



KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 2nd Quarter 2023 Conference
Call with David Iben and Alissa Corcoran**

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Mary Bracy: Good afternoon and welcome to the Kopernik Global Investors 2nd Quarter 2023 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. At any point during the call, please type your question into the Q&A box and we will answer as many of them as possible during that session. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go ahead.

Kassim Gaffar: Thank you, Mary. Hi, everyone. Before I pass the call to Dave and Alissa, I want to take a quick moment to provide a quick firm update. This month, we mark our 10-year anniversary as a firm. While many of us have worked together for several decades implementing the same philosophy and process, our firm is officially 10 years old. We would like to take this opportunity to thank you, all of our clients, for their loyalty and continued support.

We are grateful for your commitment to value and your trust in us, especially during this decade-plus of excessive momentum and market hype. Your support has allowed us to weather the storm and continue to provide you with the best possible service. Over the last decade, we have continued to grow our client base with like-minded investors. We entered the second quarter with roughly \$6 billion assets under management, a slight increase from the beginning of the year when we were right around \$5.7 billion. Also, on the product side, as you are aware, our Global All-Cap strategy was soft-closed in the 40-act channel last quarter, and International strategy continues to grow and has interest.

We are also seeing interest in our Global Long-Term Opportunity strategy that we believe is particularly well-positioned for asymmetric returns in the hard-asset space, especially given the inflationary environment we are experiencing. Moving along on the employee side, we are also pleased with our minimal turnover and only one recent retirement over the last 10 years. We enter the next decade being 42 employees strong and continue to be employee owned. We are proud of what we've accomplished as a firm, and we're excited to see what the future holds. I'm also happy to report that Dave has just finished his recent and very timely commentary [[Jacoby Transfers](#)] that can be found on our website, www.kopernikglobal.com. With that, I'll pass the call over to Dave and Alissa.

Dave, please go ahead.

Dave Iben: Okay, thanks, Kassim, and thanks to all of you for joining us. It's certainly an eventful second quarter, eventful first half. Why don't we start talking about what I think is on everybody's mind? Once again, we have one of those wild markets where you either own the Magnificent Seven or you don't. It's interesting to see the Nasdaq 100 up 45% through yesterday, while the All-Country World Value Index is up 6%. 45% versus 6%, basically 4,000 basis points of performance, and that's pretty much across the board. This is interesting, and this is shades of 1972, 1999, and to a lesser extent 2015, 2019, when a group of stocks that people are excited about take-off and leave everything else in the dust [Slide 7].





I remember well, 1999, the fourth quarter, the small value index was down. The S&P was up 20%, the Nasdaq was up 65%, the growth indexes were up 100-something. Of course, all those reversed pretty quickly the next few years. That's one thing that to keep in mind during all these periods of wild, narrow markets, they've usually reversed pretty quickly. Anyhow, there's no choice but to get a little philosophical when you see this kind of market and so bear with us as we do that. I mentioned earlier, well, I came into business in the early '80s and was quickly given a copy of *Extraordinary Popular Delusions and the Madness of Crowds* [Slide 8]. Great book, I recommend it for everyone.

Yes, I read it and thought, well, how quaint that was hundreds of years ago, that could never happen now. '80s progressed, I watched it happen in Japan, but we all thought, well, Japan, that's not the U.S., that could never happen here. Then the 1990s, late '90s, how quickly it went from such a easy, fun business to torture for value investors. That's the first time I ever really cared about philosophy or social sciences. I started thinking, how could people be doing this? Then I started reading about these tests where people with peer pressure could be made to shock people or think they were shocking people, or under peer pressure, they would give answers that they knew were wrong. All those things became quite interesting. I've been a big fan of behavioral economics ever since. It explains so much about why the top markets are not rational, they are not efficient. That is good news for all of us as investors, we can take advantage of times like now.

Anyhow, what we'll talk about is perceptions. Markets can be very painful at times, but they can be very exciting too. Fortunately, these opportunities, the tough times are followed by good times. We actually get excited at times like now.

[Slide 9] It is interesting, I came across an article the other day referring to that internet meme craze from eight years ago, when people were shown the picture of the dress that if you guys have it in color, 57% of you will see this dress as blue and black, 30% will see it as white and gold, and a smaller percentage will see green or sand or other things. You might not be surprised, we see gold. Also, to the right, many people saw from the 7 Habits book [*7 Habits of Highly Effective People*], this idea that people shown the picture in the middle, some people will see a young woman, some people will see an older woman. The ones on the side give reference to what to look for.

Perception is an interesting thing and when the markets perceive things differently than we do, those are usually followed by good times. Let's venture into something that arguably is over my head, out of my circle of competence, and that is philosophy [Slide 10]. I do find it fascinating. I do think it's important in markets like now. Markets have been run for quite a while on this idea of reflexivity, the idea that you can make things happen. You are not stuck taking what life gives you. You can, for example, blitz-scale, get enough money behind a VC company and take it from nothing to the market share leader. You can financial engineer. You can break the Bank of England if you can get enough money to follow you. There's lots of examples now of things coming from nowhere and succeeding. It's the tail wagging the dog. In the era of QE [quantitative easing], it's the \$8 trillion tail wagging the dog, and that makes things happen. That's been the place to invest. In contrast, what seems very antiquated, outdated, is the 3,000-year-old philosophy of stoicism [Slide 11]. You might not be surprised that we will spend time talking about that.

Instead of focusing on what they could make happen, [Stoics] try to worry about themselves and doing the right thing, practicing wisdom, judgment, temperance, and courage. We believe they were onto something. Things don't last for 3,000 years for nothing. We will talk about what they might have for advice for a market like today. A lot of well known stoics but one of the better known is Charlie Munger [Slide 12]. I have always loved most of his quotes. He claims he's picked up a lot of it from the stoics. It's clear from the quotes, clear from his speech. We've been intrigued, really, that this is a world where maybe it pays to do the right thing still. Maybe it pays to





look at things through a different glass. Maybe it pays to turn things upside down and look at them differently, especially when the world is looking at things from an odd angle.

