



Kopernik Global Investors, LLC

Edited Transcript of the 1st Quarter 2016 Conference Call with David Iben

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Operator: Good day everyone, and welcome to the Kopernik First Quarter 2016 conference call. Today's call is being recorded and at this time I'd like to turn the conference over to Kassim Gaffar. Please go ahead, sir.

Kassim Gaffar: Thank you. Good afternoon and thank you for joining us today for the first quarter conference call. My name is Kassim Gaffar and I have with me Dave Iben, our CIO and lead PM for the Global All-Cap strategy. Before I pass it over to Dave for the majority of the call, I would like to give a quick firm update.

Since our call around three months ago the firm has continued to grow. We are now 34 people strong and that includes a new hire recently which we have brought in to further help our marketing and client services efforts. From an AUM standpoint, compared to the beginning of the year we are currently at \$1.8 billion, versus \$1.6 billion from three months ago.

That number has grown due to market appreciation, given strong performance of the fund coupled with the positive net flows during this period. Lastly, Dave will be referring to a presentation during the call and the link of the presentation and the actual presentation can be found on our website www.kopernikglobal.com under the "News and Views" section, and with that, Dave, please go ahead.

Dave Iben: Okay, thank you, and thanks, everybody, for dialing in. The market continues to throw interesting quarters at the markets, a lot going on. When we last talked about three months ago, a lot of people were talking about is this the beginning of a bear market. There was a lot of fear out there, a lot of the fear seems to have passed for the time being. We'll see what the future holds for the main stock indexes. We have no particular opinion.

One thing we do have an opinion, and have had an opinion though, is that the big stocks that are dominating the market are not indicative of what's going on in the market. We think like the early 70's and like the late 90's big popular stocks have gone one way while a lot of other stocks have gone the other way. And when people were talking about "is this the beginning of a bear market", we sort of gelled what should have been obvious all along is that this is really well *into* a bear market. It's quite possibly the *end* of a bear market, and whether what we've seen in the last couple of months turns out to be the end of the bear market, we'll see. But bear markets are painful for value investors and for asset managers in general. It's been a painful few years. It's been a long bear market.

We've talked in the past. A bear market we do not believe to be something so simple as - down 20% is a bear market and down 19 is not. We think bear markets are relentless downward moves that starts hurting, eventually rips people's spirits out and people finally give up and it usually leads to changes in psychology. And we've seen that. When we look back, oil of course has been famously dropping the last couple years, but if you look at most other commodities they've been dropping for 4 ½ years and in some cases 8 to 9 years ago, and even oil peaked back in 2008. Gold, of course, peaked five years ago and emerging markets peaked 4 ½ years ago, uranium peaked about 10 years ago. And so looking at lots of assets, lots of resources, and lots of markets, most developed markets are down on a 5 year basis, and most emerging markets are down substantially on a 4 or 5 year basis, so we don't know if it's the end of that bear market. We know for sure it's not the beginning. Down 50 to 90% over many years' time, that's deep into the bear market, and the quote we're showing "bear markets make people a lot of money, they just don't know it at the time". As painful as a few months ago or it was the beginning of - we don't know if this is the real move or



not, but over the long term there should be massive money made as a result of good properties being discounted by 90%.

On that note, we've done a lot of meetings over the last year and the question that comes up over and over is you know, *when* are things going to turn? People generally tell us everybody knows value's going to come back someday. Everybody knows emerging markets will come back someday. Everybody knows that commodities are cyclical and will come back someday, but what's the catalyst or when is this going to happen? And we understand all of us have career risks, but in terms of risks to the portfolio, we think timing is less important than just being in great scarce properties that are down 80 or 90%. We've talked about and will continue to talk about what Warren Buffett did during the last market that was like this. In '68, '69, he closed his fund, sent everybody their money back, kept Berkshire of course, but his main fund he sent back. From then on the index seemed to be flat, but within that, the Nifty 50 had gone up and almost everything else went down. It went down so much that in late '73 he famously started buying stocks like crazy, sort of like a kid in a candy store, and the timing of course, if you look at the chart, was great. The chart we're showing here, as you can see, things are up 10 times. He's made a lot of money. It would have - I don't know what it was like for him the first year or so though because in the first three quarters things went down by another third. So in the short term world we live in now he would have been under tremendous pressure. It's not fun losing 20-30% of your money in three quarters' time, but that's exactly what happened to him. You can look at their - read through their annual statements. Since then he's made a lot of money.

Now if he had tried to time it and timed it perfectly, his future returns would have been better by a percent a year, that is meaningful. However, if he'd missed it, he left massive, massive amounts of money on the table. When you get a chance to buy great franchises that are down in the depths of the bear market, it's better to be early we think and suffer a little bit of pain than to miss out on it. And that's where we are now. Opportunities to buy scarce resources, resources that really can't be replicated, at *really, really* attractive prices. Now sometimes if you're early there's opportunity cost. In the current world there's not even opportunity costs. People can put their money in the bank and get zero and in Europe they can get negative rates sometimes, it's - who could have imagined a world where we get negative returns on cash balances? People can go out to the curve and get slightly positive nominal yields, undoubtedly it will still be negative real yields, time will tell. But the Fed has reasons I guess to keep rates low, but there's unintended consequences as savers, although that's getting no return on our savings, and punishing savers and rewarding borrowers, that gets unintended consequences. Another consequence of course is volatility. People don't seem to like volatility. It is what it is, but we think in the effort to get rid of risk, the central banks have increased risk in addition to increasing volatility which we don't consider to be risk. But anyhow, the volatility has provided an opportunity to buy things pretty cheap. That is, I think, an interesting opportunity.

