



KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 1st Quarter 2023
Conference Call with David Iben and Alissa Corcoran**

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4:15 pm ET

Mary Bracy: Good afternoon, everyone, and welcome to the Kopernik Global Investors First Quarter 2023 Conference Call. Thank you for joining us. At the conclusion of today's call, there will be a question-and-answer session. At any point during the call, please type your question into the Q&A box and we will answer as many questions as we can.

At this point, I'd like to turn the call over to Mr. Kassim Gaffar. Please go ahead.

Kassim Gaffar: Thank you, Mary. Before I pass the call over to Dave and Alissa for the bulk of the call, I'll be providing a quick firm update. From an asset standpoint, we ended the first quarter on a positive trend with roughly \$6 billion under management, a slight increase from the end of the year when we were right around \$5.7 billion.

Also, as you all are aware that a few months ago we had announced that we were going to temporarily reopen our Global All-Cap Fund to new investors effective January 3, 2023. This was done as many of our key clients had mentioned that reopening the fund would be helpful, allowing them to rebalance new client accounts. Following our announcement a few months ago, we are staying true to our word, as always, and given it was a temporary reopening, we have already announced a soft close of the Fund effective June 1, 2023.

So please, if you have any newer clients looking to come in, you've a month plus left. Please note if you have specific questions on logistics, on soft close, please reach out to me or a member of the Investor Relations team at your convenience. Moving on to the personnel side, no changes to report. We're currently 43 employees strong and have continued to be stable with minimal turnover since inception of the firm nearly a decade ago.

That brings us to the end of 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. Also, whilst on the website, you can also access some great new pieces [[Proud Mary](#) by Dave Iben; [Value Investor Insight Interview](#)] which have been well received by many of our clients. And with that, I'll pass it over to Dave and Alissa.

Dave Iben: Thanks, Kassim. Thanks to everybody for joining us today. Another eventful quarter. Anyhow, starting out, the trend followers that you know we are, we decided to follow in the footsteps of New York City and announce we're hiring our first ever Director of Rat Mitigation (slide 7). As they say, truth is stranger than fiction. I think you've all seen the news on New York's plans. But in all seriousness, we have talked repeatedly over the last three years about monetary inflation being migratory, how the price increases migrate through the system over time, and that has certainly been the case over the last three years. What we're going to talk about today is how the risk also migrates to the system (slide 8). Here we're using, fittingly, rats as our analog for risk.

I think we're starting to see it happen. Warren Buffett likes to say how when the tide goes out, you see who's swimming naked. And people who like reggae, it's been years since I saw UB40, but they're talking about rats





in the kitchen. At Kopernik we say the rats are finally being exposed. I think people are noticing the aftermath of the recent money printing as the tide went out briefly in the money printing, we saw FTX, we saw Silicon Valley Bank, Signature Bank, we're seeing a lot of the other banks and other things starting to struggle. The risks are coming to light.

Today's topic is about risk. We're going to talk about misperceptions of risk, management of risk, and we're going to talk about the opportunities that come with risk. Let's start with the conclusion actually. As Howard Marks says, when you boil it down an investor's job is to intelligently bear risk for profit, doing it well is what separates the best from the rest (slide 9). Risk cannot be avoided. It must be managed. We've believed for many years that Howard Marks book – *The Most Important Thing* – is something that ought to be mandatory for anybody getting the CFA/MBA or coming into this business, especially the three chapters on risk. We'll be quoting Howard quite a bit in this. This is a fascinating chart (slide 10). We are starting with the premise that the inflation is not gone. It continues to migrate. When even the Government Accounting Office puts out a chart like this, they expect over the next 80 years that we are going to see nonstop increases in spending, even as a percent of the economy with no increase in revenues as the percent of the economy. If spending money you don't have is sowing the seeds for future inflation, and that hopefully is intuitively obvious to everybody, there is nobody in the U.S. or any other country in high office suggesting we do anything about the inflation problem. They still believe that spending is a good thing, whether or not you have the money currently.

Here we're talking about different risks (slide 11). As Howard Mark points out, many risks matter to some investors and not to others. They may make a given investment safe for other investors, but risky for others. That is key. That is the important thing we're going to talk about. So, we'll be talking about market risks and liquidity, all the risks we're talking about here. Importantly, some of them are real and some are different/other things. Also, we have a little picture of a rat for the risks that we think have significantly increased because of all the profligate spending, the increase in the currency. So, let's start with the market risk.

Alissa Corcoran: The market risk is obviously the risk that the entire market falls (slide 12). This risk is often the highest when people think it's the lowest. Howard Marks said it best that many investors confuse quality and price, believing that high quality will lead to high returns and low risk, and that this elevated popular opinion actually is the source of potential low returns and high risk. This was certainly the case with many financials in '06. This was the case in Japan in 1989. This was the case with the NASDAQ in 1999. And it was certainly the case with the NIFTY 50 in 1972 (slide 13). These were your one-decision stocks. You bought these high-quality franchise businesses, they were going to grow, they were going to compound, buy them – don't worry about them. Well, unfortunately, you did have to worry about them. And they turned into two-decision stocks because people were selling them after the prices had gone down 40% to 90%, at the end of 1973. Today, we think that market risk is abnormally high (slide 14). This is a chart showing it - Market vs the GDP [U.S.]. We could pick a number of different metrics that show the same story, which is that the market prices have become very far stretched from fundamentals. And where are we on this curve? (Slide 15). Well, Euphoria - that was 2021, when everyone was buying digital real estate and companies that weren't making any money. That has since obviously corrected, but we still aren't in the Anxiety or Panic phase, so we think we're right here with Overconfidence.

Dave Iben: Market risk, if you're in the market, you're somewhat, you're bearing market risk. Let's turn to tracking error, which is related (slide 16). In a way it's sort of the flip side of the coin. So, the higher your tracking error, the less market risk you have, the lower your tracking error, the more market risk you have. So, is tracking error good or bad? As Alissa just made clear, that depends upon where the market is. If the market is expensive, i.e., riskier than normal, maybe it's good to have high tracking error. If the market is very cheap, arguably people should want to have low tracking error so they can participate in the probable upside of the market.





