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**Edited Transcript of the 1st Quarter 2022
Conference Call with David Iben and Alissa Corcoran**

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4:15 pm ET

Mary Bracy: Good afternoon, ladies and gentlemen. Welcome to Kopernik Global Investors' first quarter 2022 conference call. As a reminder today's call is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session. Please type your question into the Q&A box and we will answer as many of them as we are able to. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go-ahead, Mr. Gaffar.

Kassim Gaffar: Thank you, Mary. Welcome everyone to the first quarter 2022 conference call. I have with me David Iben, our CIO and portfolio manager for the Kopernik Global All-Cap strategy and co-PM for the International strategy. And also Alissa Corcoran our Deputy CIO and Director of Research and Analyst. Before I pass the call to Dave and Alissa, I'll be providing a very quick firm update. Kopernik ended the first quarter with overall firm assets of roughly \$6.8 billion. This was a nice increase over the previous 12 months when assets were right around \$6.2 billion. So net net, roughly \$600 million more in AUM than this time last year. We have seen a continued increase in demand for our style of management as several of the allocators [are] taking profits from growth and US-specific managers and deploying it with managers like ourselves, giving us strong portfolio positioning. David and Alissa will spend more time on that.

Moving along on the personnel side - no changes to report - we ended the year being 42 employees strong. We've continued to be stable and with minimal turnover since inception of the firm nearly a decade ago. That brings us to an end to the business update. Please note, Dave and Alissa will be referring to the presentation, which can be found on our website kopernikglobal.com under the News & Views section. And with that, I'll pass the call over to Dave. Dave, please go ahead.

Dave Iben: Alright, thanks, Kassim. Thanks to everybody for joining us it was of course a very eventful quarter, with that in mind we are actually going to keep the presentation fairly brief and try to leave plenty of time for Q&A, which we imagine there will be some.

Anyway, question on everybody's mind: is there a shift going on in the markets? There's certainly a lot of shifts going on in the world, right now. And what does this mean for the market. What we've done is taken some slides from our recent commentary and some from my upcoming presentation at the [London Value Conference](#). Trying to piece together what the markets might be thinking, where they might be going. We know where they've been. It's been nothing but a growth market for well over a decade, maybe a decade and a half. As this chart shows [slide 8], owning growth was the thing to do; owing value was subpar; owning stuff - stores of value, commodities and things is not where people have wanted to be in the last decade or so.

That seemed to have changed late last November [slide 9]. Since then, value's hung in there okay. Growth is starting to falter. We're not saying this is the change because who knows how many times in the last 10 years we've thought "Oh, the change is upon us, value's back," and it's always been a head fake. But we do know that the swing from value to growth is a pendulum, it goes back and forth. It always has been, always will. It is pretty extended right now.





Continue with what we do know, we do know that for four decades interest rates pretty much did nothing but fall [slide 10]. But of course what's good for the economy, but for investments, as most of you know, falling rates is good for long duration assets. The longest duration assets of course are long bonds and growth stocks. And they accordingly have done very, very well. You can see the bottom, there's been a little change in direction of interest rates there again, head fake or the real thing? It's been going on for a while [slide 11]. We are thinking, it might be the real thing and why it seems interest rates have finally woken up and paid attention to inflation.

Inflation we've had a lot of years. Many, many years, all the way back to 2009 when all the money they printed went into assets and nobody considered that to be inflation and the CPI just didn't pick up [slide 12]. They did try to take the inflation out back in 2017 and 2018, at which point the markets started really crumbling and they came right back in with a lot of money. And then, with the responses to COVID-19, printed a whole lot of money, once again it all went into assets and they're really safe with their 2% target for inflation. But yeah, the money supply has gone up 10 times. By classical definitions, it means inflation has gone up 10 times; certainly assets went up 10 times. Now it seems to be migrating. And you know that's a constant theme of our calls over the last year and a half, is that the Fed is wrong about transitory inflation; it is migratory.

And so we've seen it migrate from one thing to another. And it's finally starting to go into the cost of living, which of course is bad for many, many people and also bad for many asset classes. The good news is that historically it's been good for certain asset classes, too.

So, let's just go with this idea that this is going to be value's decade - long overdue. If so, I think you can talk to a lot of different people now and get a lot of different ideas about what is value exactly, and so I think that deserves some conversation [slide 13]. It'll be no surprise to you, we believe that this might be a return to the Graham & Dodd sort of value [slide 14]. Our last commentary and the upcoming presentation will talk about how people's views of value changed.

