Kopernik Global Investors, LLC

Edited Transcript of the 4th Quarter 2022
Conference Call with David Iben and Alissa Corcoran

January 26th, 2023
4:15 pm ET

Mary Bracy: Good day, ladies and gentlemen. Welcome to Kopernik Global Investors fourth quarter 2022 conference call. As a reminder, today's call is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session. 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, Mr. Gaffar.

Kassim Gaffar: Thank you, Mary. Welcome everyone to the Fourth Quarter, 2022 Conference Call. I've got with me, David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All-Cap strategy and co-PM for the International strategy, and also Alissa Corcoran, our Deputy CIO and co-PM for the Global [All-Cap] strategy and Director of Research. Before I pass the call to David and Alissa, I'll be providing a quick firm update.

From an asset standpoint, we ended the year with roughly $5.7 billion under management. Given the increase in market volatility, we were pleased with minimal outflows of roughly $321 million for the whole year in our managed account business (the bulk of which was in the fourth quarter due to tax loss harvesting). We have already seen a big chunk of those assets return in the month of January.

Also, as you may be aware, we decided to temporarily reopen our Kopernik Global All-Cap Fund to new investors, effective January 3, 2023. More recently key intermediary clients have mentioned that reopening the fund would be helpful allowing them to rebalance clients' accounts. Furthermore, it was suggested that since the bear market in stocks has resulted in the fund falling to an attractive price, they would appreciate the opportunity to purchase shares of the Fund for the clients who have come in post to the soft close Fund – as you may recall, the Fund had been closed to new investors since March 31, 2021.

Moving on to the personnel side. We continue to bolster our team, with addition of a new research associate and a new member to administration team. We are currently 43 employees strong and have continued to be stable with minimal turnover since inception of the firm.

That brings us to an end to the business side. Please note, Dave and Alissa will be referring to the presentation which can be found on a website kopernikglobal.com under the News & Views section. Also, whilst on the website you can access some great new pieces (A Value Investor's Reflections on a Unique Decade and Misunderstandings Present Great Opportunities), which have been very well received by many of our clients.

And with that I'll pass it over to Dave and Alissa. Dave, please go ahead.

Dave Iben: All right, thanks Kassim. Good day to everybody. Thanks for joining us. Quite a quarter we just went through. Quite a year. So, a lot to talk about. Also, in addition to that, as we're approaching our 10-year anniversary. We, twice a year, have offsites where we go off site to talk about things and how we can improve processes and topical discussions (slide 7).

This year since it is our tenth anniversary, we reminisced about the last 10 years, and talked a lot about strategy for what we think the next 10 years please and we thought we would share that with you. It's certainly interesting to us. Hopefully it will be to you.

We're rather proud of it because it was an annealing decade (slide 8). Having personally gone through the 90s when things seemed really bleak for value investors, it was fun as the following dozen years was almost too good to be true. And with that we launched this venture, thinking what good timing. I think, in a lot of ways, it was. But it was not good timing for value in general. So, we view it as sort of an annealing decade for all value investors. That's a term we took from Robert Friedland, who uses it to talk about the mining industry. He's maybe the most successful mining investor out there. But he's talking about how swords are put through this treatment where you heat it to intense heat, and it actually makes them more ductile, stronger. We believe that for not just us, any value managers out there that are still around and have not style drifted – congrats to them. I think they are all more ductile, or as Nassim Taleb would put it – anti-fragile.

I know all of us at Kopernik believe that the last 10 years is served to make us more ductile, less fragile, hopefully stronger, wiser, and better prepared for the next decade. So, we think it was actually a pretty good decade, if not an easy one.

But to talk a little more about the decade (slide 9), this is a quick snapshot of the [MSCI] All Country World Index (ACWI). You can see over the last one and a half decades, value stocks are roughly unchanged. While people have more than doubled their money in the growth segment of ACWI.

But it gets much worse than that (slide 10), because the more people want value, the worse they likely did the last 15 years. This chart just shows the last 9 and a half years from when we started the first fund. You can see the upper left - once again not much money made in value, where growth has been the place to be. But if people wanted real value, there was back then a lot more value outside the U.S. than in the U.S. But that's only gotten much stronger. It's been roughly flat for international stocks over the last 10 years, while U.S. stocks are up 2.5 times. Big, versus small; small stocks were a bit cheaper. Now they're a lot cheaper. Big stocks have done better by a 25%; 2.5 versus 2. A lot of commodities were not cheap 15 years ago, some weren't even 10 years ago, but they've gotten really cheap. Now, here's oil down 90% from top to bottom. Pretty interesting. You'll see similar charts for copper, and other things from top to bottom. Gold, intrinsically, isn't worth tenfold what it was back then having the money supply having gone up tenfold, but gold went nowhere. Gold stocks, of course, went down a lot. And then there's the U.S. Dollar. 15 years ago, people were very bearish on it. That was a mistake. Recently, they've been very bullish on it. Likely also a mistake.

