



## **Kopernik Global Investors, LLC**

### **Edited Transcript of the 4<sup>th</sup> Quarter 2015 Conference Call with David Iben**

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**Operator:** Good afternoon ladies and gentlemen and thank you for joining us for the Kopernik Fourth Quarter 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 risks 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 1 on your touch-tone phone. At this time I'd like to turn the call over to Kassim Gaffar. Please go ahead.

**Kassim Gaffar:** Good afternoon, thank you. Happy New Year and thank you everyone for joining us for the fourth quarter quarterly call with CIO and Portfolio Manager, Dave Iben.

During the call Dave will be referring to a deck and the slides have already been posted on our website. So if you go to [Kopernikglobal.com](http://Kopernikglobal.com), you can find the slides that Dave will be referring to. Before I pass over the phone to Dave for the majority of the call to speak to the market and portfolio positioning, I would like to give you a quick firm update.

As a firm we've never been stronger and we continue to invest in our people. We currently have 34 employees, which includes 11 investment team members, versus 10 investment team members at the end of 2014. Hence, we have continued to beef up our investment team. Also across the firm within all our key groups we continue to be well staffed for the future. From an asset standpoint, we continue to attract like-minded investors who share our belief that right now markets are extremely bifurcated, which poses a terrific opportunity. And during 2015, we were fortunate to attract roughly \$670 million in net new assets. This translated into our firm-wide AUM standing at roughly \$1.6 billion at the end of 2015, versus the same time last year when we were managing right around \$1.1 billion. Hence, we continue to grow in a very healthy and manageable fashion.

I would also like to add that as always we're very appreciative of everyone's support, especially in times like these when markets seem to be in a downward spiral and value continues to be out of favor. However, I do know by the end of this call you will see as challenging as these times may seem, we do view the current market environment as a terrific buying opportunity for long-term, patient investors. And with that I'll pass it over to Dave. Dave, please go ahead.

**David Iben:** All right, thanks Kassim. Good afternoon and thanks to everybody for joining the call. It's certainly one of the more exciting markets ever. The last 15 - 18 months have been unlike anything I've seen in my career. This is the 35th year of my career, and it's really been a challenging market, the last year and a half.

On Bloomberg yesterday, they flashed the title across that it's a bear market. I guess maybe that explains some of it, although it's interesting the term; people have decided that 10% is a correction and 20% is a bear





market. We are not sure we buy off on that. I think, it's less about math than it is about psychology and prices going lower to such a long time and extent that it turns people from bullish to less bullish to bearish to panic like we've seen in the last few days. So, we think a couple of things: the more we think about this, this is a bear market. I think the good news is, this is not the beginning of a bear market. As we go through the presentation it will be clear that this bear market has been happening for a long time. It was obscured by some of the popular stocks, which now we're seeing the final shoe to drop. So this might be the later stages of a bear market.

It's interesting going through my career, I think maybe this is the first bear market. '87 to a lot of people seemed like the end of the world, but that was a quick 35% correction. And the market ended up for 1987. The market, '90/'91 small stocks went down, junk bonds went down, most things were fine. Then '99 through 2002 was a rout of the overpriced index and tech stocks but the value index went up in 2000 and the value index went up in 2001. It didn't go down much in 2002. We were up in 2002, so we were up all three of those years. Small stocks were up. Housing was up. A lot of things were up. It really wasn't that bad.

2008 was the beginning of what should have been a bear market until the central banks decided to kick the can down the road and push things out. And now what's been happening slowly but surely since then, we will get to. Certainly this has been a market that each month it gets harder and harder not to own things that are going down.

So with that in mind, what does that mean? That actually means it's a great time to be investing. Some of the people we've admired through our career, John Templeton in particular was always pointing out that everybody's saying "Where do things look good?" Wrong question. Where do they look bad? He also points out "buy when people are despondently selling." You know, oil is down 80%, that's despondent selling. You look at the price of a lot of other things and stock markets around the world, which we'll get to, people are panicking. They're despondently selling. Warren Buffet famously has said, "Be fearful when others are greedy and greedy when others are fearful" – this then would be a good time to start getting greedy. And then going into my usual rock quotes. I think bear markets are meant to test how much can we take? It's very Darwinian. And the waiting is the hardest part, but the return is well worth it.

To further document, it's been a bad month or two. We all know that. This slide (page 4) shows it's been a bad year. This is in dollar terms. Almost every market in the world has had a bad 12 months. Most cases, a really bad 12 months. It was more fascinating to see that most of the world has had a really bad three years. And we were shocked to see that it's been a really bad five years for most markets - stock markets around the world. And we didn't pick and choose. We left a lot of the small markets out, most of which by the way have gone down. But even on a five-year basis to see France and England and Sweden and Finland, Korea - - these are big drops for big countries.

And then of course Emerging Markets (page 5). Look at the five-year numbers for Emerging Markets, down anywhere from a third to 92%. This has been happening for a long time and it has been brutal. You can see as for the long time, the central bankers managed to kick the can down the road, but outside of the U.S. for the most part, stocks had a big bounce but they never did get back to their old highs. And they ran into some problems in early 2011 and then again a year and a half ago. The world markets have been dropping for a year and a half. And as we all know, value stocks have been dropping harder and longer than that.