But I think people have incorrectly said that Graham & Dodd's stocks are not Buffet stocks and Buffett likes the quality franchises the most. And almost all value people, the very few value people that even still exist I think in the world, are now in quality franchises. But going back through Warren Buffett's career, he did not own quality franchises in the early 70s. The quality franchises then were known as the Nifty 50. Everybody owned them, he didn't. He sold them all and got out of the market. 10 years later, he still didn't own it; that's about the time I came into the market, wondering why all these wonderful companies like Coca Cola and Johnson and Johnson and Gillette and Digital Equipment and everything were down 75% over a decade. And it was because they started out too high, and they ended up too low, and by the way, interest rates went up a lot that decade and that was not good for long duration assets, as I've already pointed out.

So, we think people have sort of come up with this idea of a Buffet stock, and they're not exactly right. He's a smart guy and he buys quality franchises when it's time to buy that and things he didn't like before, he buys when they become cheap, such as junk bonds, such as foreign currencies and foreign investments. And more recently what's he been buying? We've kind of welcomed him into buying some of our stuff; he's bought Mitsui and Mitsubishi, along with Sumitomo, Marubeni, Itochu. These guys, if you look into it, get a lot of their profits from resources. He also did what's kind of surprising because he's been so negative on gold in the past, he bought Barrick Gold. But if you look at what he's been saying the last couple years, that makes sense. With what's been happening to the money supply, and given where interest rates are, I think he understands it is the time to borrow money and buy gold, as opposed to sell stuff and invest the money. So that's I think more evidence that real things - latent value - are the places to be.





Further on what I've been saying, this chart [slide 15] shows that most of the gains on—this is manufacturing, but this applies to everything, most of the gains over the last decade of profits have been from falling interest rates. So 40 years of interest rates, falling from 22 to 0. I'm guessing the next 40 years it isn't 0 to -22. It's probably going the other way that will be a big challenge for growth stocks, we think.

Another big advantage has been globalization. Pretty much my entire career has benefited from globalization. Now we seem to be, for many reasons, turning away from globalization back to nationalism. And supply chain problems, you name it. Also, tax rates have done nothing but fall and everybody believes that deficit spending is an okay thing. So that's been great except for in the long run deficit spending is not an okay thing. And eventually, taxes will have to go up and our interest rates have to go up because there is no free lunch. So if those trends are going to go the other way, and 40 year trends are starting to go back the other way, maybe it's good to look at what was working before this 40-year trend, the last time we had meaningful inflation.

With meaningful inflation equities did poorly; they did poorly in the U.S., the UK, and Japan. Bonds, not surprisingly, did not do well. Commodities, of course, did well [slide 16]. So, that I think is worth noting, it makes sense, but there's some empirical evidence to suggest that is the case. Going back to an earlier chart but adding commodities back into it [slide 17]. So, value's gone nowhere, growth is going down, and commodities has been the big winner. People have discovered there's value to owning copper to put in a Tesla or owning gasoline to put in the non-Tesla's, or food (people still like food) and prices have been going up quite a lot with this inflation. So, this is a nice emerging trend, although a reasonable question would be: is this an emerging trend or have we already missed it? And with our thoughts on that, let's hand it off to Alissa.

Alissa Corcoran: Thanks Dave. So as the chart before showed that commodities have outperformed recently, this graph [slide 18] puts that move into context. And, as you can see, throughout history, this is going back to 1925, we have a long ways to go and most likely, this is just the beginning of a bull market in commodities and real stuff. So have people missed their opportunity in commodities? We do not believe so.

Our model still suggests significant upside in areas of the material sector, particularly in precious metals and companies that have these latent cash flows that Dave mentioned earlier. And by latent cash flows we're meaning cash flows that are not coming today; that won't come for potentially years in the future. We have a market that is obsessed with cash flows today, and investors have come to over rely on one valuation methodology – DCF [Discounted Cash Flow] model.

And we've talked about this before, we like a lot of things about DCF models. We agree with the premise that cash loses value to stuff over time, so it makes sense that a \$1 today is worth more than a \$1 tomorrow. But the mistake investors are making, if you were to value a gold mine, is fixing that gold price and then discounting it, which then means that the model is suggesting that a gold ounce today is worth more than a gold ounce tomorrow. Fundamentals suggest that the gold price is the exact opposite; the gold price in 5 years, in 10 years should be higher than today's price. So, the model is flawed and therefore we believe in an optionality model, makes much more sense.

Also, it's just worth noting that many investors out there believe that crypto and gold are competing for this market share and that crypto has taken the spotlight away from the gold. In reality, the market cap of crypto and gold put together is a very small fraction of total assets out there, so we believe that all real stuff, real assets, gold, crypto should do well when people start worrying about inflation.