Now where to go, most people are buying bonds and high quality stock, that's what's worked over the last five years, following the crowd works quite often. In the long run it does not. In order to have superior performance, especially at inflection points, it's better to be a little different. As far as different, it usually is long term cycles, things slowly go down, down, down, and get very, very cheap, and then they go up for a long time. In between, there's no real reason to have strong opinions. At extremes there is. You can see on this chart here healthcare once was less than 5% of the index, when it tripled over the next few decades was a good time to hit the exit. It went into a bear market, not a run up to similar levels to where they were the last top, but probably a dangerous time to be in healthcare. Similar with technology. Interestingly enough, people will say well there's been a big run on emerging markets or a big run on gold, or materials in the last couple of months. Is that it? No, it's probably not. You'll notice the materials part of the index has gone from 14% to less than 3, almost none of the index is in materials. This little run that we've seen is but a blip, similar thing with energy. 27% of the index, that's a decade peak, it got to 33 I think on - at some point in time around there. A third of the index in energy, now it's less than 7%, so very, very little capital invested in the energy, quite a contrast from a few years ago, so after the right energy, materials, telecom, utilities, some of these things despite an overall fairly heftily valued market, these industries are a small part of the index. They've been underinvested in, which bodes well, and they're pretty cheap. With that in mind it shouldn't be a shock that our portfolio is more invested in the areas that have been falling for a lot of years, have become cheap, and there's not much exposure to the industries and sectors and countries that have had the big runs, those of you that have noticed, I've come to expect that.





What does that mean? It means that we're able to put together a portfolio of industry leading companies at valuations that are a lot less than the market, and to own dominant companies in growing areas of the world for 11 times earnings and four times cash flow and 60% of book value, that's something that doesn't come along every day. To show you this sort of mismatch of the top 10 constituents of the all country world index, 9 of the 10 are in the United States. I don't know how they do the indexes, but Google doesn't even make this list, but even without that, notice 9% of the whole index, just in these 10 companies. It's also fairly interesting that for one extra percent, somebody could *buy most of the world*. By that I mean the emerging markets. The emerging markets of course are half the world's GDP, and 6 out of 7 billion of the people in the world. Most the growth in the world, most the resources in the world, but if someone can own all that for not much more than what the 10 popular companies are going for, fascinating opportunity.

Of course we've shown this to you other ways, Apple versus Russia or Brazil and in the past I've seen presentations of Intel versus India, and things like that. So here we are able to buy *most* the world for about the valuation of the top 10 or 11 companies. That I think's interesting.

Within this environment we haven't done a whole lot. We've held onto what we think is good. There has been opportunities to do a few things though. You did have a complete capitulation of stocks back in January that did allow us to buy the first oil company in the U.S. that we've owned in many, many years with Marathon. We've recently been buying dry bulk tankers that stocks are down 90%, they can buy tankers for a small fraction what it costs to build the tankers, so the latest addition is Golden Ocean. Uranium we've had for three years now, continue to love the fundamentals. We were able to buy some Denison mining, very small. And the oil also we had at the MEG, Pandora we've talked about that got cheaper, we were able to buy more. Within the gold space, some of the ones that ran up we trimmed a little and rolled it into some of the quality names and we will get to that in a moment.

But first gold has this run from \$1,050 to \$1,250, is that something people should be worried about, that that move has happened? There's a lot of ways of looking at gold, we talked about the incentive cost of production being around \$2,000 an ounce. And if it's a commodity that's probably where it will get eventually. If its money, you can see here it's the supply of money compared to the price of gold. You can see gold trends up and stays above that right now. Relative to the money supply, gold is the cheapest it's ever been or was two months ago. Arguably, gold can go way, way higher from here, up \$200 is the economic way of looking at it. But within that, the problem for a lot of people is the quality of the management and the quality of some of the companies. We agree with that. That's why we've insisted upon buying the companies at very good prices and staying very diversified. We didn't expect a world where we could buy the really high quality companies, the streaming companies, that loan money to projects and get the revenues without worrying about the cost problems and the risks associated with mining. They always sell at a premium, but what we saw in December and January, was the complete capitulation of natural resources and gold and the quality names became very, very cheap, so we now have a decent position in Silver Wheaton and in Royal Gold. We were happy to have that opportunity.

So gold's really good, uranium's really good, but also around the world and especially in the growing areas of the world, we're happy to own hydroelectric power and nuclear power and wind farms and agricultural farms and railroads and planes and all of these things at a fraction of what it takes to build these franchises. So you know, in a world where somebody can own cash or bonds that yield effectively nothing, or own great franchises that have tremendous wealth and buy them at a fraction of the price. We think this bodes very well for the future. So I wanted to keep the formal part of the presentation very short and spend most of the time on Q&A in what is a very interesting period of time.

Operator: And if you'd like to ask a question, please press the star key followed by the digit 1 on your touch-tone telephone. And if you're joining us on a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again that is star 1 for a question, and we will take our first question today from Rick Speidel with Ameriprise Financial. Please go ahead.

Rick Speidel: Thank you. You didn't touch on coal very much with the recent filing this week. I was wondering if you could comment on that, if there will be anybody standing when it's all over. And then if you would comment on two Canadian holdings, the MEG Energy which you said you added to, and also Dundee.





Dave Iben:

Certainly. The coal question we knew was on the way. We were going to put it in the presentation but I figured we could at least answer that in two ways. First, we do not think that coal is obsolete. We don't think it's going the way of the buggy whip. We think that other technologies are coming on and market share will be gained by solar and gained by wind and gained by gas. But 53% of all the world's electricity is coming from coal right now, and coal being abundant and very efficient way to generate electricity and the fact that China and India and Indonesia and places like that, that needs lots of energy has lots of coal. It's not going away, but it will decline. What you've had now in a lot of areas, coal being one of them, is you had a sort of bubble in China a while back. Demand was too high, and now there's been what always happens after bubbles, the collapse on the other side of it. So demand is very low, and that's probably is hard on everybody, but a lot of these companies borrowed too much money at the top of the cycle and now they're paying the price at the bottom of the cycle. So coal is not going away. Eventually it will go higher in price, the companies will do well. But a lot of damage has been done. The whole industry is down 90 some odd percent, and a lot of them are bankrupt. Now up until recently, we thought well at least we've avoided the guys that went bankrupt. We can't say that now. We had what was once a meaningful position in Peabody. We have maintained and continue to maintain that there's a lot of wealth in Peabody. That despite the massive debt they have and the negative cash flow and the problems, that the value of their assets is many times the value of their debt. We think that going bankrupt was unnecessary, even stupid on their part, but they've done it, so we've been wrong on that particular name.