But people haven't recognized that because there is the "FANG" stocks (Facebook, Amazon, Netflix & Google – Page 6), and in addition there's a lot of very popular consumer and healthcare stocks that have gone up. These are big cap stocks that have gone up enough to carry the U.S. indices higher where it obscured what was going on in the broader market. This makes the current bear market look a lot like probably the last true bear market, and that was the market back from '68 through '74. That was somewhere in '68 Warren Buffet famously sold all his stocks and sent everybody their money back. The next three or four year's stocks got hit pretty hard, but the S&P hit a new high, the Dow hit a new high because the "Nifty 50" stocks went up. People thought if Coca-Cola and Gillette and Procter & Gamble and Johnson & Johnson and Digital Equipment and Avon and things like that were really good companies, they must be really good investments too. For the short term that looked dead on, and it ended of course very poorly.





After the markets fell really hard in 1973, Warren Buffet famously said he felt like a kid in a candy store, running around with a shopping cart filling it with everything he could. And history suggests that was a brilliant move. What history doesn't show unless you look carefully is he bought before one of the nastiest years in stock market history. In 1974 he lost a lot of money. I believe that people that bought really cheap wonderful things a year ago have been punished just like he was in 1974. I think from current prices it will work out just as well though. Things are very, very cheap many years into a bear market for value.

What we're looking at in value markets is disconnects. There are times when the market's a little bit inefficient. There are times for major disconnects. So this shows (page 7) that since before the great financial crisis, they've printed a lot of money. And as you would expect, the price of gold has gone up a lot. It was up a whole lot, then it gave back 40%. But you can see since 2006, the price of gold is up by two thirds and the price of companies that own a lot of gold are down by two thirds. That is a disconnect. That is the sort of thing that looking backwards is painful and looking forward is why we love to be in the business right now. Gold is one of the major disconnects of all time.

On oil (page 8), it had a run. It probably had no business going as high as it did, but a couple of things to point out. The bear market in oil, started back in 2008. That's when it peaked out. It's been falling for a long time. The central banks managed to hike the price back up for long enough to create a huge supply problem. The disconnects are causing all kinds of problems for the industry now. And now the price is down 80%. A hundred something was too high, \$28 a barrel is way too low. That's much more interesting.

As people that know us know, we spend a lot of time on fundamentals, and what is the price that it would take to get people to bring on supply (page 9)? And over the years there's been times to buy oil and there's been times not to. And most people drill for lots of oil when the price is above the marginal cost of production. But this slide says that over the years the marginal cost, the incremental cost for bring in on new supply has gone from \$20 something on up to \$70 plus now. But over the years there were times where the price of oil got to \$10 when the incremental cost was \$20, it was a beautiful time to buy oil companies. There has been times where it shot up well above that. There's been times like 2008 where you see the price was way above the incremental cost. It was a nice time to be a seller. A year later it was way below the cost. People thought that would last, of course it didn't. The last three or four years has been a nice time to avoid the oil industry because the price was way above the incremental price, and it did bring on billions of dollars' worth of over-investment. The prices didn't deserve to be above \$70 or \$80. It was overdue to fall, as things happen, they go too far. Down 80% is a long way, \$28 when the cost of finding the marginal barrel is three times that almost. Those are the things that are exciting for investors.

Coal is much uglier (page 10), but the same point here: the bear market didn't start until after massive over-investment. And it didn't start until three years ago or two and a half years ago. But once again, it went from a price that was way too high to a price that's not only below the marginal cost of future production (page 11). It's way below the cost of current production.

You are starting to see mines close. You are starting to see complete lack of investment and bankruptcies in the industry. Those are the things that bode well for the future. So coal, oil, gold all trading at half or less of the price for marginal production.

Another thing that applies to that we've talked about is uranium (Page 12). Uranium is another one where it's a little further down the curve. It's been starved for investment for a long time now. And as such, the price of uranium has been over the last few years the best performing commodity out there. And the fundamentals going forward of course are wonderful. It also is trading at less than half of the cost of incremental production and production is going to fall short as soon as inventories run down. Once again (page 13), you have the price of the commodity going up by a third. You have the price of the stocks going down by a third. Why is it that uranium above the ground goes up by a third and uranium below the ground goes down by a third? A wonderful disconnect for going forward.

On shipping (page 14), a year or two ago people were pretty panicked on oil tankers. That allowed us to buy oil tankers for way less than what it costs to build tankers. Since then, people have switched to using the tankers for storage instead of for transportation. Prices have come up. And now we've sold a lot of those. And the bearishness has been transferred to the Baltic Dry index that we see here on Slide 14. And, it also





got caught up in the central bank-induced manias around the world and the overexpansion in China. Prices went way, way too high. People brought way too many ships, and the prices have plunged. So the price on a 16-year median now is way below the price of what it costs to build a ship now. The current market for ships is half of the 16-year median. That's pretty interesting. And the price of buying a ship by buying good publically owned companies in the stock market are less than half of that. So we are buying ships at 80% of what the 16-year median is. And then 85% or more discount to what it costs to build a ship. Cycles come and go, ships will be here in five years. So that's an example of how far and how long many things have been falling. And everything that we've talked about are things that are going to be here five years and 10 years from now. So that's very exciting.