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So, we don't know when this will happen, we do not know when the gold price will rise, but there is a high probability that the gold price is going to be higher 5, 10 years from now, likely much higher. So, an option model makes sense; and we use a number of different gold prices in our models. And, as you can see [slide 20], the risk-adjusted values to some of the gold mining companies within our portfolio show significant upside at current prices and even more upside with higher prices of gold.

One thing to note in common across all of these companies is a very sizable resource base. These companies will have a resource base that will produce gold for many, many years, and the DCF models are not giving them any credit for ounces mined 20 years from now. For example, so a patient investor will be rewarded. And another way to think about this return on patience, if you don't want to think about an optionality model, is an IRR [internal rate of return] model. If it takes 5 years, 7 years, 10 years to reach your price target, what would our return be. And when you can look at something that has an upside of 100%, even if it takes a decade, we're making 7% a year. This is a table [slide 21] that we often show clients because it helps to explain why we invest early and often without a catalyst in sight.

We've certainly had to wait a long time for uranium and natural gas stocks to go up. There wasn't a catalyst when we bought them. We liked the fundamentals; we liked the supply and demand imbalance; we're still waiting for gold. But we're hopeful that real assets are starting to get some recognition [slide 22]. We were recently on a client call and we're told that our portfolio is part of the "new FAANG", which is fuel, aerospace, agriculture, nuclear, and gold.

So we're still heavily invested in gold; we are trimming our positions in fuel and energy; we've taken our energy position from 25% back in March of 2020 down to 14% now. The oil price is clearly reflecting the positive fundamentals that we saw back in 2020. Agriculture, we are finding most value in emerging markets; we still own palm oil in Indonesia and Malaysia, which has helped offset some of the declines in our Ukrainian agriculture companies. Gold as we just outlined, we still see significant value, and we have been trimming uranium; we still own a lot of utilities that have nuclear power assets.

And when we thought about this acronym [slide 23], we thought about the acronym we advised our clients to invest in two years ago, the TUSKs, which was made up of the telecom, utilities, uranium, silver and precious metals, and South Korea. As you can see, unfortunately, it has underperformed the old FAANGs (Facebook, Amazon, Apple, Netflix, Google, and broadly Microsoft as well), it has underperformed the NASDAQ, it has underperformed the ACWI [MSCI All-Country World Index]. However, we are patient investors, we still believe in our TUSK portfolio. And we still think it will outperform the old FAANGs over time, but time will tell.

So, to close, our portfolio continues to offer, in our opinion, shelter from the storm [slide 24]. We have a portfolio with a high earnings yield, it's attractive on book value on cash flow, on sales. We believe in this portfolio; we are invested alongside our clients. And in this market (this expensive market) an uncorrelated portfolio makes sense.

As you can see [slide 26], we were active in our portfolio this quarter, taking advantage of the volatility of the market provided in January. We were adding to Russia; the Russian companies were getting cheaper, even before the invasion. We are also active in buying companies in South Korea and China as those markets have come down 17% and 33%, respectively, since the summer of 2021. And meanwhile we were trimming oil and copper and uranium and all of the commodities that have run up recently.

So, to close, wanted to give just a quick presentation. We know that there are a lot of questions, and so we just wanted to reiterate that we are grateful for your partnership, and we welcome any questions you have. As Mary pointed out, please type them into the chat box.