But anyhow, our first year went pretty well. And then came the next 19 months (slide 11). As my 42nd year in the business, I've never experienced anything like that. 19 months of us basically dropping a third where the Nasdaq went up a third. Not fun times.

This is what I presented to the offsite back 10 years ago or 7 years ago (slide 12). This is what it felt like. We were going through the Straits of Messina. Difficult times.

But importantly, it never crossed our mind to change (slide 13). We kept our bearings; we held our course; we never style drifted.

And that was doubly fortunate because the winds shifted (slide 14). Big headwinds for value started to become tailwinds, at least for our form of value, and more recently, for all of value. Since then, most things are up, but we've been averaging more than 15% a year since January of 2016. And we think the fundamentals suggests that there's more good times ahead for value.

More broad-based value is even starting to do better (slide 15). It held up pretty well in a tough market last year, where growth, after a wonderful 15 years, famously did not hold up very well last year. Nice bounce this month; we'll see what happens.

Nice bounce. But for the most part, it seems like 4 decades of ever dropping interest rates providing a nice backdrop for stocks and bonds and real estate, and a whole lot of other things. That seemed to have ended (slide 16). If the times are changing, people's portfolio will probably change also.

So, I think with the events of the last couple of years, people are starting to once again remember that scarcity actually is important (slide 17). To talk about scarcity, let's first talk about what is not scarce (slide 18). I read the other day that we've now crossed 8 billion people on the planet. When I was born, there was less than 3 billion. So, we have 8 billion consumers competing for the Earth's resources. How they've been funding it? With debt (slide 19). There's a plethora of debt. And it goes up every year. And then there's money (slide 20). Debt of course being a claim on fiat currency. And there's been a blizzard; $800 billion to up almost $9 trillion.

So, our last 15 years: population up 20%, debt up 300%, and currency up 700%. Not scarce.

So, all that money – what happens to it? (slide 21). Well, those of you that have been tuning into our calls the last couple of years have known that we've talked about monetary inflation not being transitory, it was more migratory. And of course, we've pulled up modern research from 3 centuries ago from Richard Cantillon, who basically says money is not neutral. When you dump money into the system it helps some more than others, and it gets to some people faster than it gets to other people. There are winners; there are losers. But it definitely goes through the system. And what we've spent all of our time doing is watching and measuring which things have already priced this in, and which have not priced it in? Because the money certainly is coursing through the system, and we think that has big repercussions. People certainly - I'd at least - consider it.

Alissa Corcoran: So, as Dave pointed out, there are winners and losers, and paper assets in the U.S. have obviously been very early winners (slide 22). The Nasdaq is up a lot. And even with this correction, we're still looking at an index that's trading at 54 times earnings.

The S&P [500 Index] is also up (slide 23). And as you can see, from 2007 investors have seen nothing but up markets - up until 2022. And in 2021, this led investors to suspend rational thinking (slide 24). You had money-losing stocks, NFTs (non-fungible tokens), New Jersey delis that were selling for ridiculous prices. And while we could be wrong, we think that 2021 likely is the peak of this mania. And it certainly feels like the cycle is turning (slide 25). In 2022, we saw things that things happen that we haven't seen happen for many many decades. They have interest rates rising, stocks falling, inflation soaring, and we haven't seen this for 40 years. Long-standing relationships with other countries are changing. And amazingly value stocks have started to outperform.

We're not alone in this view (slide 26). There are many smart investors who agree that this time does feel different. Times are changing. Time will tell, but it does feel slightly different.

We've told clients that if you still believe in cycles that it makes sense to own an attractively priced portfolio of companies that benefit from change (slide 27). This idea of the anti-fragile portfolio that Dave mentioned. We believe that the chickens will come home to roost, and that there will be consequences for the trillions of dollars that have been printed. And so, now it's a really important time for that independent thought to look elsewhere from the popular stocks. And there are opportunities out there even with difficult times.

So, what are those opportunities? What do you want to own when the cycle turns? I'm sure many of you subscribe to Grant Williams' newsletter (slide 28). He's a fantastic writer. If you don't subscribe, you should. In November of 2021, he asked his readers to ponder the difference between what is wealth and what is riches? Wealth being the dollar value of paper assets and riches being real assets, things that are scarce, things that are in demand, things that people need.

Many people take for granted the things they need until they become scarce (slide 29). So, you don't think about breathing air until you're stuck underwater. And so, what is more valuable, if you're hungry and poor? Would you prefer to have a pile of paper assets? Or do you prefer scarce or agricultural land that produces food? We believe that scarcity matters, and it's valuable.

And so, maybe if you're starving, you'll pay any price. But as investors, price is first and foremost. And what is the right price for scarcity. Luckily the market is giving away food production. Palm oil spiked temporarily (slide 30). But now it is below the price it was in 2008; despite as Dave showed, we have a huge population growth. And so, we own several companies that own palm oil plantations. Golden Agri [Resources] is one example. We can pick up palm oil for 3 times earnings. Half of that price we're paying for a startup which also has a lot of agricultural land - high quality - for 24% of book value (slide 31). It's cheap on every metric you look at. People in Europe, in 2022, had to consider this concept of wealth versus riches as well (slide 32). We went to Germany last fall, and people were very nervous about how they were going to heat their homes. So, they had to think about: Are you better off sitting on a pile of depreciating currency or owning energy producing assets?