With that, we'll show some slides that we showed you three months ago, but we think they are important. We think they are relevant. So let's go to the important question for many people is time (page 15). When is this going to happen? We think time is always important, but we think time might not be the most relevant question right now. Right now we're in an environment where avoiding risk is impossible. The central banks have made it their business to not allow us to avoid risk. People sitting in cash are getting paid zero. Most people have a need to make 5, 6, 7%. So being in cash is guaranteed failure to make that. Our central banks have promised us they're going to make the real return on cash negative. They have a goal of 2% depreciation, which once again means prices go up five times in an average lifetime. So cash is fine, but it's not safe. And it will not meet anybody's goal. Bonds at 2% will not meet anybody's goals. And so, maybe people need to buy stocks. Which stocks? Many stocks have run up in price and become dangerous. But as we pointed out, the beautiful thing about a market like this is not everything has gone up. A lot of things have fallen for a long time. A lot have fallen very far. A lot have gone from too expensive, to not too expensive, to fair, to cheap, to incredibly cheap, to the cheapest things I've seen in 35 years.

So we talked last time about Let's Make a Deal (pages 16-18). If people have cash in the bank, should they keep the cash and make zero and be guaranteed of no nominal losses, but fairly guaranteed of for sure real losses? Or should they buy businesses? What a long, drawn out bear market in value stocks, bear markets in emerging market countries, bear markets for real assets have allowed investors to do and currently allows them to do is exchange their cash for hydroelectric dams and nuclear power plants for 20 cents of what it cost to build them. It allows people to buy gold mines and uranium mines and coal mines and things like that that people spent billions on for one tenth of what they spent or less. It allows people to buy some of the best farming, profitable farming companies in the world for big, big discounts. It's allowing people to buy passenger railroads and passenger airlines for half of book value or less and way less than invested capital. It's allowing people to buy cell phone networks in growing countries for the cheapest prices in many, many years. So for us, we think that's pretty interesting. But as to the question of when, we also talked about this last time. If, like when I came into the business, the opportunity cost is 22%, if somebody can make 22% a year holding their money in a money market, they should care deeply about whether a stock is going to go up now or next year or two years from now or five years from now. When money market funds pay zero and bonds in real terms pay less than zero and opportunities around the world are hard to find and somebody told you, you can buy something at 20 cents on the dollar and it's a great asset and someday in the future it's going to get up to its incremental cost, that's a potential five times your money. If the opportunity cost is zero and you can make five times your money, sure we'd all prefer it happens tomorrow versus next year or five years from now or ten years from now. But I would rather own good businesses that are going to go up five times than sit on cash and try to time things.

Being too early and losing money, as we know all too well, is painful. Missing out on chances to make two, three, four, five times your money in an environment where cash can't possibly meet the goals of your foundations and endowments and pensions and retirement plans? That's the bigger risk, missing the next leg of the up market.

A few other slides quickly (pages 19-20), we've used these before too. They're 13d Research, Kiril Sokoloff does very interesting work. And he's pointed out that it's very rare that you see opportunities where people just panic out of things and are so obsessed with short-term losses that they allowed real estate to go for a dollar in Manhattan. Good duplexes going for \$40,000. People made a thousand times their money. And he's pointed out that in the '80s, the last time that commodity companies were in a crisis you could buy things, like now, at 90 to 99% off, some cases 100% off. And those ended up generating huge profits. He's pointed out







that a lot of things are down 99% already from where they were at the mania-induced 2007 and '08 highs. Most of these are much lower now since this was written four or five months ago.

These are once in a lifetime prices we believe. What that's allowed us to do (page 21) is own a portfolio of companies that tend to be market leaders, tend to be duopolists and monopolists, tend to be involved with basic needs that people need now and they needed five years ago and they will need five years from now and 10 years from now and 20 years from now. These are basic transportation companies and energy companies and food companies and electricity companies, cell phone companies. All market leaders. And they tend to be aggregated in the faster growing regions of the world, more so than in the past. So quality dominant companies in growing areas of the region should lead to premium prices, but I have not seen anything like this in 35 years. Even at the '82 lows where you could buy these companies at half of book value. Half of book value, just a little over one times sales, which is a third discount to the market, PE discounts to the market. Across the board, the pain of the past has allowed us to have unbelievable bargain prices now. And we believe strongly that bargains now eventually lead to big profits in the future.

And with that I imagine there should be some interesting questions. I'll stop for questions.

Operator: And ladies and gentlemen, if you would like to ask a question please press Star 1 on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again that's Star 1 if you'd like to ask question. We'll go first to Rick Speidel with Ameriprise. Your line is open.

Rick Speidel: Yes, thank you. I think on the last call, by your own admission you've indicated that you lost a lot of money in Peabody. And its leverage cuts both ways. In light of the Peabody performance, I was wondering if you could comment on other companies that are trading in a kind of a distressed manner like Cloud Energy or the MEG Energy and the Brazilian Utility, just as examples. Thank you.

David Iben: Certainly. Very important question because in a market like this, when you can own good companies at good prices, it's relatively certain that in the long run things work out pretty well. All you have to do is be positioned in the short-term to make it to the long-term. So as such, one: we're happy that we've capitalized Kopernik well for the long-term. And as Kassim mentioned, happy that we have a strong team in place for the long-term. We're also happy that with a few exceptions we have owned the dominant companies in almost every area.