- Mary Bracy: Thank you, Alissa. We have several questions. Again, if you would like to ask a question, please type your question into the chat box. Our first question comes from, and I apologize if I mispronounce any last names. Our first question comes from Mike Tsoukatos, who says, you have continued purchasing Russian securities this year, what drives your conviction towards Russia securities?
- Dave Iben: Everything we do is risk versus reward. And so, with Russia, six years ago, it was very, very cheap, so we had a fair amount of the portfolio - 19%. When Russia was the best performing market on earth over the next five years, we trimmed and trimmed and trimmed and trimmed because the upside was less while the risk remained the same. What's happened in the last four or five months is that Russia's become cheaper again, which led from a small portfolio into a larger weighting. And so we were adding a little bit back in February, mostly January, But there's been no ability to buy or sell since then, so what we'll do now is wait and see when things open up and why they open up and where they open up and then it'll be more clear whether to sell or buy more how little we have, but it'll always be based on risk versus reward.
- Alissa Corcoran: And I would just also point out that we recently did a webinar [\[Managing Geopolitical Risk in a Global Portfolio\]](#) and we spent an hour talking about this really important topic. We went over how we view geopolitical risk, how we mitigate geopolitical risks, and we specifically address Russia towards the end of the webinar. So we encourage you to take a look at that.
- Mary Bracy: Well, we have a question, two questions about trims and adds, including one that asked specifically to put the additions and subtraction this quarter, slide back up - the trims and adds slide [slide 26]. And then we have a question from David Cross, who asks why are you selling uranium assets? When you are trimming what does that mean?
- Dave Iben: I'll start with that and then you [Alissa] can cover some of the trims and adds. There again, we, as many of you know have been touting the merits of uranium for the last decade. We were talking about how it had fallen from \$137 down to \$18 and no one knows what the right price is, but it seemed pretty clear that somewhere between \$60 and \$90 is what we've been saying for the last seven or eight years. And it was bouncing around in the \$20s, so we felt very good holding it there. The upside was tremendous; the risk was pretty low, we felt. And so, we had very large positions in over 10% of the portfolio in something that the average person had nothing.
- And so, we liked that and then we especially liked the concept that Alissa talked about - latent value. Whereas uranium was undervalued, uranium in the ground was more undervalued, and uranium that's not likely to be dug up in the next five years is way more undervalued. So, uranium has gone from \$18 to \$62, I think last I saw. So, are we going to like it more or less? We're pretty disciplined; we still like it a lot, but a whole lot less than we did at \$18. And then within the portfolio, we had some in the uranium holding companies, but quite a bit in the mining companies that had this latent optionality.
- From the bottom to roughly current prices, a tenfold increase in some of the smaller ones; fivefold plus in some of the bigger ones. So we have trimmed a lot. If the price of uranium does go to \$90 or so we think is reasonable expectation. We think the uranium holding companies will obviously have close to 50% upside, these smaller companies that have already gone up 10 times have priced in a lot of that move to \$90. We like uranium a lot. We like it less than we did lower and the uranium stocks we like a lot less than we did before they went up 10 times, but we still like them [and] they're still an important position.
- Alissa Corcoran: Yeah, and just to add on some of these. As you can see, we trimmed and added a lot of names this quarter, and the amount we trim and add is really reflective of the volatility that we see in the market. And so, we're constantly taking advantage of when we can buy it at a cheaper price or when we can trim it at a more expensive price. But I will also highlight some of the newer names which are in bold on that slide.



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Banco do Brasil, one of the largest banks in Brazil by assets and loans and deposits, trading below book value. CGN [CGN Power Co Ltd] is one of the largest nuclear power producers in China, and one of the world's largest nuclear power companies, also trading below book value and nine times earnings. Hyundai Department Store, one of the three department store brands in Korea, very large landowner in South Korea, also below book value nine times earnings. So, we are getting big companies for very cheap prices. High quality company for cheap prices.

And, as you can also see that the trims or eliminations are in areas that are starting to reflect the optimism. So, oil is up tremendously, and we are disciplined investors. Price is paramount; you will always see us trimming or eliminating names, as they get to our target price.

Mary Bracy: Thank you. Our next question is from Kenneth Rhea, who asks how are you seeing soft commodity markets evolve from this point forward, considering all the macro changes and the effects of the deglobalization that you've talked about?

Dave Iben: Soft commodities such as grains and foods, I guess? We do believe, as we said that the inflation is migrating into lots of commodities soft and hard. We suspect that it continues to go up. The amount of farmland is roughly fixed for a number of decades, or the number of people on the planet, as in my lifetime gone from 3 billion to approaching 8 [billion]. And the number of dollar bills is gone up astronomically. So limited farmland, lots of people, unlimited money; seems fair that the price should be going up.

What we don't do is predict where we think the prices are going to go from here, what we do do, as Alissa mentioned was, compare what we'd have to pay for some fertile land in Iowa compared to what we pay for some fertile land in Indonesia or Brazil. And if we can buy it at 10 cents on the dollar. Maybe 50 cents is fair because it's not America but 10 cents on the dollar seems extreme and so we are happy owning companies that tend to be trading five times earnings, (volatile earnings) and very, very cheap on book value and relative to the land. So, you know we generally play soft commodities through the companies, just like we play hard commodities through the companies that own them. We think we get better bargains and could do more useful research, and guessing prices is not our forte.

Mary Bracy: We have several other questions about Russia and again we would direct everyone to our webinar that we recorded on April 7 which is on our website. We will take a few of these questions here, most of them are about pricing, how are we pricing Russian securities today? So, we have questions from several different individuals with that question and then also what portion of the portfolio, what percentage of the portfolio is in Russia currently?

Dave Iben: Just like we do with say commodities, we don't know the right price, but we try to throw out the wrong price. Prices that are too high and too low. Pricing securities that only have a quasi-market going and not accessible to us. 100 cents on the dollar seems clearly the wrong price. For something that might be worth nothing, but quite possibly worth quite a lot. From an economic point of view zero is the wrong price. I understand, for marketing and business concerns zero might be the right price for a lot of people.