But how quickly the mindset can change. Investors have both short-term investment horizons and short-term memories, because the price of energy is still lower than its peak in 2008 (slide 33). Its price does not reflect its scarcity value. And the same goes for natural gas (slide 34). Despite the fact that the war in Ukraine continues. Uranium is still below $50 a pound (slide 35). Even though the rhetoric is way more positive this year than it has been for a very long time. Countries are starting to extend the lives of existing power plants. And they're coming around to the fact that nuclear power is one of the only feasible carbon-free baseload power options outside of hydroelectric power. Kazatomprom (NAC Kazatomprom) on the left is one of our largest holdings. It's the largest uranium producer; the lowest cost. And trading for 11 times earnings; cheap on their reserves.

Scarcity matters with money as well (slide 36). Gold has been a store of value for thousands of years; you can't print it. Yet even in this environment of easy money for the last 15 years, it's been one of the least popular asset classes. So, if you look at the monetary base and how it's backed, how gold has backed the monetary base historically, the fundamentals suggests that gold should be much much higher. Relative to paper assets (slide 37). This is gold versus the S&P 500, it's still very cheap relative to its long-term average, and this chart goes back all the way to 1900.

Gold is also not incentivizing new mine supply (slide 38). You haven't seen new major mines being built since 2013. So gold, we think, should go much higher; and the miners are even cheaper. Relative to gold above the ground, the gold mining companies are at some of the cheapest valuations we've seen in 30 years (slide 39). So, this is nothing new; and the investors say - yes, we agree with you, but it has been this way for a very, very long time, so either we are crazy or the market's crazy. And one of the hardest things about value investing is having the patience for your long-term thesis to play out (slide 40). But we note that for the investors that do have the patience, the returns can be very significant.

And we looked at history to help prove this point (slide 41). In the 1970s commodities did very well, but investors in the 60s had to wait a full decade before you saw much movement. And their patience was handsomely rewarded. You can see that even if you were an investor in the 1960s, your annualized returns were very strong. So, could this happen again? There are a lot of similarities between the 1970s and today. The decade prior to the 70s and the decade prior to now we've been in a bear market in commodities. Capex (capital expenditures) is down significantly. Capex levels in mining are half of what they were in 2014. We have more political conflicts and there has been a lot of money printed.

This is the growth of the monetary base versus the growth of reserves of these different commodities (slide 42). Money printing is very good for things that can't be printed. So, the fundamentals suggest that without money printing this, fundamental suggest that these commodities should go much higher. But then, if this Cantillon river of money eventually flows into commodities, the upside could be enormous. And many of these commodities, as we have just shown, are lower than they were in 2008.

So, if you want to own riches versus paper wealth, in addition to owning commodity-producing companies, we think it makes sense to own emerging markets which control a lot of these riches (slide 43). We've made the case in other quarterly calls that emerging markets aren't some fringe asset class, they actually control 75% of the land and a lot of the population, half of the world's GDP (gross domestic product) and a lot of riches. And yet, despite 15 years of growth and inflation, these riches are trading basically at the same price they were in 2007 and 2008, and for much cheaper multiples (slide 44).

This thinking differently has led to a portfolio that looks very different from all of the indices; both on the Global All-Cap as well as the International portfolio (slide 45-46). And we're highly uncorrelated (slide 47). We have a high active share, low correlation to the benchmark, and a portfolio that's very attractively priced; and one that should do well in a changing environment. Dave recently wrote a letter to our clients summarizing some of our key beliefs, and so, I will turn it back over to Dave to have him walk us through those.

Dave Iben: All right. Thanks, Alissa. So, as Alissa has pointed out, we look very different than the market, and that's because we think the market is not fully appreciating the value of riches, of latent value, or a value that happens to be in countries that they've categorized as emerging markets (slide 48). These create opportunities. So, we feel very good about the future. Their valuation is very good. The fundamentals are very good. And the fact that maybe it looks a little like the 70s is also interesting. So, that's where we are. I mentioned we do these offsites, and the 10 years is good to reiterate what it is we stand for.

The trends after 40 years are changing. Kopernik remains steadfast. So, it's always good to every now and then just reiterate; make sure everybody knows where we are. Our reason for being is that the market is demonstrably inefficient. And that creates opportunities for people to create value. The efficient market assumes that people are rational. We think they're not overly rational, and we think in crowds; they're shockingly irrational. They have bouts of extreme irrationality – such as the last few years. So, it makes this an extremely good time to be an active investor. But to capitalize on these inefficiencies requires independent thought. You can count on us for that. As we pointed out, we think value requires need and scarcity; that's starting to play out.