We've liked for a long time this idea that we live in a world where knowledge is abundant, but wisdom is rather scarce. One thing that Charlie Munger has been big on is Carl Jacobi's idea that you should "invert, always invert" [Slide 13]. People that don't know Jacobi, go ahead and Google him. Fascinating guy, pretty impressive, invented a lot of things. Some believe that the world is a utopia. Some people believe we've entered a dystopia. We, for ourselves, will hope and strive for utopia, but we will follow the stoic advice. We will imagine, even prepare for dystopia. We think there's much to be gained from preparing for adverse outcomes.

The stoics say, "Things might go well, but think about what could go wrong." We have to admit, it wasn't hard for us to think about what could go wrong in a market that's gone up from roughly \$40 to \$4,000 [Slide 14]. This is not a market for people with acrophobia. Yes, we can imagine that this market has gotten ahead of itself, but people can say, "Well, the fundamentals have gone up also," granted. That explains part of the move, somewhat justified. These charts show that no matter how you want to look at it, earnings, book value, the economics, the economy you're in, stocks have left their underpinnings in the dust [Slide 15]. History would say, "This doesn't usually end well."

Other people will say, "Yes, but interest rates are lower now. That means lower discount rates, so things are worth more," granted. That explains some of it also. After 40 years of falling interest rates, they have started to rise [Slide 16]. Maybe, they've stopped rising. Maybe, they'll stay low forever, but it doesn't hurt to at least envision that rates that a year ago were the lowest in thousands of years of human history might go back up, maybe up a lot. We would suggest it's a good time to use scenario analysis. What do your models say a stock is worth at 1%, 2%, 4%, at 8%? Certainly afraid to get back to 16% where they were when I came in the business.

Some heavy losses could be dealt with in the bond market and things that tend to follow the bond market, so buyer beware. Well, if inflation is low, maybe interest rates can stay low. Inflation is not that low recently [Slide 17]. After years of falling, it's spiked up quite a bit, and it's been very high the last year and a half. It's gotten to the point where people were really excited last month on a low inflation number. We would point out that that low inflation number is one, still positive despite a collapse in commodity prices, when inflation picked up the fastest commodities. Except for now, commodities have fallen a lot, and it's still higher. That's on top of the consideration that these are government figures, and they also leave out a lot of things. I think people should look around at their own costs, what does it cost them to pay for education or healthcare or a meal, decide on their own whether inflation is under control. Beyond that, what is inflation? It's not a number put out by the government. Inflation is an excess of money causing it to lose value [Slide 18]. Would it lose value? Well, if you continue to print a lot of money, it's quite likely you'll lose value. You can see that the fundamentals we've had recently in the past when you've had these problems, inflation has not been linear.

It's taken a long time to go away, and it's come in waves. Maybe, what we have now is inflation having transitioned and gone, but maybe it's a low point and a wave of higher inflation, and it's at least something to think about. If higher prices are a symptom and the problem is really that we're living beyond our means and therefore need to debase the currencies, then people ought to look at debt [Slide 19]. A lot of people used to say, "If you have debt above 100% of GDP, that's when you should worry."

That only happened to a few countries here and there that were mostly basket cases, but now we're talking a lot of Western Europe. We're talking the U.S. way above it, Japan, multiples above it, so these are levels that in the past have led to a lot of inflation. Now, maybe, we'll pay the debt down except for that the chart to the





right suggests that we are doing anything but getting our spending under control. These deficits are wild [Slide 20]. Even an economy that's been quite strong lately, we're running massive deficits. Spending money you don't have tends to be inflationary. This is projections for the future, but this is from the government.

The government is usually going to err on the side of making things look rosy for the government. It's the same. We can expect pretty much \$2 trillion of spending that is money we don't have. Only somebody with rose-colored glasses could feel that this is bullish, so inflation is something we ought to consider for the future. Hopefully, it doesn't happen, but might.

Is speculation a form of inflation? We would say so. History shows when you print money, the inflation goes into the securities markets [Slide 21]. Usually, rolls out of it into other things. We had the first wave of rolling into other things a year ago. Now, it's out of other things back into securities, could go the other way.

Certainly, from multiples like this, but we would say it would be unexpected if stocks didn't fall from prices like this. That's where people can look for inflation. What does it mean? Well, we can look back at the past [Slide 22]. We can say what happened the last time. People were very excited by a handful of technology stocks. It took 14 years for people to break even if they bought the really wonderful changes that were happening in technology at the time. I mentioned, not many of you probably were around to remember this, but some of us remember when Japan was the leading-edge technology country. All the exciting technology was coming out of Japan.

They were making the best stereos and speakers and computers and automobiles and you name it, and their stock was priced as if they were the Magnificent Seven. We're talking 31 years to get even [Slide 23]. In dollar terms, I don't know if it's gotten back to where it was, something to consider. 1929, we're talking the Go-Go Years, and we were talking about a time when people had great technological change.

We were talking the assembly line, cheaper automobiles, people that could afford automobiles, antibiotics, radio, television, bulldozers, cameras, frozen food, phonographs, you name it, that's completely made the world more efficient, made it fast growth, a wonderful economy, and stocks were priced as this was going to go on forever. It did but not at the pace they were expecting, and it took 25 years for people to get even [Slide 24]. That's that.

If we look at specifics, if we look at say, this year's NIFTY 50 or the 1972, the idea that people were enamored with Eli Lilly and Johnson & Johnson and Coca-Cola and Gillette and Kmart and digital equipment [Slide 25]. For the most part, they were right. These 50 stocks, probably 40 something of them are doing well to this day. I came into the business 10 years later and was stunned to see these stocks down 80% even though earnings had grown. We imagine things will continue to go well for Chipotle and Lululemon and LVMH and Tesla. All good companies. We suspect they'll continue to be good companies. Might they be a reflection of what we saw in 1972? It could be. At some point, when the richest man in the world was a guy who sells purses for tens of thousands of dollars, yes, a different world.