So I will point out that for one, up until a few years ago we didn't own any coal, until a year ago really didn't have any oil. The companies we have had - the shipping companies and the energy companies and the uranium companies for the most part (other than Barrick) the gold companies, we have had the debt-free companies, which has been very important since this has been a longer and deeper bear market than anybody could have imagined. So having the debt has been painful. We do feel good that we, thus far, seem to have owned the companies that haven't gone bankrupt because there's been plenty of bankruptcies in the energy sector and we have not been involved with them.

We do think that Peabody has big challenges. And one worry that people have that could be correct, that even though they absolutely have no need to file for bankruptcy, maybe they will because everybody else has. We don't think that will be the case. But one reason why we missed the first 75% of the downturn (didn't matter; we still lost 90 some odd percent) but it was because we did worry about the debt and the fact that they brought it on at the top. And so it has been very, very painful. We have showed slides in the past though that show the debt, while it's a big burden is certainly manageable. They have lots and lots of coal. They can sell this coal at very, very distressed prices and still handle the debt. They also have cash flow now that their payments to the government are rolling off this year. That gives them more cash flow than they had in the past. So we think they have the cash flow to manage the majority of their debt maturities. They also have a billion dollars in the bank that can be helpful. So we think that the first 75% drop in Peabody was because they deserved to. They bought a bunch of stuff at the top and the price of coal went down. And maybe the next 50% was because things turned worse than anybody could have imagined.





But we strongly suspect that a lot of what's been happening, not just with Peabody, but with most everything in energy or in commodities or in emerging markets has just been a wholesale dumping of ETFs and specialized strategies. I think people don't spend a lot of time asking, "Am I selling the big, strong companies or the weak companies, or am I selling gas or oil or uranium?" They're just saying "Get me out of energy." I believe that people are saying "All right, I loved the emerging market story four years ago, and now I hate it. There's a lot of volatility there. Get me out." And they're really not thinking about which countries and which, more importantly, which companies they're getting out of. They're getting out.

It is, I think, a matter of companies in those areas are being emotionally sold. They have fallen way too far. It is interesting though to see oil at \$28 and gold at \$1,100. Both those numbers are just clearly unsustainable, but the fact that they got there in the first place and that they've stayed longer, does mean that companies that took on debt are in big trouble. So this is probably a three standard deviation event. I've been reading that. The 80% drop in the price of oil, 70% drop just in recent months is a three standard deviation thing. So we are actually happy that we have avoided most of the debt. Peabody does have more debt than we would like. MEG does have more debt than we would like. Barrick has I think at this point more than manageable. We're actually disappointed to see them paying down their debt. But it has hurt them over the last year. The Brazilian utilities certainly have a lot of debt.

On the other hand, debt is probably the appropriate way to capitalize long-term, lowest cost in the industry ongoing businesses. The problem there is accentuated by the debt, but the problem there is bad government. And as they head to correcting a lot of the problems of the past and they are correcting a lot of it, as you put it, the leverage works both ways. We see tremendous, tremendous upside in the utilities, but the debt does magnify both the good and the bad. Pretty much everything else in the portfolio is very low debt. And that's been very helpful in an otherwise painful time to own cheap businesses.

Rick Speidel: Thank you.

Operator: Our next question comes from Hall Haselton with Merrill Lynch. Your line is open.

Hall Haselton: Thank you very much. Actually David, you just answered the question that I had as well.

David Iben: Okay, thank you.

Operator: And we'll take our next question from Aubrey Sharfman with Morgan Stanley. Your line is open.

Aubrey Sharfman: Hi. Thanks for your efforts as always. And I wanted to ask a question with respect to energy. When you were talking about looking at your past models and this dynamic and the magnitude of the recent decline in oil, I'm wondering how you factor that in fundamentally given that we really, as you well know, we have just a different environment nowadays. Given the fact that the U.S. has had explosive growth in production and OPEC has less control in pricing. And that's why we find ourselves today with a much lower price in oil, but yet we still have a glut. How do you adjust your modeling for that understanding that we really are in a new situation right now?

David Iben: I think if you go back through the centuries, things always change. Everything's new, but on the other hand, other things are not. I was an economics major. I did learn that people should not take micro moves very seriously in economics. There are so many things that are assumed that don't go right. But in the big picture, economics is very, very powerful. Supply and demand do matter. I love that saying that "The solution to low prices is low prices. And the solution to high prices is high prices." And I've been around a while. I was around in the '70s when oil had gone from \$3 a barrel to \$36. And everybody knew it could only go up. And there was all kinds of reasons why it was always going to go up. And of course it spent 20 years falling from \$36 to \$10. And at \$10 with oil and especially with gas, we hear there's going to be gluts forever. And when people expect gluts forever they stop exploring, they stop drilling and demand picks up. And people trade in their Pintos and Vegas, for people who are old enough to remember those, and start buying SUVs. And demand picks up and China comes on and does well. And a mere four years ago, people were saying the same thing. They were saying things are different. But what they meant then was there's 7.3 billion people on the planet. And China and India and other places have voracious appetites for energy that we can never





meet. And so the price of gas deserves to be \$10, and the price of oil deserves to be \$140 and uranium deserves to be \$136 because it was new.

