a year. We have to wait three years, we're making 25% a year. If we have to wait the entire ten years, which would be shockingly long for value to play up, we'd be making 7% a year.

So if the prospect is you can make somewhere between 100% a year and 7% a year but we don't know which or when, do you want that or do you want the certainty of 2% a year? The market is voting, they want 2% a year. We think that's a colossal mistake, and we think that almost all of you, all your clients, everybody I know, the pensions, endowments, you name it, 2% a year is guaranteed failure. It will not meet their needs.

Whereas between 7 and 100% a year will easily meet people's needs. And I've used the two times, there is a lot of properties right now that we think are trading at twenty cents on the dollar. There's - it could potentially if things go up 5 times, there again if it takes 10 years for that to happen, that's 17% a year. So we wish we knew the timing, but we're willing to take huge returns and not know the timing and we are certainly willing to forego the lack of temptation of 2% a year with certainty.

So we think this is an extremely, extremely good time to be buying great monopoly, oligopoly basic resource, hard to replicate assets that have two, three, five, ten times upside. Really amazing times.

To change pace a little bit. For the last couple years the values in the market have been heavy assets and for the most part still are. But there's been a little bounce lately but I think we've all kind of noticed that it's looking a lot like the market is struggling. It's lacking a lot of breadth, way more stocks over the last year have hit new lows than hit new highs. This is actually good news because this is giving us opportunities to buy some things outside of just the things you're used to seeing in the last couple years as the market's fallen apart in the last three months.

We've been able to buy a semiconductor company at less than half of the invested capital, we've been buying real estate in emerging markets for less than half of what they're easily worth. The first time we've bought a developed market oil company in many, many years, with MEG. We've been able to buy a media company with Pandora Media that got down to \$2 billion market cap for the far and away leader in Internet radio. You look at the market caps on some of the terrestrial radio companies, really fascinating time to do that. A year and a half ago we were able to buy oil tankers for way less than they're worth, and now people are liking oil tankers again but they hate dry bulk tankers, so we've been buying dry bulk tankers for less than half of what they're worth. That's very interesting to us.

Within the gold and resources, we've been able to tweak that a little bit as people decide they like some names better and some names worse, so we've been able to, say, trim Centerra as people are less worried about Kazakhstan than they used to be and move it into Newmont (Mining), which as a lot of the big caps, the Goldcorp's and Newmont's and companies that have really been too expensive for us to own in the past have moved into our criteria. So there have been some changes in the portfolio.

So we're still loving the assets that are being given away. We're still loving the emerging market dominant franchises that are being given away, and now there's more companies that are moving into really incredible bargain basement prices.

So that's where we are now with the massive overvaluing in some of the major stocks. There is massive undervaluation in great franchises and great assets. And what's required is diligence and patience. So that's really all I want to say, as dialogue, I wanted to spend most of the time with Q&A which I think is generally the most helpful. So with that let's take questions.

Operator:

Thank you. And if you would like to ask a question please signal by pressing star one on your telephone keypad. If you're using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star one to ask a question, and we'll take our first question from John Smith with Merrill Lynch.





John Smith: Good afternoon, David and thank you for your presentation. I know that you are at heart a value-based, fundamentals-oriented investor and you've got a track record to show for it. That said, I'm sure you've been asked plenty of questions about catalysts to get the fund to, you know, to realize the value that's apparent in the presentation.

Are you seeing - since the - this is a hard asset, tangible asset type portfolio, what are you seeing or hearing from your companies about general economic demand around the world? There is the consensus view, strong dollar will prevail. There's deflation out there. The world economy is slowing down. China's slowing down, but there are other world economic indicators that suggest otherwise, like the demand for oil. What are your companies saying to you about general economic activity that perhaps would give you some comfort that the value at some point's going to play itself out?

Dave Iben: Yes, no, that's a very good question. On the question of the catalysts and what we're seeing out there, I think I'm hearing that question the most I've heard since 1999 which is the last time people thought catalysts and world views were more important than valuation. Value works way more often than it doesn't work, but it has its cycles. And when value's in favor all you hear from anybody is Graham and Dodd are the bible of this business and people quote Buffett and they quote Marks and they quote Templeton and they quote everybody.

All of them say don't pay attention to these things, do not pay attention to economic forecasts. The time to buy is when things are bad, and I think Templeton goes as far as to say everybody asks when - where things are good, and he says that's the wrong question. You need to ask, you know, where things are troubled, where are they challenging, and that's where the opportunity is.