Previously, the richest guy in the world was a guy who had a very small market share in automobiles but was able to get the government to make his competitors give him money with the idea that it's better to run a car off hydrocarbons that had been converted to electricity versus hydrocarbons that had been converted into gasoline. We'll see. Good companies, not so good in prices. What should people do?

Well, we always go back to risk. Risk is there when you don't see it, and sometimes when you see it, it's not so risky [Slide 26]. It's been shockingly easy to imagine things that could prove to be risky from a world that is





expensive, highly leveraged, deficit prone, at war, protectionist, more autocratic world. There's a lot of things to worry about, so we can certainly imagine that risk is out there. We can certainly imagine it's an odd time for very, very expensive prices in the stock market.

The good news, though is you look for what could go wrong and imagine worlds like that, it's easy for us to come up with a lot of stocks that will do well in the dystopic world and do well in the utopic world. We think it's a good time to revisit that and why we're excited about the market. Let's turn things over to Alissa.

Alissa Corcoran: Thanks, Dave. Given this risk in the market, the case for stoicism, the stoic virtues, when you're investing in Wonderland or a world where everything is backwards, is extremely strong [Slide 27]. In *Through the Looking Glass*, Alice is living in a world where everything is opposite. The Jabberwocky poem can only be read by looking at it through a mirror. Similarly, we believe that investors living in this backwards world should invert, like Charlie Munger, and look at the mirror image of the world to find the best opportunities.

The EMs [Emerging Markets] are the mirror image of the U.S [Slide 28]. Where the U.S. has no margin of safety, the EMs have ample. The U.S. has 25% of the global GDP, but 60% of the market cap. Meanwhile, you have half of the world's people, landmass, GDP, and that makes up only 11% of the ACWI [MSCI All Country World Index]. The U.S. is loved and overloved, and when Japan was in the same place in 1989, as Dave showed, it took 31 years to recover. We suggest people look outside the U.S. GMO agrees [Slide 29]. It's no surprise that as people [people's money] poured into the U.S., it's left the emerging markets behind to the point where valuations portend good returns going forward. You have the disciples of the reflexivity camp that Dave mentioned.

They've enjoyed a lot of success and the companies they own have likewise created their own success and their success has begotten more success. At these valuations, that trend has to keep going. Meanwhile, stoic investors, call us the stodgy, dull investors who are taking what the market gives us, are finding value in the more traditional businesses like telecom, and agriculture, and utilities, materials, and energy. It comes as no surprise though that these bargains often come with hair on them [Slide 30]. They may be in a challenging industry or a challenging jurisdiction or have a challenging capital structure. At Kopernik, we take what is, but we also consider what ought to be. We do that by using our proprietary industry templates.

Every company that is on the approved list - we have analyzed what industry they're in and discuss as a group the elasticity of supply. Can supply be brought on easily? Porters 5 Forces, the key drivers and risks. Importantly, we also use industry-specific valuation metrics. We do not believe that one metric is appropriate for every single company. Book value is not appropriate for asset-light businesses, whereas it is for real asset companies. Similarly, we don't believe that every company should have the same margin of safety. A company in the U.S. should have a smaller margin of safety than a company in Brazil or China. Many of these opportunities are in emerging markets, and we often get the question.

So, how do you get comfortable investing in emerging markets? We often say, "Well, we're never comfortable, but we make sure that we're overpaid for the discomfort, and then we diversify our portfolio." Many of these opportunities are in emerging markets, are in companies that are under-earning their potential as dictated by our industry templates.

To give you an example, you can look at KT [KT Corp] versus Verizon [Slide 31]. Arguably, on the surface, both are very cheap, single-digit earnings. Both are triopolies in their industry and the telecom industry according to our analysis is a strong one. There's high barriers to entry. This is not an industry that's going to become obsolete. They produce a much-needed product. If you could imagine a more normal world, you could see how





KT's margins and earnings could go up a lot, whereas Verizon, maybe it stays where it is, maybe it reverts to a more normal margin. In either case, with KT we're making money even if margins never revert to normal. You're making 7% a year while we wait, or maybe the market decides to pay a normal price for the earnings that they just have. There's lots of optionality on the upside, there's very low risk to the downside.

The U.S. counterparts in emerging markets traded significant discounts [Slide 32]. We put this group together Q2 of 2020, so several years ago, and you can see that the valuation gap is still high and higher with Samsung and Apple. Tesla has outperformed Hyundai [Motor]. We would point you to the fact that Guangshen [Railway], while it took a while and we had to practice a lot of patience, has now outperformed Union Pacific and done so in a quite dramatic fashion.

If the opposite of emerging markets, the mirror image of the U.S. is emerging markets, we're also finding opportunities in the mirror image of the capital-light sectors being real assets. Money has poured into capital-light businesses [Slide 33]. In 2022, this chart shows that venture capital, money went into software and services. Meanwhile, real assets remain extremely inexpensive, extremely unloved. History has not been kind to sectors that have attracted lots of capital [Slide 34]. The Seneca quote earlier, "The proof of a bad cause is when it's applauded by the mob." When there's so much capital chasing one area, there's bound to be malinvestment which eventually causes oversupply and prices to collapse. At that point, everyone goes back into their shell and nobody is investing. That's where we are with materials and energy today. You'll notice that this chart points out in energy in the early '80s, tech in '99, financials in '07 when those sectors attracted a lot of capital, it did not work well for them in the future.