There was more people added to the planet in my lifetime than in prior thousands of years before and peak oil hypothesis and all that. Now, like I said, the solution to high prices was high prices. And so what happens? You had people learning to conserve and getting more energy efficient and drilling like crazy for oil and absolutely going crazy drilling for gas. And spending a lot of money to develop coal mines. And when prices are that high why not spend massive amounts of money on wind and solar. We're big fans of both, but they used to make no economic sense whatsoever, so it was wonderful that high prices helped them happen. Even now they don't really make economic sense, but we're happy to see them come on. It's good for society, but those things happen. I think with the, you know, when you have \$2 gas and \$28 dollar oil and it stays there for long enough, you will see less drilling for oil and less drilling for gas and shutting down of coal mines. And the solution will take care of itself. I think you'll also see some of the investment in alternative energies, whether it's wind or solar or vegetable oils or other things will turn out to have been bad investments I believe.

Also we don't know for sure, but there's a school of thought that a lot of the ridiculous mal-investment was made because our central bankers had the ridiculous idea that central planning of the financial markets was a good way to do things. And zero interest rates maybe caused people to drill for gas they shouldn't have. Interest rates of course are still virtually zero, but the markets have decided that if you're in the oil business, it's not zero for you. You can't get capital anymore. I've also been around long enough to hear that every time there's an extreme run up or run down, I hear how inelastic demand is, and supply too. And I think that will not be the case. I think certainly when things turn down, you take out the less productive drilling rigs and when you have bank debt you continue to produce a lot of what you have. But there's big decline rates on all this stuff and future drilling has slowed down and rigs are down. I always see month after month after month and sometimes a year or two go by with no real change. And people conclude inelasticity right before the bottom drops out.

So if things are changing and the future for coal won't be as good and the future for oil might not be as good and the future for solar is hopefully good. But I feel very strongly that given time, the fact that oil is at \$28 will be a big driver for causing the price to be way higher than \$28 in the future. And same thing for gas.

Aubrey Sharfman: Okay thank you.

Operator: We'll take the next question from Trace Williams with Merrill Lynch. Please go ahead.

Trace Williams: Hey Dave. I'm curious how you guys evaluate company management, or if that's part of your process at all. And the reason I ask that is kind of along the lines of what you've been discussing. If corporate leadership kind of has a part in mal-investing their ways into oversupply problems, do you then trust the same set of managers to work their way out of it going forward?

David Iben: Very good question. Very quickly, for those of you that don't know, for everything we put in the portfolio we spend a lot of time understanding the industry and the business and decide which businesses we want to be an owner of. We decide what the best way to value it is. And we come up with a theoretical value. Then, like most value-focused managers, we say we want a margin of safety. We're not in the business to pay fair prices. We want to buy at a discount. How big a discount? Thirty percent, to us, seems too simplistic. A great diversified quality company with a good management team in the U.S., a 10% margin of safety is plenty. But if we're not sure about the management team or if they move from the U.S. to France or from France to Russia, do we want bigger discounts? And we say yes, absolutely. So that goes into everything we do. And we spend a lot of time on this margin of safety. That includes geopolitics and things. But more specifically to your question, management of course is a big part of that.

It's not easy. For one thing, if we were to buy Nestle, management it would be important, but less so. If we're buying a very challenged company that either has a debt problem or is in a rapidly changing technology area or they're in the financial areas, then management becomes very important. So we spend a lot of time on it. It is very important but very hard to analyze. So one of the very first things my boss taught me when I came into the business back in the early '80s, is if I show you a stock chart going up, I will then show you zillions of





articles that all say management are geniuses. And then after the stock chart rolls over and goes down, I will show you a bunch of articles showing that they're morons. So cognizant of that, we don't do it based on articles we're reading and we don't do it based on what stock charts have done.

We do say we're in the business of analyzing companies. And we're in the business of valuing companies, appraising companies. If we think a company's worth a \$1 billion and somebody pays \$2 billion for it, we usually find that Wall Street applauds that. We cynically think it's because it generates revenues for them. But we say management is bad, while everybody else is saying management is good. And we keep that in the back of our mind. And that's one reason why we didn't buy a lot of these resource companies until they were down big because some of them did buy at the top. If we think it's a business that shouldn't have a lot of debt and they put debt on it, even if it's helping in the short run, we avoid it.

On the other hand in some of our Japanese companies, the fact that they're sitting on nothing but cash, we view that as possibly a negative because certainly they can do better than earning zero percent by buying some of the cheap businesses there. So we look at their capital allocation. We look at their strategic plan, their business plan, their past track record of M&A, the length of time they're in the business, any evidence that they've not put the shareholder first. Whether they've paid themselves too ambitiously with stock options or whether they have misallocated capital or if they're doing share buybacks with our capital, while they're selling their own shares or things like that are all factors that go into it.

I could go on and on, but I think you get the idea. It's very difficult, but we put a lot of time into it, and we do take it very seriously.

On an earlier question, I think Cloud Peak came up. Cloud Peak we do not view as having a debt problem, or Consol, either. They're pretty well capitalized.

Trace Williams: Thanks.

Operator: Our next question will come from Matya Schachter with Battery Global Advisors. Your line is open.

Matya Schachter: Yes, regarding the position in Pandora, I was hoping you could discuss what metrics you're looking at to determine that, you know, the stock is cheap. And your thoughts on its ability to compete against Apple Music, Google Play and, you know, some of the other on demand streaming players.