But from an investment standpoint, from an economic standpoint, from a business standpoint, it is not the right price. So, what we've had to do in the past was take old prices, the last prices and give them a haircut. And now that the market is open, but not to foreigners, we have a price. Not a good price but way better than any other price we have, and so we can use that and take haircuts off that. And so, as things open these things evolve, but we're giving haircuts to the old price on the DRs (depository receipts) and we're having a meeting next week to see whether we're comfortable that we have already and can tweak it and improve it. But we're trying to be





very conservative but not ridiculously conservative. So, a lot of these things in general are priced down 70% from where they were pre-invasion.

Alissa Corcoran: And I think we have about 6% in Russia today.

Dave Iben: Yes.

Mary Bracy: Thank you. We have a question from Rodger Metzger, who asks when I think of commodities and off the beaten path I think of Latin America and Africa, can you comment on your thoughts on these areas of the investing world?

Dave Iben: We just got off a call with Robert Friedland, who's probably been better than anybody on earth at taking advantage of just what you say. You know the problem with commodities is they are where they are. And the easy to find and easy to extract things have been taken care of in the last couple of centuries. And so if you want to be in the commodity business, as you say, Latin America and Africa are the places where you need to be. As well as other countries. And so, there again we can refer people back to the call we did on [Managing Geopolitical Risks](#). But if you're going to be in the commodity business, you have to take geopolitical risks. And so, the good news with doing that is you get world class assets, large assets, also economically superior assets.

But, you must diversify. It's an asset that can't be moved. It's easy for people to get a hold of. You don't want to be in one jurisdiction, one government, one management team, one currency, one anything. It's very, very important people understand what they buy. Buy them at a steep discount to what they're worth and diversify.

Alissa Corcoran: Yeah, and I would just add that we have, in some ways, an easier job than a mining company, because we can own 24 different companies with different balance sheets and different management teams and different geopolitical exposure. And there are oftentimes that we've seen in our portfolio, where one area's doing very well and offsetting a decline in some other area. A couple years ago when TRQ [Turquoise Hill Resources Ltd] was hurting our returns, we had Russia actually helping; we had Polyus and Gazprom doing well. And now, TRQ has helped us tremendously, and meanwhile offsetting some of the declines in Russia.

Dave Iben: I mentioned earlier Ben Graham. Graham & Dodd's famous Mr. Market [that suggests] people can put a lot of work into building a business and the market values it whatever, and then one day, Mr. Market wakes up in a bad mood and sells things at half price, so you take advantage of it. In the mining space, it is all the better. Or worse, I guess, from some people's standpoint but better from an investor's standpoint, because in some of our presentations, let's see if I remember the fact, is like out of every 10,000 people looking for a mine like 30 find something and of that only 3 ever get built into it.¹ It's very hard very; we will let other people go try to find it and we'll let other people try to permit it and build it, you know that sort of thing.

But the moody Mr. Market can take things that people have spent 40 years and a billion dollars on and turn around and sell it for \$40 million. And we're not making that up, that's the sort of things that happens in the mining business. So, it's both terrible and wonderful that it's such a volatile area.

Mary Bracy: So some of the things that you touched on in that previous answer had to do with diversification and different areas and domiciles of these countries. But we have a similar question from John Seitzer, asks about domicile but then if you could just clarify what percentage we currently have in precious metals miners?

¹ Out of 1,000 prospects, only one will become a mine. –BMO Mining 101





Alissa Corcoran: We have 25% of our portfolio is still in precious metals mining.

Mary Bracy: And will continue in the precious metals vein here from Stefan Lavallee, what are your thoughts on copper? Do you own any copper mining companies?

Alissa Corcoran: Yes, we still own copper, however, we are trimming, and aggressively because it keeps on going up. But we love copper. We liked it more when the prices were much lower. Our two main copper exposures are through Turquoise Hill and Ivanhoe [Ivanhoe Mines]. And so, we've been trimming those. But we also have copper through our gold mining companies: Newcrest [Newcrest Mining] has a significant copper resource as does Seabridge [Seabridge Gold].

Dave Iben: And we've talked about the past, but two years ago, after the lockdowns the price of gold soared; the price of copper plunged, so did gas and oil and other things. Because people were sure we were going into a depression. And as such, we were quickly trimming the pure gold companies and buying the ones that (at least we thought) we were able to buy: Turquoise Hill and Ivanhoe and Seabridge, and other things at cheaper prices than the pure gold companies. And so we did that aggressively, and fortunately bought a lot of oil and gas and other things too.