Real assets, nobody is investing in real assets [Slide 35]. In energy, drill rigs are half of the level that we saw in 2014. In precious metals, their exploration spend is half of where it was, CapEx is still low, and we are not finding new mines. All of this is very bullish for the supply fundamentals. Where does that leave us? How do these stack up? [Slide 36]. Well, the Magnificent Seven are now so magnificent that they have a market cap greater than all of the metals in mining and all of the energy companies in the world. We have to ask, "Would these magnificent be so magnificent without copper and nickel, and energy that is needed to support their products? Does it make sense that these companies trade at earnings multiples that are 8 to 10 times lower than these tech companies?" When you're dealing with companies trading at 70 times earnings and 8 times book value, there's very little room for error. Your forecast must be accurate. We've argued for a long time that DCF [discounted cash flow] models, while they're precise, can put us in the wrong galaxy if your inputs are off by even the smallest amount [Slide 38]. When we're in this QE, "through the looking glass" world, you could imagine how estimates of growth or the discount rate or margins could be miles off.

As with other problems, we find it helpful to invert [Slide 39]. Let's invert the DCF. Instead of forecasting, we say, what is the value today? Using our templates as guides, what is the value if our company reverts to a more industry normal? What is our downside at various scenarios and what will our return be if it takes 2 or 4 or 8 or 10 years? Is it still worth our while if we have to wait that long? We're fans of inverting. We will note that the industry has perverted the DCF models, and we've argued for quite some time now that they are misapplying them to resource companies. The biggest mistake that we see is that it's all about input [Slide 40].

They fix the price of the good, of gold let's say, which means that 10 years forward, the gold price will be lower than it is today, which makes no sense if you look at history, it also makes no sense when you think of about logically, we're dealing with a scarce underpriced good. Time is on our side, it's not our enemy. Whereas, with option models, time is our friend. Option models, the mirror image of DCF models make a lot more sense. We think investors should look at resource companies from a different lens and from a different perspective. You can see that this perspective yields very different results. Optionality would suggest that these companies are





worth seven times their value while DCF model suggests that you lose 75% of your money. Very different outcomes. We believe that optionality is quite attractive.

The uranium companies provided a very helpful example for us especially when we're talking about gold companies [Slide 41]. Optionality was on display in 2021 when the uranium price finally went up. We had to wait a very long time, but once they did, the companies with the most optionality went up 8 to 10 times. DCF model said, no cashflow, no value. We said, these companies are sitting on an incredibly scarce needed asset that will be developed at some point in the future. Timing unknown. When we looked at our IRR chart, we said, even if it takes 10 years, even if it takes 15 years, the returns are strong even if you have to be patient. The gold mining stocks today are where the uranium stocks were prior to 2021. The gold is still way undervalued [Slide 42]. Gold miners are way below their average price relative to gold, and the companies that are not producing have the most optionality.

Optionality is a beautiful thing [Slide 43]. As Taleb says, you don't need even intelligence when you have optionality on your side. As Dave points out, there's a lot of knowledge, but not a lot of wisdom right now. Taleb notes that all you need is the wisdom to not do unintelligent things to hurt yourself, which sounds a lot like Charlie Munger who says, it's amazing how much of an advantage we have by just not being stupid. How do we consistently not be stupid?

We invert [Slide 44]. We seek wisdom by inverting, by using our industry templates to normalize margins using unconventional valuation metrics and multiple valuation metrics. We capture attractive positive asymmetries by focusing on undercapitalized sectors. We know that we're not going to be right all the time, and so therefore we diversify our holdings.

We would suggest that crazy markets demand discipline, patience, courage [Slide 45]. These traits have been rewarded and are most important during times like now when markets are completely dislocated from their fundamentals and seemingly the laws of gravity. We remain disciplined and excited about the opportunities, and the opportunities have allowed us to put together a portfolio that is trading very cheaply on every metric, cheap on earnings on book value, on cashflow [Slide 46, 47].

We are very excited and also very different from what you could get from any index fund [Slide 48, 49]. Volatility continues to present a lot of opportunities for us this quarter [Slide 50]. We trimmed a lot of Asian stocks that have gone up. Industrials did well for us, and we invested more into the material sectors.

With that, I will end, and we can start questions. Thank you very much.

Mary Bracy: Okay. Thank you, Dave and Alissa. As a reminder, if you have a question, please type it into the Q&A box at any time, and we'll be happy to get to as many of those as possible. We're going to start with a question about stoicism and a slight bit of a hypothetical. The question is from Aaron Peterson who asks, who should be the greater stoic at current prices? A passive bond investor or a passive stock investor?

Alissa Corcoran: I would say a passive equity investor would probably be the more stoic, passive bond is terrifying with inflation as Dave pointed out. The fundamentals for an inflationary future are there. We are running deficits as far as I can see. That is very scary for bond investors. I'll let Dave add to that.

Dave Iben: Yes, if the question is who probably could benefit more from being stoic, I would agree. If you imagine what could go right for a bondholder versus what could go wrong. I did the math the other day. I can't remember exactly what's in the commentary too, I think. If rates go back to the lowest in all of history that 10-year bond





makes 30-something percent whereas if rates go back to where they were when I came in the business, you lose two-thirds of your money and more than that on a long bond.

We're talking about asymmetry and optionality that we're benefiting from. If you own a bond, you're on the opposite side of that. The asymmetry is against you. You stand to make a little or lose a lot. So under that thinking it pays to be stoic and say, what could go wrong? With equities, the inflation in some cases bails you out.

Mary Bracy: All right. We'll go ahead and continue with our more broad-based, slightly more macro questions. I guess there was a recent Wall Street Journal article calling what is going on in Europe right now – a recession; asking how we view this. Do we view recession in Europe as a reality or a possibility?

Alissa Corcoran: I think the central banks have tried to eliminate a lot of things. They cannot eliminate recessions. Maybe Europe is in one right now. Maybe the U.S. is in a recession right now. Oftentimes you don't find out that you're in a recession until you've already been in one for quite some time. Regardless, I think that as long-term investors, you invest wherever the opportunities are.

One opportunity we found recently is in Europe. BASF is a chemicals producer trading very cheaply and probably because people are taking a top-down view. As bottom-up investors, we get to own a high-quality business at very cheap prices and take advantage of the fact that so many investors are more top-down.

Dave, would you add to that?