David Iben: Very good question. We have always said that value is prerequisite to us, which has turned out to be important. I think some value investors say "We buy low PEs" or "We buy low price to book." We certainly look at those things and take them very seriously. Or low discounted cash flow. We like some, like everybody get caught in some value traps or some problems. But we've also at various times have been able to add a lot of value on the one extreme by not buying the low PE stocks that turned out to deserve to be low PEs, such as the banks and mortgages and homebuilders in '07 and '08, and on the other extreme, buying huge potential. Whether it's buying growth companies in 2009 or buying resource companies in '03 or right now where the future potential is huge but the cash isn't there right now.

If you look at Pandora, our level of confidence in any prediction of this year or next year is not high. But what we have is one huge potential. We have a company that dominates Internet radio, and the market cap is a couple billion dollars. Things like Clear Channel went out at \$20 something billion I think. It's fascinating. So we try to look at the positives and the negatives and come somewhere in the middle. The market sometimes, and, especially times like now, becomes very binary. Things are good or things are bad. So if people loved Japan in '89, we didn't own it. If they hated in the past we could own it. They loved tech in '99, we didn't own it. They hated it in '02, we bought it.

So Pandora, the negatives are absolutely true. One of the things I'm least interested in doing is competing against Apple. They are a great company and they're so big and powerful and good, they succeed. And competing against Google is not at the top of our list. And having a company that's not yet profitable is not at the top of our list. Spotify, in a lot of ways, seems to be a better product than Pandora, although quite different. So non-profitable companies competing against good heavyweights, industry leaders, not what we want to do. On the other hand, what could be better than somebody who's an industry leader that gets there







first? Comes up with a great plan. You look at what happened to the Googles and the Apples and the Facebooks and people that get there first and do something. And these guys (Pandora) have that niche. They got there first. Most people I know use Pandora and don't plan to quit using it. And they probably turn profitable this year. And where they might be at a disadvantage in some ways to Apple and Google and Spotify, they actually have an advantage in other ways, for one, cost. And some of the uncertainty has turned actually better than a lot of people might have thought in terms of the payments they're going to have to pay for music versus the higher prices that the Apples pay. On the other hand they pay more than terrestrial radio. But one of the great potentials is they might be at a disadvantage to Spotify or Apple, but they're at a huge advantage to terrestrial radio, which is a huge market. You know, if this company could be worth \$20 billion or zero. And it's probably the higher end, not the lower end. And we can buy this for \$2 billion, its optionality. This is a market that is giving away optionality. And zero is extremely unlikely because they are generating lots of revenue. They are on the verge of turning profitable. They also ought to be of interest to people like Apple. Why should Apple knock themselves out competing against these guys when they can buy them for a song? And that's not a prediction, but I'm just saying that there is huge positives for this, huge negatives for it, too. A few years ago the market was pricing in the positives. Now the market is pricing in the negatives and only the negatives. And so if you price it on enterprise value \$2 billion to potential, the size of the market and what it could be, there's tremendous upside.

Matya Schachter: Excellent. Thank you very much.

Operator: Our next question will come from Nikesh Kadakia with Morgan Stanley. Your line is open.

Nikesh Kadakia: Yes, just a relative question. I think we're all in agreement that there is some phenomenal opportunities in the commodities space potentially that could, you know, increase in value dramatically. And as you said, every seven years seem to have these types of crises. It was the tech in 2000, financials obviously in '07 and then of course commodities, et cetera, et cetera, in '14 until now. My only concern I have I think is when I address looking at is, you know, you talk more about as a long only manager, you know, you own the equity piece. But some of these deals, like it was in 2008, you're going to have some of these, you know, whether it's Carl Icahn, whether it's (Warren) Buffet, you know, taking positions in companies to provide liquidity through debt deals, you know, et cetera. And I guess my question is as a long only manager today, you think it's a lot worse. As a long only manager, how can you participate in that? I mean you own the equity. I haven't seen too much participation on the fund side. And you taking a position on the debt side potentially, join the Board of Directors or something to add value if you think there's possible value to be added. For example, Icahn's deal with Chesapeake to move some of that debt out. How can you, you know, give me some idea in terms of if you think this thing - obviously if prices recover dramatically tomorrow, I understand being a long manager owning this equity piece will work out pretty well. But if it doesn't happen and we're in a crisis like in '07, there's not going to be a bailout from the government. You're going to need liquidity to private markets. And, you know, if you're not able to provide that or get involved, give me some ideas and comparisons on, you know, like for example an Icahn versus what you guys are doing.

David Iben: Those of you that have known us for a long time know that we are certainly open to investing anywhere along the capital structure that will give us the best risk reward tradeoff. Historically back in the early '90s we took advantage of a lot of the distressed debt that was being sold out. Put them in our equity funds. We were making 20 something percent with way less risk. Made sense. Back in 2002-03 we bought a lot of technology stocks, but we also bought a lot of bonds that were yielding 15, 20, 25%. And usually there was cash to back the entire debt. It was a phenomenal thing. In '08 when the credit markets pretty much came to a standstill, we were out buying things at half off, buying things at 80% off. It was a beautiful thing. Up until a few months ago in a zero interest rate environment, we had no interest in debt anywhere on the spectrum. Now a lot of debt's paying a lot more. So it does get more interesting, and we're open-minded to it all, though all other things equal, we are seeing the best prices we've ever seen in the equity markets. So debt would have to be pretty incredible for us to want to go there.