So, we view tracking error and bull markets in general, people don't believe in bull markets early on, the longer go they go on, the more comfortable they feel, the more comfortable they feel, the more they want to have low tracking error because people get worried about missing the sure things of the upmarket. I think you've all heard the story about the turkey, who as the year goes on with each passing day, gets more confident that the farmer's his friend; feeds him well, takes care of him. By November, he's feeling life's pretty good. That's pretty much what markets look like at the top also. As Howard Marks says, he's firmly convinced that investment risk resides most where it is least perceived, and vice versa.

So, continuing with this, as we've seen recently, in 1987, the market had gone up for five years, was going up increasingly fast (slide 17). A lot of people lost a lot of money just selling put options because they knew that was the safe thing because the market never drops. They came to that conclusion at the wrong time. I still remember very well, in [19]99/early 2000, nobody seemed to believe that bear markets were a possibility anymore. We got a quick glimpse of it three years ago when COVID hit. People were feeling pretty confident of that. But, you know, we can also say, after a long bull market in the 1920s, people were feeling very good. In the 1980s, Japan seemed like the place you must be. Even 2007, everybody said housing is as safe as it can be. Housing can fall in this area or that area, but it's never falling everywhere. That was the wrong time to think such a thing.

So, continuing on to concentration risk (slide 18). That's a controversial subject. Some people believe that concentration is a good thing. Other people believe it's a bad thing; it waters down returns. Imagine it is both. It's good to have conviction in things and center around your conviction. On the other hand, if you only have one or two names, that's clearly a risky thing to do. So, concentration is possibly good, but also very risky. As with the markets, once again, people that own the indexes might not realize at certain times how exposed they are to market risk. They also, at certain times, are not really aware of how exposed they are to concentration risk.

If you own an index, one would think you are pretty well diversified, but as the chart on the left shows, if you own the NASDAQ 100, you really only own a handful of companies that really matter. If you own a world index, certainly you're diversified. Who would think that more than two-thirds of your money is in one country if you own that? We're not saying it's bad, we are saying it is potentially risky. As I mentioned before, the U.S. is a great country in a lot of ways, but risk doesn't have to do with whether it's a great country, it has to do with price. And over the last 100 years, having your money invested in the U.S. has been a good thing. But in 1929, you were about to lose 90% of your money. You were about to lose over half your money in 1972, 1999, 2007. You were about to quickly lose a third of your money in 1987 or in 2020. So, we believe that it's important for people to realize what they own when they own the indexes.

All right, so a lot more risk to get to. What we've talked about so far has been more macro risk. But for me, it's much more interesting when you get into stock-specific risk (slide 19). That creates a lot more, well, interesting discussions, but also more opportunities because it can be diversified away, as we will discuss. Let's start with the whole concept of [risk] in portfolio (slide 20). People tend to look at risk on a one-on-one basis. People will say, "I would never buy a stock that can go down or go down a lot less"; that pretty much means they should never buy stock because we know stocks can be volatile from time to time. We think it should be looked at on a broader look. If you flip a coin and somebody gives you odds that are too good, as Jeff Bezos points out, if you can get a 10% chance of 100% payoff. Or in a coin if you get a 50% chance of winning and you're going to get paid instead of 1:1, you're going to get 2:1, 3:1, 4:1, 10:1, you should take that [bet] every time. And yet, if one's goal is to never lose money, they should not take that bet because there's a 50% chance, they're going to lose that bet. If you flip it once, well, here, we'll get to that in a minute on the more flips.





So first of all, on this concept of a portfolio (slide 21). It's come up with the various people that have owned Silicon Valley Bank and other things. And in our case, we had a small position in Credit Suisse. Credit Suisse, on its own, was an unfortunate outcome. As part of the process, it was actually pretty good. The process being if something deserves to sell at a discount but trades at a severe discount, you should take that proposition. And if you can duplicate that across the portfolio, it works pretty well. People probably remember last September a very different world than now. People were actually a little bit afraid back then and you were starting to see if companies had debt, and/or they were Chinese, or they were German, with all the fears about their gas getting cut off. These stocks deserved to get hit. But they got hit way more than they deserved.

So we, for one, bought Lotte Chemical and Sinopec [Engineering] and Kion and Credit Suisse and Sabre and Alibaba. And when things are distressed, you're not always going to be right and we were wrong a third of that and right two-thirds. That in itself is pretty good math. If you can be right a lot more often, and that's what we've always said from day one. It's our goal to be right two-thirds of the time. And so, we were. And the upside, fortunately, was decent, especially on an annualized basis, on a lot of these things. So, despite the fact that 2 out of 6 didn't go the way we hoped, in a reasonably short period of time, we made 13% on this.

The point is, distressed stocks on their own can be kind of risky, but across a portfolio their risk increasingly reduces and becomes pretty low. And to go a little more depth into that, let's go back to our coin flips (slide 22). If one is to flip a coin, their chance of losing it is 50%. If you flip it twice to lose both times is 25% and it starts to drop from there as you can see the chart. On the chance of being wrong 10 times in a row - so a 1 out of 1028/1024. It drops pretty quickly. The point is if you can, instead of getting a fair one-to-one return, we have a chart up to the right saying if you can get a 1.5 return; you do 50% better when you win. Over a series of flips, you're getting 25% expected wins. If you flip one coin, you're expected on average to have 25%, and the more you flip it, your expected returns stay the same. It's a 25% proposition. You should want to do that. Why the returns stay the same? If you have a portfolio of 1 flip, there's a 50% chance you're going to lose money; 5 flips, it's only a 17% chance; 10 flips, only a 10% chance; on a 20-flip portfolio, your chance of losing money are denominated.