Dave Iben: Yes, we've talked a lot about this whole Cantillon effect and inflation rolling through the system from one area to another which obscures a lot of things. It could be we're in a recession. For those of us fortunate enough to be in this business, things look pretty good. Stocks are up yet again. A lot of things are bouncing back, but when you get out there and talk to people out there in the real world, this country and other countries, there's a lot of evidence things aren't so good. Earnings, for the most part, are weakening, and real estate, those problems are well-known, but not exactly priced in. We wouldn't be surprised if we're in a recession and don't know it, but the more important thing is, as Alissa points out, there's opportunities to take advantage as these waves ripple through. As people like copper one year and don't like it the next year, and like chemicals one year and don't like it the next year, those are opportunities. As these inflationary symptoms go through the system, there'll be opportunities as well.

Mary Bracy: We're going to move on to some more sector-specific questions. We have a couple of very similar questions, so I'm going to combine them here. Basically, our general thoughts on gold miners, miners in general, and then the question of where we are in terms of oil and energy. Our two standard gold and energy questions.

Alissa Corcoran: As the charts suggests, the gold miners remain one of our highest conviction areas. We still have 25% of our portfolio in gold miners. The non-producers, the ones that look horrible on a DCF, look fantastic on an optionality model. We saw the divergence of values depending on the model and perspective that you're using.

We still really like gold. Adding to the previous question is just, while we have a lot of energy and materials, we're in very defensive areas that are not particularly exposed to the economy.

We don't own a lot of copper, we don't own any iron ore, we're mostly in gold. In energy, we are in uranium. We have very little oil. We have some natural gas. We still see a lot of upside. The markets are pretty focused on one sector in one country.





Mary Bracy: Couple of questions on our process, and we'll just start with the big one. We've gotten several questions on the use of the put option, so I'll go ahead and turn that over to you.

Alissa Corcoran: I would just say that, before I turn this back over to Dave, is the implied vol [volatility] is extremely inexpensive right now despite the fact that markets have gone up. Some of these put options that we're finding, if the market just corrected by 15%, which is not unheard of, especially not unheard of with these sorts of valuations, our put option would be worth seven times the price we paid. The positive asymmetry is very exciting.

Dave, do you want to add to that?

Dave Iben: Yes. It's so interesting we talk about mirror images. Things are so much the mirror image of 40-some-odd years ago when I came in the business. Back then, interest rates were 20% and volatility had been high for a long time. Options were expensive. People, one, were having to pay a lot for optionality. Two, the opportunity cost of missing making 22% just by leaving your money in the money market account, people learned that optionality was a bad thing, and it pretty much was at the time.

Now flash forward to recent years, interest rates at zero or even at 5%, which is or isn't below the inflation rate, but basically, real interest rates are in the vicinity of zero and people are assuming low volatility. People will sell optionality very cheaply and the opportunity cost is next to nothing.

In a world where a lot of people want cash flow, if you first thought back in the days when Michael Lewis' *Big Short* talking about Olsen and Burry and other guys, when everybody wanted to make their little cash flow every month, these guys were willing to lose a little cash flow every month, but the asymmetry when the inevitable happened was really good. We showed you charts earlier where uranium, we had to sit there and be wrong for a number of years, but boom, triple or quadruples from our cost and 10x from the bottom to the top. All of a sudden, it looked way better than if we had just sat there holding a 5% bond all those years. We saw in gold, gold and gold miners have done nothing for 12 years, but we've been able to make money because of that optionality of what happened in 2016 and what happened in 2020. These are all forms of optionality.

We've owned companies that have tankers and other things. Put options a number of years back, having never wanted to own them, but noticed that they'd gone from so expensive to so cheap. Thank God they were cheap because we had to sit there and be wrong for three years and lose a little money every month. Boom, made it all back in three weeks. Made it the right time, too, because it was a good time to redeploy the cash into that COVID crash. Here we are going to do the same thing. We are going to probably lose a little money every month until we, hopefully, make a lot of money one time. That's the way optionality works. It's nothing guaranteed. Risk is that more things can happen than will happen, but the pricing of optionality, if we can buy put options and we can buy gold miners and we can buy uranium miners, and we can buy things in emerging markets that have asymmetric upside, we're going to lose sometimes, but the times that win mathematically and logically should lead us with some really nice returns.

That's the case now. The put options are very cheap. Maybe if more days like today happen, they won't be cheap for long. We'll see. Hopefully it'll work out like last time, where we're still able to afford these things when the market finally corrects. We don't know when the market will correct, but we do firmly believe that cycles have not been outlawed.





Mary Bracy: Continuing on on our process questions, moving on to some questions about our exposures and some of our trims and ads. We've been asked about the reasoning behind the Sabre [Corp] and the VEON cuts. You all wanted to discuss those particular stocks?

Alissa Corcoran: One word, debt, but I'll let Dave expand.

Dave Iben: With Sabre, the interesting thing in our business, and this comes back to the whole stoic thing versus the reflexivity, is having something to anchor yourself on, a good thing or bad thing. We find it's mostly good. You want to stay anchored 80% or 90% of the time. You don't want to get blown off of positions just because cycles happen. We tend to not capitulate very often, but to be successful, you can't be stubborn and locked in, you have to say, "Is this a cyclical phenomenon or is something changed?" With Sabre, maybe history will show that we gave up when we shouldn't have given up, but what has changed?

We always worried about their debt level, but a few things have gotten worse. One, they've continued to lose money during the cycle turn when their competitors have not. Looking into it, their model doesn't seem to be as adapted as well as Amadeus' have, so that's a concern. If they're not paying their debt back during the good times, what is their ability to handle another recession? Then, really importantly, they just did a debt deal that was very expensive. If you have a lot of debt and you're in a competitive business and you have very expensive debt, that puts you at a competitive disadvantage and at a high level of risk, so we decided to move on. History will show if we are right or wrong.