However, I think it's important to look at the strategy that we've always gone with. We've always thought the market's not entirely efficient when it hates things. Sometimes it's right, sometimes it's wrong. If we do our own appraisal we find that we can be right much more often than we can be wrong. But we're still wrong plenty of times, believe me. If we lose money when we're wrong but we make money a lot more often and we make good money when we're right, that's worked out very well. 2008, 2009, some of you were invested with us then, you will remember that we had a similar strategy in energy and also in mining. We bought a lot of companies that were trading at \$0.10 on the dollar, Crystal X and Apex Silver went under. And we lost money on these, but since we were buying a diversified portfolio at \$0.10 on the dollar, we had stocks go up four times, five times. In Papua New Guinea, it went up 7 times. In Mongolia it went up 10 times. So the result was that we made quite a bit of money. Same thing here, now we've been in natural resources, it's been a tough, tough time for natural resources, one of the toughest times ever. Peabody was very frustrating investment for all of us. Some of the other investments have been tough also. Fortunately, we bought all these things at \$.10 on the dollar, and so while Peabody has cost us a lot of money, Consol has just doubled. And then 2 1/2 times a lot of the other resource companies are starting to go up quite a bit, so while we're not proud of Peabody, we are satisfied with our diversified portfolio underrun.

We looked over the last 12 months, the last 12 months the MSCI ACWI index is down. Our portfolio's up quite a bit over that time, and 2/3rds of those gains are on resources, so even including Peabody in that mix, the important loss on Peabody and a few other names, our resources were up nicely over the last - so not just versus the market, up in a down market while the resources in the index went down. So resources went down, our resources went up, and that's despite the fact that a lot of them went down. It's just a lot more went up and they went up by a lot, so that's neither good or bad, I'm just trying to explain the strategy. It's worked in the past, we think it will continue to work. Our goal was never to say we can find things at \$.10 on the dollar and the market's never right. There's reasons things sell at \$.10 on the dollar. Our goal is to be right more often than we're wrong and to diversify. That has been the strategy and that continues to be the strategy.

Elsewhere, we've had a name in India that didn't work out that well. We've had MEG that you've brought up, and that's of course one of the higher cost producers with oil sands are more expensive than other places. We waited until that fell a lot before we bought it. It fell more after, so not been a while, but that's coming back strongly now. We - I think the last time I think we did the call we said we aren't experts on oil, but we can all but guarantee that 28 is the wrong price for oil. Now the price is over 40, but still I think the wrong price of oil. Oil will settle higher. I don't know whether it has more down drafts, and I don't know how long it takes to get there, but if we can buy companies that are better - they don't have to be super well positioned, better positioned than others that can make it through the cycle. The cycles have not been eliminated. The central banks of the world have not gotten rid of cycles, they've made cycles worse. If we can find companies like MEG that are able to make it through the cycle, that's tremendous value in a name like that. If we look at the value of the reserves they have, so we continue to like that one. Dundee, in a way, it's not a resource or





energy play, but in a way it is. You would think something like Canadian real estate is very different, but the market right now, even more than normal treats everything as highly correlated, so, the whole country of Russia's considered merely an oil play, and Canadian real estate seems to be considered an oil play right now. So one of their problems is that they have a lot of Canadian real estate. They have a gold company, that's bounced back quite a bit, so that's a positive. They have oil properties in Africa, that's not worth a lot right now and they're holding back their expenses. But this is a company and a family that over the years have had a knack for buying things cheaply, and this company's trading at less than half of what we think the company could be liquidated at. So a smart family managing a diverse group of assets, many of which are not liked by the market right now. We see challenges, but we also see a lot of value.

Rick Speidel: Thank you.

Operator: We'll now go to Scott Feldstein with Morgan Stanley.

Scott Feldstein: Hi, David. I guess two questions, what is your longer term outlook on oil prices and where you feel the price longer term should be, and what is your risk of recession here in the United States in the year to two year timeframe? Do you see a risk?

Dave Iben: Okay, on longer term price of oil, we don't make pinpoint predictions, and we certainly don't try to time anything. That's not our forte. We do believe in the long run economics plays out. We think the cost of what it takes to pull oil out of the ground or gold out of the ground, uranium out of the ground, is interesting, but longer term what's important is what we call the incentive price. So that's - if you're pulling a barrel out of the ground, you got to go find new oil someplace else and find it and develop it and all the expense of doing that. What price would that take? We believe it's in the vicinity of \$75. Now we won't argue with \$65, we don't argue with \$85, don't even know if we'd argue with \$60, but \$75 is the number that we think it would take to sustainably bring on supply as fast as what's being consumed. So we think \$75 plus or minus \$15 is something you'll see in the next 2, 3 years.

Similarly we think the price to bring on new gold mines, not existing ones, new gold mines, is in the vicinity of \$2,000 per ounce. We think the price it takes to bring uranium out of the ground for new mines coincidentally is also right around \$75, and so that's the way we look at a lot of commodities, and if the market differs by a little bit, we don't pay much attention. If the market gets way away from these values, we do pay a lot.