So, risk on a one-on-one basis and risk on a portfolio basis are drastically different in this circumstance. And that works well if people are willing to take things that deserve to trade at half price and sell them at \$0.25 on the dollar, because they don't want that risk. That is very good for people that can put that into a portfolio.

When in a portfolio, the math is good, the risk of course is default (slide 23). And we are starting to see that as the chart on the right shows, the Fed has been sowing the seeds for defaults for a long time. They've been kicking the can down the road. Defaults that should have happened a long time ago have been postponed, and in many cases, the companies have more debt and less understanding about how to deal with high interest rates; less ability to deal with high interest rates. Therefore, default risk, like many things, when the default risk has been low for a long time, that's when it's quite likely to be high. One thing, one reason is people get lulled to sleep and take on too much debt, but another reason is it encourages financial engineering too (slide 24). Generally, if somebody was going to pay 50x earnings for a stock, they are going to lose money. If interest rates are held at 0, you can buy your stock at 50x earnings, you get a 2% return on that. You borrow at 0, vested 2; it's accretive even though you've destroyed value. It appears to be accretive on an accounting basis.

Therefore, that allows people to do things like buy their own stock back at high prices. While selling their own personal options into that. And we saw a lot of that in the past and it continues. Here's one airline company - where we all saw the airline companies borrowed billions before COVID - buy their stock by selling massive amounts personally. That's just one example of what's been happening. It's more Warren Buffett's "who's swimming naked"? It encourages this kind of behavior.





So, what should one do? One should do thorough analysis. They should look at multiple metrics. They should look at the long run sustainability of the numbers they're seeing. They should buy things with a significant discount. And they should diversify.

Now switching subjects, but not really switching subjects – Value Traps (slide 25). It's something we get asked about a lot. Value traps could be viewed as a slow-motion default. Value traps, of course, are when you buy something that's cheap and your stock drops, but the fundamentals drop at the same time. So you never sell it because it always looks cheap. It's just worth a little less every year. We have an example here of a value trap that we were caught in - a shipping company, seeing the diagram here [Tsakos Energy]. But it was always cheap, it's just that mismanagement caused the intrinsic value to drop faster than the stock price dropped, or as fast. So, what to do there? Once again, do a lot of thorough analysis, look at multiple metrics and look at a lot of long-term dynamics. Try to avoid the value traps, but since everybody picks losers, sometimes demand big margins of safety, have a lot of upside when you are correct, and minimize the losers, and diversify across the portfolio. What was risky becomes actually low risk, high profitability as part of a balanced portfolio.

Alissa Corcoran: So as Dave mentioned, we fully expect to get trapped every now and then. I mean we don't know the future. If our goal was to avoid any value traps, then we would never buy a stock. We also get asked about our sell discipline (slide 26). Do we sell when stocks go down? Well actually no, because volatility, unlike to many investors who think that price is declining is risk, volatility in the stock price is actually opportunity. In every world except for the stock market, when prices fall, people get excited. Warren Buffett gives a great example of buying farmland and saying how to buy farmland for \$2000/acre, and this goes to \$600/acre; people aren't asking what happened in between, is this farmland now more risky? But in the stock market and in finance, we've been taught that with prices moving around, when stock prices fall, they are more volatile and therefore more risky.

When Tesla cuts the price of its cars, people aren't saying, "Hmm, I wonder if this this car is going to be more reliable?" This is what happens with stocks. And to the extent that investors do have disdain for volatility and sell them down, this actually means that volatile stocks become cheaper and ironically less risky for investors.

Less risky, but also more opportunity (slide 27). We've shown this chart a million times and we'll keep showing it. Because it does such a great job of showing how volatility can enhance returns. This chart shows the difference between a rebalanced portfolio and a buy and hold portfolio. When you're buying when stock prices fall and trimming as they go up, the volatility can greatly enhance returns for an active investor. It also shows that cash is a very powerful option. And having cash when stocks fall can help returns rather than be a drag. It was extremely helpful for us to have the cash in March of 2020 that helped our returns a lot. And trimming and adding has definitely helped our performance since inception in a very volatile sector. You can see the difference between our returns cumulative since inception, and metals and mining vs the ACWI [MSCI All Country World Index].

So, active managers have a leg up in volatile markets, assuming they use it to their advantage. Active investors, active managers, and certainly value investors have been losing market share to passive management for the last decade, which ties in well with our liquidity risk (slide 28). Now, roughly 50% of assets are being managed by passive funds, and two things happen in this sort of environment. The first is that the biggest companies in the index become bigger, and as they become bigger, they become more liquid and attract that capital for investors who are avoiding anything that might be less liquid. So, these smaller companies, or the ones that are left out of the indices, become much better bargains. So again, this is a huge advantage for smaller active managers.





You can see the number of companies globally decrease with [larger] market cap. There are only 350 companies that have market caps larger than \$50 billion. 20x that number between \$1 billion and \$5 billion. If you're managing a trillion dollars or more, which many asset managers are, you are almost forced to buy into this the smaller set of companies with larger market caps (slide 29). So effectively everyone is buying the same companies. And as Dave showed earlier, most of these companies are in the U.S.

Emerging markets are much better bargains and many investors avoid emerging markets because of the larger geopolitical risk (slide 30). We could spend an hour on this and we did spend an hour on this. If you care to listen, we encourage you to look up our webinar [[Managing Geopolitical Risk in a Global Portfolio](#)] that we dedicated entirely to geopolitical risk. The Cliff Notes version is that the governments have needs, so they don't make their own money, they need to take it from somewhere, and they also have agendas. And so, through trade barriers, tariffs, regulation, taxes, sanctions, all of these basically take from one pocket and transfer to another pocket. Either the government's pocket or another entity's pocket. And this is a significant risk for investors.

Are there more rats in emerging markets? Is there more risk? Certainly, the rule of law is worse, corruption is worse, but emerging markets are growing faster (slide 31). They have much less debt. Often they have more resources. Outside of China, the debt for emerging markets looks pretty good. China, as you know, actually has the largest debt, private debt-to-GDP of all these countries. So, it's definitely something to be worried about with China. But as a whole with emerging markets, much less so than developed markets. What investors tend to do, though, is they're very bipolar with how they view emerging markets, which can create a lot of opportunity (slide 32).