Risk means different things to different people. The fact that people are more afraid of short-term volatility than they are permanent loss of a capital, we think creates a lot of opportunities for us. The size of a firm matters (slide 49). We've, of course, committed to staying small so we can take advantage of the transits; very hard to beat the market when one becomes the market. In this era of a big government and central banks and everything else, it's important to remember there is no such thing as a free lunch, figuratively. We believe everything that the Government is trying to do will create some good, but there'll be a lot of side effects. And as we've talked about with Cantillon and everything else, I think these side effects, good or bad, they can be capitalized on.

It's interesting a few years ago people telling us that accounting doesn't matter. We agree it's flawed, but it actually matters immensely. You could make adjustments, but it pays to look at that. And looking at that, we do, we employ on 100% of what we do a rigorous bottom-up fundamental analysis. You can count on that. We also think it matters to be employee owned. It allows us to stick to what we're doing without a whole lot of outside influence.

And in general, as we're doing our bottom-up analysis, we find that models are great (slide 50). They're great servants. They're horrible masters. We don't think that people should let models do their picking for them; just to inform them. Same thing with computers and algorithms. And with a lot of things that are going on, whether it's passive investment, ETFs (exchange traded funds), ESG (Environmental, Social, and Governance) stuff, emerging markets; we would have preferred to make up our own mind on an investment rather than have it based on what somebody else has told us which category it fits into.

And, as I mentioned earlier, risk means different things to different people (slide 51). It cannot be boiled down to a number. People are doing that. That's another advantage for active managers. And value to be something that pops out of some precise number out of a formula that's using a lot of estimates of the future, is a tough way to go. So, another advantage for bottom-up fundamental value investors, we believe.

Where does this all shake out? It shakes out in a market that's not particularly interesting value-wise but allows us to have a portfolio of generally industry leaders, or best of class, at what they do (slide 52-53). And low P/E (price-to-earnings), shockingly low price-to-book value and tangible book value. Pretty cheap on almost every metric, and that applies to all our portfolios.

And one more thing before we conclude, back to risks. Volatility is not risk, it's opportunity (slide 54). And it's been quite a volatile quarter. So, during the quarter we saw, as Alissa pointed out, people being extremely bearish on Germany, which allowed us to buy some good companies there. The bearishness on China probably exceeds 2003. We've had a number of clients and prospects that admit that maybe they were more afraid of China than Russia. And since then, the Chinese market I think is up 60%. We were able to buy a handful of these companies elsewhere. We were able to buy some down-and-out companies; Credit Suisse and Sabre and things like that. And within a month or two we were - we don't trade a lot - but we were able to sell many of these same stocks. Because all of a sudden people weren't afraid that energy or debt were going to be a problem for Germany, and they weren't afraid that anything was going to be a problem for China anymore. So it's been quite a bounce.

In addition to that, we've been able to add to some things that we've trimmed in the past, whether it's a natural gas or uranium, or things that we were able to trim at pretty attractive prices. And then, patience with things like SkyWest, which is the dominant regional airline that we owned back in the TradeWinds days and early on here [at Kopernik]. It went from $7 to $30 some odd, and we sold it - I can't remember - at $80 or whatever. But we've recently bought that back in the teens, so we're always happy to do that.

Volatility might make us uncomfortable, but it creates great opportunities to make money, and we expect the volatility to continue. We think the transition from a passive market to a stock pickers market is early on in a long-term trend, and we're pretty encouraged. So, with that let's stop for questions. Thank you.

Mary Bracy: Right. Thank you, Dave and Alissa. We have several questions today, and as a reminder, if you have any questions, please feel free to type them into the Q&A box, and we will get to as many of them as we can.

So, we'll start with - we have 2 questions surrounding a little bit more detail on our uranium thesis. So specifically, there are 2 parts of that question. One is miners versus the material, and then the other is sort of our thought process about the companies that we own; Cameco, Kazatomprom, in particular.

Alissa Corcoran: Sure, I can start and I'm sure Dave will have something to add. But the way we think about all commodities is looking at this long-term incentive price. Which is important because it keeps you anchored in volatile markets. And so, when we value these companies, we think uranium needs to be probably north of a $100 a pound to incentivize new supply. We have not seen any big new uranium mines being built, which suggests that incentive price is closer to a $100 rather than $50 where it is today. So, the material itself, we think could double; should double. And then the miners also have significant upside and should benefit obviously from that increase in uranium price.

Miners, of course, are much riskier. And so, whenever we're coming up with our risk-adjusted value, we heavily discount the mining companies more so than just the physical material which we own through Sprott [Physical Uranium Trust] and Yellow Cake. We own Fission [Uranium Corp]. We own NexGen [Energy]. Those are companies that are sitting on deposits. We also own Cameco and Kazatomprom. Cameco is, and this a perfect example of what Dave was talking about outside of the United States or outside developed markets, you can get much better deals. And so, Kazatomprom is trading at a larger discount than Cameco, even though they're both high quality companies that have huge reserves and strong management teams.

Would you add to that, Dave?