On terms of recession, we never factor that in. We don't pay that much of any attention into that, but we do also believe the government statistics. They're probably a lot better here than they are in China, but that doesn't mean they're good here. You're taking people's guesses on what the economy is growing at, and whether somebody even wants to buy in on the Keynesian idea that consumption is good - is what we're after instead of production. We aren't necessarily bought off on that, or that as consumers spending GDP is government spending actually creating wealth. Then of course you subtract from that the inflation rate, and the inflation rate that the governments calculate we think are not being remotely approximating the cost of living increases over time. So you know, we think that right now the economy's not doing all that well and hasn't for years. We think that the massive debt overhang of most of the Western world and a lot of Asia now too, means that we've lived beyond our means for decades now. So over the next 20 years we would predict that any model assuming high growth should be doubted. The future is probably lower growth than the past. So our portfolio tends to not have a lot of companies that require a lot of economic growth, so we're not factoring in anything particularly good or particularly bad happening to the U.S. economy or the world. But we're going to muddle along, it'll do fine, and we're going to spend most of our time looking bottom up appraisal of companies.

Operator: Is there anything else, Scott?

Scott Feldstein: No, thank you.

Operator: Thank you. We'll go to Gary Magnuson with Morgan Stanley.





Gary Magnuson: Hi, Dave, Gary Magnuson. Just curious, what do you think of Apple? It looks like you own Samsung, I know Apple's on that top ten constituents list, but I was curious how you look at it in valuation wise, and then I had one question on one of your charts.

Dave Iben: Okay. No, we don't currently own Apple or Samsung at the moment, but Samsung's something in the past we've looked at. On both of them they're very interesting in a lot of ways. On traditional valuation metrics, they're actually quite attractive and they're both pretty dominant companies, what's not to like? Not much, with one exception.

We've spent a lot of time looking at margins, and we say how do those margins compare with how other companies and those businesses have done over decades, and consumer electronics - and I'm what, 58 years old, I've seen the Sony Walkman come along, I've seen DVDs get hot and they're gone and CDs and 8-track tapes and then different types of phones and everybody has to have a Blackberry and then nobody wants a Blackberry.

The margins are high and then they get smaller and smaller and smaller and smaller, and if you put an average consumer electronics company margin on either of these two companies, they're outrageously expensive. If you take a look at how they've done the last ten years, then they're incredibly cheap. So we've decided to go with we're not smart enough to figure this out and we'll sit on the sidelines and watch and we'll root for Apple, a great American company, but we don't own it.

Gary Magnuson: Oh, great, thanks for your insight. Can you comment on your monetary base versus spot price of gold, in terms of the definition of monetary base? And is that like all currencies or all value or what is that? How do you talk when you have that gold and chart?

Dave Iben: Yes. This is the sort of thing where you can get a lot of people to have all kinds of different definitions of what money is. For thousands of years gold's been money, so I would say gold is a form of money. Then there's dollars and there's yen and there's euros and there's similar charts to this for yen and yuan and would that look a lot worse than this? Then there's the euro that actually looks a little better than this. But this is just the dollar, and so historically gold was money in the United States, and the government issued dollars and those dollars were convertible into gold. So when you held a dollar you were effectively holding gold, and that gold if you took \$20.67 you could buy an ounce of gold. Then in 1933, Franklin Roosevelt said well, we're changing it from \$10.67 to \$35. So that was I guess effectively a mass amount of money printing. They changed the value of the dollar relative to gold. That was fixed for a long time. Famously in 1971 Nixon said we're not going to honor this anymore. Dollar used to be representative of interest in gold. From 1971 forward, the dollar is indicative of interest in nothing. It represents absolutely nothing other than what people psychologically think it's worth. But if you go to supply and demand it makes sense that it's just like they taught us in Econ 101, if there's supplies of apples and supplies of oranges and then all of a sudden the supply of oranges goes up 10 times, that the value of apples relative to oranges has changed. It's going to change. So it makes sense that even though we're not officially on a gold standard, the U.S. still owns the gold, and if you increase the value of dollars out there theoretically they should lose purchasing power. In reality they lose purchasing power, and since 1971 the dollar has lost 80 some odd percent of its purchasing power.

Generally if one looks at the amount of money versus the amount of gold, as the money supply goes up the price of gold goes up and it can deal with a lag and there can be cyclical to it and it doesn't correlate perfectly any one year or another, but over time it does. And it was really correlating really nice, and then in 2011, the amount of money being printed went straight to the moon. Everybody expected the price of gold would go straight to the moon with it, and instead it went straight down, 40% over four years. That's an odd thing, now the other part was base money, so the Federal Reserve, they own assets and they issue currency against that. That base money, that's just simple money that's put out by the Federal Reserve, and then that can go in the banks, and then banks are allowed to create money on top of that. So then there's M1 which is you know, has demand deposits plus currencies and then there's M2 that adds more to it, and M3 that adds more to it, all those are theoretically forms of money but they're really forms of credit. And so usually when the M2s and 3s are accelerating, that means the economy is getting more leverage, usually when they're accelerating the economy accelerates in prices of things that are bought with that accelerate. But you can get





a lot of different opinions, but to us base money is well I guess, this is base, that's money that's not leveraged, it's not created by banks, and so as more of that is printed, that is theoretically inflation.

Then how fast that gets into the economy, then that's the M2s and 3s and people will divide that by the base money to give you the multipliers. The multipliers affect when it's getting in the economy, they affect their transmission mechanisms as you will, so when you have times where credit's expanding but money supply is not, then certain forms of assets do pretty well. When you have times like 2008, '09, '10, '11, when the Federal Reserve is creating lots of money out of thin air, but it's not being leveraged, it's not going to the economy, times like that is when the price of gold follows the base money creation and prices of leveraged assets like real estate and stocks and bonds sometimes tend to lag.