They often think only of the bad. They think only of corruption and debt. Or, you know, in China's case, the debt. And then at other times, they only think about the growth prospects of some of these countries. Certainly, with Brazil, you have a leftist government coming in. Looks like our arrows are messed up (slide 33, chart 1)¹. So with Eletrobras [Centrais Eletricas Brasileiras], when Dilma Rousseff was elected, she cut rates. This is a company that already had a lot of debt. The company fell from \$8 to \$2, which is about \$0.10 on the dollar. And the moment she was impeached, the stock went up 7x. Now we think that in 2010, the risk that there's significant geopolitical risk, investors probably weren't thinking enough about it. But in 2014, 2016, they were over penalizing this company for the geopolitical risk. And the same thing happened with Petrobras [Petroleo Brasileiro]. In the shaded blue area, that is when Lula [Luiz Inacio Lula da Silva] was President. And again, investors were not thinking about the impact he could have, what governments can have on these state-owned enterprises. They were over discounting in 2003, but not even considering it in 2007. It should be somewhere in the middle. Today, this is a company we recently initiated and again we think that investors are over discounting this risk. We're paying 1x book, 2x earnings, very cheap on a reserve basis.

Dave Iben: Before moving on to our last risk, let's summarize where we are so far (slide 34). Market can be risky or less risky; right now on most metrics it's at the higher end risk. During those times, it's a good time to have high tracking error to not look like the market. This seems like a time when people should be looking for high tracking error. Liquidity - it increases the opportunity set. Times like now when the indexes have made the large very large and left gatherings behind, it's very important that firms stay small enough that they can take advantage of liquidity without it being a problem. Volatility is an excellent example of if other people think it's risky. They sell those stocks at very low valuations, meaning for those people that view a risk as a likely outcome of overpaying, they get to buy these stocks cheaper, actually, less risk. So volatile stocks are actually less risky

¹ Corrected chart can be found in the presentation on the website under News & Views.





for people that view risk as the long-term permanent loss or permanent loss of capital. So that's sort of where we are now.

Risk is actually way lower, we believe, for volatile stocks. Default [risk] - avoid the places that have had excessive money poured into them. Where you can see more shenanigans, do multiple metrics, fundamental analysis, demand excessive margins of safety. And what is a risky one-on-one proposition becomes a much lower risk portfolio of undervalued companies. Value traps - same thing. Geopolitics - as you just heard, if people are overly hard on them, it's time to buy more and diversify across the many, many emerging markets out there. If the EMs are half of half the [global] economy and [comprise] most of the people, isn't it interesting that it's just over a tenth of the market? So big mispricing there. Concentration - if you want diversification, best to leave the indexes far behind.

As you might expect from us, last but not least, is the risk that your purchasing power is eroded by the central banks of the world. That's not something I don't think most people would even disagree with. All through history, for thousands of years, government currencies have lost purchasing power (slide 35). What you can see here is that the Federal Reserve has created lots of money out of thin air and the almost mirror image of that is the dollar has lost most of its purchasing power. It's lost, what, 96% of its purchasing power in my lifetime. More than that, if you don't use the CPI [Consumer Price Index] but use the old CPI as ShadowStats and others show you. So, if we've lost 98% of purchasing power during the good years, what might the future hold.

So [loss of] purchasing power is something that has always happened, is happening (slide 36). And as we've shown you the government spending money is likely to continue. This chart will show once again that with one exception, prices have gone up every year but one, in my life. And even that one is debatable if you use the median instead of the average I think you get a different outcome.

Is the inflation transitory? Here is the CBO's [Congressional Budget Office] baseline budget projection (slide 37). So shocking that we ran a \$1.4 trillion deficit last year. Shocking. They're expecting that's going to be the best year we will see. It just gets worse from here. This is what the Government's saying. So continued loss of purchasing power, count on it. It's just a matter of how that will evolve the process. What should somebody do if the dollar is losing its purchasing power? Look for things that are going to hold their value.

Alissa Corcoran: Which includes things that are scarce and in demand (slide 38). Value is the intersection of scarcity and need. So, in demand, commodities are clearly in demand. This is an image that shows how many different commodities one American would use in their lifetime, born today. It's an incredible, incredible amount. In demand and scarce (slide 39). This is showing the growth in [commodity] reserves versus the growth in the monetary base. And clearly the monetary base has, the growth has clearly outstripped the growth of reserves. So very scarce and needed; should store their value.

And even with all of this, inflation now seemingly much more apparent to people, you would think that people would be going in droves towards these stores of value (slide 40). Yet the minerals underground and even above ground, they're not priced where we think they should be. But minerals underground are trading at a significant discount to gold above ground and copper above ground. And the longer the lives, the more the discount. And we've talked about this a lot, which is the difference in how investors are modeling it today and how they should be modeling it today.

We just went, we just got back from the BMO Conference, which is one of the largest metals and mining conferences in the world. And the takeaways were 1) people preferred copper over gold, by a long shot and 2) that some of the smartest mining entrepreneurs, and Robert Friedland is definitely one of them. He's a





billionaire, very successful in the mining industry. His whole talk, his keynote speech was titled “The Absurd Tyranny of NPV.” So, you can substitute DCF for NPV. And it's really how the entire industry is discounting things that should be preserving their value. So discounted cash flow models are saying that gold in the ground is declining in value every year, whereas an optionality model gives credit to the fact that these prices should go up over time. Obviously, the difference in valuations is huge. As this chart shows. And we've talked a lot about this. And so if you have more questions during the Q&A session, please, please ask.