VEON, a lot of other companies, it's interesting as these companies try to deal with exiting Russia or not exiting Russia, but sometimes the politics of exit look good where the economics look bad. Sometimes companies change their mind, or we're keeping our eye on a lot of these companies. There's things to like, but as you guys know, we think if money can be made doing the unpopular thing, we'll do it. If some of these companies are willing to lose economics to do the popular thing, that lowers them in our analytical framework.

Mary Bracy: Thanks, Dave. Question about our exposure to Russia. The question is simply, do you have exposure to Russia?

Alissa Corcoran: Yes, we still have exposure to Russia. We mark our Russian securities down 70%, and we still own some of the most world-class companies out there. They have Polyus, one of the best mining companies in the world. We have utility companies that are world-class, and Gazprom is still one of the biggest gas companies with some of the best reserves in the world. We have home builders and grocery stores. We have the Costco of Russia. All of these companies are still in the portfolio. However, they are not able to be accessed by unfriendly countries. As a result, the market price that we see is only from friendly countries. Because of illiquidity and because this is not a true market, we've marked them down significantly. But investors in unfriendly jurisdictions have not been able to trade or going to get their money out of Russia if they do trade. We're sitting and we basically are sitting on a very valuable option, in our opinion.

Dave Iben: Sticking with the concept of what we're talking about, trying to imagine things, so we've marked them off 70%. Can we imagine Russia taking them to make up for people taking their assets? Yes, but we can imagine that that money gets lost. That's one of an infinite number of choices. Can we imagine the U.S. at some point forcing the sale at 10 cents on the dollar then? Yes, we would lose another 20%, and 67% of what's left. Could we imagine getting 30 cents on the dollar and breaking even? Yes. Can we imagine somehow getting two-thirds of what it's worth and doubling our money from here, and so the portfolio gets an extra 5% out of nowhere? Yes, we can imagine that. Most wars end eventually at some point. If both sides get past this idea that they both





think they're winning, they might want to settle. If the war ends and markets open up to take the 70% markdown back to zero markdown would be more than a tripling, so people would make 1,000 basis points out of thin air.

Under that scenario, as Alissa said, these are good companies that have been making money ever since, that these things double. We certainly think they're all worth double where they were before all this started. All kinds of possibilities. Somebody would have to put some very harsh percentages up to come up with an idea that this isn't worth a lot more than what we haven't priced yet, but we're choosing to be conservative.

Mary Bracy: Following up to that, Alissa, you use the phrase world-class companies, and we have just a question on clarification of what you mean by that, what you mean by world-class company.

Alissa Corcoran: These are companies that have very-difficult-to-replace assets and are operating as oligopolies. You cannot replace Gazprom's reserves, you could not replace Polyus' reserves. Those are two examples. You have Federal Grid, which is the only game in town. RusHydro is water utilities, and you can't easily replace those. You have a government that's given you a license to operate. Those are highly attractive businesses no matter if you're in Russia, if you're in Brazil, if you're in the U.S.

We like those kinds of businesses. Right now those businesses are at extreme premiums in the U.S. and at extreme discounts in emerging markets. That's why we're so excited about emerging markets, is really, you get to buy these franchises, very good franchises for less than book value. That's accounting book value, which is way less than economic book value.

Dave Iben: I guess I'll go even further. We're not saying they're going to be the best stocks, or we certainly wish they weren't in Russia. Whether they should be or not, we're not getting into that. "World-class," we mentioned these templates. If we were looking for what do we want in a gas company, we want long-life reserves. Gazprom has the longest. We want low cost. They have a much lowest cost. We want good infrastructure. They have great infrastructure, although they lost some of it in the last year. They've got markets into China, they've got the growth, they've got massive cash flow.

By everything, we would say best gas company in the world. That doesn't mean it's a good company, but based on what we want, the best company. If you look at banks, we say we want a bank with dominant market share, we want them to be in a growing marketplace, in emerging markets, we want them to have decent balance sheets, we want them to have a history of going through the bad times without a lot of write-off, we want companies that have stuck to banking instead of become hedge funds, and we want good returns year-in-year-out.

Sberbank [of Russia] might be the best bank in the world. In terms of gold mine, and with massive long-life reserves at decent cost, Polyus might be one of the first, second, third best in the world. If we want cheap, clean, carbon-free electricity, hydro is where you want to be, and RusHydro along with Brazil and others are maybe best in the world if you look at it that way. If you want a housing company, a country that needs housing, it's Russia. Good companies. We're not saying Russia is good, it's not. We're not saying they'll work out. Hopefully, they will, but just objectively looking for what you want to look at. I don't think anybody would argue with the idea that these are world-class.

Mary Bracy: We still have a couple of other follow-up questions, one of which is, what is our percentage that is in Russian companies with that 70% haircut we've applied?

Alissa Corcoran: It's about 4.5%.





Dave Iben: Tad higher than that in the International strategy.

Mary Bracy: Then, again, do we imagine a situation in which we would mark Russian stocks down to zero versus what we've done, which is to apply the 70% haircut?

Dave Iben: If it becomes increasingly likely that we won't get our money back, then we would mark it down.

Mary Bracy: Let's move on to some other-- We have quite a few questions remaining, so let's continue on through this. A question about Ukrainian agriculture companies. Do we still have positions in them? Can you elaborate a little bit on those?

Alissa Corcoran: We still have positions in some. We had to sell out of one, Kernel [Holding]. Just it was increasingly clear that-- There are times within corrupt emerging markets that sometimes it's the government that steals the economics from you, sometimes it's a founder, in which case that's what happened with Kernel. The chairman had stolen basically some farmland earlier. He sold to himself very valuable farmland from Kernel. It comes as no surprise that when he wanted to delist the shares and he tendered at a price very low, we decided to cut our losses and get out.

We still have Astarta [Holding], we still have MHP, and they're doing well.