If and when they start printing money again, and of course a lot of the world is printing money, that's when you see gold do better than leveraged assets, and when the economy's loving leverage again, leveraged assets do better than gold. Trying to predict if and when leverage picks up, that's tough. Rather than say it's out there in the press relay or really complications of the current debt load. So yes, if the current debt load continues to be problematic and we have to continue with low interest rates and negative interest rates, quite likely they will print a lot more money and if I had to guess I'd guess they'll print more money, but the important thing here is even if I'm wrong, the price of gold has vastly lagged the money creation that's already happening, so they don't need to print any more money. The price of gold could arguably go up way, way higher just to catch up with the money, also just to reiterate throw all this stuff out, just the incentive price, argued the price of gold should go higher. And most importantly if everything I just said is completely off base, the gold mining stocks we believe are too cheap, even if gold stays right where it is. So there's a lot of reasons to think the upside is substantial on gold miners and the downside is probably limited.

Gary Magnuson: Thank you.

Operator: We'll now go to Mary Ann Johnson with Johnson Custom Strategies. Please go ahead.

Mary Ann Johnson: I'm sorry, I was going to ask about Peabody, but I think you already answered the question.

Dave Iben: Okay, thanks.

Operator: Thank you. And if anyone else finds that their question has been answered and they'd like to remove themselves from the queue, press star 2. And we have one name remaining at this time, so as a reminder please press star 1 if you have a question. We'll go to Scott Trease with Sapere Wealth Management. Please go ahead.

Scott Trease: Thank you, and Dave, thank you for the call. Please forgive the kind of prospective investor question here. We're not that familiar with your portfolio, but I have a two-pronged question. Number one, do you or are you allowed to hedge in any way in your portfolio derivatively, whether that be shorts of the broad market, particularly hedging back any non-U.S. dollar exposures, how you handle that, or even if you could go to say ultra-tease in the futures market to put on 30-year long duration exposure.

And then the second part of the question, Dave, would be we do in our firm have a view towards an impending U.S. recession. And we also have a view toward a very let's just call it pregnant with triplets valuation multiples in the headline U.S. equity indexes. If in fact a recession were to occur and if in fact we would have mean reversion back down to more normal levels, which would seem to indicate at least a 40% type of a drop. Can you give us some general idea what your expectation would be on performance as difficult as I know that is, so please feel free to give us all kinds of caveats and what not?

But just in general, given the fact that you really do have a very deep value mean reversion type portfolio put together in many different places like your gold miners and whatnot, just a feel for what your expectation might be were we to see the S&P drop you know, 40% over the next year or 18 months. Thank you.

Dave Iben: Sure, now, those are very good questions, so I guess this'll be - I'll try to keep the answer short, but it won't be that short. If we start with the U.S., so we love the U.S., we've always lived here, a great country, it's going to do well for a long, long time. When it comes to stocks, it's not about that, it's all about value, value is





everything. And so we point out to people that in 1929 the U.S. was poised to do really well for the next 80 years. It's just that it was a very bad time to buy stocks, they sell at 90%. 1972, and 1987, 1999, 2007, they were all times where investors were about to lose half their money in U.S. stocks despite the fact that the U.S. continued to be a wonderful country.

So we have less money invested in the U.S. now than we ever have, really, despite the fact we still love the country. How did we get there? Not by making any prediction on the U.S., but by every analyst looking for value. Our railroad analysts 10 years ago found lots of value in U.S. railroads. When they went up a lot, we started finding more value in Japanese railroads. When they went up now, we found value in Chinese railroads. We used to find a lot of value in U.S. utilities, and then we started finding value in European utilities, and now we're finding value in Brazilian and Russian utilities. We used to find value in U.S. drug companies when Obama was elected, and then we found more value in Europe and now we don't find any value in drug companies. They're great companies - and so on and so forth, so industry by industry we have found ourselves migrating elsewhere.

So we love the U.S. we just agree with you that the U.S. market is high. There are times like 2007 where the U.S. market's kind of expensive and we look around and we look at all sectors and all stocks in all countries and we find relative value but not a lot of compelling value. I mentioned earlier on in the early 70s, the market was outrageously expensive on the surface, but that's just because of the "Nifty 50". Underneath it all were massive, huge, huge discounts that Warren Buffett and others took advantage of that.

In 1999, the market was outrageously expensive. Underneath it all, people were giving away old economy names and bricks and mortar names and small value names, and they were so cheap that many of us were able to make a lot of money in 2000, 2001, 2002, even as the popular stocks came crashing down. We don't know the future, but we do know the present. The present is that any market that's pretty expensive on the surface. Once you dig below the surface, we find that markets are down 50 to 80% in places like Brazil and Russia and some of the other emerging markets. We find that oil stocks are pretty cheap and gold stocks are outrageously cheap, and we're finding different areas, the phone company, then agricultural companies, and you name it. And so we have a portfolio now that's only 60% of book value, and these are generally market dominant companies. We believe that right now is a really good time to be invested in good businesses around the world, but - and we think also that you know, just like the late 90s, we're coming off a period where active management's been just a horrible thing then. And we believe now that portends well for active management because active managers right now can own these things that are not part of the hugely overvalued ETFs and indexes. So it's a beautiful time to be independent thinking active manager, that's self-serving, but I think that the facts support that view. If we're willing to hold things for the long term and we're worried about not permanently losing capital, but less worried about volatility that allows us to buy less popular companies. And it also allows us to go unhedged, and so hedging does take out volatility.

Beyond that we're not sure it adds any value. We think if we're buying things that inherently have value and are going to create wealth over time that that wealth translates into - turns into value in all currencies over time, so we're looking for things that have real value as opposed to just nominal value. That's point one. Two, if we were to hedge I'm not sure that we'd be all that good at it. Three, if we decided to hedge and we were that good at it, still not sure what we should hedge, because different businesses act different ways, and we do spend a lot of time saying all right, we don't own stocks, we own businesses, and if we own oil well, it's not exposed to currencies, but if we own an import company it is exposed to currencies. If we own a resource company we actually want the currency to drop because then costs drop relative to the dollar price of the goods that are sold. We own companies that are resource companies and non-resource companies. We have exporters and we have importers. We have lots of global companies that produce everywhere and sell everywhere. It would be very, very complicated to get the hedging right. So we're not going to.