So that's one reason why this opportunity exists. The other reason why resource companies are on sale are these perceived risks, that we think, that we're taking advantage of (slide 41). One, that they're volatile, they're under owned. So, anyone investing in resource companies would have more tracking error. Some of the best opportunities are smaller, so therefore less liquid. And then investors are also over discounting for these idiosyncratic risks that could be diversified away. Like many of them are in challenging jurisdictions. You can't choose where the minerals are, management teams also have a less than stellar track record on how they allocate capital. The biggest winner is a diversified portfolio, which we have.

So, to wrap it up. Our job as investors is to get a sense for the risk that we're taking and then demand to be overpaid for this risk (slide 42). Price is paramount for us, and we have built a portfolio that is, we believe, very well situated (slide 43, 44). Especially in an era where you have a lot of high market risk (slide 43). We have a portfolio that's less than book value, that's cheap on earnings, very cheap on cash flow, and has a lot of optionality to rising prices and things that are scarce and in demand. As you can see, our portfolio is very well diversified; the index less so – [it is] highly concentrated (slide 45, 46).

And we've continued to use volatility, as we always do, to our advantage this quarter (slide 47). Buying new positions like since we touched on Petrobras, we added the S&P [500 Index] put. We also sold out of some of these companies where the distressed was trading for a cheap price in September, as Dave pointed out, or earlier that summer and bounced back quickly. We were buying a lot of Korea [Korean companies] that continued to go on sale. We bought some industrial companies, SkyWest and West Japan [Railway] and as well as more gold. With Credit Suisse, we got out of that position when we decided that we were not happy owning UBS shares. But as we trimmed that, we were able to add to one of our Thai banks – Kasikornbank. So, these are just some examples of how we've been able to use the volatility throughout the markets and buy and trim some of our positions.

Dave Iben:

OK. While you start to send in questions, I'll give a few summary thoughts (slide 48). So, from the beginning of time until 2007, the Federal Reserve created less than \$1 trillion. From that time until now, that's going to tenfold, tenfold increase in 15 years. How can that not have tremendous implications? So, the bad news is it's caused all kinds of mispricings and it's caused some probably foolish moves. It's probably created a lot of rats that are going to be discovered in the near future. The good news is it's created all kinds of opportunities. And people's having a different view than we have on what this means and how to appraise the risk creates a lot of opportunities. For people that are willing to take advantage of mispricing, such as DCF, to look at confusion about whether very, very cheap stocks are more risky or less risky if they happen to be volatile or happen to be located in a country that people don't like. And if they are too cheap, can that risk be diversified away? We think - yes.

A lot of people like Michael Lewis. If people have not read *The Undoing Project*, it's very interesting, as he turns it into a whole story, as he always does. But it also talks about Kahneman and Tversky, great behavioral economic stuff. And they say that losses hurt twice as much as gains. If the math is even approximately right, that might explain why people seem to be indifferent on a coin flip. Between winning two, if they get heads and losing one if they get tails. If people are indifferent between that, that means they're going to pass on that





proposition. The stock market is full of those coin flips right now. What we say is we will take that all day long. As we showed you earlier, one coin flip, we can lose money, on 20 flip coin flips, it starts to get pretty difficult and that's a one and a half times not even two times. The market is going to be tough. It's going to be challenging, but people are looking for risk, quite possibly in the wrong places. The best deals might be the less risky ones and with that we would love to take questions.

Mary Bracy: Thank you, Dave and Alissa. So, we have quite a few questions coming in, and unlike some of our other calls, absolutely none of these are related to each other. So, I'm just going to go down the list and we'll get to as many of them as we can.

We're going to start with a question from John Seitzer and his question is about the difference in evaluating these latent value companies versus more of a sort of a highly levered bank. We use Credit Suisse for example. So let me read the question: It seems like evaluating latent value is a much higher probability bet with resource companies than a very highly levered bank - CSFB [Credit Suisse First Boston] that does non-bank things that are riskier than traditional banking. Are you really capable of fully understanding the risk in a business such as Credit Suisse? Given the lack of transparency and frankly accuracy of banking financials, how can we truly believe that there is value there? What is your policy of averaging down in a 10:1 levered business, which excludes the hidden risks and derivatives, etcetera. Would you do Credit Suisse again, given the same situation going forward? And in other words, did the experience change how you would deal with that situation?

Dave Iben: I'll start with that. Banks, of course, are very different animals than the latent value we talk about. Banks tend to do really well for long periods of time and then occasionally, oops. Where latent value is one of those things where you see nothing for long periods of time, and then all of a sudden, boom, I made a bunch of money. And that requires a bunch of patience, a lot of people don't have patience. Hence, we have probably ~40% of our portfolio what might be considered to be latent value. So that's a risk that we think is misunderstood. People view it as much more risky than it is. Banks as the question might suggest, are maybe more risky than most people think they are. What's the value index now 20 something, mid-20s percent banks, and we are less than 5% banks. So, we tend to agree. Banks are something we don't own a lot of. It was [owned] in the early 90s and it was again briefly in 2010/2011. There were chances, mostly in emerging markets, so generally not.

Would we do Credit Suisse again? Yes. Because as we pointed out in that one example, if you can buy really high-quality banks at 20% of book value. And banks quite often get up to 80% and 1%, in good times get to many multiples of book value. If we were to buy Credit Suisse, you know 5x or we'll just say 3x, and you lose once and you make money twice. Even if you lost twice and you made money once; so you lose twice and you make 5x on the other one. We showed an example. With hindsight, we shouldn't have bought Credit Suisse and we should have bought way more of Kion and Hyster [Yale Materials Handling] and some of these things, which went up a lot. But nobody told us ahead of time which was which.

And you know, we pointed out in like in 2008 when mining companies became very cheap and oil companies, we sold Chevron and we sold Barrick [Gold]. And we bought all kinds of small companies that were down 90%. And I'm not exaggerating with the 90%. So, a year later, somebody should have said, you know, why did you buy Apex Silver? That management screwed it up. Or why did you buy Crystallex when the Venezuelans stole from us? Except that, the rest of the names went up 5x to 10x. We had a really, really great year in '09, and nobody told us ahead of time which was going to go down. And those of you that were with us in 2016, we had unfortunately a decent position in Peabody Coal, which was effectively stolen by some hedge funds. And so, we lost. But even with that, we had a wonderful year because all the rest of our resource stocks that we also bought at \$0.10 and \$0.20 on the dollar, had a big, big move.