And I think it's Rothschild that goes so far as to say buy when there's blood in the streets. We're not advocating that, but we think the right time to buy is when things look tough and the right time to sell is when things are - look like they're going to be good forever. To more specifically answer your question, yes, it does not seem like there's a lot going on well in the world. I don't see from much of any companies that things are wonderful, which it's dangerous enough buying expensive stocks when things look good.

But a lot of the say U.S. stocks are fairly expensive, on the illusion that things look good out there. Matter of fact, the market seems to be going up every time they come out with weak numbers. You know, today's industrial numbers or whatever. People say oh good, weakness, let's buy stock. That's particularly dangerous. At the same time when it comes to resources and agriculture and energy and emerging markets, things look bad there.

But everybody knows things look bad there and they've priced it into the stocks. They have way, way, way more than priced it into the stock, and so if you believe that the world is cyclical, that in the long run there will be good times and bad times for resources and good times and bad times for emerging markets, and good times and bad times for gold, and good times and bad times for food and you name it, then you should just focus on buying great values, which usually means buying when things look tough.

Buying emerging markets four years ago when things looked good was a mistake. Buying the U.S. four or five, six years ago when things looked bad was a wonderful thing to do, buying the U.S. right now when things look okay is potentially dangerous. Buying the things people loved four years ago and hate now because there are challenges, we think is really good.

So yes, as a value-oriented investor, like you say, I say value is everything. Price is all that matters. Howard Marks points out that you can buy bonds that are already in default, 100% of them are in default, and if you buy them cheap enough your risk is very low and your reward is very, very high. So no, we're not buying anything because we think the world looks wonderful. The world will be fine.

But we are buying things because they are very inexpensive, which history, logic, everything would suggest means the risk of this portfolio is pretty low right now and the potential reward is very, very high. Four years ago when things looked much better and we were coming off 12 great years, the risk was higher than people perceived and the potential return was lower.





We think that risk and return are functions of valuation more than anything else. No, we're not hearing from a lot of companies of the world's getting better. This is pure value investing.

Operator: And we'll take our next question from Matya Schachter with Battery Global Advisors.

Matya Schachter: Yes, actually I have two questions if that's okay. The first one is if you have any strong views on the MLP sector and if that's starting to get at all attractive to you, and the other is how committed you are to this being a hard asset portfolio, or if that's more just a reflection of where valuation is today, but 15 years from now you could actually have you know, no hard assets and a whole bunch of stuff that right now is I guess the antithesis of that based on where valuations might be 15 years from now.

Dave Iben: Yes, MLP's probably a good example of where people were so thrilled with the area a year or two ago that it was a dangerous time to buy them. At a lot cheaper prices of course they're more interested or more interesting, so there's a lot of things we're looking at now that we weren't earlier with those things you have to worry about tax things, you have to worry about other issues and what we may or may not be about to buy I won't comment on.

But that is an example of things that are liked a lot less than they were a year or two ago and they're a lot cheaper but the second question along that same line, but no, right to the heart of what we do, it is definitely, definitely that that's where the values are. We are not a hard asset mandate. If you look at my career I came in early 80s when everybody loved hard assets, really loved hard assets.

They loved gold, I was shorting gold companies. They hated financial assets, they hated stocks and bonds, they hated consumer names, they hated drug names and that's what we owned. The '80s and '90s, I had really no interest in hard assets. It was all buying good franchises that were going to grow nicely, but then around the turn of the century then things started to change. People started to pay way too much for growth.

They started giving away different things and we took advantage of it. 2003 is when we first heavily went into hard assets, but it was not gold. It was industrial metals, copper and zinc and lead and nickel and we owned fertilizer and you name it. Four years later those were all gone. We still had hard assets, we just moved into gold stocks because gold had gone up and gold stocks had gone down and that was an incredible opportunity to buy gold in the ground for way less than its liquidation value.

And we owned a lot of that, '09 we were able to buy some industrials back. By 2011 all the industrial metals were gone again and a lot of the gold was gone, the stocks went up five times, and we lowered our exposure from 25 to 11%, so obviously we sold lots and lots of gold stocks. And now the last couple years, hard assets are being given away again.

Like '99 people will pay a lot of money for a nice story. Now it's more biotech than tech, but - and they are giving away real assets, and hopefully five years from now we'll own next to nothing in real assets because they will have run up ten times and people at that time will be back to hating financial assets again. And so that's what we do.