Also over the decades the dollar usually does fall against most other currencies, and lastly if our clients want to put their own hedge on, they can do that, so we don't need to. Those people who want the non-dollar exposure are getting it and others can hedge back, so it is a difficult more volatile than ever currency world, but we for all those reasons don't hedge.

Scott Trease: Okay, the only thing, Dave, you didn't mention there is are you allowed at all to go into any fixed income U.S. treasuries other than just you know, your normal cash levels?





Dave Iben: We are allowed to and at predecessor firms, we from time to time have done that. I ran bonds for a while, back in the 90s and 80s, in fact, 80s I guess. And but ever since then, we have bought bonds and not to make a prediction on how they're going to do versus stocks. We view ourselves as investors looking to add value. If we do our homework on a company and our modeling suggests that we're going to make 12% a year owning that, and someone comes along and says the bonds of that same company are paying 14% a year, we've done that.

We owned a lot of bonds in the early '90's and the aftermath of Drexel. We owned a lot of bonds in '02. We owned a lot of bonds in '08. And a few months ago we were actually starting to look at a few bonds again. We didn't think we'd ever see the day when they would get - you know, they would get cheap again. Sovereign bonds in the developed world, we have no interest in at this particular time. One, they're less likely to be mispriced, but two, we know that all the central banks admit to openly managing them through higher prices than they deserve, i.e. lower interest rates than they deserve. So you'll probably - you know, never say never, but you'll probably never see us owning sovereign bonds, but up to 10% of the portfolio could be in corporate bonds that get mispriced and offer us equity type returns. That's the important thing, if you see bonds, it'll be because we think we're going to get equity type returns, so it is possible.

Scott Trease: Great, thank you.

Operator: Next is Jonathan Papp with Wells Fargo advisors.

Jonathan Papp: Hi, Dave, just wanted to ask a question, I noticed on one of the slides there were some increases and decreases, and we talked about the gold miners or you talked about the gold miners being very inexpensive, and I guess I'm just looking to get some insight to what your thoughts were when you decreased a Gold Corp and Silver Standard, and increased Royal Gold and Silver Wheaton.

Dave Iben: Okay, great question. Over - as an aside, the most we can ever put in one industry is 25%. This is my 35th year in the business. There's been three times that we've gone as high in 25% in an industry. In 2002 we went from 0% in technology to 25%, and in late 2008 we went to 25% in the miners. A few months later they had bounced and we had sold a lot of them. Here it's been sadly three years that we've been 25% in the miners. They are very, very cheap. We have stayed at 25% and well until they start selling at more reasonable values. We've stayed there and we have not added to because our risk control and all that hasn't - nor have we subtracted the based on valuation. What we have done, and this has been quite helpful, we look at things relative to what we think their risk adjusted intrinsic value is. If we have two stocks that are trading at what we think is a 70% discount to what they're worth, and one of them runs up to where it's only a 50% discount when another one goes to an 80% discount, we'll trim a little bit of one and we'll move it to the other. What we've seen happen at various times over the last few years, we've seen people like the small ones better, so then we buy more of the Gold Corps. Then we see the small one get killed, and then we'll trim the Gold Corps and buy more of a small one. We've seen big aversion to places like the Kyrgyzstan, and we buy a little more Centerra Gold. When that runs up, we trim that and go back into the other ones, and then what's happened that we didn't think we would ever see is we had gold, you know, Royal Gold and Silver Wheaton, two companies that are well run that have exposure to gold through royalty streams without the problems that gold mines have, without exposure to chemistry risk and geological risk. And so they've always sold at a premium, but when those just have a massive capitulation. When those things got killed without - what a great opportunity to buy these, and we bought them and we despite the fact that we still very much like Gold Corp and Silver Standard, we liked Royal Gold and Silver Wheaton and more, and so we made a place for them in the portfolio without taking the portfolio above 25%, so that was the logic there.

Jonathan Papp: Now with the Royal Gold, did - you know, one of the things that did happen is one of the companies that they were funding money to, I guess they did find that they were going to be finding less gold than there was predicted. So in some respects, do these companies also do have some exposure to you know, the companies that they invest in actually finding the amount of gold, right? I mean, there is some truth to that. And this particular stock got hit pretty hard, but the March 10th date that you had, is that when you report a date or was that when you actually did the purchase?





Dave Iben: That should be the trade date.

Jonathan Papp: That's the actual trade date?

Dave Iben: Yes, and to your point they - well, and that would be the trade in the last one. A lot of these were bought over time, so we might have started buying it a month before that, and so we'll put it on the trading desk and we'll buy. A lot of our purchases get done over time so we could find all the different trade dates if that would be helpful, but there are always little trims and adds going on day after day on the trading desk, that's true.

And your other point's good. I did not mean to imply that there's not risk for these guys, there's plenty of risk for these guys. It's just way less risk, and then there's the perception of risk, too, because where they do have exposure to whether more or less gold is found, and they do have counter party risks and those sort of things. They don't have the risk of cost creep, which is the big one. They don't have risk of management of the underlying company doing dilutive share acquisitions. They don't have risk of - well, they have a lot less risk of whether the governments want a bigger royalty or that sort of thing, so there's a reason they've traded at a nice premium. With this one also, while they all have risk, during the complete capitulation we think the market was taking news about some of their smaller exposures and making it seem like the problems were with some of their big exposures.

And we think the news was way overdone, but yes, there's plenty of risk with all stocks, including this one. It's just less so than most any other mining company.