Dave Iben: I think that is perfect. To add to that, uranium is a perfect analog for a lot of things we've been talking about. First the idea of cycles and market efficiency - uranium was trading at a $137 a decade and a half ago. A half dozen years ago, it dropped from $137 to $18. People, intelligent people, can talk about, should it be $60 or $80 or a $100? But $137 was a stretch and $18 was a stretch. So, we were able to take advantage of that. If it was trading at an $18 to $20 something, and it's probably worth $60 plus - and more nowadays - we were happy to own Yellow Cake and what's now Sprott (holds uranium). So, we did. However, we've also talked about people not liking the emerging markets as Alissa mentioned. We're able to get a better deal outside of the U.S.

We've also talked about latent value. The value is there, but people can't see the cash yet. And there are times where people really don't like that. A few years ago, was one of those times. So, where we like Sprott and Yellow Cake, we like Cameco more, and we like Kazatomprom even more. But there was an opportunity to buy NexGen and Fission and other holders of latent value for real bargains. They went from bottom to top. You know this is from our experience, but from bottom to the top, 10x. And as Alissa also talked about, if you can make 3, 4, or 5 times your money, it's a nice return on patience.

So, our thoughts on uranium - it's wonderful because it's undervalued and it's also wonderful because you can take advantage of changing opinions on ESG, changing opinions on emerging market, changing opinions on latent value. And for what it's worth maybe some of the smaller gold companies are where the uranium companies were a couple of years ago, when they were only 30/40% off the bottom. So, it's a lot of opportunity there.

Mary Bracy: And a similar question, although a little bit different, wanting to know about nuclear energy producers in utilities, in addition to the actual commodity and the miners—do we own those as well?

Dave Iben: You know. We talked about Cantillon a little bit. If there's demand and need for uranium, but it's scarce, that's a good thing for uranium producers, and we've liked to own them. It's a little bit of a challenge for the people that buy uranium and turn it into electricity, but only a little bit, because fuel is a single digit part of their cost. So, we've been happy that we've, of course, owned EDF in France [Eletricite de France SA], that the French government bought out at twice where it was a year ago, but maybe half of what we would like to see them pay for it. But there's that. We have companies that own some in Korea. We have one of the Chinese producers of nuclear power that's very, very cheap. So, we're happy to do that. And in the scheme of utilities, we much prefer companies that turn uranium and water into electricity versus those that have to really pay up to buy the hydrocarbons. And so, we do own the utilities, but they're not necessarily as high up on that Cantillon River as the producers.

Mary Bracy: Thanks, Dave. We have a couple of questions about Russia and our Russian holdings. Are we still valuing them with the haircut that we were previously applying in prior quarters? And along those same lines, are Ukrainian stocks trading, is the second part of that question.

Dave Iben: Yeah, we've mentioned Astarta as a bargain. It's trading. Ukraine never had a market. They have companies that have typically traded in Poland or London, or other places, and so we still own them. They are trading. They've also obviously been affected by difficulty getting their goods to market. But they also have semi-successfully gotten their goods to market. There they're doing pretty well with a lot of upside, so we definitely have a couple of uranium agriculture companies. They're very, very cheap.

Russia—the first few months were very difficult, and we gave large haircuts. But recent history, the Russian market has been open. There's been buyers and sellers trading at arm's length, and so we have a legitimate price. A case could be made to use that price. But while it's an open market, all of us living in "unfriendly countries" don't have the ability to go in and buy and sell, so it's less than a fully efficient market, so that requires a haircut. And then we don't have access to that money, too, and so that requires a haircut. What should that haircut be? A lot of people are giving it a 100% haircut. That's the easiest thing to do, and we don't fault people that are doing that, although clearly no haircut is wrong: we don't have a fully functioning market and we don't have access to it, and we don't have access to the money.

But clearly ownership of a company like Gazprom [Gazprom PJSC] that is minting money every day, clearly that's not worth nothing. Sberbank's [Sberbank PJSC] making a lot of money, the homebuilders are making a lot of money. To say it's worth nothing, would be unfair to our own clients if they wanted to take a little money out of the fund, they get nothing on it. It's unfair to current clients, if an outside party comes in and puts a lot of money in the fund, thereby getting Russia for free. So, we don't pretend to have the right answer, but 0 and 100 [% haircut] seem wrong to us. We've been using 70, and you know the required "air on the conservative side." We're comfortable with that. We've been using that for quite a while. 70% discount to the actively traded price in Moscow. And we'll probably continue to do that until such a time as things get demonstrably better or demonstrably worse.

Mary Bracy: Several more questions, and again, if you have a question, please type it into the Q&A box. Can you discuss more specifically your thinking around Credit Suisse? You mentioned that as a trim and add.