People will say your portfolio looks rather macro. We point out that we think it's the opposite, that we think the marketplace is millions of people who collectively as a crowd go to extremes. The indexes are cap weighted, the markets are cap weighted, and the market goes to extremes. The market bought too much oil in 1980 and they bought too much Japan in '89, and they bought too much tech in '99 and they bought too much finance in '07.

And they're buying too much U.S. right now, and that prices things out of our range, but they decided they hated oil in '03. We bought it. They hated gold in '08. We bought it. They hated emerging markets in '08, '09, we bought them, and right now the hatred for some of the emerging markets and for gold and increasingly other commodities now is a tremendous opportunity, but we certainly do own them.





Back to an earlier question, we do not own them because we think the world's going to grow at 5% or 3 or -1. We have no opinion on that. We buy it because the market is giving these things away, and it quite likely will be very different three or four years from now.

Matya Schachter: Great thank you so much.

Operator: And as a reminder it is star one if you'd like to ask a question. And we'll take our next question from Aubrey Sharfman with Morgan Stanley.

Aubrey Sharfman: Hi, Dave. Your insights are always very, very much appreciated. I was wondering if you could expand in as much detail as possible your theory with respect to coal. From the other mutual fund value managers I speak with, other top analysts with the major wire houses, even those from a value standpoint who do embrace the coal theme and that coal is not going away for the long haul, a lot of them still question Peabody as the way to play that theme, given some of the risks, as natural gas stayed down and given when some of their maturations of bonds are coming due in a few years. So any updates you can give us on your thinking with respect to coal as a theme, and more importantly why specifically Peabody?

Dave Iben: Okay, thanks. A good question. And if you know, we - to the previous question we buy what the market wants to give away, and things with warts usually trade at a discount to things without warts. But we are in a market right now where things without warts are obscenely expensive, and things with warts are generally too cheap and things with major warts are being given away.

And so, you know, the way we try to do analysis is we say all right, we're not pure value, buy things just because they're cheap. We do the opposite. We value businesses and then insist that they're cheap before we buy them, so we don't buy things just on low P/E or low price to book, and then we try to risk adjust and buy when we can, and then we say when things get bad, is this secular or is this cyclical?

And if it's secular we move on. But many things are cyclical. So if coal is going to go the way of wood in terms of meeting the needs of the world then we're wrong, this is a secular change and coal is gone. We believe it's cyclical. We think people loved coal in the '70s and then they hated coal in the '90s and then four years ago the worry wasn't 'Oh my God' natural gas is cheap. The world was saying how are we ever going to get enough coal and gas and oil and solar and you name it to meet the needs of this 7.3 billion people out there.

And so we look around and say well, what do we think of coal? We say, well, we don't like a lot about it. We don't like the sulfur, we don't like the ash, we don't like the CO₂, we don't like the sulfur dioxide, the nitrous oxide - you know, there's a lot of things not to like about coal, but there's a lot of things to like about it too. It's very cheap energy, and countries like China have it and with all China's good things they have a billion very, very poor people.

They're going to keep using coal and India is going to keep using coal. Hopefully they'll come up with a way, way cleaner technology. So we think, you know, we could go into this in depth, but we think that after coal growing for pretty much my entire lifetime, coal has grown every year except for the last year, year and a half - now it's not growing, it's shrinking. It's been losing share for a long time, and it will continue to lose share for a long time.

It will probably be a shrinking business. We hope it'll be a shrinking business, but it is not going away. It is where it is with the growing economies of the world growing the slowest they have for a long time. It's growing with demand for coal for steel at incredibly low levels. It's going to go up, so the time to buy coal is not four years ago when people are worried about not having enough of it.

The time to buy is when people are scared to death that low gas prices are going to be the end of coal and they're somewhat competitive and somewhat not. Gas will never meet all of our base load electricity needs, and so buy things on the bottom of the cycle.

Now the other part of your question is how do you play it, and we've played it various ways. We've played (China) Shenhua where we made money, and you know, maybe that's potential for the future. We've made





good money three times in the past on Arch (Coal), but over a year ago we decided that Arch had a lot more risk to it than Peabody, and then it turns out it did although both stocks are probably down pretty equally, and we moved to Peabody. We have not ever owned any of these ones that have gone bankrupt. Never in the past did we own them, we have not owned them.