Jonathan Papp: So certainly the ones that you decreased doesn't mean that they're not cheap also. It just means you might have found opportunities like the Royal Gold that was - you know, that created itself just to make a little bit of a swap, just like anything, just like a good stock picker would.

Dave Iben: Yes, absolutely, we were 25% gold before this, we were 25% after this, and we still own Gold Corp and Silver Standard, just a little less to make room for these new ones.

Jonathan Papp: Got you. Well thank you for all you do. I think much like you do and have been through pain but I do believe you've lived through it, I'm living through it. And I'm waiting for that day when you just start to really reap the rewards like we're starting to see now, which is good.

Dave Iben: Yes, it's quite an experience. Thank you.

Jonathan Papp: All right, God bless.

Operator: And as a reminder, if your question has been answered and you would like to remove yourself from the queue, press star two, and if you have a question, press star one. We'll take the next question from Hayden Cole with Essex Asset Management. Please go ahead.

Haydn Cole: Hi, Dave, thanks for taking my question. I really respect what you've done with your portfolio, and thanks for giving us the update on your increases and decreases in Q1. I know we'd see them in the filing or in Bloomberg, but still it's nice to hear what you have to say about these names.

I was just kind of thinking more and more about your discipline and how you allocate across the globe, and I - maybe I'm speculating too much when I think about certain depressed valuations. But I just wonder what your comments would be on kind of the southern European and maybe especially like kind of the Mediterranean financials, and maybe especially if you would comment on Greece, because it seems to me like there's an interesting relationship between value and speculation in this particular story, and that at a certain point in time there's a price where the you know, the non-performing loans and the recapitalization and the whole scenario that managing that - those bad credits and their balance sheet get - does get sorted out and things perhaps clear up. I just wonder what your comments are about sort of we'll say, yes, non-performing financials in Europe.

Dave Iben: Yes, at the beginning we had a quote from John Templeton, one of our favorites. Another quote of his is people are always asking where things look good, and the right question is where things look bad, where





there are challenges and so I like where your question's going. We tend to think that where there are problems is where we are more likely to find a good company. To quickly go over process, you can call us later to get more because I'm sure that most people have heard it, but we're always looking bottom up for companies. We spend most of our time understanding supply demand forces, the key drivers of the business, the right way to value it. But then we risk adjust. We want a bigger margin of safety for questionable management or questionable assets or lack of barrier to entry. And then we say we might want a bigger discount in Brazil than we want in Canada, or we might want a bigger discount in Greece than we want in Germany, and we do all that, and then when it comes through. We find sometimes when companies have problems we want a big discount and the market gives us an even bigger discount, and so when it was proverbially hitting the fan a number of years ago, we did buy OPAP in Greece. Then Italy, we've added the phone company and we've valued ERG, a wind farm. So yes, we always are on the lookout for values and when people really didn't like southern Europe we were spending a lot of time there, and there still are some values there, so we kind of you know, like the question and we agree with you.

Now another thing is how much of a discount do we want for a challenged company? And another question is how much of a discount do we want for banks? Now we love banks but we're not as confident on businesses that are levered 9 to 1 as we are on the railroads, say, and so we want big discounts on banks as well, and you combine the two we want really big discounts. And historically when we've owned banks it's been dominant banks in emerging markets, or it's been dominant banks in Japan, or things like that. Right now the only bank we own in the whole world is Sberbank, one of the most dominant banks you'll ever find. So we would have trouble getting really comfortable with banks in Greece, just because it's harder for us to analyze, not because we don't like them. So we would need a very big discount, but it's possible. But to be back investing in Greece or any of southern Europe, absolutely, we're always looking for value wherever it is, and so another very good question.

Haydn Cole: Thanks, David. Thank you.

Operator: And we'll go back to Gary Magnuson with Morgan Stanley. Please go ahead.

Gary Magnuson: Yes, I was just wondering if you'd give us an update on - I know it doesn't really matter, it's based on value and where you find the best equities to purchase, but how much is in the U.S. and how much is outside of the U.S., and then maybe state some of the exposures by country if you could to give us an update. And then a final question, do you own any coal bonds or anything like that? Thanks.

Dave Iben: Right now we own no bonds. We like the coal bonds, we like the coal equities better, and they're all a little volatile right now, Consol doing really well and Peabody is doing really poorly. But yes, we like the coal bonds, we like the coal stocks, but right now don't own any bonds. Country by country it gets there from the bottom up, so analyst by analyst is looking for where the value are. It probably wouldn't be a surprise to anybody that after four or five years of falling relentlessly that we're finding lots of value in emerging markets. So emerging markets are a third of our portfolio. There's also been a relentless brutal bear market in uranium and gold and related names. A lot of the great gold mining companies in the world happen to be located in Canada as the uranium companies, and so we have not quite a third of our portfolio, 29% I think is in Canada right now.

Japan is 12% of the portfolio, it got as high as 25% three and a half years ago before the election sent stocks up to 100%. The U.S. is about as low as it's ever been. Like I say, we love the country, but the stock markets have quite a 6 ½ year run. Margins are not only high, margins are double normal. There is probably nowhere to go but down on the margins, and so 11% of the portfolio in the U.S. So you know, I'd like to have a third in the growing parts of the world right now, it's nice to see them with those sort of valuations, and so that's where we are.

Gary Magnuson: Thank you.

Operator: We'll go to Dan Gallagher with UBS.

Dan Gallagher: Hi, Dave, thanks again for the call. Question for you, I know that we're you know, shopping from a list of things that are compressed and slammed you know, pretty hard already, but if we are in one of these global





deflationary worlds in this interest rates reflect maybe something in the future instead of just pure manipulation. Being centered in materials and industrials and that kind of equity that we have, are these you know, sectors that you know, historically have done okay in a deflationary environment?