Up until very recently, people were thinking just the opposite, now that a recession is the last thing on anybody's mind. Now they're starting to revisit that. So you've had oil go from \$20 to \$100 something and gas go from a buck (\$1) something to \$6/\$7. We'd had copper go up about three four times, while gold is lower than it was from the peak back then. So that's the reason. We still like copper a lot, but the market now agrees with us, that's why we're trimming the copper names, as they fully start to really reflect that, and go back to the pure gold companies that don't reflect it at all from what we're seeing.

Mary Bracy: One more question on precious metals and then we're going to shift to some energy questions. Kenneth Rhea, again asks how does the business of extracting gold get impacted by the very inflationary pressures that they are supposed to insulate investors from?

Alissa Corcoran: So, I'll start by saying the way that we value all commodities is we first come up with our incentive price, and so this is the price we use that the balances supply and demand. And then, we look at the barriers to entry, we look all Porter's Five Forces. We say what should a company in this industry earn? And mining has incredibly high barriers to entry and once the capital is sunk, you can see, high margins with a fair price. And so, we are not using management's estimated costs or what they claim their costs are going to be, we use a normalized margin when we're valuing these mining companies.

And so, some of the companies, for example, are saying that they can pull gold out of the ground for a \$1000/\$1200 an ounce. We don't believe that at \$2,000 that margin is going to be sustainable. So, we do already factor in some of the fact that their costs will inflate as well as the price of gold. However, there are times when the gold price doesn't keep up with inflation, and the margins squeeze. There are other times when the gold price outpaces the cost inflations and then you would have margins expand. So, we've seen that throughout history. But our normalization of that margin takes that into consideration.

Dave Iben: Yeah, that's an important point. And then I'll point out this latent value concept we've talked about. These massive resources that are going to be in the ground for a number of years. The bad news is that requires patience. The good news is these are big resources and big resources often merit governments helping to build power sources, to supply hydroelectric power, in some cases, people are even talking about small scale nuclear plants. Because if you can run it off hydro or nuclear or others, not only is that way better for the environment,





but it's a huge competitive advantage. Because as some of these obscure mines that don't have big properties, they're trucking lots of diesel; it's bad for the environment, it's bad for their economics. And so, that's another reason why we gravitate towards large scale assets.

Mary Bracy: We'll move on to some questions specifically about energy now, and the first question is what percentage of the energy exposure is in uranium?

Alissa Corcoran: Yeah, we have about 14% of our portfolio in energy stocks now; uranium makes up 50%. So, 7% of our portfolio that's still invested in uranium.

Dave Iben: Does that include Sprott and Yellow Cake, because they generally don't put them in that category [Sprott Physical Uranium Trust is classified under financials and Yellow Cake PLC is classified under industrials under MSCI sector classifications¹]?

Alissa Corcoran: Right. So probably more like 10%.

Dave Iben: It's going to be more than half. And some of the other names might be trimmed the last few days as well. And it's also worth pointing out that 25% is the most we can put in an industry. Again in 40 years I've had 25% back in 2002 in technology and we've had gold, as we mentioned, at 25% a fair amount. Other than that, a year and a half ago, and we went to 25% energy is the only time in my career that I've gotten 25%, so that's how much we liked energy then. 14% is a big drop from then.

Mary Bracy: Question from Brandon Yee: do you see US natural gas prices converging to international prices? If yes, do you have any idea of time horizon?

Dave Iben: Partially converging, as LNG supply gets more as costs come down, but not completely. Because we have a competitive advantage, and it needs to be shipped over there and it's not free - liquefying it and transporting it. So, it'll never (well, never is a long time), it won't in the near time completely converge. But it's worth noting that, with the US – the most expensive market – really in market history we haven't had much in the US except natural gas, where the US as a tremendous competitive advantage (the US and Canada). So that's why we have had a lot ranges gone from 2 to 34 or something. We own way less than we did before, but the fundamentals are still pretty good. It's cheaper and cleaner than most other sources.

The studies out there are saying that switching from coal to natural gas is way more impactful on carbon reduction, than anything that's happened on building out the wind and the sun so far. So, people are starting to realize that in the unfortunate world situation is, you know, focusing people back on maybe we need energy for a little longer.

Mary Bracy: Do you have a view on oil rigs such as Transocean?

Dave Iben: That's something I owned a few decades ago. Now that's interesting. It's you know, since, and this applies to copper and gold and other things too. People still don't want to believe that prices are higher and so the entries in drilling has been what it could. So, the fundamentals are actually pretty good for a lot of the oil service companies. Of course, some of that's already been reflected in the stocks. And yeah, I guess with hindsight, we could have been a little quicker to get into some of those but, as I mentioned, we got 25% into the pure energy. So, that's where we went. But call us agnostic here; the fundamentals are good, and the price is somewhat reflect that, but they're arguably still cheap.