So people think that coal is going away. We think they're wrong. If they think Peabody is one of the ones going bankrupt, we think they're wrong. Do they have too much debt? Yes. Do they have a management team that's made all kinds of mistakes? Yes. Are they going to destroy value? Yes. Fortunately this is before the split, the reverse split, we were seeing \$60 a share in value – and multiply that by 15 now – but so if it's worth 900, then what now?

Well, you look at their debt structure over the next five years, they have another year and a half of lease payments to the government that are going to hurt them, but then that rolls off. They have some big debt payments as you suggest, but they've got the cash to handle that. They could lose money three of the five years and so that's a potential problem.

So are things going to be uncomfortable for them? Yes. But do they have the cash flow to meet these payments even if coal stays on its ass for five years, we think yes, we've got the tables, we can show you our numbers, and then besides that if you have \$60 on the pre-reverse split shares and you sell properties at the bottom, buying at the top and selling at the bottom's stupid. We don't approve of that, but they did it. They're doing it.

So let's say they sell properties for cash at a bad price and the intrinsic value per share drops from 60 times where the stock is selling at to only 40 times what the stock is selling at but the market then finally gets the point they're not going bankrupt. Then there could be huge upside if they refinance the debt, restructure it like Arch did. Arch stock went up huge, it was briefly up 7 times just on the announcement that they had restructured the debt.

Now restructure a debt is transferring equity value to bondholder value, we suppose that Peabody will probably do that too. So once again the value per share will probably fall, but when the stock is selling at 40 to 60 times what the market's pricing it at, it's net of all debt, they can give away a lot of value, and we can still easily make 5, 10, 15, 20 times our money from here.

If the market's sure of bankruptcy and it's probably not going to happen, that's where you have a huge, huge upside. So we think oh, and another point, we've always, and we've talked about this in the past, if we're buying and somebody else is selling I would like to know why they're selling. If they're selling because their analysis comes up with something different than ours, then hopefully we're right, but we might not be.

If they're selling for non-economic reasons, if they're selling because they can't take the political pressure, which if there is huge political pressure for owning coal, that's good. They're selling for non-economic reasons, they're selling because the Obama Administration hates it, then that's good. If they're selling it because the government of Norway forced people to sell, that's good. If they're selling it because the government of California is not allowing purchases and they may require sales, then that's good.

So we can all talk about what the true intrinsic value is. We think it's 40 times higher, but we know people are selling it at prices that are lower than they otherwise would if they were doing it on an economic basis. As investors, we love that. We loved buying high yield bonds when the S&L's were being forced to sell them, and we loved buying Halliburton and Pfizer and things like that when people were selling anything that had asbestos in it.

People sell for non-economic reasons, that's a beautiful thing in the long run and that's what we think's going on with Peabody. We think there's a lot of things to hate, people hate it way too much.

Aubrey Sharfman: Thank you.

Operator: And once again as a reminder it is star one if you'd like to ask a question. That is star one. We'll pause briefly. And we'll take our next question from Igor Lotvinnikov with Merrill Lynch.





Igor Lotsvin: Yes, thank you, great call. Quick question, Pandora Media, it seems like a bit out of the beaten path for you guys. I would love to hear your thoughts on that.

Dave Iben: Certainly, thank you. Yes, I think on an earlier question whether we're always hard assets I'd mentioned how we'd moved from one asset to another and then certain times had less assets. What I didn't mention then was in '09 we bought eBay and Microsoft and Whole Foods Markets and the Indian growth companies, and were buying emerging market banks, things that weren't in our portfolio at all before.

We love these things, it's just the market usually loves them more than we do. But whenever the market wants to let us have a potentially valuable franchise, we are happy to be on the other side of it. So yes, a year ago you had most things being very, very expensive, and now it's mostly sort of biotech, consumer and social media. The rest of technology's come down yes, so to be able to buy Hua Hong (Semiconductor Limited) or things like that, bargains are good.

Now we're selling Bit-isle because it's getting taken over. But to be able to buy a Pandora, this is a stock that people were excited about in the past. This is a company where people were saying all right, they dominate Internet radio and they have a cost advantage over the Apples and the Googles and the Spotifys, and they're at a disadvantage versus terrestrial radio, but they're still taking tons of share from these people because they have a way better model.