Dave Iben: We put more haircuts and margins of safety when we deal in places like China or Brazil. Ukraine, years ago, people knew it was famously corrupt, so we give 80% haircuts, plus or minus, to these things, to compensate for these things. That serves us well. If you give an 80% haircut and things work out, you can make five times your money.

As I mentioned on a previous question, once there becomes evidence, it's no longer fear of fraud. There's evidence of fraud that happened here at a Ukrainian company, and it happened probably eight years ago, this one company in China, where it was become clear we didn't want to be invested with these guys. Fortunately, Astarta is working out pretty well to balance that out.

Mary Bracy: Okay. We've gotten to the point in our Q&A session where none of the questions relate to each other anymore, so we're just going to go down the list. We have a question that asks about AI, are we looking at how we might integrate AI into our process of identifying and analyzing investment opportunities?

Alissa Corcoran: Dave, you want to take that one?

Dave Iben: Sure. It's interesting.

Of course, we're looking at it, spending a lot of time on it, twice a year, we have an offsite where we had a presentation on it that one of our analysts did. It's fascinating. It's interesting, in '99, everybody thought the internet was something. If you were an internet company where times showed that it was a technology that people could use. Winners were good companies that used the Internet. And we saw a few years back with blockchain, people thought that was something as opposed to something that people would use.

We'll see how some of these AI companies do. I think it probably won't work out for a lot of people, but is AI going to change the world? Absolutely. It's going to change it a lot. It's going to help obsolete things and make other things more efficient. Can it help us be more efficient? Yes. Can we look at that? We are. A couple of





things to point out. What we've always said about technology and about models and about everything, we want these to be tools, not our masters here, they're our servants. AI will be the same thing. I talked earlier in the presentation about a world with lots of knowledge but less wisdom.

We want resources that will continue to get us more knowledge, and thus far, AI's impressive, but can't think. We want to utilize it as one input. One last point to make is this just increases what we've already seen, is massive disruption. I wrote a commentary a number of years back. These disruptors are great companies, but the industries that disrupt also become the disruptee. At some point, really boring things like copper, and gold, and uranium, and wheat, and palm oil and things like that become exciting because AI is not likely to disrupt them, but it's likely to disrupt a whole lot of other fields. Absolutely, we're spending a lot of time learning about it.

Mary Bracy: Great. Our next question has to do with challenging some of the quotes that we have in today's presentation. The questioner says, "You quoted Munger and Buffett continuously, but have you seen the most recent 13F, where Berkshire Hathaway owns \$178 billion position in Apple? Does this mean that the people that you are quoting see the world very differently than you're interpreting?"

Dave Iben: I wrote a commentary a year or two back. I can remember saying maybe Buffett can challenge me on this. What people call Buffett stocks aren't Buffett stocks. He's too smart a person to be put into a box that these great moat companies, he didn't buy them because they were a great moat company, he bought them because they were underpriced in the early '80s and the various times since then.

Back in the NIFTY 50, that's what these moat companies were in NIFTY 50. Now he's selling them. He closed his partnership and sent everybody's money back and didn't start buying stocks again until '73, '74. Then he was not buying what people were calling Buffett stocks. He evolves, he migrates, he started buying them in the '80s and did very well. He publicly questioned himself for not selling Coca-Cola in '99 when it had gone from, I think it was \$4 to \$80, if I have it right. He did very well. People were saying it was a Buffett stock. It no longer was a Buffett stock.

He famously said he would never buy technology, and then he bought technology, and he's done very, very well on Apple. Maybe he keeps buying more and it keeps going up, but maybe he sells. Maybe Apple's a really good company, and he liked it at 12 times earnings and doesn't like it at 36 times earnings. With Buffett, he is got a lot of great quotes. I always say watch what he is doing recently, not what he did when Apple was a quarter of its price, but we'll see.

Mary Bracy: Great. If you're curious more about that, that commentary that Dave is talking about was titled [Changes in Latitude](#), and that's available on our website. Moving on, are we still trying to perform slightly better than the benchmark in all sectors? Is a 60-40 equity bond mix still a good average portfolio?

Alissa Corcoran: Dave.

Dave Iben: In short term, we pay no attention to any benchmark or trying to be anything. Long-term, we'd be disappointed if we don't beat any relevant benchmark by a lot. Now the way that works is you underperform in the late '90s and outperform by 1,700 the next 10 years and then underperform the next five years. We'll see. Year to year, these things aren't controllable. You look at the valuations of our portfolio versus the valuations of the index, if this next decade is not really good for us, I'll be crushed. The second half of that question, again?

Mary Bracy: The question of 60-40 equity bonds.





Dave Iben: We don't believe in standard rigid formulas. The percentage of stocks versus the percentage of bonds should be based on how attractive stocks are versus how attractive bonds are. Same thing with the age-adjusted bond stocks. Same thing, formulas don't work. If somebody's 80 years old, doesn't mean they should have a year and a half ago had 80% of their portfolio in something that was yielding 1%. That makes no sense.

I think you guys have heard us over the last five or six years saying that people should have 0% in bonds unless they absolutely had to have them. Zero interest rates made no sense. From where we are now, maybe it's okay. I know 5%'s not the worst thing in the world, or 4%, but we would still say people should probably have a lot more stocks than bonds. It's not so clear-cut.

What is clear-cut to us, time will tell, is that stocks should be individually picked. You shouldn't buy the indexes. The indexes are expensive. In '72 and '99 and other—'07—when the index gets expensive, but active managers are looking stupid, usually, the next five years, the active managers all of a sudden look smarter. How can they not from these valuations? I would say people should prefer inexpensive stocks over the indexes. They should prefer, in many cases, international stocks to U.S. stocks, and emerging market stocks to other international stocks. It's huge mispricing. I think it was in the presentation. 10% of the index gets you half the world's GDP and most of the world's people and resources and land and companies. Rather than 60-40 of what, I would be inclined to have most of my money in stocks of good companies that are cheap and companies that control scarce needed resources.

Mary Bracy: Okay. We have maybe three or four more questions, so I'm just going to go through here. Do you think the money that could have gone into gold goes into Bitcoin? Is that a possibility?