So while we agree that banks are hard to analyze, I don't think this person or anybody is making a case that nobody should ever buy a bank. And so, if you're going to buy banks, try to buy in emerging markets – which this [Credit Suisse] doesn't qualify – where you can grow. But buy ones that have brand names, that have wealth management divisions that have clients that also are likely – didn't turn out to be the case [for Credit Suisse] – but likely to be supported by their government. And you're probably going to be right a lot more often than you're wrong. So that whole, you know, like a lot of what we're talking about in this presentation if you're going to be wrong half the time and make a lot of money when you're right, you shouldn't put all your money in that, but you should put that in a portfolio. It's a very profitable thing to do.

Mary Bracy: Our next question is about construction of nuclear power plants. Do you have any comments on the construction of the largest nuclear power plant which is coming online in Finland?

Dave Iben: Well, yeah, that we used to know about when we had EDF [Electricite de France] and whatnot. We are not experts on building nuclear power plants. What we do know is that people are building them, and people might build the big ones like that. They might build a lot of the SMRs [Small Modular Reactors]. Whether some people love the SMR, that's the future or they're saying no, they're not viable. The western technologies versus the eastern technologies, we don't profess to be experts on any of that. We do know that the attitude has changed in the world. People have gone from anti-nuclear to it is a must if you want to have a significant base load power that is carbon free and pollution free. So now that, and many other ones, go over budget a lot. Whether somebody should own the nuclear power plants that are getting built, we don't do much of that. Whether somebody should want to own uranium that's selling at less than half of what uranium was sold in '07, and that nobody's been building mines for, that seems like a wonderful proposition to us.

Mary Bracy: Next question is about Russia. You got caught in Russia, is the first part of the question/statement. You got caught in Russia. How did you extricate or evaluate the risks?

Alissa Corcoran: Well, we are unfortunately still not able to realize a lot of the value in Russia because trading is – we're not allowed to buy or sell. So, time will tell whether or not we lose that or not. Back to what we do, would we invest in Credit Suisse again, would we invest in Russia again? Absolutely. The prices that we were paying for world-class businesses were wonderful prices. The companies that we own: the largest gas company in the world, the best highest grade gold company in the world, we have the Costco of Russia, we have hydropower in Russia. So, these companies are very good. Unfortunately, they're part of a government that's less than good, not so good. So, time will tell, but as part of a diversified portfolio, it makes sense. We monitor the situation to see, and we get asked a lot – “well, will you sell when the market opens?” And we say price is everything and we will evaluate when you know it matters why Russia opened. Did it open because now there's peace and suddenly these prices have gone up a lot. So, all of that will be evaluated in the future.

Dave Iben: And there again, if people's goal is to never be wrong, they shouldn't be in the investment markets, period. So, it's a matter of diversifying, getting overpaid. We will point out that in 2015, Russia became I think the second biggest country exposure that we've had in the last nine years and it subsequently went up 5x, or maybe it wasn't 5x. It did a lot better than the S&P. A lot better than the S&P, but for five years there were big returns, and we sold the vast majority of it. And then started buying back as it got cheaper again. So, the amount of money we made then compared to the percentage we lost now. Last fall we were taking a lot of flack for buying into China. We've since sold a lot of those names at a nice profit. Over the years, we've made a habit of taking advantage of what we saw. When people were fearful of Brazil was a good time to buy Brazil. We can go on and on. This is pretty much the whole career, buying countries or industries that people are very negative on. And when the crowd is very negative, they are usually wrong. Sometimes they're right, but they are usually





wrong, and the payoff is very good when they're wrong. Yeah, we're not happy that we got caught there, but it's part of a process that works very well.

Mary Bracy: Our next question is about the industry limits that we put up on the on our slide about concentration risk. Do you feel constrained by the 25% industry limits to pursuing desirable resource opportunities?

Dave Iben: There again, everything we've talked about is looking at things as part of a process. So, do we feel constrained? Yes. Is it good that we're constrained? Yes. In uranium, we for six or seven years said this is one of our favorite things and for six or seven years, people were yawning at our words. And then the stocks went up 10x, from the bottom to the top. If we had put 40% in uranium, everybody would have fired us before we had that good year. Or if we had gone 50% in gold before the last thing, people would fire us. We find that... I've found in 41 years that these things that look really compelling, almost always been right. But the timing is a problem. And if you don't discipline yourself and follow these constraints, you don't get to the long run. So, 25% is something we've used for a long time. It feels constraining, but most of the time, it's thank God. Because every time Canada or the gold industry, or those things take one of these little dives that they take, instead of being disastrous, it's an opportunity. So constrained - yes, in a good way.

Mary Bracy: We're now to the questions where I can sort of group some of them together. We've gotten several similar questions. We're going to continue along the lines of a sort of Kopernik process question. Can you talk more about DCF analysis versus the optionality model, incorporating the fact that some earnings streams will do better at retaining real value than others?

Dave Iben: Some earnings streams?

Mary Bracy: Yes.

Dave Iben: Let me see if I understand this right. Some earnings streams, well, if they're saying that, if there's inflation in the system that Google's cash flow will probably go up overtime, or a Google bond would not go over time. We agree completely. So, we think, you know, people should be much more interested in owning Google stock than owning Google bonds. So, a lot of what we do is look at supply and demand and barriers to entry and strength of franchise, and so things like that would lead us to liking Google a lot more than we would like the corner drugstore or whatever. So, we like Google because it's hard to replicate, and we like gold and uranium and copper because it's hard to replicate. The market likes Google. The market hates gold and it's still lukewarm on uranium. And so that means we can both protect our store of value, benefit from inflation, and buy things at such a bargain that we quite likely make money if I'm wrong on the first two. Whereas Google, we like it. We just don't see where the market has mispriced it and we have a huge advantage to make a lot of money. These latent value ones, the ones, like we agree, maintaining cash flow, but the real value are things that have no cash flow right now, but someday are going to have a lot of cash flow. It's just a matter of when. So, we agree with the people that prefer one stream of cash flows to the others and we take advantage of those too. But the cash flow they can't see yet, we think they're grossly misvalued.