And maybe they'll even get a more level playing field so maybe there's huge, huge upside to this. And there is huge, huge upside, but now people are focused on the downside which is also true. It is true that Apple will probably make a big push and Google of course is always making a push, and that maybe the regulatory rulings go in their favor, but maybe they don't. People are focused on this.

All we know is that when you see things like Clear Channel go out eight years ago at \$19 billion and we can buy somebody with 85% share of pure Internet radio for \$2 billion, which is what it was when we bought it, we're happy to do that. Clearly a good company, clearly huge potential upside, clearly some risks also, but we are more than happy to buy things like this when the market, as it's known to do once and again, has let us have growth stocks at value prices. We like that, it just doesn't happen all that often.

Igor Lotsvin: Thank you.

Operator: We'll take our next question from Allan Rudnick with Barnaby Corp.

Allan Rudnick: Hi, David. Good presentation, as usual. My question relates to and you showed past periods where gold did very well when other things didn't. Could you just talk about the inflation environment at those times and the inflation environment now? Right now it looks like we're on the edge of deflation in some sectors and so I'm just wondering how important inflation is to the thesis of gold and gold mines.

Dave Iben: Okay, thanks. Probably a lot of people are cringing knowing that I could spend two hours answering that, but I promise that I won't. Inflation of course is a fascinating topic. I am old school. I believe that printing money is inflation by definition, period. So I would say whereas right now, the U.S. says no inflation, that we're not printing money, there's rapid inflation in Europe and Japan and three years ago there was no inflation in Europe and there was hyperinflation in the U.S. We quintupled our money.

Of course it all went into the bond market and the stock market and the housing market and the collectibles market and the art market and certainly health care costs have been screaming and tuition's been screaming. But the important thing I said earlier, we can have our views on inflation, certainly we saw inflation four years ago as we were selling most of our commodities because the market was agreeing with us that price is everything.

Right now you don't need any inflation for stocks that are already down 80, 90% and are trading way below liquidation value to go up. That's one point, but another point, it's funny how people say well if interest rates go up that's bad for gold. And somehow not bad for stocks and bonds, but yes, whatever. But I think that people focus on nominal interest rates and they really need to focus on real interest rates.





So if people say well every time interest rates go up, gold goes down, I say go look at the 1970s. In the 1970s interest rates went up huge, and they went up from 3 or 4% to 22% and while rates are going from a couple percent to 22%, gold went from \$35 an ounce to 800 an ounce, and then you had two decades where interest rates went from 22% down to zero, and gold fell from 800 to 255.

So nominal interest rates are the wrong thing to look at. And so I tell people if interest rates go up because they replaced Janet Yellen with Paul Volker and he ramps rates back to 22% and says we're going to kill inflation, gold's going down. God help stocks and bonds. It's over. But gold will go down.

If rates go up like they usually go up because the Fed always gets it wrong and the Fed always lags behind inflation and when it picks up they're not going to believe it and they're going to deny it and like the '70s, rates will go to two when inflation's three and they'll go to four when inflation's five and they'll go to eight when inflation's nine. Then gold's going to do tremendously well. So if anybody thinks the Fed is about to ramp rates to the moon, they should probably sell their gold and they sure as hell should sell every stock and bond in their portfolios.

But highly, highly unlikely. I think that there's just about zero chance that they're going to crank up some huge real interest rates, and I also think unless they really crank them up, like I said earlier, they quintupled the money supply over the last seven years, and gold is only gone from about 400 to 1200 while that's happening. That's only gone up 3 times, and so gold's undervalued now. It's undervalued versus the cost of pulling it out of the ground at incremental cost, so existing mines can pull it out, but incremental cost of production's much higher.

The theoretical value if we were to go back to a Bretton Woods standard is way, way higher, and the gold stocks are so cheap that if I'm just completely wrong I think we make money from here anyhow and then we get huge optionality if we're right. So this is not an inflation play. And inflation's highly probable.

But I think that this is just pure value. These are good companies with irreplaceable assets and the stock prices are 80, 90% lower than they were at the top and below liquidation value, and for free we get an option on the fact that printing money might actually be inflation.

Allan Rudnick: Okay, thank you, that answers it.

Operator: And we'll take our next question from Gary Magnuson with Morgan Stanley.

Gary Magnuson: Mine sort of ties into that, just was wondering if you had any more comments on really all the central banks, you know, putting money into the system to keep rates low, does that have any precedence in history in terms of how they take it back or could the government - I mean, could the treasury say to the government, we're just going to - one's a debit and one's a credit, we're just going to let it kind of wipe it off that way, or I don't know, it's kind of a silly question but...