Dave Iben: Yeah, when it comes to financials, you know generally we haven't owned any for the last 20 years or so. We were able to buy a good amount of emerging market banks in 2010 thereabouts. We've been happy to own a few, mostly emerging market banks, off and on in recent years. When we look at banks, we like the fact that they're an important part of the system and they have abilities that others of us don't, such as creating money. And there's a lot of reasons to want to own them. Yet we keep in mind that there's very low barriers to entry between banks and other financials that disseminate there's tens of thousands of competitors, so that give us pause. Any industry that is 10 to 20 times levered, gives us pause. It's harder to recover from mistakes and so we tend not own them very often. If we're going to own them, we want good market share, some competitive advantage, a brand name, you know, the ability to withstand some problems. So yeah, in the past, we've owned leading banks in Thailand and Kazakhstan and Russia and India, and places like that. Credit Suisse is clearly a leader, in not just banking. The interesting thing about Credit Suisse is the wealth management business. It's very profitable. They've done quite well. So, for a few years we've been looking at this, and you know, kind of like to own it, but with that kind of balance sheet, with that kind of changes in management, with the clear need to do something, we've always avoided it. But once the stock was down huge and the funding came in, I think we required something like an 80% margin of safety, very big, and still were able to get what we think is reasonable upside. So really a good franchise with some big problems, some of which are being addressed, and it seems to be more than priced in. Not a big position, but worthy of a piece of the portfolio, we thought.

Mary Bracy: All right, we will keep going here. The question is, do we do any market timing, perhaps with cash, or is everything bottom up?

Dave Iben: 100% bottom up; cash, of course, is residual to the process. If we like a company at $15, and the stock goes to $20, we're gonna like it less and convert some of it to cash. Stock drops to $10, we'll like it more, we'll put some cash to work. Apply that over 100 different stocks, cash balances go up or down depending on what the stocks are doing. That's what we've always done and will continue to do.

Mary Bracy: Continuing on with some more company specific questions not unlike the Credit Suisse [question]. We have someone asking for our quick thoughts on Northern Dynasty, and also if we have any thoughts on Foran Mining.

Alissa Corcoran: Northern Dynasty - we continue to be very positive on the stock. It owns one of the largest mineral deposits in the world. And if we are looking as a country to invest in more green energy, which it would include needing copper, and all sorts of other metals; than Northern Dynasty should certainly be considered. Now, there's a lot of reasons to not like it, which include a lot of people against the mine. It's highly political. It's a political hot potato. Nobody wants to touch it. But for investors who think long term where volatility is not risk. And as an asset that fits well in the diversified portfolio, Northern Dynasty has one of the largest upsides we've ever seen across all of our mining stocks. So, as Dave was talking about this latent value, where you have massive amounts of resource, but nobody can see the cash flow. This is one of the best examples of that.

Dave Iben: It's very interesting. Earlier we talked that people somewhere, somebody out there decides something is good or something is not good. Maybe those change and a couple of years ago people viewed uranium as bad. Now they view it as essential for a carbon-free environment. Those things change. A lot of us were checking out a property in Romania - the activists hate this company. Even though this company - their plan has always been to take a mine that caused lots of pollution decades ago by the Government and clean it up, and the environmentalists have been against that. But on the other side of the same mountain is a government mine, it's dumping pollution into a river. And nobody cares. You can look around at various mines, good or bad, but Northern Dynasty, they've got (I've been there and Alissa's been there too, it's out in the middle of nowhere) the biggest potential source of the U.S. having copper, which people want for windmills and Teslas and whatnot. And they have a mine plan that the Army Corps of Engineers have spent 2 years saying: it's not a harm to the environment. Politics got in the way after that. They had long study saying this thing is a good mine. Seems like in this world fake news gets out there. But hopefully, eventually the fundamentals weigh out.

If the U.S. wants to have clean metal in a plan that is not polluting. It goes out of its way to protect the environment and protects against supply disruptions from depending upon countries in Africa for all your production. It seems obvious that it's something that should be taken seriously. But this is another one where we have 80% to 90% margin of safety. The upside is truly phenomenal. If and when this thing gets approved.

Mary Bracy: All right, can you take the presentation back to slides 25 and 26? Because we have a question about these two slides in particular. And this is the longer-term shift. So the longer term cycles. Are these shifts, just because interest rates and inflation are higher? And can you maybe walk us through a little bit more the logic for how this will cause changes in investor behavior?

Dave Iben: There's a lot here, and maybe it all happens. Maybe it doesn't happen. A lot of people worth listening to seem to think it's worth happening. If people haven't read or heard a lecture on the Fourth Turning, that's worth. But you know the concept being that generations make different mistakes than the previous generation, and every fourth generation doesn't remember the mistakes of four generations earlier. People that have gotten burnt from debt, don't like debt. People that've gotten burnt from war, don't like war, and so on. And so the number of people left that remember what the 1920s did to us in terms of mania, or did to Germany in terms of currency devaluation; not too many people that remember those things anymore.

Yeah, there's also not that many people that remember the nationalism then. We had the Nazis and the Bolsheviks, and all that from the 1930s, and the arm is gone. And so now we're seeing rises in nationalism, and we're seeing outrageous rises in debt across the world. We're seeing big government expenditures. We're seeing people wanting Central Banks to control the environment for us. I don't need to get into whether this is good or bad. We're all entitled to our own opinion. But there's a lot of history and logic to suggest that maybe the mistakes that are gonna get made more from a century ago, than the same mistakes that were made in say 2007. And so that's one.