Alissa Corcoran: And I would just add that we've talked in the past about how DCF models actually have it backwards, which is that the cash flows determine the value. We say that the value should determine the cash flows. And so what is value? Value is something that is scarce and in demand. And as Dave said, those deposits are scarce and they will be in demand once they're built. It might take 5/10 years for these to be built. But when they will, when they are, they produce something that is valuable and therefore should be able to be monetized.





- Dave Iben: You know, these are very important points for us. A lot of the real mispricings in the market have to do with this. The commentary we sent out last month [[Proud Mary](#), page 5] has a comic strip and has a big old long equation and in the middle the miracle happens. What people have done is taken a formula and by the end they've flipped it 100% upside down. This is amazing to us! It's like, why do we discount dollars? Because dollars lose value. And everybody knows you discount bonds and things because the dollar loses its value. So, then you peg the price of gold at \$1400 or you peg uranium at \$60. And then you say next year, gold's going to lose 5% of its value, uranium is going to lose 5%. No! It's the dollar that loses value against gold. It's not gold that loses value against the dollar. So, they have it 100% wrong by the time they get to the end. And this is fascinating because if you assume gold or oil, uranium or copper will lose 5% a year. It's not too many years before it's not worth pulling out of the ground. It's too expensive. So this is huge! This is exciting too, I think.
- Mary Bracy: We're going to do a few more sort of broader portfolio type questions. One question, what is the beta of the portfolio and how has it held up in past recessions?
- Kassim Gaffar: 0.3 / 0.4. Right now, we got like 68%. We are roughly 68% / 70% outside the Index [MSCI All Country World Index]. Our portfolio is so not correlated with the Index.
- Dave Iben: Yeah, we're not correlated at all. I don't know, let's get back to you on the beta.
- Mary Bracy: You can feel free always to e-mail whoever your Investor Relations person is, and we will be happy to answer that question and any other questions as well. Are we finding anything interesting in India?
- Dave Iben: Just like I said with Google, we love India, so does the market. So, we don't generally find a lot there. We've looked at a few things that are kind of interesting and don't be surprised if we end up with something there. We certainly had it plenty in India, 15 years ago or whenever things got really cheap there.
- Mary Bracy: Did the sharp selloff in the regional bank space trigger any short-term opportunities for Kopernik?
- Dave Iben: I have something here saying, on a five-year basis our beta is 0.87; little higher on a one-year. Didn't catch the question?
- Mary Bracy: Yeah, let me repeat the last question. Sorry, Dave, I didn't realize that you were looking at that. Did the sharp selloff in the regional bank space triggered by the failure of several larger and poorly managed banks in early March present Kopernik with any short-term opportunities?
- Dave Iben: Well, certainly things got cheaper and our Financials Analyst was very excited and put a lot of time into a lot of things. So certainly, there's a lot more things on our radar screen than there were before. The earlier question talking about the risk reward of banks, we've tended to prefer large brand name franchise banks and or banks in a growing economy. So, it's even tougher to analyze small regional banks that don't have a huge competitive advantage and may or may not have a lot of exposure to commercial real estate. So, we are looking, but it's too early for us to know whether it's a gross mispricing yet.
- Mary Bracy: All right. Let's move on to some. Oh, sorry. One more sort of portfolio level question about cash. Do we hold cash to deploy and does company hold its cash in T-Bills?
- Alissa Corcoran: We do have cash. But a reminder this is just a residual to the process. We never say, oh we want to get defensive and therefore we have this target cash level. We just have our companies. We assess what they're worth. And we buy when the market gives us the opportunity and then as the prices get closer to our estimate





of what the company is worth, we trim. And when we're trimming more than we're buying, our cash levels rise. And so we now are sitting on. I'm not sure exactly what the cash level is – Kassim? 14%², and yes some of that is invested in T-Bills.

Mary Bracy: Great. Next, we will move to some sort of sector-specific questions, particularly oil and energy. We have several questions. Sort of related. So one is what are your thoughts on oil and energy? If we're entering a recession and then two, how are you looking at energy sort of considering weaker future growth, so not unrelated but not identical questions?

Dave Iben: Yeah, future growth. We never spend a lot of time on year to year. Let's say things grow a couple percent a year, but some years are better and some worse. We're never going to try to outguess other people on when that is. We do pay a lot of attention to, is this something people use and need? And if it is something they use and need, where is it going to come from? And if people are not building uranium mines, and they are not employing drill rigs, where is the oil and uranium going to come from? If the - even people are even a little bit right on the number of EVs [electric vehicles] and windmills and stuff we have. You don't need any growth in the economy to say you're going to run out of copper. We say is this something people are probably going to continue to use? And if so, how much will it cost to incentivize people to actually produce it? And we believe it'll take much higher price for people to build enough uranium mines. They can build plenty at lower prices, but enough to come up with a much higher price. And with oil, it's either here or higher. But even at current prices, people are choosing not to drill. And gas is volatile, so people are probably less willing to commit to that. Even if the economy slows down, it's hard to see how given supply and demand and money supply and everything else, it's hard to make a case that the price of oil will be lower five years from now or uranium is lower.

Alissa Corcoran: And I think a lot of investors make the mistake that they think that we're going to go into a recession, you don't want to own oil, you don't want to own copper, you don't want to own anything exposed to commodities [given] the economic cycle. Whereas, when you look at from a supply standpoint, that's really what matters. And we saw that in the 1970s. You didn't have a good decade. The economy was not strong for a decade. And yet these you know these commodities went up multiple times. So sometimes a recession can actually be a good time to invest in commodities.