If companies get into dire straits - and our companies are not there- then Icahn can come and pick up the equity holder and come up with something well suited for themselves and if things stay down long enough, certainly some of that happens. On the other hand, anybody provides liquidity to some of these companies, the stocks could go up five or tenfold pretty quickly. Somebody could even provide debt. That's one of the beauties of this certainty of value of different margins of safety. If we were buying things at 10 cents on the





dollar and somebody provides fixed income relief at a high price, then maybe half of the wealth is transferred from equity holders to the bond holders, which is a bad thing. But on the other hand if the fears go away, then instead of 10 times our money, we only make five times our money but we make it quickly instead of having to wait. So that's not the worst thing in the world either. And we have found that if we can buy 65 incredibly value-laden companies that some will go poorly and a lot will go well. And the ones that go well have huge, huge upside. So we're not saying we're not going to be wrong on some of them, of course we'll be wrong on some of them. We've always been wrong on 30% of what we've done. But we think from these prices and with generally good balance sheets, we think the upside is going to be bigger than people imagine. The downside will be there for some, but not on that many.

And then also (and we don't really own any oil yet; we're looking at these prices), but if people want to loan money to a company now, but the price of oil goes back to \$56 by next summer, not a prediction, but all of a sudden the liquidity becomes there and the stocks are up huge. And you can make a lot more money in the equity markets. We don't know the timing, whether it's a month or six months or six years, but we believe that oil gets to its incremental cost of production and so does gold. And we think that ships will trade at the price of building a new ship and that hydroelectric dams will go up to the price of what it costs to build the things because they are superior assets. And that it's all mathematics. Let's buy things with huge upside with relatively low possibility of problems. And Howard Marks, I've always been a big fan of his thoughts on risk and all his thoughts for that matter, but he likes to point out that if you buy a portfolio of bonds that are all in default, 100% in default but you pay 10 cents on the dollar, that will be low risk. Equity of course is lower on the structure, but we believe the same thing. If we're buying all kinds of businesses at 10 cents on the dollar or less, we think the math works out beautifully.

Nikesh Kadakia: All right, thanks.

Operator: And our next question today will come from Sommer Arekat with UBS Financial Services. Please go ahead.

Sommer Arekat: Hi. I have three questions for you Dave. And if you wouldn't mind just giving me the, you know, kind of 20 or 30 second answer to each. And the first one is just the name of the shipping company that you referenced a couple times because I missed that.

The second is the two or three metrics that you're using on Cameco, which I think is your biggest holding. I'm just interested in the two or three most powerful metrics that give you such a high level of confidence as it relates to the valuation support that you see in that name.

And then the last one is I'm just interested to know what, in the last say stretch of time since you started Kopernik, has been the single biggest investment mistake where you've done something and recognized okay, that was an investment mistake. Thanks.

David Iben: Sure. All right, keeping it short is not my forte. So good question. Shipping -- Diana Shipping is our major holding. We also own a little bit of Safe Bulkers lately at these prices. We have off and on over the last few years had Tsakos Energy. That's not dry bulkers, but energy. So that's where we are now.

Cameco, your question and another question has come on the Internet. This is on its value, it's also a great growth story which you don't see in too many places. Supply/demand for uranium is better than anything else I can think of. It's been 20 something years of supply coming from reusing tailings, supply coming from the Department of Energy, (which continues, but only for a few more years) of supply coming from Russian stocks of bombs turned to fuel, (that ended two years ago). If - one question was what if they don't ever build another nuclear reactor? If they never build another nuclear reactor there is going to be a shortage of uranium because of the secondary stocks. So you need to have the prices doubled to get more mines on there. If we look at Cameco and we assume that prices double but it doesn't happen for three or four years and we do a DCF and discount that back, we get a price for the stock that's I believe three times what it is right now. It's quite likely that between growth and opportunity to take advantage of others and the fact that when the shortage becomes apparent the price goes much, much higher than that. That obviously leads to a much higher prices. But if the price of uranium in the three or four years gets to where it's at the price of the stocks would be in the \$50's. It is in the low teens or lower.





The single biggest mistake. We have a lot of things in the portfolio where three, four years ago we will all say those were mistakes or those were wonderful investments that we timed a little too early. But a few of them are mistakes. We believe that Layne Christensen is looking like a mistake. And we've been selling when we can on strength. The typical thing we like are really good businesses with good long-term secular fundamentals and cyclical problems. This is what they've had, but management changed twice during that time. They have taken on debt at high levels and they have sold properties for way less than we thought they were worth. The company will probably still be fine, but they have permanently lowered the intrinsic value of that company. One other one where I don't feel bad about it. I think the risk/reward was really good. But when Modi won in India, he came in and promised they were going to let gas go to free market prices and a few other things. We had a company that had a partnership with British Petroleum and Reliance. And if the prices had been allowed to go to free market, we think we could have made 10 or 20 times our money. That did not happen. And that was a company that had debt. And we lost money and got out of that one. Most everything else we are, at this point, still firm believers in.

Operator: And we'll take the next question from Alan Jardeleza with Merrill Lynch. Your line is open.

Alan Jardeleza: Hi Dave. Thank you for the call. I'd like to get maybe your thoughts on gold. You know, we've had a couple good days in gold. And arguably it's maybe not as the - we haven't seen the performance like as a safe haven as it was in the past. So is this affecting any of your investment thesis or your positioning of this seeing that a decent amount of the portfolio is in gold and gold-related types of companies? Thank you.