Also, with globalization and comparative economic advantage, if one country is good at growing wheat and another country is good at making semiconductors, then they effectively trade wheat or semiconductors. If you get rid of that, you have this nationalization and the country that is no good at making wheat is going to be growing wheat. Others, and you're starting to see that, are going to spend a lot of money in the making semiconductors because they have to.

Maybe it's a good thing. It's an expensive thing. It costs money to do these things. So, history would say, those are all inflationary. History and logic would say big government is inflationary. The money doesn't come from everywhere. Thousands of years of history will show that interest rates had never been and should never be negative, and they were negative. For a long time. The amount of mal investment that has caused and the repercussions of that remain to be seen.

Also, since Vietnam [war] and whatnot, there's been the Gulf War, and a few things here and there. But this resumption of Cold War, you've got sort of half the world aligned on one side and half kind of aligned on the other. It's really unfortunate what's happening, and none of us like seeing it. History would suggest, a bunch of money getting spent on arms and whatnot is inflationary. And rising interest rates - people say, some of that kills inflation. Or maybe. But if governments have to pay that interest rate and can't afford it, you will say they'll print the money, it'll cause more inflation. People like to think that when interest rates go up, inflation goes down, and gold goes down. But history says, no, it's not how it works. Interest rates go up when inflation goes up. In the 70s, interest rates went up big and inflation soared, and oil soared, and gold soared. And when the rates were going down, oil and gold went down.

Well, I think you're starting to see interest rates going up, but staying behind the inflation rate, that's inflationary. So, it's quite likely, and especially if, seems like almost unanimous out there in the world that rates will never go positive in real terms. If that's true, inflation is not going away, and in the long run, bonds are not likely to sustain a rally. And so, people should at least look that what happened in the 1970s and the 1920s, and other times, it's worth looking at.

And then, even more importantly, even if this is all dead wrong, people should at least look and say, what's my upside on bonds that yield 3.5%? How much do I make? Well, roughly 3.5%. How much do I lose in real terms if inflation picks up? They get killed. Whereas we're maybe in a case that if you can buy oil and uranium and gold and copper and things for a way cheaper than they were 15 years ago, and there's 8 billion people all needing this stuff, that's likely to be inflationary too. I think you're going to rather own those things than own bonds, or any stocks or real estate that have a low cap rate. That's our opinion.

So, we don't have any of the answers. But these are all data points that must be considered, in our opinion.

Mary Bracy: Along those same lines, because you're already talking about inflation. We had a question about direct inflation correlation assets versus indirect inflation beneficiaries, and how we might describe each of those within our portfolio.

Dave Iben: Yeah, and I'll start. You know we keep talking about Cantillon River and stuff, but we believe that, and Alissa talked about this, history over and over again when they print a bunch of money, it goes into stocks and bonds and real estate, and you have a big mania. That happened again. And does it go on forever? No. Leaks out of that and goes into lumber and copper and things like that. And then when that happens, you have to start paying more for carpenters and electricians and others. And their wages go up. And so, you saw a couple of years ago the money was going into the Nasdaq, and then it was pouring into lumber and copper, and now it's pouring into wages and services and things like that.

So, with that as a background, it's hard to say direct beneficiaries. But there's everything's a direct beneficiary or a loser, and we've tried to avoid the companies that are likely to get caught paying more in wages and more for oil and more for their own services, and not pass it through; those are inflation losers. The 70s show that the Nifty 50, the great companies, the Cokes and the Gillettes, and all of that, did really poorly during inflation. It was tough to pass it through. Whereas, the companies that make things that people need that can't be branded that can't be increased in production very much, those are the companies we conceptually want to own, and fortunately those are the companies that for some reason the market still doesn't like. And let us have them for really low P/Es and low price-to-book, and huge price-to-liquidation value. So, we think they are indirect, maybe even direct, beneficiaries of the inflation. They went way up in price, and they've come quite a bit back down in price. Everybody is getting a second chance. That's wonderful news.

Alissa Corcoran: I would just add also that direct losers would be high multiple stocks and obviously bonds. So, this is where value investing really will shine, and it's extremely important from a risk management perspective.

Dave Iben: Very good point.

Mary Bracy: Okay. We have one more sort of new topic question. And then a bunch of small follow up questions. The things we've already talked about in the Q&A. So, we'll get through those pretty quickly. But the last sort of question is, what percent of the global portfolio, would you guess, is sort of invested in these scarce sectors that you've talked about as well as the percentage in EM (emerging markets)? And I'd also direct all the listeners to the characteristics page on the presentation as well, which is near the end of the presentation that has some of that breakdown as well.

Alissa Corcoran: So, the direct scarce assets would be probably the agriculture names, our energy companies as well as our mining companies. So, all in all, it's roughly 50% of our portfolio. Emerging markets is 40% to 50% of the portfolio. And you basically have scarce assets, some of those are in emerging markets as we talked about with Kazatomprom, for example. But then we also have this other half in emerging markets that are not in these producing companies.