Dave Iben: And then very important to understand is with the stocks we own, we believe in most cases we will make pretty good money at current prices. All of which are way, way off their highs. What was oil \$147 once and uranium was \$137 once? So, we are buying these things in the ground at a huge discount to current spot prices. We think we make money at current prices and we think we make a lot of money if they go to that sort of price where the equilibrium price is.

Mary Bracy: OK, we have four more questions. One of which is big and then three of which are company specific. So, I'll do the big one first so that we can then end on the company-specific questions. The big question is, have you done any work on the exceptionally large amount of Treasury debt that must be sold post debt ceiling resolution?

Dave Iben: We tend to - like a lot of things - not pretend that we know more than anybody else about how that resolves itself. But you did see in our slides that not only is there a lot of government debt, but the government fully expects to lose \$1.5 trillion a year forever. And that money's got to come from somewhere. And then you throw on to that this question about, as everybody's said for years, it's insightful, either interest rates have to go way higher or they have to print a boatload of money. In either case, people ought to look at what stocks they're buying.

² Cash level in the Global All-Cap strategy was 11.85% as of 3/31/23.





Mary Bracy: Alright, so three company-specific questions. The first is Sabre. The present volatility in Sabre, why is Kopernik not adding to the position?

Dave Iben: We added a little bit in the International [Strategy] and we may in the Global [All-Cap Strategy]. It was, as we mentioned earlier, one of these ones that was distressed because they took on more debt than they ought to. And they're getting burned. But it is one of pretty much three companies in the world that can do what it can do. So we certainly are interested in the concept. Looking at that versus there's now a whole lot more distressed companies in the world than there were a year ago. So now that is the sort of thing that we like; as Warren Buffett puts it, a good company with a short term, but solvable [problem]. Does it get solved like many of the banks in '07 where they just diluted the shareholders 90%? Or does it get resolved like UBS where the government decided they like UBS better than Credit Suisse, I guess? Or does it turn around and it's all upside from here? Those are all possibilities. So, we're trying to get a better hold of what management's plan is. That's a very good question.

Mary Bracy: Next company specific question is West Japan Railway, can you please discuss your thesis on West Japan Railway?

Dave Iben: We like monopolies and quasi-monopolies. We like companies that provide services that are hard to replicate. People that knew us from the Tradewinds days when we owned a lot of U.S. railroads. They had underperformed for many, many years, but the fundamentals were getting better and better, and that worked out really well. We first got in the Japanese ones after, a little before, but a big position after Fukushima. When, if I remember the numbers right, a billion dollars' worth of damage knocked the stock prices by \$4 billion or something. It was an overreaction. Then they ran up and we sold them. Various times they've gotten interesting again. With the Japanese rails and the Hong Kong railroad that we own, short-term – COVID [has] been brutal. You're transporting people and people aren't out there being transported. It's a horrible business. That's the time to buy. We were talking about one of their competitors today, where the companies themselves had decided things are not getting back to normal. That's the time to buy. Just like the earlier question on oil. When the oil companies themselves are too bearish to drill for oil. And we mentioned, the gold companies said at this conference, well I'm not digging this up. [The price for gold they're using is] on average \$1400; people haven't noticed it's \$2000. The industry is using \$1400; hence they're not digging. And you like to own businesses that are good, they're going to do well for the long term.

Those of you have been to Japan, their trains are nice. It's way better than getting in a car and driving around. They're fast. They're efficient. They're clean. And unless you're going a real long distance, it beats the heck out of having to go to the airport too. And even if you go to the airport in Japan, you pretty much got to take the train. And so, it's a great business and they've had a horrible three years. Can they get back to normal? They ought to be able to. Just like we saw in the U.S., if you're given the right of way to a bunch of land, how do you value that? Because you have monopoly rail going through and competitors can't do anything about that. And so that makes you theoretically worth 2/3/4/5 times book value. So, when you can buy these things around book value, it's a really good opportunity, we believe. And they've done a good job over the years of taking these old train stations and turning them in just like a lot of airports. When you walk through and now it's like walking through these high-end stores, all kinds of opportunities to spend money. And it's a much nicer experience even without spending the money.

Mary Bracy: All right. Our final question today is about Kernel. How do you see the situation related to Kernel and are you doing anything to oppose the delisting of shares?





Dave Iben: I'm sure we got in on that one. I think for many, many years, Ukraine's famously been one of the most corrupt places on Earth. That's why we always had really stringent margin of safety requirements. We're wanting 80% discounts. And in this case, thank God we had the big discounts. Thank God we didn't own a lot because a year or so ago the main owner decided to take a bunch of land from our company and sell it to himself. At way too low a price. At that point, we said alright, let's try to get out. And we had little success. We got out of some.

I will point out that back to the earlier things. While that one's unfortunate, things have gone pretty well in some of our Ag [agriculture] companies. We made money in Argentina a few years back, of all places. We made good money in Brazil. We've done pretty well in the last year or two in Malaysia, Indonesia. Even you know so far it looks like some of the other companies in Ukraine are better managed, so we can hope that continues. So, the strategy continues to work well. But this happens. There was, I think eight or nine years ago or longer, a company in China with similar stuff. The guy was selling himself property too cheap, in that we got out of OK. If you're going to invest sometimes this stuff happens. Thank God we use huge margin of safety.

Mary Bracy: OK. That's it for questions for today. If you do ever have any other questions, please feel free to contact a member of our Investor Relations team and we are more than happy to get back to you. Dave, I'll turn it back over to you for any closing thoughts.

Dave Iben: Well, we just want to thank everybody for calling in. It's pretty exciting times in the market and you look forward to talking again in the near future.

Kopernik reviews the audio recording of the quarterly calls before posting the transcript of the call to the Kopernik website. Kopernik, in its sole discretion, may revise or eliminate questions and answers if the audio of the call is unclear or inaccurate.

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