Mary Bracy: We have several more questions, so we'll continue. Can you describe or discuss the optionality model versus the DCF model in a little bit more detail?

Dave Iben: Alright. So DCF, as Alissa's talked about, makes sense if somebody is going to give you \$1,000 today or \$1,000 next year, you should not view that as equal. So, the fact, especially in this QE [quantitative easing] age that we live in: prices going up every day, you probably won't be able to buy as much. So that means you'll say, well, I will discount the value to that \$1,000 next year is equivalent to \$900 this year if it's 10% inflation. So that makes sense, you should use DCF for a bond. The value of that's dropping so you need a discount mostly for inflation but also if there's risk to the bond, you should discount that in also.

As Alissa was also saying, alright you're discounting the dollar and other fiat currencies because they're losing value against stuff. So, the dollar's losing value against stuff. What people have done is put \$1 price on that stuff and therefore assumed that the value of stuff is dropping – it's the exact opposite. Things are going up relative to the dollar. So, while DCF makes a lot of sense for bond, it for a lot of reasons makes less sense for stocks and makes no sense for commodities.

People can say, well, what about risk? We agree, we need a risk haircut. But the risk haircuts shouldn't be time value of money thing, it should be what is the risk, and give me a discount. So, DCF we think is wrong for stores of value. So, what we've done, one is just do a zero-discount rate to say we value gold the same next year, as the year after, as the year after and do a liquidation value. And that is part of our analysis; we try to buy things where we think we're going to make money if they just liquidate and that's a conservative way to do and we're happy doing that.

But, if where the price of so many things are up 5 or 10 times and gold's not even up in price, what's a fair price? You've heard us talk about equilibrium prices. Equilibrium price is probably got to go \$200/\$300/\$400 higher to get people to build mines. If they don't build mines we're going to run out of copper and gold and oil and gas in these sort of things. And so, a case can be made that the price is going to go 10% higher or more. And then, as you've heard us say in the past, people say to us, I get it for copper and corn, but not for gold - gold we don't use it, we don't eat it, we don't put it in the gas tank. Yeah, it's pretty worthless, isn't it?

We say, well, we agree that doesn't sound like a commodity, that sounds like money. And so, if gold is money in dollars, in euros, in yen, why don't we look at the supply and gold relative to supply of dollars? Doing that, supply of dollars per gold is gone from \$400 to \$23,000. We are not using \$23,000. But we're saying, what if gold might go down, might stay the same, quite probably goes to \$2,000 something and a decent chance to go on to \$3,000 or \$4,000 or \$5,000. Those things might happen. If a lot of things might happen, then an option is an interesting way to look at it. How much do I lose versus how much do I make if things work out? So, let's say at \$1600 gold, we're going to lose money. What should somebody pay for the right to buy gold that at \$2000. The value of buying gold at \$2,000 for one day is pretty meaningless it probably will not be at \$2,000 tomorrow.

But, given a year, it's quite likely. We got there a few times in recent times. So, an option's worth more if you give me a year. As Alissa pointed out, under five years, can't name anything outside of technology to fill up a lot and every five years. So, a 5-year option is way more valuable than a 1-year option, and a 1-year option is way more valuable than no option at all. So what we want is our cake and eat it too. We want to say if the price of gold stays here and never goes up, we want to make money, so we're buying them below liquidation value. And then we're saying, just for kicks, let's throw some numbers into a Black Scholes option model and say what is it think it's worth. In some of these longer life things are worth many times. And we have some exhibits we can show you that on a 20-year mine life (that's a long time) but an ounce of gold using the DCF model is worth 70% less after 20 years or the option to buy an ounce of gold becomes worth almost eight times more, if you're given the time.



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So option is very useful when fundamentals are in your favor, and you have lots of time for it to play out. But you don't know for sure what's going to happen; options become very valuable. We think we have very valuable options that we're paying nothing for.

Mary Bracy: Thank you, Dave, and thank you Karen Alessi for that question. A few more, there doesn't seem to be any exposure to battery metals such as nickel, cobalt or lithium? Do you have a view on those?

Dave Iben: We've had lithium in the past; now everybody loves it. Maybe it's worth it, maybe it's not. We tend to buy these things when people forget about its value. But certainly, we're constructive on battery metals, just like everybody else is. Nickel could be problematic as so much of it comes from Russia, and palladium mostly. So much of it comes from Russia. And copper is all over but, as somebody brought up earlier, much of the copper nowadays is places where it's not people's first choice to go. So, we will continue to periodically, but now we're on downdrafts. But whereas a year and a half ago it was energy and now it's precious metals, that we think are mispriced. We're happy to own a lot more battery metals when people lose their faith.