David Iben: Sure. Very quickly: the '80s and '90s we didn't own gold. I was short gold in the '80s and the late '90s, we bought a couple little small positions. A dozen years ago we bought base metals, not much gold. But in 2006-07-08, especially in '08, gold companies became very, very cheap. We put 25% of the portfolio in it and had a number of great years. The index went up five times. We sold most of it. Still had 11% unfortunately, and that was that for a few years. We have a habit of being early, but this is the earliest we've ever been. We've been heavily invested in gold miners for, I think in April will be, three years that we've been heavily invested in gold miners. Since then gold's down, but probably less than just about any other commodity on earth other than uranium. But gold miners, as we show in that one chart, gold miners are down 90% when gold's down 15% or something over the same time period. Going back further, gold's up nicely and gold miners are down. So gold above the ground is worth \$1,100. Should gold below the ground be worth a huge discount to that, we think not. We think it's one of the more incredible investments we've ever seen. Now as I mentioned three or four times, over the years, it's been very, very helpful to us to look at the fundamentals of any asset, and especially of resources. So, you know, if oil is selling well above or below the incremental cost of production, it's very important to avoid it when it's above the cost and it's very rewarding to buy it way below. We've always done that. We've done that with gold. Back when gold was \$1,900 we, you know, and we sold two thirds of our holdings, we could have looked at the current price. But we said no, no, no, at \$1,900 it's gotten well above the cost of bringing on new mines. Everybody's doing it. So we reduced that.

Since then, people are not finding gold. And most of the gold out there is hard to mine. The supply is not going to grow. Supply is shrinking now. Existing mines you can pull it out of the ground for \$800, \$900, \$1,100, depends on the mine. New mines, it's \$2,000 or more. So when something's trading at roughly half of the cost of incremental production, that's very, very encouraging to us. So that we really like, although the bears will point out to us that gold isn't like oil and food. Gold is not consumed. It's not used industrially. It is a, you know, very inert and fairly worthless substance, just sitting there producing nothing. We say exactly. That doesn't sound like a commodity to us. That sounds like money. And guess what? Gold's been money for 6,000 years, mostly because it's not used or consumed. It holds its value.

So, all the negatives on gold are correct, but every one of them applies to the U.S. Dollar and the Euro and the Yen. The U.S. Dollar is not used industrially. It is not consumed. It doesn't yield anything. It doesn't grow anything. It just sits there. So if gold's a commodity, it's worth \$2,000 or more and it will get there. But if gold's not a commodity, if gold is money, then you need to compare it to the dollar. The dollar has always yielded more than gold because politicians cannot be trusted with the money supply. They never have been and they never will be. They don't even claim to be anymore. And so there should be a big yield.





Now the yield on gold is nothing, well the yield on gold has always been nothing. The yield on cash is nothing. And the supply and demand we think are very important. That's one of those economic principles that over time matter. The supply of dollars per ounce of gold in the U.S. has gone from \$400 back in 1980, \$400 per ounce to \$15,000. So eventually people will do what they've always done, and that's lose confidence in central bankers. And when they do, there's huge, huge upside for gold.

So I say if I'm wrong and the market's right, and we've always made our living thinking the market's not right often, but if the market's right, these stocks down 90% are selling so cheap that we could make money liquidating these things. So there's downside protection. And if gold goes back to where it was a few years ago, we double/triple our money. If gold is a commodity and gets to its incentive price of production, we think these things go up 5 to 10 times. If gold is money and goes up to some reasonable fraction of the money supply, we haven't even bothered to calculate the upside, it's so good. So one of our favorite investments of all time. And once again though, we've been very early on that this time.

Alan Jardeleza: Great. Thank you very much.

Operator: And at this time we have no questions remaining, but I'd like to give everyone a final reminder. That is Star 1 for questions. We'll pause for just a moment. And we have no questions remaining.

David Iben: All right, well thanks everybody for dialing in. And it has been a very difficult 18 months, but as they say, difficulty is often what sows the seeds for good times ahead. And from an investment standpoint we think we have a wonderful portfolio of businesses and time will tell. Thank you all. Talk to you soon.

Operator: Ladies and gentlemen that does conclude today's conference. We thank you for your participation.

**END**

*The following was received after the Quarterly Call above had ended.*

Q: Kopernik used to have negative comparisons for AAPL. But does the company now look like something that is being given away (below 10x PE when accounting for huge cash pile)? Or are tech companies different?

A: The iPhone currently accounts for more than two thirds of Apple's total revenues and commands a significantly higher gross margin than the industry average. Our thesis is that the iPhone is no different than other electronic hardware products which tend to enjoy high margins at the early stage of their product cycle but eventually see their margins revert down to the industry average due to intensifying competition and customers' preference shifts over time. Apple appears cheap at single-digit PE and even cheaper on an ex-cash basis, but when you factor in the anticipated lower margins especially for the iPhone in the long term, this is an expensive stock. Also, much of the cash on Apple's balance sheet is parked overseas, which is subject to significant amount of repatriation taxes if the company were to bring it back to the US. Therefore, Apple's ability to buy back stocks or pay dividends is not as strong as the market generally believes.

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The commentary represents the opinion of Kopernik Global Investors, LLC as of January 21, 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.