Alissa Corcoran: Yes. We said for a long time that rather than "or" it could be "and." There's plenty of room for Bitcoin and gold. The gold miners in particular, the whole industry is trading at half a trillion dollars. If just some of the money went from the Magnificent Seven into the gold mining industry, that not a lot of money has to go up for gold miners to do well, still, there's just a fraction of people's net worth in gold. If money from the bonds or fixed income went into something more tangible like gold, we could see that doing very well.

Mary Bracy: Moving on. Thank you, Alissa. With certain parts of the market so excessively overvalued, have you ever considered adding the capability to short, perhaps in a long-short hedge fund vehicle?

Alissa Corcoran: Dave.

Dave Iben: We have. We have had it since the beginning here and we also had it the whole time we were at Tradewinds. That's something we're not known for and that's been mostly friends and family, but we've had some outside investors. We do have that in the market, that we've been mostly long value stocks and short momentum stocks. The bad news is we've made no money in 10 years. The good news is we haven't really lost money in 10 years, despite the fact that we were [unintelligible] short the biggest momentum market in history. We think that's very well positioned.

Mary Bracy: All right. That's the Global Unconstrained strategy that Dave is talking about. We're going to finish up with two questions on opportunities that we're finding. The first is sector-specific, asking if we see any agriculture, food production, water resource opportunities out there?

Alissa Corcoran: Yes, lots. Mostly in, unsurprisingly, emerging markets. Palm oil, in particular, seems to be extremely attractively priced. It seems to be calming down a little bit. The ESG frenzy really has created a lot of opportunities in





hydrocarbons, it also created a lot of opportunities in palm oil. Despite the fact that these companies, nobody's defending their actions from decades ago, they were not good actors, but they have turned around a lot of their operations, they've hired a bunch of-- In one company, they've hired more than 200 people to work in their ESG division.

They're not clear-cutting forests, they're sourcing all of their palm oil from sustainably run farms. They are now, in our opinion, could be viewed as ESG friendly. Palm oil is some of the most productive food oil out there. It takes up way less land than the competing food oils. That I think is a misperception in the market and we're taking advantage of that. That's one sector. I can't remember the other question. Oh, water, yes, we're finding some water utilities. They're mostly in some of these conglomerates that are also on sale because they think conglomerates are difficult for people to wrap their head around. There's a lot of corporate governance issues. We value all of these as sum of the parts, we have a whole analyst dedicated just for conglomerates, but because of complex structures, we require a big margin of safety.

Dave Iben: It's interesting to imagine things being different. Of course, I was around in the '70s, I can imagine it more than I can remember it, but what we've had is 40 years of commodities being what they are, boring commodities. People grow palm oil, and they grow wheat, and they grow corn, and they grow all this other stuff. It's commodities and they sell it and they don't make much money off it. Then they sell it to makers of packaged food and beverages who add the value. They brand it and they distribute it and they turn it into something else people want, so they're a value-add.

Those stocks have done very well for 40 years, where agriculture has pretty much gone nowhere for 40 years, and that's why the price difference. Can things change? Well, one, in the '70s the packaged foods companies didn't do very well because they were having trouble passing on. If you're Kellogg's, how you passed on the increase when corn was going up in inflationary environment, so you wanted to own agriculture but then you see now more and more people are starting to say, "Maybe whole foods are good for you."

Maybe you want the natural foods. Maybe you don't want it when somebody takes it and bleaches all the nutrition out of it and adds a bunch of oils and chemicals and sells it to you. Yet people are still willing to pay more for highly leveraged companies with no book value that are selling something that people are learning to second guess. The more exciting part is we still get bargains for the companies that actually make the whole foods. We can imagine the current trend of people going back to these things lasting, so we like it.

Mary Bracy: All right. Our final question today is also about EMs and opportunities that we're finding there, specifically Latin America and our thoughts on China.

Alissa Corcoran: I'll start with Brazil, is where we find most of the opportunity, and in Latin America. Petrobras [Petroleo Brasileiro] is one of the newer names. When we bought this it was two times earnings, 60% dividend yield, below book value. This is a company that has a decade worth of reserves, and they're very, very low-cost, high-quality reserves, but you have a government that has a majority share and controls some of the decisions that are being made. Sometimes those are questionable. I think just like everything is cyclical, and with SOEs [state-owned enterprises], sometimes the market hates them and sometimes the market loves them.

Sometimes they think that with an SOE, you get preferential treatment. Right now, it seems that if you're an SOE, they just see that the government is going to make you do stupid things and extract that value. We saw the government extract value from Eletrobras [Centrais Eletricas Brasileiras]. But, even with that, we took our theoretical value down because the government did extract some value from shareholders, but we have a





margin of safety, we require a 60% discount to Eletrobras. We're well aware of the risk. We think the markets are over-discounting these sorts of risks. Dave, maybe you want to speak on China.

Dave Iben: China and Germany last year got so cheap that we spent a lot of time in Germany and Europe, and we're spending a lot of time analyzing Chinese companies. We bought Chinese companies, bought a lot of them. They bounced quickly, and we trimmed them, had some come back, and we realized gains on the German ones. Germany we spent time there when things looked bad.

Latin America has had troubles for long, that I'm in Latin America right now hoping to get some research done. We think there's opportunities here. It's world that might be developing. We will note that emerging markets did very, very well in the 1970s. If this is a world where people are going to start to appreciate agriculture and oil and minerals and things like that, there could be a lot of growth here again, and they are certainly priced for nothing but value and trouble. We find a lot of opportunities in emerging markets right now.

Mary Bracy: All right, that is it in terms of questions. Dave, do you have any closing thoughts?

Dave Iben: No. Appreciate all the thoughtful questions. It's been quite a start to the year, something I don't think anybody could have imagined last fall, but we think it bodes well for the stocks we talked about in the future and we appreciate everybody's support. Have a great summer.

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