Dave Iben: No, no, it's very interesting.

Yes, no, while I'm not an expert, I've read a lot. It's not something that doesn't have precedence in history. It's happened many times in history. They've called it different things at different times when they've printed lots of money in France in the late 1700s and printed it in Holland and printed it in Germany and they printed it in Zimbabwe and Venezuela, printing money is something that's happened a lot.

And if you read history maybe some people out there may have found different things than I've found, but I've found when you print money they never take it back. They can't. And if they were afraid to raise rates you know, 15 years ago when things weren't that bad and then they were afraid to raise rates ten years ago and five years ago and now there's more debt in the system than there ever has been in the history of our country and they're not even willing to raise a quarter point last month.

No, it's highly, highly unlikely they ever take the money out, and they are all taking turns passing the baton, which country prints this quarter, and who is going to print next quarter, and whatever, I suspect they keep





printing and never take it out. But as a value investor you know, we have to buy the values. Buying values usually means we're buying stuff with the wind in our face, having to do what looks to all the world like it's going to be wrong.

What a wonderful thing to buy really deeply valued franchises where the wind's at our back. It is quite probable that printing money now works like it did every other time in the history of mankind, and which case, we're buying really, really cheap stocks that will work if there is no inflation but there probably will be inflation.

Oh, another thing too, this happens through history too. People say there can't be inflation when you have certain prices falling and you have slack in the economy and spare capacity. That is 100% wrong. I think when people look at post-World War II and where you've had the Fed raise and lower rates and the economy picks up a little bit and shrinks a little bit, the CPI falls a little bit and gains a little bit, that's not inflation.

Big time inflation, when central banks print way too much and cause huge problems, always happens when the economy is doing bad and people are worried about joblessness and excess capacity in printing, and the more they worry and the more they keep interest rates too low, and the more they inflate the more they cause malinvestment, and so you keep rates at zero and you allow people to drill like crazy to find oil and they find the oil and the price of oil goes down, people say that's deflation. That is not deflation. That is malinvesting causing too much supply, which causes the price of a certain commodity to drop, which then gives them cover to create more inflation which causes more malinvestment, so yes, no, I have all kinds of thoughts on it.

Those thoughts are not embedded in the portfolio. Those are things we get for free. You know, we have stocks that are cheap, inflation, deflation, economic growth, non-economic growth, don't know, it's a bargain portfolio but if in fact printing money does what it's always done every other time in the history of mankind, then we get a freebie.

Gary Magnuson: Thanks.

Operator: And once again if you would like to ask a question you may do so by pressing star one. Once again that is star one. We'll pause.

Dave Iben: While we're waiting I guess and some people had asked questions about energy pricing, maybe I semi-answered that with the last question, but like all things cyclical people have gone from how are we ever going to get enough energy to - we'll have too much forever. The former view is wrong. This view will be wrong. Whether it's oil or coal or gold or copper, we say what would it cost to go build a brand new mine and do it profitably? And we call that the incentive price of production.

With oil we have felt for a long time that it's in the vicinity of \$75 and we won't quibble with \$65 and we won't quibble with \$85. You'll notice we owned no oil, in the portfolio, when the price was well above \$85. We didn't own any years ago, '07 when the prices were high. Now we don't think 50 is sustainable, so now we've been buying at this level of the price of oil.

We think as I mentioned oil was overproduced because the central banks of the world induced malinvestment. The price should have fallen, did fall. It's unsustainably low now. It cannot stay there without eventually leading to shortages, so we like oil at these prices. We mentioned earlier coal was too expensive a few years back. It's too cheap now. We find that uranium is trading at half of the incentive production price.

That cannot last and that has been going up the last year or so. We like lots of energy at this point, and we always try to be able to take the bargains whether it's oil or gas or coal or solar or hydro, we go where the bargains are and there's a lot more bargains in energy. That is beside the incentive price for gold which isn't energy of course, is we think close to 2000, so things eventually get to their incentive price. Most forms of energy now have gone from too high awhile back to too low now, so we like energy.

Operator: And we'll take our final question today from James Baur, private investor.