Mary Bracy: Okay, all right. So, a few just sort of smaller questions based on some of the follow ups to some earlier ones. And the first question is, what is the net Russia exposure at the current haircut value?

Alissa Corcoran: Between 4.5% to 6%. ~4.5% in GAC [Global All-Cap strategy] and ~6% roughly in International [strategy].

Dave Iben: GAC being Global All-Cap.

Alissa Corcoran: Correct.

Mary Bracy: Not unlike uranium versus uranium miners, oil versus oil companies – thoughts?

Dave Iben: I mean they in the long run are remarkably uncorrelated. Also, they ought to be correlated. But the meltdown back in 2014 / 2015, which we painfully went through. It was interesting when oil crashed, the oil stocks didn't. And then, like a year later, they did. And that's when we were able to buy 3 or 4 of them. And then, same thing here, there are times with the oil service companies, which we don't really own. They were going down for a while, now they've bounced quite a bit because people are thinking they're not gonna continue. And people have to really believe the oil is going to stay there before they'll invest in service.

But, in general, if people believe the price of oil is going to stay where it is, oil stocks are cheaper. You're getting good price-to-cash flow. Good cash flow yields, in other words. Good earnings yield. And possibly even more so on the gas companies.

Mary Bracy: Our next question is about natural gas. So, are you surprised at the current pricing levels? Essentially comments on natural gas companies, and then the pricing outlook.

Dave Iben: Not really surprised by anything anymore. I mean when you have $8 trillion dollars and you print $7 trillion out of thin air, as they say in the short run, the tail wags the dog. And so in the short run, once a bunch of investors all decide they like or hate something, that's all that matters in the short run. And that's actually for people that have a long-term time horizon; it's a good advantage for them. So, I think things like Range [Resources Corp] went from $2 bucks to $30 something, and so we've sold a lot of it. When it falls again, we get to buy it back. That's a good thing.

Surprised when something goes up that much, I guess it should correct. And then for people to - you guys remember - 2 and half years ago people with a straight face we're saying, by now we weren't even going to use oil anymore. Lots of people with a straight face: 3 years from now we're not going to use oil. And then by last fall it was the opposite: oh my god! How are we ever going to get enough oil and gas? And now it's come back to a more reasonable thought process, I guess. But clearly, it's not going away. But the short-term jams are probably gone. But you're still not seeing much investment in this industry. So, you have to sort of believe that the price of gas is going higher. And if you buy gas stocks, you don't even have to be right as long as it doesn't plunge, you're going to do very well buying them there.

Alissa Corcoran: And I would just add that last summer we were trimming a lot of our gas companies. And this is a benefit of diversification and being able to be nimble. Because we are able to trim U.S. natural gas stocks, when Germany was freaking out because of the price of natural gas. And so we were able to buy chemical companies and other industrial companies that were trading for very cheap prices. And then now that's reversing. And so we've been trimming those and buying more natural gas. So, volatility is a great thing.

Dave Iben: Yeah, it's not fun, but it's profitable.

Mary Bracy: Okay, three more questions. One more about Northern Dynasty: a question about their claim to the land? Do they have a lease that expires at some point? One way of phrasing this might be, what is the expected return on patience for Northern Dynasty?

Dave Iben: I mean technically, I can't remember what it was like 80 different little pieces of things or whatever, but they own it. And with mining you're required to keep the permits in place. They need to do all that. And they don't technically own the land versus all the minerals and stuff. But they own it. They have their claim.

Mary Bracy: Great. And we'll go back and finish where we started in the Q&A. Which is with more uranium questions. And these are sort of similar questions in that they are sort of "What if" questions. So, two parts: If the commodity doubles, what in theory would you think the miners would do? And if small modular reactors will then have any impact on uranium demand over the long run? So, some technological development.

Dave Iben: Yeah, I can start. If the price of uranium doubles, it will not be arguably overpriced. So, that would not be a surprise to us. And as you saw the last time uranium moved, it's what I was talking about earlier, I think if it doubles, then the Sprotts and the Yellow Cakes will double. And the Camecos and the Kazatomproms will do a lot better than double. And the Fissions and NexGens will do much, much better than double; would be a likely expectation.

Alissa Corcoran: And then on the small modular reactors, we're still a long ways away from those. But today what's happening are Emerging Markets and China, they're building lots of reactors and countries, even in Germany, are starting to come around to this idea that nuclear power should be part of the future. But another beautiful thing about uranium is even if small modular reactors increase demand, the cost curve's extremely steep, so incremental demand can really swing the incentive price for uranium drastically. So, we don't expects large demand, but there's lots of optionality.

Mary Bracy: All right, that does it for our questions today. So, thank you, Dave and Alissa. As always, if you have any further questions, please feel free to reach out to a member of our sales team, and we'll get those answered for you. Thank you so much. Everyone have a great evening.

Dave Iben: Thank you.

Alissa Corcoran: Thanks.

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