Mary Bracy: You're bringing up nickel. In an answer about nickel and that question segues well into our next question, which is from Jay Roney: what are your thoughts on the geopolitical concerns surrounding the purchase of Russian and Chinese assets.

Dave Iben: We love to point out that if we were talking 12 years ago, the questions I was getting from most people is why don't you own more of the BRICS? Brazil, Russia, India and China. The main view, then, was China was going to grow very fast and pass the US up; Russia and Brazil were going to get rich selling stuff to China. And because of QE1 or QE2; people had no idea of QE3 and QE infinity. But even QE1 and QE2 had people so spooked that they said we got to get out of the US, get me out and get me into the BRICS.

Now, at the time we owned emerging markets, but much of the BRICS, because people are paying up for them. What's happened since then? China has grown really fast, of course, they did not come close to catching the US, but they run very, very fast, so how much of their stock market up since then? It's down. So, the economy is more than doubled and the stocks are down, and so really good companies there are now on sale; pretty attractive prices. Russia, of course, is benefiting from the massive natural resources they have and they're making a lot of money. We've talked about the markets been very volatile over the years; big, big run ups and big rundowns.

Brazil, there's been chances to get in there. We told you guys in Brazil, we lost a little bit of money when the President of the country, decided to lower their rates on their utility company, Eletrobras. Fortunately, we were able to buy a lot of the stock, and they impeached her, and it went up seven times in six months. We mentioned that Russia is not working out so well, now that we've done tremendously well over the last six years. China, there's been times to get in and times to get out. The risks with China are real. You know, just like Russia and the US have been at it ever since the Cold War so has China. There's a lot of animosity building. A few years ago, [the U.S. government] forced [U.S. investors] to sell some Chinese telecom companies, which did not hurt China, it hurt our clients. That could happen. So, we think, as we've suggested with other things, the thing to do is focus on really good companies and if they happen to be in China or Russia or Brazil or Indonesia or you name it, insist upon really good prices and diversify. As China keeps falling, it shouldn't be a surprise to see it become a bigger part of the portfolio, it's still very small, but growing.

Mary Bracy: We are coming to the end of our time and we are not going to get to every question. So, if you do have a question that we are unable to answer please reach out to a member of our sales team and we'll be happy to answer that for you. But I want to finish with a question from Andrew Paynter, who asks you to please describe a couple of most asymmetric opportunities which he also describes as silly, silly mispriced opportunities.



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Dave Iben: Well, for people that have a lot of patience and tolerance for bad headlines, there is Northern Dynasty [Northern Dynasty Minerals Ltd]. The world is starting to believe that copper is a good thing now that Tesla's are the answer to climate change. And that maybe we should secure more copper.

There is a great copper resource in the United States; also has a boatload of gold - the biggest undeveloped reserve of gold. It's in Alaska. What more could somebody want? If this mine were built and running right now, I think \$40 billion wouldn't be a bad price for it. Don't get me wrong, it will not be easy to it built and running. But the things trades for a few hundred million dollars now, it'll take \$10 billion to build the thing, and it will take many, many years and maybe it never gets built.

There are battles, some people worry that it will be bad for the environment, the Army Corps of Engineers spent a couple of years doing a study and they came out and said no harm to the environment whatsoever. Then there was a bunch of politics that happened in the next month with the presidential administration at the time, and then the Army Corps of Engineers came out said, we changed our mind whatever we said we meant the opposite.

You [Alissa] want to throw anything out there?

Alissa Corcoran: Well, I don't know if I have a specific name, but I just think the gold mining sector in general, as you mentioned. You get that free optionality, you get that free asymmetry, because the downside is very low, especially when you can liquidate and still make money. So that's why we have 25% of our portfolio in these companies. And diversification is important because there are idiosyncratic risks for all of these mining companies and diversification is a great way to ensure that you still get asymmetry and protect your downside.

Dave Iben: And then, less exciting, but still good is emerging markets in general. They're so cheap relative to the developed markets, and you can diversify across and so much of that is resource oriented.

Mary Bracy: Okay, we will stop there with questions. Dave, do you have any concluding thoughts or Alissa, any concluding thoughts that you would like to give us?

Dave Iben: Maybe also on the last question. Throughout the Ukrainian agriculture names; they're very depressed. If they went up 100 times, one of them wouldn't reach Iowa prices, I think. And they're generally profitable names; actually, despite all the problems they've been able to plant. But mostly I just wanted to say, you know we appreciate all the good questions, we appreciate everybody support, and it's been a challenging world. So much to worry about and yet so many opportunities, as we say volatility is our friend. And hopefully we've been able to convey some of the things that we're excited about. We look forward to talking to you all again next quarter.





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