James Baur: Hi, David, thanks for the call and always enjoy your insights. I was maybe asking a question similar to what you were just talking about, but interested in your feeling about relative values between natural gas and uranium because we seem to be able to discover more and more natural gas. They're both clean fuels, and I wonder a little bit whether some of the developing world may alter nuclear plans to natural gas because of the easy availability of it.

Dave Iben: Okay, well let's start with uranium. There's no sure things in the world, but that's as close to a sure thing I think as we've seen. There you've had - you have tremendous fundamentals. You know, whether anybody should build a nuclear power plant is debatable, but there's a lot of them that have been built. And they're building 60 more, so there should be 60 more and whether it turns out to be 70 or it turns out to be 50 and whether Japan restarts theirs longer or faster or slower than the people would expect, we don't know.

And whether the Germans take theirs off, we assume they will, but certainly there will be a lot more plants, not less. But let's assume there'll be no new plants. The existing plants, once you've built a plant, it's debatable whether you should build a plant, but if it's built, it costs billions to build and it costs next to nothing to run. The price of uranium is less than 3% of the cost of running that thing. If you build it you're going to use it.

They use more than has been mined. They've done that for a dozen years already. You think how can that be possible to - for - to use more than you've produced for a dozen years? Well it's possible because the Department of Energy sells uranium and it's possible because they've been reusing tailings and it's possible because the Japanese weren't using it and were able to supply it or it's possible because Russian bombs were being turned into fuel.

Two years ago next month, that ended. That ended. So that supply is cut off. The Department of Energy cannot sell forever. You can't run inventories down forever. So there will be a shortage unless mine supply picks up. It takes years and years and years, sometimes 20, 30 years to build these things, these uranium mines, so they better get on it, but no one's going to really start building a uranium mine until the price roughly doubles from here. So the fundamentals, even if you assume there's no world growth, even if you assume that natural gas is a wonderful thing and it continues to grow and they find that shale is safe, that's a bad thing for coal - it doesn't affect uranium.

Uranium is a matter of how fast the price goes up, not if, and gas is another thing. Gas in a lot of ways is better than oil. It's cheaper, cleaner. In other words it's not as good as oil because it's hard to store and transport, and pipelines cost a lot of money and liquefying costs a lot of money. It's - you can have cheap gas in the U.S. and that's way different than having cheap gas in Japan.

So being cheap one place does not mean it's cheap around the world, unlike oil. So, our premise is that in the future people will see increased solar, they'll see increased wind, quite likely they'll see increased gas, they'll see increased nuclear. Hydro will stay even, plus or minus. Coal will lose a little share and oil much in a lot of those markets.

But as far as what the right price for gas is, I don't know. The fracking hasn't worked a lot of places in the world, in the U.S. and a few other places, and it's debatable that if interest rates were five percent instead of zero, would people be able to pump money into the ground fast enough to keep this going long term, I don't know. Our way of looking at it is gas seems fine to us. What's the best value? By far, Gazprom, and so we own our gas there.

The biggest, longest lived reserves and cheapest and best infrastructure, you name it, in the world, and it's trading at one-tenth of what it would trade if it was in the U.S., and uranium seems like a sure thing. Gas in the U.S. we owned when people hated Chesapeake six years ago. We've owned it in Canada a few times, when people didn't like that, but no, we like gas fine. But the real bargains out there are we think hydroelectric energy, uranium, and anything in Russia.

James Baur: Thank you very much.





Kopernik

Global Investors, LLC



Operator: And we'd like to thank our callers for the questions today. At this point I'd like to turn the call back over to Mr. Iben for any additional or closing remarks.

Dave Iben: All right, well, once again thanks to everybody for dialing in. They are fascinating times and actually a lot of encouraging things starting to go on now, so we'll see how much more patience we need before value has its day, but certainly great companies at bargain prices. This beats any time we've seen, and we'll see where it goes from here. Thanks again.

Operator: And that does conclude today's conference. Thank you for your participation.

END

The commentary represents the opinion of Kopernik Global Investors, LLC as of October 15, 2015 and is subject to change based on market and other conditions. Mr. Iben is the managing member, founder and chairman of the Board of Governors of Kopernik Global Investors. He serves as chairman of the Investment Committee, sole portfolio manager of the Kopernik Global All-Cap strategy, lead portfolio manager of the Kopernik Global Unconstrained strategy, co-portfolio manager of the Kopernik Global Real Asset strategy and co-portfolio manager of the Kopernik International strategy. These materials are provided for informational purpose only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Information contained in this document has been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any investment or security.