Dave Iben: Let's look at this in several different ways. Inflation, deflation, what we have now is central banks pouring money into the system which is clearly massively inflationary. Then we have a huge, huge debt load that's threatening to collapse which would be a massive deflationary event. And so the world wants to deflate and the central banks think that they can create inflation.

2003, Ben Bernanke famously said we have a printing press, of course we can create inflation, to paraphrase. It was the wrong thing, he said, but if I had to bet, central banks will win. But that's just as an aside, let's look at more important, the specifics. On the surface, we have a lot of materials and industrials and so we maybe need inflation. Below the surface we don't have much of anything that the normal person would think is materials or industrials. We have no chemicals and we don't have steel, we don't have aluminum, we don't have metal vending companies, we don't have much of anything that needs inflation or needs economic growth. What we have is uranium. I don't care if we have inflation or deflation or huge economic growth or no economic growth. They are building 60 nuclear reactors around the world. When you spend billions on a nuclear reactor, you - 3% of the cost is uranium. The supply has been insufficient for 12 years, insufficient from the mines. There's been plenty of secondary supplies coming out that have led to oversupply in the short term, but long term, the demand for uranium is going to bring the price - it needs to triple to where people will open new mines. That's the incentive price, so we like that.

Gold is not dependent upon the economy and the people can talk inflation, deflation, price of gold goes up over time. Occasionally it has been dropped, but governments print money. That's what they do. The supply of gold is roughly fixed, going up a percent, 1 - 1.5% a year. As long as they print money more than that, arguably it could go higher. Also with or without inflation the incentive price we believe to bring on new supplies is \$2,000. If the economy is weak and if people say it's a deflationary collapse, then that's the environment that people print money in, so we're not looking for CPI goes to 10, we don't care if there's any inflation or no inflation. We think that the zero interest rate, maybe even negative interest rates, gold's been money for thousands of years. People have been saying this is inflation or deflation, they can say what they will, but when you're getting paid nothing to negative to hold money, which always in the history of mankind has lost value over time. Somebody will choose to own gold. Right now gold is 0.15% of the average portfolio. Maybe it's 0.20% after the recent run. What if 1% of the people choose to own gold versus zero? 1 - maybe 0% is an okay interest rate in a deflationary environment but I don't think so. I think that maybe 1% or 2% or 3% or 4% or 5% of people might want to own gold. If they do, the supply is not going to go up. It has to be the price that's going to go up, so I believe that gold and uranium are not predicated on economic growth and not predicated on runaway inflation. They are scarce goods that demand arguably could overwhelm supply under any kind of environment.

Over the last couple months we have started looking at everything else. We've bought a little oil, we're looking at copper and iron and steel and oil, and we're looking at all that now. They've gotten very, very cheap. When things get way below their incentive price they eventually come back, whether there's inflation or deflation, so we own these things based on value, but we also find the prospective demand to be really good under any conceivable future scenario. Time will tell.

Dan Gallagher: Yes, along those lines, if I could get you to - I don't know if I'd tempt you to answer this question, I hope I can. But if you know, your front line like in our position where wealthy people, you know, have asked us to help steward their money, and I'm not sure on the whole commodity side, what percentage of the typical allocation, do you think at this point tactically or permanently, ought to be allocated at a cap to commodities? And could I use your fund as a part of that allocation? I know that you guys over time have been flexible in that thinking, but if you were silly enough to be my partner and we were doing allocations for clients, is a 3% or 8% and does some of that need to be directly in gold, or you know, are there counterparty issues with ETF? I'm just curious how you think of commodities and where that belongs in people's portfolios.

Dave Iben: As you know better than me, so much of it depends upon the client, so you need to understand the client needs.





Dan Gallagher: Sure.

Dave Iben: However, it is interesting when the answer to a 30 day approach versus a 30 year approach could be quite the opposite, so...

Dan Gallagher: No, I'm thinking it was 3 to 10 year, I'm not thinking in the short term.

Dave Iben: Yes. All right, so even in three to ten. I would say if somebody's looking at one year, I understand why they might want to hold some cash, or if they have other needs. If they're talking three to ten, especially if they're talking ten years, cash goes from looking pretty safe to looking like almost carelessly throwing away value to lock something up for ten years that's going to yield nothing and have central bankers have a goal of making it lose 2% of its value every year. Now that's a risky investment. So I think for people that have three to ten year time horizons, then owning good businesses at the right price ought to be part of that. As to which businesses, there's a lot of reasons that a lot of businesses - what percentages of them should be allocated in these businesses. If you look at our portfolio, or I'm telling you that in 35 years there's only been three times that I've been willing to put 25% into one business. And this is one of them.

We think 25% is the right number to put in. Now granted we have more conviction than some people on those sort of things, but I think when you look at the yield on gold at zero and the yield on cash at zero, and you say which one of these is still going to have value in 20 years, so now its obvious gold's the better choice. In the next few months it might be the other way. It may be cash, and so I don't know. I have 25% but we think it's the right amount, but that's still to each person's discretion. We also will point out that a lot of people feel safe owning close to what the benchmark has. A lot of times that's the right choice, an important inflection point that's a disastrous choice, and it's usually when people have a lot of money in gold, that'll be the time to take the money out. Back in '06 or '07 every meeting we had people kept saying your index is 45% banks, why don't you have 45% banks? Well we had zero financials. It seems safe owning a lot of banks to people, but it wasn't. It's usually safer to buy something that's a small part of the index. We think that gold right now, I think - I can't imagine why anybody would have less than 5%. I think everybody should have 5% of their money in gold. And we think 25% the right number. Personally I have more than that, but that requires people to have a long term type time horizon and be able to handle volatility relative to the dollar, but that's my answer, but it's a subjective thing. I'm not telling you it's the right answer.

Dan Gallagher: Appreciate that, thank you.

Operator: And that will conclude our conference for today. I'd like to thank everyone for your participation and have a good day.

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